

COUNTRY PARTNERSHIP FRAMEWORK

FOR THE REPUBLIC OF KAZAKHSTAN
2020-2025



WORLD BANK GROUP

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2020-2025

November 12, 2019

Central Asia Country Unit
Europe and Central Asia Region

The International Finance Corporation
Europe and Central Asia Region

The Multilateral Investment Guarantee Agency



WORLD BANK GROUP



ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AI	Artificial Intelligence
ASA	Advisory Services and Analytics
BRI	Belt and Road Initiative
CE	Citizen Engagement
CLR	Completion and Learning Review
COS	Country Opinion Survey
CPF	Country Partnership Framework
CPS	Country Partnership Strategy
CPSD	Country Private Sector Diagnostic
CSO	Civil Society Organization
EBRD	European Bank for Reconstruction and Development
EU	European Union
FDI	Foreign Direct Investment
GDI	Gender Development Index
GDP	Gross Domestic Product
GEF	Global Environment Facility
GHG	Greenhouse Gas
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation)
GoK	Government of Kazakhstan
HDI	Human Development Index
IDIP2	Second Irrigation and Drainage Improvement
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
IsDB	Islamic Development Bank
JERP	Joint Economic Research Program
JIP	Joint Implementation Plan
JSC	Joint Stock Company

KEEP	Kazakhstan Energy Efficiency Project
MFD	Maximizing Finance for Development
MIGA	Multilateral Investment Guarantee Agency
MNE	Ministry of National Economy
MSCI	Morgan Stanley Capital International
MSHI	Mandatory Social Health Insurance
MSMEs	Micro, Small, and Medium Enterprises
NBK	National Bank of Kazakhstan
NPL	Nonperforming Loan
OECD	Organisation for Economic Co-operation and Development
PER	Public Expenditure Review
PforR	Program-for-Results
PFM	Public Financial Management
PHC	Primary Health Care
PISA	Programme for International Student Assessment
PIU	Project Implementation Unit
PLR	Progress and Learning Review
PMR	Partnership for Market Readiness
POP	Persistent Organic Pollutant
PPP	Public-Private Partnership
RAS	Reimbursable Advisory Services
RESILAND	Resilient Landscapes
SCAI	Smart Cities and Artificial Intelligence
SCD	Systematic Country Diagnostic
SDG	Sustainable Development Goal
SMEs	Small and Medium Enterprises
SOE	State-owned Enterprise
SORT	Systematic Operations Risk-Rating Tool
SPI	Supplementary Progress Indicator
SSN	Social Safety Net
TSA	Targeted Social Assistance
UN	United Nations
UNDP	United Nations Development Programme
VAT	Value Added Tax
WBG	World Bank Group

Date of the last Country Partnership Strategy (FY12–17) was March 30, 2012 (Report No. 67876-KZ)
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I. INTRODUCTION



FY 20-25 COUNTRY PARTNERSHIP FRAMEWORK FOR THE REPUBLIC OF KAZAKHSTAN

I. INTRODUCTION

1. Kazakhstan is the largest landlocked country in the world, comparable in area to Western Europe or Argentina. It has enormous 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 an upper-middle-income status in less than two decades. Since 2002, gross domestic product (GDP) per capita has risen sixfold and Kazakhstan currently accounts for nearly two-thirds of regional GDP while having only a quarter of the population. It has bold ambitions for the future, aspiring to join the Organisation for Economic Co-operation and Development (OECD) ranks and be among the top 30 economies of the world by 2050.

2. The country occupies a strategic position in Central Asia. Given its location between China and the Russian Federation, it is at the heart of trade and investment opportunities linked to Eurasian connectivity, including the Belt and Road Initiative (BRI). It has also forged extensive and growing links with the European Union (EU), which is its premier trading and investment partner. In Central Asia, it plays a lead role in regional cooperation, diplomacy, and security.

3. 2019 was a year of political transition and conditions are in place for continuing stability in the country. Since independence, Kazakhstan had been led by President Nazarbayev who stepped down earlier this year to make way for presidential elections according to the constitution. President Tokayev was elected in June 2019, from the same party. While the new leadership is committed to the overarching goal of sustaining socio-political stability, it also acknowledged the need to comprehensively respond to the rising economic and social disparities among people in Kazakhstan, focusing more on raising living standards, overcoming inequalities, and strengthening civil society to complement the traditional prioritization of growth and social expenditures. Going forward, this approach will be tested: on the one hand, mounting development challenges of Kazakhstan indeed require more radical and urgent responses and, on the other hand, the changing landscape of the region, with neighboring countries competing for transformation, is influencing people and the Government's expectations about the desirability and achievability of reforms.

4. Economic and financial crises in 2008 and 2014-16 have shown Kazakhstan's vulnerability to external shocks and altered its very strong growth path. The financial crisis of 2008-09 had shown the vulnerability of the country's financial sector, while the crisis of 2014-16 resulted in a temporary but significant increase in poverty. It has not been able to recover the 7 percent annual level growth which was making it converge fast towards high income level. The country reacted to fiscal unbalances and subdued growth through establishment of rules for funds transfer from the oil fund which makes it less vulnerable to such shocks, but it has also shown the need for resilient policies. Variability in agricultural outputs and persistence of localized environmental issues, albeit with no major event recently is also highlighting the need for resilience to be embedded in its natural capital actions.

5. Past economic success notwithstanding, this Country Partnership Framework (CPF) comes at a time when Kazakhstan faces growing challenges. At the most fundamental level, Kazakhstan needs to boost its productivity and innovation, transitioning away from growth driven by inputs to one driven by efficiency gains. It is worrisome that Kazakhstan's productivity growth has fallen since 2008,¹

¹ 2.8 percent according to Economic Research Institute, lower according to World Bank calculations

underscoring the major structural challenges. To be more resilient, Kazakhstan also needs to diversify its economic base through improving competitiveness of its non-extractive sectors, especially agriculture, manufacturing, and services, and limiting the dominance of a few large state-owned enterprises (SOEs). This should be achieved in a global environment in which growth is slowing down, commodity prices are subdued, and trade prospects are diminishing.

6. An entrenched divide has increasingly led to effectively diverging paths in growth and opportunities. Significant disparities in wealth/poverty, employment, education and health status, and access to basic services exist along regional and rural/urban divides. While both consumption and income inequalities declined for a period during Kazakhstan's boom years, this has not significantly changed the huge gaps in economic opportunities, human capital, living standards, and social support, which the 2014-16 crisis showed clearly with a sharp poverty increase in lagging regions and lagging rural areas. Addressing this challenge is critical to the shared prosperity agenda and the Sustainable Development Goals (SDGs). This divide is even stronger when looking at Nur-Sultan and Almaty, which income per capita exceeds that of some OECD capital countries, and the average income in the poorest regions, which corresponds to lower-middle-income countries, while rural areas in lagging regions are closer to low income even if the government is trying to bridge this gap. The very low density accentuates that factor in isolated areas.

7. Institutional and governance reforms have been identified by the Systematic Country Diagnostic (SCD) as the main constraint to achieving Kazakhstan's development goals. Although Kazakhstan was an early modernizer, it is now undertaking reforms more slowly or unevenly, and therefore now has a business environment which is comparatively less conducive to private sector growth, a substantially larger public sector role in industry/economy, a less well-developed financial sector, and weaker governance and enforcement. The country is now focused on building requisite systems and institutions to enable transition to the high-income status, including reform of fiscal, financial, governance, regulatory, and service delivery systems allowing stronger competitiveness.

8. This CPF incorporates shifts in the World Bank Group (WBG) program that are intended to directly support Kazakhstan's development objectives and assist it in IBRD graduation. Strategically, the main shift in the CPF is the central focus on institutional improvements and their implementation, as a means to catalyze the changes in the economy and government policies needed to secure private sector-led rapid, equitable, and sustainable growth. The CPF will flexibly deploy all WBG instruments, especially Reimbursable Advisory Services (RAS), implemented under the Joint Economic Research Program (JERP) in Kazakhstan, to support institutional strengthening and capacity building. As part of the 'One World Bank Group' approach, the International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA) support will also be leveraged to strengthen market institutions and for a more dynamic private sector, in support of the Government's stated desire to reduce the public sector's weight in the economy through privatization of key SOEs. Crucially, this strengthening of institutions is expected to enhance Kazakhstan's capacity to self-sustainably grow in the long term, thus meeting one of the two key non-income conditions for IBRD graduation (the other being reasonable access to capital markets).

9. The CPF will also involve a high degree of selectivity to ensure that its programming is consistent with the WBG's value proposition to upper-middle-income countries as well as the IBRD graduation policy. Wherever feasible, there will be a shift to more results-based engagements with higher institutional impact and based on the World Bank's comparative advantage over other development partners and commercial lenders. There will be a greater focus on the private sector, particularly using the Maximizing Finance for Development (MFD) approach. Most importantly, each lending activity will be subject to rigorous selectivity criteria. All new IBRD financing will be expected to contribute to institutional strengthening in some significant way. Beyond this fundamental condition, each new lending operation will have to satisfy at least one of the following additional selectivity criteria: (a) contribute to the inclusion/shared prosperity agenda (that is, should also benefit the poor,

vulnerable, or marginalized segments); (b) improve conditions to attract private investments or mobilize additional resources (in the MFD mode); and (c) contribute to regional or global public goods. IFC would focus on addressing the country's infrastructure gap through the development of public-private partnerships (PPPs) and potential investments, particularly in infrastructure; facilitating the strengthening of the financial sector to increase access to finance for the private sector, particularly small and medium enterprises (SMEs); and supporting economic diversification and regional development by strengthening export-oriented industries, such as agribusiness, and their supporting value chains in close coordination with IBRD. Finally, WBG corporate priorities on climate and gender will be embedded in the CPF program.

10. The CPF will cover a period of six years (FY20-25) with one Performance and Learning Review (PLR). The PLR would be undertaken in the middle of the implementation period. It will assess progress toward meeting the development objectives in each of the three focus areas of the CPF as well progress toward IBRD graduation.

II. COUNTRY CONTEXT AND CHALLENGES



II. COUNTRY CONTEXT AND CHALLENGES

Recent Economic Developments and Outlook

11. Kazakhstan has endured a growth slowdown since 2015-16, which coincided with a precipitous fall in global oil prices, deep recession in Russia, and slowdown of the Chinese economy. Annual GDP growth slowed to just above 1 percent in 2015 and 2016, from an average of about 6 percent between 2010 and 2014. Devaluation and the floating of the Kazakhstani tenge helped stabilize the economy but also lowered incomes and increased poverty, and level of GDP per capita in dollar terms is still much lower than before 2015. The economic downturn spilled over to the financial sector in 2017, requiring significant intervention.

12. Significant government interventions were able to ward off a full-blown economic crisis after 2015 and maintain social stability. The Government stepped in to bail out banks and provided substantial support to systemically important domestic firms to maintain employment and income. The state's large footprint in the economy is, however, hindering a genuine private sector growth. Credit to the economy has been low since 2015, reflecting long-standing legacy issues in the banking sector, which have not been addressed adequately despite massive government support.

13. The long-term growth rate no longer allows fast convergence. Although real GDP growth recovered to over 4 percent in 2017 and 2018—due to fiscal stimulus, rising oil prices, and production from the new Kashagan oil field—in the medium term, the economy risks being trapped in a 3.5 to 4.5 percent per year growth environment, compared with 7 percent annually before the crisis. This is therefore below the Government's long-term growth target. The 'lower for longer' prospect would risk delaying the country's long-term aspiration to join the ranks of the most developed economies.

14. Transition to a new growth model is urgently needed to reverse the current trend of lower growth. The main concern is the lack of vibrancy outside the oil and natural gas sectors of the economy, as hydrocarbons are reaching their limit as drivers of growth. Already feeling the impact, Kazakhstan has experienced one of the most severe decelerations of growth in the world since 2008, coinciding with weaker demand and lower prices for hydrocarbons. Agriculture has consistently fallen short of its considerable potential, which includes Kazakhstan's abundant endowment of fertile land and proximity to countries with large demand for food. The manufacturing base—accounting for around 12 percent of the country's annual GDP—is small and lackluster. Trade and transport have substantial potential provided that connectivity with neighbors continues to improve, cross-border trade is further smoothened, and trade complementarities increase.

15. Macroeconomic stability needs to be further secured. This will require to improve fiscal policy management. An expansionary fiscal stance in response to the crises in 2008 and 2014 and the growth slowdown in 2015-16 led to substantially higher non-oil budget deficits compensated by large withdrawals from the National Fund of the Republic of Kazakhstan. To fully restore fiscal sustainability, it is now important to reduce the non-oil fiscal deficit. This can be done by reducing subsidies and subsidized lending to public and private entities combined with increases in non-oil revenues and lowering withdrawals from the National Fund. In addition, improvements to tax administration will be essential for non-oil revenue mobilization, together with moderately higher tax rates for high-income earners. The Government also needs to prioritize growth-stimulating expenditures such as infrastructure and human capital development. Current spending in both areas is low by international standards and by the country's ambitious goals. Finally, as illustrated in 2008, the financial sector remains a potential high fiscal risk in case of a shock to the banking sector.

16. Reforms are especially needed in the way public institutions are managed, to improve their performance and strengthen their market orientation. Kazakhstan's economy remains dominated by the state through SOE holdings and well-connected companies, with limited space for the competitive private sector to flourish. There is a need to strengthen fiscal transparency and risk management in the public sector, including for the SOEs. Another main challenge is to change an administrative culture that remains plagued by limited initiatives and bureaucratic controls at all levels. There is, as a result, greater public demand for better accountability and greater responsiveness by public agencies. Finally, there is large scope for better resource allocation of funding and responsibilities for local governments at both regional (oblast, rayon) and local (city) levels and better coordination between local governments. Central bank and financial regulation independence and maintaining flexibility of the exchange rate are vital for fostering de-dollarization of the economy and enhancing its competitiveness.

Table 1. Selected Economic Indicators

	2017	2018	2019	2020	2021	2022	2023	2024	2025
								Projections	
Real GDP growth	4.1	4.1	3.9	3.5	3.7	3.6	4.6	3.9	3.9
Oil sector	7.4	4.7	2.0	1.8	1.9	2.5	7.3	3.8	3.4
Non-oil economy	3.2	3.9	4.4	4.0	4.2	3.9	4.0	4.0	4.0
Consumer price inflation, end of period	7.2	5.4	5.4	5.4	5.1	4.9	4.5	4.0	3.5
Current account balance (percentage of GDP)	-3.1	0.0	-1.3	-0.5	0.1	0.8	1.7	2.0	2.1
Foreign direct investment (FDI) (percentage of GDP)	2.3	2.8	2.1	2.5	2.2	4.0	3.7	3.0	2.8
Overall fiscal balance (percentage of GDP)	-4.5	2.7	0.6	0.5	0.6	0.6	1.3	1.7	2.1
Non-oil fiscal balance (percentage of GDP)	-12.8	-7.6	-7.2	-6.8	-6.2	-5.8	-5.1	-4.5	-3.8
Net financial assets (percentage of GDP)	15.7	12.7	15.5	14.8	14.3	13.9	14.1	14.8	15.8
Poverty rate (US\$5.5 per day at purchasing power parity terms)	8.6	7.4	6.6	5.8	5.2	5.2	5.1	5.0	5.0

^a Source: Committee for Statistics and World Bank calculations

Trends in Poverty and Shared Prosperity

17. Kazakhstan has achieved large reductions in poverty over the past two decades. The poverty rate, measured in internationally comparable terms,² fell from about 36 percent of the population in 2006 to less than 6 percent in 2013, driven primarily by rising income from wage employment. Growth over the decade to 2015 was pro-poor with the poorest 40 percent of the population benefiting more from consumption growth than people in the top income quintiles. This led to a drop in the Gini index from about 0.30 to 0.27—one of the few countries globally in which this happened.

² US\$5.5 a day in 2011 purchasing power parity terms, a definition recently introduced by the World Bank for middle-income countries such as Kazakhstan.

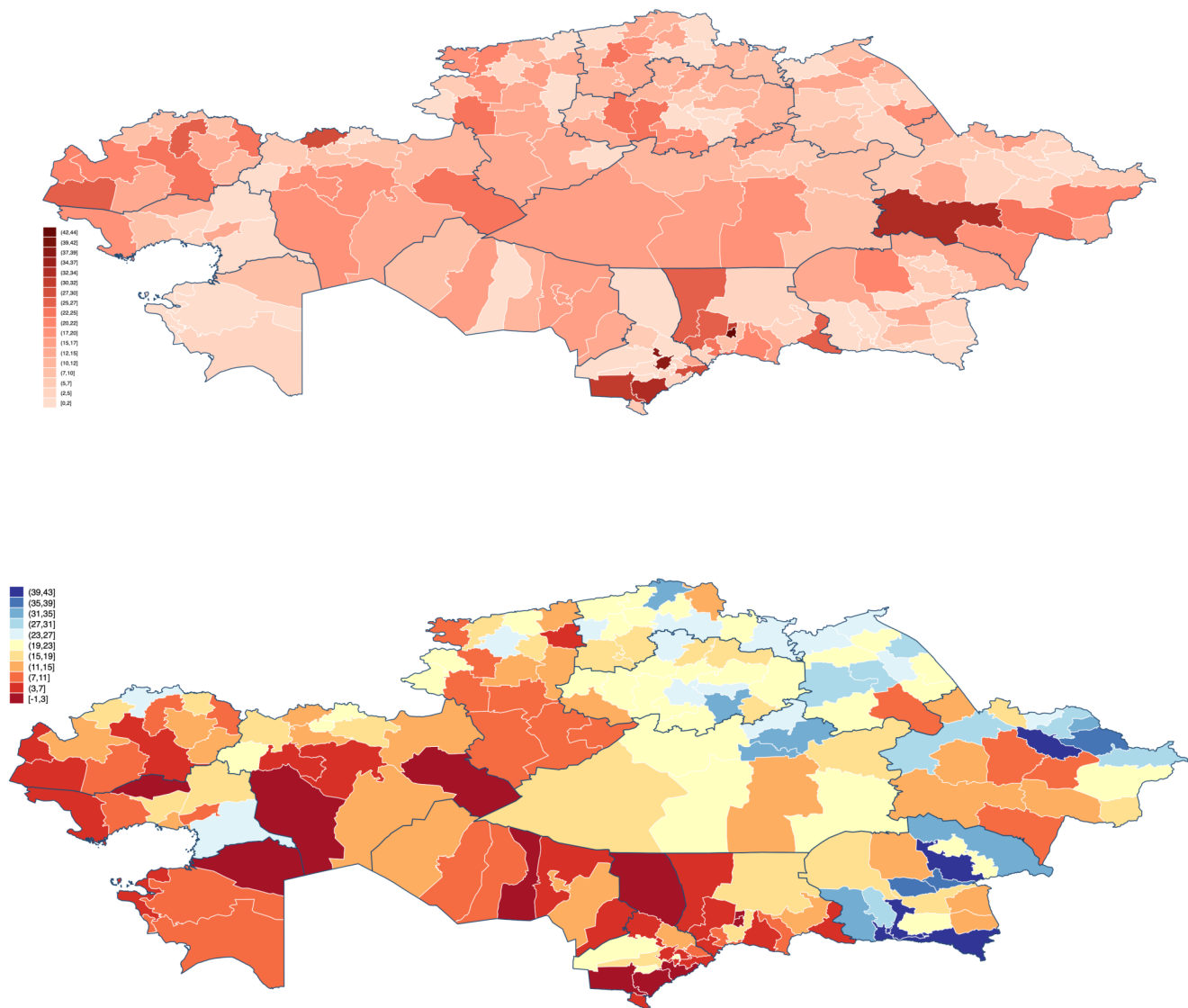
18. Nevertheless, this progress remains fragile and has fluctuated recently. The share of the population in poverty doubled from 5.8 percent in 2013 to a peak of 12.2 percent in 2016, corresponding to an increase of about 1.2 million people. The economic downturn in 2015 was particularly hard on the most vulnerable households. Consumption fell more for the bottom 40 percent than for the top 60 percent, leading to slightly worse inequality in 2015 and 2016. The recent peak in poverty highlights both the risks of a growth strategy that relies too strongly on oil exports and the extent to which a lack of economic diversification leaves all regions vulnerable, regardless of their economic structure. Poverty reduction resumed in 2017, falling to around 8.5 percent due to renewed economic growth in 2018, marking the second consecutive year of poverty reduction.

19. Significant progress has also been made in non-monetary measures of poverty, which is partly due to large and broadly targeted subsidies. Kazakhstan has achieved the status of 'very high' on the United Nations (UN) Human Development Index (HDI) where it was ranked at 58 in 2018. The World Bank's Human Capital Index gives Kazakhstan a score of 0.75, comparable to OECD countries. This reflects a life expectancy of 70 years, infant mortality of 10 in 1,000 live births, gross enrollment of over 100 percent in primary and secondary education, and a 5 percent unemployment rate. At the same time, these achievements mask certain remaining challenges. First, they depend on large and not well-targeted social subsidies. Second, school enrollment rates do not reflect the need to significantly strengthen the quality of education. Third, the unemployment rate masks low wage employment and slow wage growth in rural areas and public and civil service. Fourth, school and health costs can keep the poor from accessing services, particularly for children. Fifth, there are significant and growing disparities between rural and urban schools (in infrastructure, quality of teachers and learning resources). In sum, deeper progress will be necessary to build the human capital needed to accelerate growth.

20. The main challenge from the inclusion perspective is the persistent regional and rural-urban disparities leading to strong inequalities. Both non-monetary and monetary measures of poverty are higher in rural areas and specific regions (see figure 1), where access to basic services is substantially lower. Predominantly rural regions have lower educational attainment, lower average incomes, poorer access to clean water and sanitation, substandard heating, poor local roads, and higher poverty rates. This results in large gaps in the learning environment and outcomes as well as social tensions, which are likely to rise within a divided society of a rising urban middle class and a rural underclass. These rural regions also suffered larger increases in poverty in 2015–16. In rural areas, the poverty rate rose from about 9 percent in 2013 to 17 percent in 2016, corresponding to an increase of about 646,000 more poor people³. The most vulnerable regions, such as Kyzylorda and Jambyl, experienced more than a tripling in poverty rates between 2013 and 2016 (6 to 21 percent and 5 to 25 percent, respectively). For those most affected, the economic downturn was not fully offset by the social safety net (SSN). While wage employment in the services, construction, and oil sectors has supported income growth in rural and urban areas alike, in recent years, agriculture employment contributed little to either aggregate economic or household income growth. Between 2003 and 2016, agriculture was the sole sector that experienced a net reduction in employment.

³ Compared to an increase in urban areas from four percent in 2014 to eight percent in 2016

Figure 1. 2017 Poverty Rate at US\$5.5 per Day (top),
2017 Middle Class Rate (bottom)



Source: Household Budget Survey, World Bank staff calculations.

Gender

21. Recent gender assessments for Kazakhstan indicate that its institutions, laws, and processes generally provide for a high degree of gender equality, although in practice the situation is less equal. The gender agenda is coordinated through the National Commission for Women Affairs, Family, and Demographic Policy; there are gender focal points in each ministry and the Statistics Committee publishes gender statistics every year. Notable progress has been made in areas such as education where Kazakhstan has virtually eliminated gender disparities. In health, life expectancy of women (76.9 years) is significantly greater than that of men (68.7 years). Nevertheless, cultural norms and inertia still make it hard, in practice, for women to obtain the same level of services, finance, information, and status as men. For instance, a key issue is that the wage for women is about two-thirds that for men, and the gap is not narrowing.

Box 1. Gender in Kazakhstan

Kazakhstan ranks high on gender-focused development indicators. It is classified as having 'very high human development' according to the Gender Development Index (GDI) and is 1 of only 21 countries worldwide in which the female HDI score is equal to or greater than the male HDI score.

However, important gender gaps remain. The Gender Inequality Index (GII) finds that women in Kazakhstan are still not reaching their full human development potential due to gender inequalities across three dimensions: (a) reproductive health, (b) empowerment (measured by educational attainment and political participation), and (c) labor market participation. Women experience discrimination from social institutions that provide access to productive and financial resources—evidenced in labor laws that prohibit women from working in certain occupations, a persistent gender pay gap, and gender-related barriers to accessing finance. With a higher life expectancy and greater educational attainment, women in Kazakhstan outperform men on all HDI indicators (except for income), in some cases reflecting concerning outcomes for men and boys (especially regarding health and education, respectively).

Economic empowerment is still lacking. Female unemployment has remained higher than male unemployment since Kazakhstan's independence in 1991. Female unemployment peaked in 1999 and has since decreased to 5.6 percent (1.44 percentage points greater than male unemployment). The most recent data show that 27.6 percent of small businesses, 31.7 percent of medium businesses, and 17.0 percent of large businesses are headed by women,⁴ suggesting significant gender inequality in access to employment opportunities and promotions. As in many countries, gender norms and attitudes that require women to assume responsibility for childcare and household chores create an uneven burden for women in Kazakhstan. In a recent study,⁵ more than 80 percent of people in Kazakhstan responded that a woman should do household chores even if her husband is not working. Household work is time-consuming and can limit women's ability to work due to time poverty. Women are paid significantly less than men, on average. According to the World Bank calculations, men earned 27–31 percent more than female workers in 2011–13, even after controlling for characteristics such as skills and location. The gap is the most severe in agriculture, at 112 percent. Despite barriers to employment created by gender norms, approximately 75 percent of men and 85 percent of women in Kazakhstan believe that women are just as competent as men to be business executives.⁶

Health and life expectancy have improved. There has been a significant decrease in maternal and infant deaths in recent years. In 2007, there were 46.8 maternal deaths per 100,000 births and by 2017 the rate had reduced to 14.⁷ Both boys and girls have a 99 percent chance of surviving until their fifth birthday. However, migrant women and their children are particularly vulnerable to health complications as they are not entitled to free prenatal or postnatal care. Despite being classified as having 'very high human development' in both the GDI and HDI, Kazakhstan's life expectancy at birth is more akin to countries falling into the 'medium human development' category for both men and women.⁸ Female life expectancy at birth (76.9 years in 2017) is greater than male life expectancy (68.7 years).⁹ While countries worldwide report higher life expectancies for women, the magnitude of Kazakhstan's gender gap is particularly large. Only 6 other countries (of 185) had gender gaps at the same or greater levels than Kazakhstan in 2017.

⁴ Statistics Committee, Ministry of National Economy of the Republic of Kazakhstan (2019) [Gender Statistics Portal]

⁵ European Bank for Reconstruction and Development (EBRD) (2016); Life in Transition. [Survey]

⁶ European Bank for Reconstruction and Development (EBRD) (2016); Life in Transition. [Survey]

⁷ Statistics Committee, Ministry of National Economy of the Republic of Kazakhstan (2019) [Gender Statistics Portal]

⁸ Life expectancy at birth (for men and women) in 2017 was 70 years according to the Global HDI and 72.95 years according to the World Bank.

⁹ World Bank (2019); the Gender HDI reports an even wider gender gap for Kazakhstan at 9.6 years (74.8 years for women and 65.3 years for men) in 2017 (Gender Human Development Index 2018).

Violence against women is still substantial in Kazakhstan. The Concept on Family and Gender Policy for 2030 states that one in three Kazakhstani women will experience gender-based violence at least once. A 2015 study found that 16.2 percent of ever-partnered women (ages 18 to 75) experienced physical violence by an intimate partner,¹⁰ 3.6 percent experienced sexual violence by an intimate partner, and 21 percent experienced emotional abuse by an intimate partner. Currently, there is no legal definition for sexual harassment in Kazakhstan, leaving the laws protecting women and men from gender-based violence vague and subjective. Bride kidnapping, the practice of abducting a woman with the intention of making her a bride, remains a concern especially in southern Kazakhstan.¹¹

Source: World Bank Group, Gender Assessment (ongoing).

Access to International Capital Markets

22. Kazakhstan has access to international capital markets. From 2005 to 2014, Kazakhstan's public external debt was quite minimal at 2 percent of GDP but has grown since 2014. In November 2018, the Government successfully issued a EUR 1.05 billion Eurobond, half with a coupon at 1.55 over five years and half at 2.375 over 10 years. A Kazakh SOE in the trade logistics sector (Kazakhstan Temir Zholy) also placed a five-year Eurobond for CHF 170 million in December 2018. More recently, on September 30, 2019, the Government issued Eurobonds at the lowest rates ever for a BBB rating.¹² Given its relatively low debt of about 20 percent of GDP (and around 10 percent for the public external debt), the Government remains in a net creditor position, though this does not fully capture SOE debt and contingent liabilities. Refinancing risks are modest—most of Kazakhstan's debt is long term and Kazakhstan's debt remains investment grade, though barely (S&P rating: BBB–). The percentage of foreign currency debt is high, and the recent large currency depreciation underscored Kazakhstan's foreign currency exposure. The Government has issued a tenge-denominated Eurobond to reduce its foreign currency debt and broaden the debt market. Kazakhstan is currently included in the Morgan Stanley Capital International (MSCI) 'frontier' index, and it hopes to join the full MSCI Emerging Market Index in the next few years as it deepens its capital markets.

¹⁰ Statistics Committee, Ministry of National Economy of the Republic of Kazakhstan (2017). Sample Survey on Violence Against Women in Kazakhstan

¹¹ Wilson Center (2011). The Rise of Non-Consensual Bride Kidnapping in Kazakhstan: Developing a Culturally-Informed and Gender-Sensitive Response

¹² EUR 500 million was emitted at 7 years at 0.6 percent and EUR 650 million for 15 years at 1.5 percent.

Development Challenges and Institutional Assessment

23. The SCD has identified the main challenges and opportunities for Kazakhstan in achieving the transition to a new growth model and thus to making continued, rapid progress toward eliminating poverty and delivering shared prosperity. These are organized into four strategic pillars, each with related priorities: economic management for diversification, private sector-driven economic growth, integration and connectivity, and productive human capital and sustainable natural capital. Table 2 provides a summary of the strategic pillars and related priority challenges.

Table 2. Summary of SCD Strategic Pillars and Related Priorities

SCD Priorities	SCD Strategic Pillars			
	Economic management for diversification	Private sector-driven economic growth	Integration and connectivity	Productive human capital and sustainable natural capital
	Fiscal adjustment to low oil prices	SME development	Transport and trade	Transport and trade
	Public debt management	State role in economy	Agriculture value chain development	Health
	Central Bank independence	Contestable markets and regulation	Autonomy and accountability	Autonomy and accountability
	Corruption and rule of law	Financial sector	-	Clean energy and energy efficiency
	Public sector management and responsiveness	Financial inclusion	-	Natural resources management (water, air, forest, land)

24. The SCD has also emphasized that institutional and governance reforms are at the core of addressing Kazakhstan's development objectives and priorities. Kazakhstan's institutional development has not kept pace with its economic and social development. Institutional gaps and weaknesses cut across all sectors and undermine both public and private sector performance. Table 3 summarizes the key institutional challenges to Kazakhstan's main development objectives, based on the SCD and complementary analysis. Institutional challenges are significant at the policy level, especially in implementation of adopted reforms and policies and in monitoring, evaluation and correction of policies, including the numerous subsidies programs in economic and social sectors. A significant share of local governments and several central institutions remain weak including the ones in charge of human and natural capital. While significant investment programs have been led by the Government, service delivery and asset management after construction still need to be reinforced, while human capital has seen the emergence of leading institutions, but with an increasing divide with institutions serving remote areas.

Table 3. Kazakhstan - SCD Institutional Assessment

Strategic Pillars	Underlying Institutions	Institutional Challenges Affecting Progress
(a) Economic management for diversification	Public planning and management systems	<ul style="list-style-type: none"> • Rigid planning system, with lack of alignment between financing sources and development priorities
	Institutions for macroeconomic management	<ul style="list-style-type: none"> • Inadequate fiscal framework for sustaining macro-stability and supporting private sector dynamism • State support to SOEs maintaining inefficient structures
	Public sector governance	<ul style="list-style-type: none"> • Insufficient sharing of data and underuse of data-driven processes and e-government • Insufficient central/local government performance and links, with dominance of central-level institutions • Weak public sector performance, institutional capacity, and systems to implement, monitor, and evaluate public policies and programs, as per stated objectives • Weak public financial management (PFM) including reporting, control, and audit especially for subsidy schemes • Ineffective law enforcement institutions • Widespread clientelism and corruption
(b) Private sector-driven economic growth	Competition and business-friendly environment	<ul style="list-style-type: none"> • Low trust in judicial institutions and dispute resolution systems • Inadequate measures to improve competitiveness, reduce unfair practices, and remove price controls • Barriers to entry/exit of firms and foreign companies' participation • Weak regulatory framework and uneven application to public and private enterprises • Onerous tax administration system
	State entities/institutions in the economy	<ul style="list-style-type: none"> • Strong presence of SOEs and public entities, squeezing out space for the private sector • Privileged access of SOEs to subsidized credit and direct links to government decision makers disadvantaging the private sector
	Financial sector	<ul style="list-style-type: none"> • Inefficient credit allocation and poor banks' risk management practices • Dominance of subsidized lending and limited availability of financial products, especially for insurance and leasing • Low level of credit to GDP and low proportion of SMEs with access to credit.
	Productivity and Innovation	<ul style="list-style-type: none"> • Underdeveloped laws, regulations, and systems to support digital economy investments and business models • Lack of strategic vision on science, technology, and innovation development, supported by well-coordinated policies
	Private sector governance	<ul style="list-style-type: none"> • Weak private sector governance and institutional and business environment support for SMEs and micro, small, and medium enterprises (MSMEs) • Weak implementation of corporate governance code • Poor quality of financial reporting and auditing
	Agriculture transformation	<ul style="list-style-type: none"> • Weak institutional capacity for harmonized policies and regulations to support climate-resilient, sustainable agriculture practices

Strategic Pillars	Underlying Institutions	Institutional Challenges Affecting Progress
(c) Integration and connectivity		<ul style="list-style-type: none"> • Weak and distorted systems to support smallholder farmers with extension, finance, and key services/inputs • Weak systems and capacities to support export-oriented food system quality and safety, including traceability and risk-based inspection and certification
	Trade facilitation	<ul style="list-style-type: none"> • Customs procedures cumbersome and time-consuming • Cross-border trade facilitation insufficiently harmonized to facilitate smooth transit and improved risk management
	Transportation	<ul style="list-style-type: none"> • Inadequate focus of transport institutions on the management and maintenance of infrastructure • Weak coordination and institutional capacity to provide effective intermodal connectivity and logistics solutions for supply chains
	Decentralization and devolution	<ul style="list-style-type: none"> • Weak capacity of regional and local institutions for development planning, coordination, and implementation • Dominance of centralized planning and budgeting over a decentralized, participatory approach • Insufficient focus on enhancement of local governments' role and capacity in management of local roads and other infrastructure
(d) Productive human capital and sustainable natural capital	Education and skills training	<ul style="list-style-type: none"> • Weaknesses in curriculum and teacher training institutions • Weak link between research, training, and labor market institutions • Weaknesses in service delivery, including unequal access to and variable quality of preprimary education • Limited policy and investment to reduce learning disparities across the education system • Vocational and training system lacking regulatory and operational quality assurance frameworks
	Geographic mobility	<ul style="list-style-type: none"> • Significant mobility barriers created by aspects of housing, finance, labor market, and social protection systems
	Health care system	<ul style="list-style-type: none"> • Uneven quality and coverage of health system leading to huge regional differences in health care access, utilization, and outcomes • Weaknesses in design and delivery of social health insurance system • Institutional gaps in private sector provision of affordable health care
	Social protection system	<ul style="list-style-type: none"> • Poor targeting and delivery system weaknesses in SSNs • Pension system with large deficits and not covering the self-employed • Low coverage and depth of unemployment insurance
	Natural resources management systems	<ul style="list-style-type: none"> • Weak institutions for environmental and forestry planning, management, and coordination • Weak systems and capacities to ensure compliance with environmental standards • Weak water resources and water supply services management organizations at the farm level, resulting in degradation of irrigation and drainage systems • Inadequate systems for restoration of degraded landscapes • Lack of planning and implementation framework to curb high levels of pollution and greenhouse gases that harm health and environment • Lack of multisectoral action plans and coordinating mechanisms to enhance water/climate resilience across government agencies and various stakeholders
	Energy generation and use systems	<ul style="list-style-type: none"> • Underdeveloped markets in private investment in energy efficiency • Significant institutional, regulatory, and financial barriers to promoting energy efficiency in key energy-consuming sectors

(a) Economic management for diversification

Fiscal adjustment to low oil prices

25. The non-oil deficit is still significant, which could impact the overall fiscal situation in a context of lower oil prices. Non-oil tax revenues are insufficient and public spending, including the costs of public enterprises and subsidies, requires consolidation. In 2019, the non-oil deficit is projected to be at about 7 percent of GDP, to be offset by the National Fund transfers. With a sustainable non-oil deficit estimated to be around 5 percent of non-oil GDP, a progress on fiscal consolidation of non-oil GDP is of great importance. Part of the deficit reduction needs to come from increasing non-oil revenues, which were thinned when the Government sought to reduce the tax burden on the private sector (Kazakhstan has a relatively simple tax system involving a flat 10 percent income tax, 20 percent corporate tax, and 12 percent value added tax [VAT]). The Government has set a target for non-oil deficit to be 6 percent of non-oil GDP by 2025, which is fine at current prices but would not be sufficient should prices stay below US\$40 per barrel. The plan to further strengthen the fiscal framework and reduce reliance on transfers from the National Fund is an important reform agenda. The challenge is how to deliver fiscal consolidation in a slowing economy when aggregate demand is undermined by the absence of a well-functioning financial sector.

Public debt management

26. The other part of the fiscal consolidation must come from a reduction in the substantial spending that supports the established structure of the economy (liabilities of SOEs and the banking sector and subsidies to SOEs, the banking sector, and the private sector). The Government plans to restrain the widening non-oil deficit which puts Kazakhstan in an unsustainable financial position. While overall debt is small and sustainable at face value, the state's ability to borrow and its sovereign ratings (Fitch: BBB Stable; Moody's: Baa3 positive) rest on the buffer created by the National Fund. If Kazakhstan accumulates significant debt, the intrinsic value of the Oil Fund is undermined. In 2018, government debt (domestic and external public and publicly guaranteed) stood at an estimated 20.7 percent of GDP compared to Oil Fund assets, which suggests net financial assets of the Government at just over 12 percent of GDP. This ratio is likely to increase with stable oil prices and policy changes that reduce the non-oil deficit. Further, National Fund assets may be compared not only against domestic and external public and publicly guaranteed debt but also against Kazakhstan's corporate debt, which is mainly SOE debt and therefore is a contingent liability for the Government. This alternative perspective, again with no policy change, suggests much greater concern over financial sustainability and a sharper need for fiscal consolidation.

Corruption and the rule of law

27. Corruption and clientelism remain a major obstacle to effective government decision making, program and project implementation, public service delivery, and competitive private sector participation. They are exacerbated by limited transparency in the justice system. Corruption is the most commonly cited major constraint facing firms and is also an area in which Kazakhstan stands out as having a much worse business environment than peers in the Europe and Central Asia region and OECD, according to the World Bank Enterprise Surveys and other indexes. Corruption and clientelism retard the growth of the private sector by imposing heavy transaction costs on firms and, more important, by reducing allocative efficiency in the economy by enabling the most well-connected firms, rather than the most productive ones, to capture credit, contracts, and other advantages. Less corruption in education should improve inclusion for disadvantaged and vulnerable households. Further, less corrupt and more accountable local governments, along with strengthened justice system, should support a level playing field for the private sector while an enhanced voice for citizens helps bring equity and access to all women and men.

28. Public planning is comprehensive but there are weaknesses in prioritizing and responding to citizens' needs. Implementation capacity is limited, resulting in weak management of projects, public investment, and public finance. While the state planning system provides for regular monitoring and assessment of state programs, the evaluation system requires significant strengthening. A key challenge going forward will be to move from a focus on compliance to one focusing on performance—with a greater emphasis on outcomes and impact through continuous learning, adjustment, and improvements. Enhancing public sector capacity will require reducing the top-down approach to management, building stronger analytical and planning capacity in ministries, strengthening financial management skills and accountability, encouraging citizen engagement, and establishing rigorous performance accountability processes, including systematic monitoring and evaluation of government programs and budgets. The Government signaled commitment to improve responsiveness of the public sector to the citizens' needs.

(b) Private sector-driven economic growth

SME development

29. Domestic SMEs, which typically drive innovation and growth in transition economies, contribute very little in Kazakhstan (as measured by their share of GDP) compared to peer countries. Although entrepreneurial presence is high, SMEs are still limited; they struggle to grow, caught between informality and competition from large SOEs. As with private sector development, more broadly, the Government has long emphasized development of SMEs to support diversification. However, its efforts have been undermined by a policy environment that weakens competition, a financial system that fails to price and allocate resources effectively, and a governance environment that has created an uneven playing field, with SOEs and firms with good public sector connections crowding out SMEs and potential innovators. Support to SMEs operating in high-potential sectors (the agribusiness value chain, in particular) can be facilitated through building the capacity of the local financial institutions to adequately assess SME risks and provide credit to entrepreneurs, based on risk models that allow adequately evaluating default risks and commercially pricing the financing instruments offered to the SMEs. Public credit support programs to SMEs should also evolve from the provision of subsidized credit to risk-sharing schemes that crowd in private sector funding.

State role in the economy

30. A large state presence in the economy impedes full development of the private sector. Support programs tend to restrict competition and benefit individual enterprises through unsustainable subsidies. SOEs and three public holding structures—Samruk Kazyna Joint Stock Company (JSC), KazAgro JSC, and Baiterek JSC, along with their more than 600 subsidiaries—dominate the economy, controlling energy, transport, utilities, SME financing, and agriculture finance and product development. According to the OECD's Index of State Control, Kazakhstan has a greater presence of SOEs in the economy than any OECD member and most large non-OECD economies, including Brazil and China. SOEs can discourage private sector activity in a number of ways: through crowding out, through their privileged access to subsidized loans, and through their ability to influence policy (for example, through strong links to the government, which participates directly in their management boards). Furthermore, some low-performing SOEs end up draining public resources, preventing well-targeted investments from taking place in needy areas, such as health care, education, and sustainable energy. Such SOEs also perpetuate inefficiencies in sectors with high growth potential, such as agriculture and its supporting infrastructure, including

storage and transportation, which could attract private investments and be competitive if left to private operators. Governance of SOEs, although recently improved through corporatization, remains a challenge. Nevertheless, the willingness to limit expansion of new SOEs recently announced by the President provides an opportunity for further reform, giving the opportunity to the WBG to facilitate, in a coordinated and focused manner, the development of a vibrant private sector across key segments of the economy.

Contestable markets and regulation

31. Building a diversified, competitive private sector, in an environment free of major macro-fiscal and financial sector distortions and with a level playing field and contestable markets, is the core of the reforms required to transition Kazakhstan's economic model. Key activities would include establishing a regulatory environment that enables SMEs to emerge, grow, and attract FDI and substantially reducing the state presence in the economy. Privatization is part of the process, but as a prerequisite it is necessary to clarify the regulatory environment, pricing policies, and government ownership goals in each sector. Bringing the competition and regulatory frameworks up to OECD standards will need to occur in parallel, to ensure that privatizations reduce concentrations of market power rather than simply transfer rents from the public sector to an entrenched elite. Support to SMEs should replace reliance on subsidized credit with measures to create an effective regulatory environment (which requires reforming inspections and enforcement), foster a domestic market for business development services, and encourage exports, including by strengthening value chains. Public credit support programs will still be necessary, particularly in downturns as part of countercyclical policies, but the focus should be on de-risking lending to SMEs through credit enhancements and developing platforms to exploit fintech solutions.

Financial sector

32. The Banking sector is still recovering, and enhancing its soundness is key to contribute to SME credit growth. Enterprises need access to a robust and competitive financial sector to develop and grow. Domestic credit to the private sector by banks is still limited at the end of the decade, amounting to 23.7 percent of GDP in 2018¹³ (down from 58.9 percent in 2007), well below the 118.2 percent average for upper-middle-income countries and 88.1 percent for the Europe and Central Asia region. Credit contraction was driven by the structural transformation of the economy from non-tradables to tradables, as banks tightened their conditions as a response to the deteriorating position of their non-tradable borrowers. Credit growth has recently recovered following the implementation of the Banking Sector Sustainability Support Program and is mostly driven by a strong increase in retail loans.¹⁴ To avoid misallocation of credit resources and excessive debt of SMEs, it is crucial for lending banks to weed out insolvent firms. In order to ensure better quality of lending, banks need to improve their underwriting standards and quality of credit decisions, along with the NBK initiatives to strengthen supervision. Other financial products, such as insurance or leasing, are underdeveloped but are being promoted.

33. Sustained efforts will be needed to finalize the sector consolidation. Two systemic financial crises in the last decade have caused substantial fiscal and growth costs. Poor bank corporate governance, credit and risk management practices, and weak bank oversight and bank resolution frameworks were at the root of sector instability. Since 2017, the Authorities have stabilized the banking sector, strengthened oversight, and reformed the bank resolution framework to facilitate the application of bail-in techniques to resolve banks. This included recapitalization of the five largest commercial banks. Since January 2019, as part of the strengthening of the regulatory and supervisory mandate, NBK adopted a risk-based approach to supervision which allows to the emergence of risks at

¹³ World Development Indicators 2019

¹⁴ To restore solvency in systemically important banks subordinated debt was provided by NBK subject to shareholders capital contributions. In addition, the Problem Loan Fund purchased problem assets to inject capital in some institutions.

early stage. As a result, NBK is conducting an asset quality review of 14 banks to reveal the true size of problem loans and banks solvency position. A very strong commitment will be needed to implement the follow-up actions that will derive from it, especially in light of the creation of new Financial Supervision Authority, which is to start in January 2020.

Financial inclusion

34. Access to finance in rural areas, particularly in agriculture, is very limited, especially for women. Access to credit is critical to enable people in lower socioeconomic groups, especially in rural areas, to create opportunities where they live or migrate to other areas. Lack of credit restricts potential for the development and expansion of microenterprises and SMEs as well as investments in farm and nonfarm self-employment. Deposit account ownership has increased substantially from 42 percent of adult population to 59 percent but is still well below the 73 percent average for upper-middle-income countries. Access and use of financial products can be a critical tool in the rural areas and lagging regions constituting the poorest and most excluded segment of population for smoothing consumption, managing risks, and invest in human capital. It needs to be considered together with the very rapid growth of Non-Banking Financial Institutions operating online and which are providing services that are extremely expensive but very easy to access.

(c) Integration and connectivity

35. Given Kazakhstan's economic geography, integration and connectivity are necessary for economic and social success. Kazakhstan is a landlocked country with long distances between centers and low density. To successfully transition into a diversified, export-led economy, it must integrate and connect better within and beyond its borders. And to overcome regional and urban-rural disparities—which persist across almost all aspects of the economy and society—and sustainably reduce poverty and nurture a strong middle class, it must find a way to connect residents outside the growth poles of Nur-Sultan, Almaty, and Mangystau to economic opportunities. Improving connectivity and trade facilitation is also necessary for Kazakhstan to take advantage of its membership in the World Trade Organization and Eurasian Economic Union.

Transport and trade

36. Despite considerable investment, key national and regional road and rail corridors still need to be completed. Regional integration and the development of Kazakhstan as an international trade corridor have the potential to create sustainable economic anchors for job creation in some of the peripheral regions. However, this potential is undermined by connectivity gaps, inadequate multimodal infrastructure, and weaknesses in trade facilitation and logistics. There is considerable scope to cut costs and reduce the transit time inside the country for both rail and road transport.

37. Trade facilitation shortcomings create 'thick borders' between Central Asian partners, raising trade costs. Trading across borders is the country's worst performing indicator in the Doing Business ranking. 'Border procedures' in Kazakhstan are often problematic, and restrictions on the movement of trucks and drivers remain. Moreover, restrictive trade policies, including complex tariff structures with China and Uzbekistan; lack of transparency; and, most notably, nontariff measures disrupt regional trade and undermine the potential for developing more integrated regional value chains.

38. Digital connectivity is an emerging area that could make a large difference in linking underserved regions with services and market opportunities through high-quality, cost-effective information and communication technology. Kazakhstan has significant basic mobile penetration, but 3G/4G and broadband penetration (40 percent and 31 percent, respectively) remains low. Digital government solutions are being deployed by many ministries but remain disjointed due to lack of a robust interoperability platform. Under its 'Digital Kazakhstan' program, the Government is trying to reinforce digital infrastructure, skills, and innovation hubs.

Agriculture value chain development

39. Development of livestock and horticultural value chains has the potential to raise incomes of small farmers, stimulate the local nonfarm economy, and create earning opportunities for input and service providers along the chain. Kazakhstan's agriculture is currently characterized by low labor productivity (thus harboring a disproportionate share of the poor), huge allocative inefficiencies (1 percent of farmland in Kazakhstan produces more than half the agricultural GDP), technical inefficiencies (insufficient use of modern inputs and technologies that can significantly raise productivity), ineffective public support (mainly in the form of distortionary and mistargeted subsidies), low investment in value chain infrastructure (both hardware and software), and insufficient investment in market-related institutions.

40. Current low performance belies the potential of the sector, which enjoys huge natural advantages, including extensive pasture lands and vast tracts of arable land suitable for mechanization. On the demand side, the headroom for growth is high: Kazakhstan is near more than half the globe's population, living in some of the fastest growing economies. By shifting focus from farming to development of value chain-based food systems, Kazakhstan can unlock new opportunities for jobs and income growth. There is huge scope to increase productivity and incomes of smallholder farmers, who currently practice low-input low-output activity for the local market, largely without effective state support to enable capital deepening, technical transformation, and institutional change. Importantly, rapid agricultural incomes also create nonagricultural employment for local workers as well as migrants, stimulating growth of small towns, better local market integration, and regional development. However, any strategy to improve productivity and yield of agricultural segments will need to be implemented with an approach aiming at developing financially sustainable farmers/ranchers through capacity building to improve efficiency and enhance competitiveness and by facilitating their access to key markets by ensuring compliance to key standards and parameters.

Autonomy and accountability

41. Kazakhstan's administrative regions (oblasts) have demonstrable economic potential, but their capabilities, infrastructure, and administrative capacity vary considerably. Analyses suggest that almost half of Kazakhstan's 17 regions (14 oblasts and 3 republican cities—Almaty, Nur-Sultan, and Shymkent) have the capability to diversify, based on the uniqueness and complexity of each region's products, processing capabilities, and services support.

42. A bottom-up response is required to support regional development, to allow local opportunities and priorities to determine local development strategy. Strengthening of local autonomy, capacity, and accountability is essential to build development programs that incorporate specific regional plans and market incentives. The process also needs to be located within a decentralized fiscal and budgetary system that allows for exchanges between regions and the center.

Such a response also requires citizen involvement in the local government and an approach to accountability that is based on program or regional performance and delivery of inputs (such as credit and infrastructure). IFC's recent strategic focus on supporting the decentralization of service delivery of the large municipalities (for example, Almaty, Nur-Sultan, and Shymkent) by assisting them in gaining financial autonomy through better market access will free up resources at the central government level and improve performance in project development and management. Indeed, after obtaining international credit rating, these cities will be subject to more scrutiny and will be induced to better governance, by way of their access to international credit markets.

(d) Productive human capital and sustainable natural capital

Education and skills development

43. Despite improvements in basic educational attainment, substantive gaps remain in education quality and equity. Basic education is near universal (for both boys and girls) and the share of the youth population with more than a general secondary education rose from 32 percent in 2001 to 62 percent in 2015. However, performance gaps with OECD countries remain substantial according to the Programme for International Student Assessment (PISA) comparisons. There are also wide gaps in access for students from rural and lower socioeconomic households. Improved learning opportunities in elite schools have further widened the gap in learning outcomes of the top and bottom income quintiles. Schools have little administrative and fiscal autonomy and limited local or parental involvement in school governance. Greater use of PPPs can help bring in models, systems, capacities, and resources that will increase access to quality education. While school enrollment is gender equal, areas of study tend to have gender bias, which in turn leads to disparity in employment and wages. Improving curriculum should be done in a way that encourages gender neutrality.

44. It is also essential to bring skills generation in line with demand and new economic opportunities. Since 2012, Kazakhstan has embarked on a modernization drive to better align its vocational education, training, and higher education systems to labor market demand. It has also granted greater autonomy to higher education institutions and launched pilots to encourage partnerships with employers and the private sector groups to define occupational standards and modernize the training curriculum. However, institutional capacity and operational bottlenecks are common setbacks. The vocational education and training systems lack the legal and quality assurance frameworks needed to incentivize systemic change. Not surprisingly, employer surveys continue to point to the need to improve training program offerings to grow the workforce skills needed in a diversified and modern economy. In higher education, there is a need to continue encouraging partnership agreements between higher education providers, employers, and industry-based innovation research. Finally, the agendas of early childhood development and lifelong learning are still nascent in the country. Working-age adults have limited opportunities to re-skill or upskill, whether on the job, in the workplace facilities, or in a network of accredited training providers that provide access to and high-quality short-term training opportunities.

Health

45. Kazakhstan has made some solid gains in health. Male life expectancy has risen by eight years since 2005, faster than in all peers, albeit from a far lower base. The maternal mortality ratio declined from almost 90 (per 100,000) live births in 1997 (thrice the OECD average and the worst among all peers) to 12 by 2015, better than the OECD average. Infant mortality also declined sharply, from 44.7 per 1,000 live births in 1990 to 8.9 in 2017. Continuing to improve health outcomes is critical not just for quality of life but also for productivity and poverty reduction.

46. These gains notwithstanding, the health achievements are not on par with the country's economic performance. For instance, life expectancy for males still trails almost 10 years below than the OECD average. Similarly, other indicators such as infant mortality rate, deaths from cardiovascular diseases, and deaths from cervical cancer (avoidable in a well-performing health system) are substantially higher in Kazakhstan than in countries with similar socioeconomic conditions. Further, disparities in health access and outcomes are still wide, with national averages in health outcomes masking troubling regional differences in health care access and utilization, health outcomes, and out-of-pocket expenditures. Moreover, environmental factors, notably air pollution, also threaten the sustainability of health improvements. The final challenge to health care system is fiscal sustainability. The Government is yet to introduce its long-proposed mandatory social health insurance program with contribution rates set at levels sufficient to ensure no financial shortfall. The start of this program is currently piloted in one region and set to take off nationwide on January 1, 2020.

Social protection

47. The social protection system needs to be improved further to reduce informality and stimulate labor market (including geographical) mobility. Social safety net (SSN) coverage is fragmented and insufficient, with minimal use of means testing. Under current contributions, the SSN system is insufficient to reach most of the poor. Around 25 percent of the population receives some form of social assistance (categorical and means tested), but only around 3 percent receives targeted social assistance (TSA), which is the 'last resort' minimum income program. The Government took steps earlier this year to increase the stringent eligibility threshold of the TSA, which is too low for an upper-middle-income country such as Kazakhstan. The social assistance system is still not effective in raising the incomes of the poorest.

48. Pensions, unemployment benefits, and active labor market programs could support the workforce better. With meager pensions and unemployment benefits, the social protection system provides few benefits to support flexibility and adaptability in the labor market. Some 2.8 million workers, notably the self-employed, are ineligible for pension benefits because they do not contribute to the insurance scheme (as they have no employer who contributes to the scheme for them, as in the case of wage employees). This puts a large group of vulnerable workers at an elevated risk of poverty.

Clean energy and energy efficiency

49. High levels of GHGs and pollution harm the environment and health. The energy mix in Kazakhstan shows little diversification over time. Close to 50 percent of the economy's primary energy needs are supplied by domestic coal, and two-thirds of it is used in the power sector. Over 60 percent of electricity generation is coal based. Such dependence on coal adds to environmental degradation and health costs. As a result of this as well as the use of inefficient technologies, Kazakhstan's carbon dioxide (CO₂) emissions on a per capita basis are among the highest in the world. Looking to the future, the country has adopted ambitious targets and policy measures on renewable energy development (share of renewable energy (RE) in total electricity production to be 3 percent by 2020, 10 percent by 2030, and share of alternative energy sources (hydro and nuclear) and RE - 50 percent by 2050. It has also adopted some policy measures such as feed-in-tariffs in 2014, a mechanism for renewable energy auctions since 2018, and guaranteed connection to the electricity grid. However, progress in attracting investments and project implementation has been slow. A more enabling environment, buy-in, and deeper engagement are needed in building institutional capacity and improving regulatory frameworks in support of project identification, assessment, financing, and implementation.

50. With respect to energy efficiency, Kazakhstan is among the world's 10 most energy-intensive economies. It uses 1.7 times as much energy per unit of GDP (based on purchasing power parity) as the OECD average. The industrial sector is far more energy intensive in Kazakhstan than in most countries globally. This energy intensity hurts Kazakhstan's competitiveness in international markets in semi-manufactured goods, especially in energy-intensive metal product categories. Inefficient use of electricity also contributes to power shortages, especially amid a tightening supply-demand balance, with adverse impacts on SMEs and on regional development. The country has enacted a comprehensive legislation (The Law on Energy Saving and Energy Efficiency, 2012) to help reduce the energy intensity of GDP. However, this is a fragmented space where several barriers, including institutional, regulatory, informational, technical, and financial, remain and must be addressed.

Natural resources management

51. Kazakhstan's long-term economic development, including its energy and water security, could depend to a great extent on how effectively it manages its natural capital and addresses significant environmental challenges, especially under increased pressures from climate variability, economic growth, and population expansion. The development of the oil and gas sectors has left major adverse impacts on the environment, including industrial waste, air pollution, and radioactive contamination, with mitigations so far not meeting international standards. City pollution is at hazardous levels, particularly in areas of heavy industries, leading to reduced labor productivity and higher health expenditure. A reduction in snow melt due to climate change and steady deforestation, which has been recorded over the past decade, could in the long run endanger a water supply that is already scarce in large parts of the country and threaten agriculture and rural livelihoods. Continuing population growth is expected to significantly increase demand for water supply and services by 2050. On the other hand, climate change is expected to make Kazakhstan 'drier' on average and will lead to a decrease in available surface and groundwater resources.

52. Climate change is expected to further intensify in the coming decades, with mean annual temperature over the country rising 2°C above the 1961–90 level by 2030–40 together with concerns about water availability, through impacts on the overall hydrological cycle. Deforestation and land degradation are another critical challenge, with about 70 percent of Kazakhstan's land resources classified as degraded. The combined effects of climate change on land degradation, a decrease in agricultural productivity, water pollution and sedimentation, and increased frequency and intensity of disasters, will increase an already high vulnerability. This will impose significant costs in a 'business as usual' mode. Most notably, it will restrict the potential for agricultural development and undermine the viability of some rural areas. However, through strategic alignment of policies and regulations and strengthening of key institutions, it is possible to enhance productive and resilient use of natural resources and assets. For example, estimates suggest that adoption of modern agricultural techniques and water and soil management methods could increase the region's crop yields by over 20 percent by 2030, and by 50 percent by 2050.

53. The WBG Country Private Sector Diagnostic (CPSD),¹⁵ led by IFC is consistent with the SCD's strategic pillar focusing on private sector-driven growth, identified several interlinked sectors that have unrealized investment and market potential. It highlights the potential for growth and diversification of the agribusiness sector into higher value-added products, including livestock, seeds, and grains, to leverage Kazakhstan's position near the large consumption markets. It also highlights the significant potential to expand transport and logistics services to take advantage of Kazakhstan's location linking Asia to Europe and the Middle East, and to also facilitate the growth of export-oriented sectors. The CPSD also identifies several overarching constraints that deter investment and hold back

¹⁵ Creating Markets in Kazakhstan, Country Private Sector Diagnostic (November 2017)

the realization of sector potential. These include a poor business climate, weak corporate governance, public sector inefficiency, and the dominant competition-stifling presence of SOEs. On the private sector side, the low productivity (especially in agriculture) and the undeveloped upstream value chains are also seen as a constraint.

III. WORLD BANK GROUP PARTNERSHIP FRAMEWORK



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A. Government Program and Medium-term Strategy

54. The Government reform program is anchored by the Kazakhstan 2050 development strategy. Its overarching objective is to accelerate the transformation of Kazakhstan into a modern society with a knowledge-based, diversified, and private sector-driven economy. This strategy outlined five priorities for economic transformation: (a) accelerated technological modernization of the economy; (b) improved business environment; (c) increased macroeconomic stability; (d) enhanced quality of human capital; and (e) strengthened institutions, security, and anticorruption efforts.

55. Kazakhstan 2050 is being implemented through the Kazakhstan Strategic Plan 2025. Kazakhstan 2025's main goal is "to achieve qualitative and sustainable growth of the economy, leading to improvement in the quality of life of people to a level of OECD countries." Key results targets set by the Government within its strategic plan are as follows:

- Reduce the state's share in the economy from 30–40 percent to 15 percent. To this end it has already privatized 400 SOEs since 2016 and plans for further privatizations are proceeding.
- Diversify the economy by increasing nonprimary exports from 45 percent to 50 percent.
- Broaden the economy by raising the share of SMEs in GDP from 27 percent to 35 percent.
- Reduce inequality as measured by an increase in the income share of the bottom 40 percent from 22.8 percent to 27.0 percent of GDP.
- Reduce the economic gap between regions and expand social and transportation infrastructure.
- Improve the quality of services, including increasing PISA scores for quality of secondary education to 450–490 in all three subjects (math, science, and reading).
- Address environmental challenges including reducing energy intensity from 2008 by 25 percent by 2025.

56. To achieve these goals, the Kazakhstan 2025 plan lays out seven systematic priorities:

- (a) Skills and capabilities for the new economy - meeting demand for skilled labor by improving the quality of training, enhancing labor mobility, and adopting a lifelong learning concept
- (b) Technological innovation and digital transformation - higher enterprise productivity based on technology and creation of infrastructure for digitalization and innovation
- (c) Competition and competitiveness of business - fostering private sector development by creating the conditions for the growth of private business and entrepreneurship and reducing the role of the Government in the economy and enhancing export potential
- (d) Rule of law - state free of corruption - creating an investment climate characterized by the rule of law and the prevention of corruption
- (e) Strong regions and urbanization - increased independence and accountability of regions to foster their economic development and a guaranteed minimum living standard for people in all regions

- (f) Modernization of the public mindset - building a nation of strong, competitive, and pragmatic people, with responsibility for their own future and that of the country
- (g) Public sector as a leader of change - promoting the role of central and local government entities as agents for change, including through the promotion of large-scale digital transformation, customer focus, and adaptability and a more motivated civil service.

57. Kazakhstan's strategy emphasizes that institutional reforms are necessary to support economic transformation. To this end, two of Kazakhstan 2025's seven priorities focus on improving the effectiveness of institutions: modernization of the public mindset and public sector as a leader of change. The importance of improving institutions was further elaborated within the strategy: 'One Hundred Concrete Steps, a Modern State for All', launched in 2015 and structured around five components: (a) professionalizing public administration, (b) enforcing rule of law, (c) increasing transparency and accountability of the state, (d) fostering economic diversification and growth, and (e) uniting the nation. Individual institutions have since begun to explore ways to garner citizen feedback and utilize PPPs, though these efforts can still be scaled up substantially.

58. The recent presidential address of September 2019 and the resulting government action plan have developed this dimension, and the need to renew the social contract and improve inclusion. The orientations of the presidential address include measures aiming at reinforcing SSNs; improving the national education system; strengthening the rule of law; developing a countrywide program to enhance basic services in lagging areas; providing access to key infrastructure; and 'rebooting' the support to SMEs, focusing on new emerging companies. The President announced an objective to move toward the 'Strong President-Powerful Parliament-Accountable Government' model. The address also reinforces the focus on results and a more efficient delivery model for government policies, including by limiting the expansion of SOEs, decreasing the public workforce, and involving citizens in the budget development process at local levels. Since then, the Government has aligned its policies and actions based on the orientations of the September 2019 State of the Nation Address while continuing to report on the implementation of the Hundred Concrete Steps and the overall Kazakhstan 2025 Strategic Development Plan.

B. Lessons Learned under Previous Country Partnership Strategy

59. Overall performance under the previous Country Partnership Strategy (CPS) was assessed as Moderately Satisfactory in the Completion and Learning Review (CLR). This rating was based on an assessment of the program's achievements using the CPS Results Matrix, as revised through the CPS PLR. Most of the 28 CPS outcomes were either fully or partially achieved. The CLR rates WBG performance in designing and implementing the CPS as Good. The program design was considered relevant to Kazakhstan's development goals and supported by a mix of adequate interventions and instruments. The JERP was highlighted as an important tool for strengthening the partnership and advancing the reform agenda, although tasks could have been better prioritized. Program implementation was flexible, enabling the WBG to respond to shifts in client priorities as well as an increase in needs in the aftermath of the downturn precipitated by low oil prices.

60. A direct lesson from the implementation of the CPS is the need for the WBG to support the country in building resilience to shocks. The lower than expected oil prices call for more robust mechanisms to rein in the non-oil deficit and the use of oil funds. The banking sector issues can be mitigated by a better management of banks' financial distress and resolution of NPLs. The occurrence of climate related events and shocks have also emphasized the need to better manage natural capital, persist in the restoration of environmental degradation legacies, and develop more resilient and resource efficient infrastructure.

61. A key lesson from the CLR is the importance of a 'One World Bank Group' approach. Sustained private sector development and economic diversification require improvements in the underlying business climate which itself depends on improved public sector efficiency and supportive infrastructure. Greater collaboration between the different arms of the WBG is essential.

62. A second key lesson is the need to address systemic delays in project processing and implementation. Continued delays in loan signing and effectiveness led to delayed start, protracted implementation, and slow loan disbursements. This is evidenced by a disbursement ratio of 7.0 percent in FY18 and 9.2 percent in FY19. While remedial measures have been partly implemented, more is needed.

63. Other lessons relate to combining selectivity and flexibility: (a) the need for greater selectivity and agility by the WBG in responding to Kazakhstan's increasingly ambitious goals, (b) the need for greater diversity in the WBG's engagement with key players in the economy, including the private sector and other international financial institutions (IFIs), and (c) the potential for a medium-term and programmatic approach to the analytic program under the JERP and to align it better with operations.

64. It is also useful to consider the assessment and recommendations of the Independent Evaluation Group (IEG) 10-year Country Assistance Evaluation of the WBG's Kazakhstan program published in 2015. The IEG found that the WBG dialogue with the Government was of exceptionally high standard and that it had a proven track record of delivering high-quality advice through the JERP. However, the effectiveness of the WBG's separate elements was uneven. It recommended that (a) the analytic work under the JERP be linked better to sector investments, (b) policy recommendations under the JERP be done with a wider engagement of civil society and disclosed, (c) sector engagements be more selective and strategic, and (d) some analytic products be prepared independent of the JERP in line with the WBG's development mandate.

C. Lessons from Public Consultations

65. The CPF benefited from strategic consultations with the Government as well as a variety of stakeholders, private sector representatives, and development partners whose feedback was incorporated into the design of the new CPF. The WBG engaged in the consultation process from March 2018 until October 2019 throughout several regions in Kazakhstan, several online stocktaking, ensuring the process is inclusive and extensive (see annex 6 for details). Participants through all channels (CSOs in formal and online consultations, citizens in their online reactions and meetings in regions), reconfirmed their buy in of the need to improve the efficiency and effectiveness of the public sector and creating the conditions for private sector development and investment. These two goals were seen as highly interconnected, with successful and sustainable private sector development and growth unlikely without fundamental and ambitious reform in the public sector. In addition, the WBG was encouraged to enhance the CPF's focus on the development of human capital for a modern economy, including through education, training, and market-relevant skills development. Greater attention was requested in the partnership framework to act at the local level, given the breadth of inclusion challenges of spatial and lagging areas. In particular, participants requested capacity building at the regional and local levels, including with respect to fiscal management and social and environmental responsibility. Finally, civil society organizations (CSOs) reconfirmed their wish for a stronger involvement of civil society in the implementation and monitoring of the CPF, which is formalized in the proposed Citizen Engagement Roadmap in annex 7.

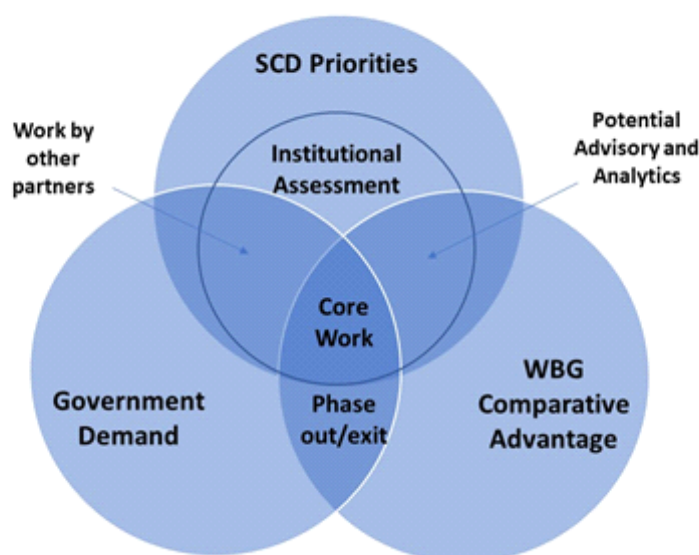
D. Framework for WBG engagement in Kazakhstan

66. This FY20-25 CPF reflects a reorientation of the WBG program to pursue a more strategic and selective engagement. The program is customized to Kazakhstan's priorities and needs at its level of development and is consistent with the WBG support envisaged for countries at this income spectrum in the WBG Capital Package Proposal (April 2018).

Selectivity: Prioritizing WBG Engagement

67. The CPF proposes a two-stage selectivity process to ensure a primary focus on institutional strengthening and reforms required for Kazakhstan's growth and transformation and sustainable IBRD graduation. First, the 'core' CPF engagement will be highly selective and consistent with (a) the SCD priorities (but with a focus on the binding institutional constraints identified); (b) the WBG comparative advantage (in particular, its ability to tailor interventions to support institutional strengthening and capacity); and (c) Government demand (the Government has requested the WBG to continue to advise, accompany, and finance interventions in areas where complex reforms are required, where the WBG has a long-standing engagement and where institutional reforms are needed). This first stage of selectivity is shown in figure 2.

Figure 2. Prioritizing WBG Engagement

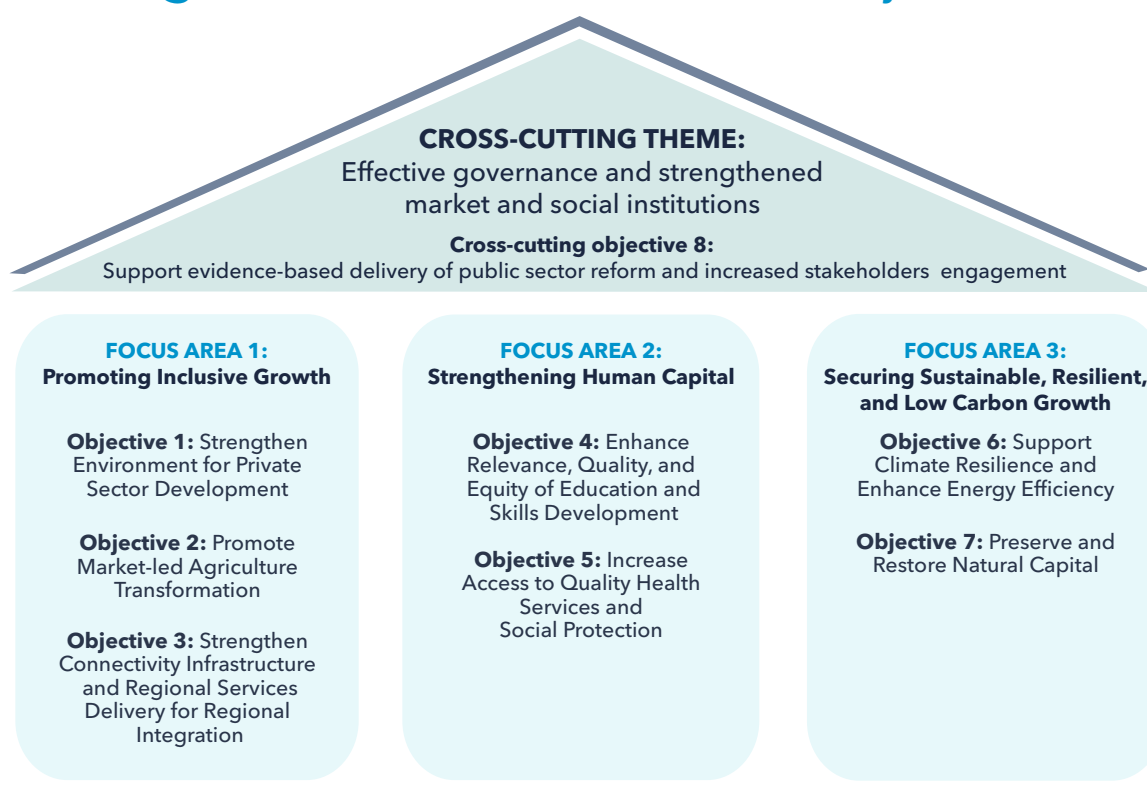


68. The second stage of selectivity aims to ensure the most appropriate use of WBG instruments for an upper-middle-income country that still faces complex inclusion, institutional, capacity, and reform challenges. To ensure a highly selective lending program, all new IBRD financial support would have to demonstrate, in addition, that they satisfy at least one of the following 'additionality' criteria: (a) support inclusion through providing innovative solutions that benefit the marginalized, poor, and vulnerable; (b) catalyze private sector investment or leverage additional resources; and/or (c) contribute to regional and global public goods. For IFC, this means additionality through increased focus on innovation and inclusion by supporting private sector growth to enhance economic diversification and increased access to services.

Areas of Engagement

69. This CPF is organized around three focus areas which are aligned with Kazakhstan's development priorities as well as the development objectives and institutional constraints identified in the SCD. These are also areas of comparative advantage for the WBG in terms of knowledge, capacity, and, in many cases, prior engagement. The three focus areas are (a) promoting inclusive growth; (b) strengthening human capital; and (c) securing sustainable, resilient, and low-carbon growth. Underlying these focus areas is the cross-cutting theme of more effective public sector and institutional development. Within these focus areas, the WBG program will be built around eight objectives, shown in figure 3. The CPF objectives will cover both the ongoing and planned programs since the results achieved by the end of the CPF period will also be influenced by investments and activities that are already ongoing. One specific objective will relate to the cross-cutting institutional theme. Opportunities to address gender gaps, support vulnerable groups, and promote citizen engagement will be identified for all WBG engagements, while several key engagements with links to neighboring Central Asian countries will try to increase opportunities for joint actions.

Figure 3. CPF Focus Areas and Objectives



70. The JERP (RAS) will be refocused to address institutional constraints holding back faster growth and better inclusion. Engagement modality and implementation arrangements will be modified through the following three shifts to better realize this objective as well as take on board lessons. First, resources will be focused on selected areas of knowledge sharing, agenda development, and/or reform implementation. Second, a multiyear engagement framework will be used, taking on board the experience from other regions that multiyear horizons allow the Government to more fully benefit from the technical assistance for more impactful and lasting institutional change and the WBG to more effectively deploy its resources and expertise. Third, the World Bank will seek to engage a wider range of stakeholders in preparing products and in monitoring and dissemination of results, using the WBG's convening power. This will help improve the quality of public policy discussions and build demand and understanding for needed reforms among a larger audience.

71. The new approach and selectivity criteria imply that this CPF represents a departure from the previous engagement as Kazakhstan moves forward along its trajectory toward IBRD graduation. In practical terms, this means the following:

- New IBRD lending will be more focused on addressing key institutional issues, natural capital, inclusion and catalyzing of financing and private sector activities rather than only physical infrastructure. During the previous CPS period covering FY12-17, US\$3.6 billion of IBRD lending was approved. During the two years, FY18 and FY19, there was no lending to Kazakhstan. The CPF FY20-25 envisages an IBRD lending program that would be below the amount approved under the previous CPS period. The lending pipeline identified is currently expected to be around US\$2.0 billion. US\$1.0 billion is planned for FY20-21 and the rest up to FY23. Identified lending fits the additional selectivity criteria, as highlighted in table 4. The proposed pipeline is indicative, and areas may be removed or added based on client demand and subject to consistency with the CPF objectives.
- IFC would engage more strongly, with focus on helping Kazakhstan support SMEs and PPPs, particularly in frontier areas such as agribusiness/livestock, and in greater coordination with the World Bank in critical areas such as finance and trade (and including a WBG Joint Implementation Plan [JIP] on agriculture/livestock). Given that the traditional way of channeling subsidies of the Government of Kazakhstan (GoK) has yielded negative results in terms of the development of a vibrant, sustainable SME sector, IFC's intervention would center on helping local financial institutions move to a credit assessment model based on evaluating credit parameters, for example, level of owners' equity in a relevant company, technical and financial capability of the enterprise, existence of a market for the product, and so on.
- IFC will engage selectively and in support of the Government's market reform and privatization agenda, assuming that the agenda is implemented and progresses as announced by the Government. IFC will aim to assess new opportunities to develop sustainable agribusiness and the supporting value chains, increase value addition to Kazakhstan's abundant natural resources through downstream manufacturing and processing projects, and deepen and diversify the financial sector, including the development of the microfinance sector and capital markets, and will aim to enable private investments and PPPs in support of infrastructure development, particularly in energy and transport. IFC, upon the Government's request, is keen to facilitate the privatization of selected strategic assets. IFC will continue to work closely with the World Bank to enhance the investment climate overall; address sector-specific private sector barriers; and improve environmental, social, and corporate governance practices.
- MIGA would seek opportunities to provide political risk insurance and non-honoring guarantees to foreign investors for infrastructure PPPs and coordinate closely with IBRD and IFC for areas of joint collaboration. Furthermore, MIGA could support selectively rated subnationals to raise commercial financing for investments in priority infrastructure projects.
- IBRD and IFC financing would be supported by an expanded technical assistance program, which would build on the World Bank's RAS experience through its JERP and be more focused on institutional constraints holding back faster progress in growth and inclusion.
- New IBRD lending will satisfy the twin conditions supporting essential institutional capacity building required for sustainable IBRD graduation and passing at least one of the three additionality filters, as in table 4.

Table 4. Proposed New Lending Will Build Essential Institutional Capacity and Meet at Least One 'Additionality' Criteria

New IBRD Lending	Comparative Advantage of the WBG	'Additionality' Criteria		
		Promote Inclusivity (support bottom 40 percent)	Catalyze Private Sector Investment	Support Regional/ Global Public Goods
Smart Cities and Artificial Intelligence (SCAI)	Combination of digital, private sector, cities, and innovation skills to conceptualize		x	x
Financial Sector support to consolidation and opening of lending for SMEs	Past engagement in Kazakhstan and worldwide best practice design, link with IFC design of consolidation and management of NPL, and in designing financial support to SMEs	x	x	
Sustainable Livestock Development	Link with IFC, global knowledge on climate impact of agriculture - partnerships with the Asian Development Bank (ADB) and Food and Agriculture Organization	x	x	x
National and Regional Connectivity	Strong past engagement, global knowledge in spatial economics and links with the agroindustry and local government, capacity to link to neighboring country programs; convening power for other IFIs	x		x
North Aral Sea Development and Revitalization	Past very successful programs and deep knowledge of water sector and environmental legacies in Central Asia; convening power	x		x

E. Focus Areas and Objectives

Focus Area 1: Promoting Inclusive Growth

72. Promoting inclusive, market-led growth is the most important development challenge for Kazakhstan now. For most of the 2000s, Kazakhstan's growth model was inclusive, bringing about sharp reduction in poverty and substantial expansion of the middle class. This was driven almost entirely by labor market gains, through both massive job creation and significant increase in real wages. However, the oil-export-led growth model that supported these gains has not proved sustainable: outside oil/minerals, job creation was concentrated in low-productivity, non-tradable sectors (including in education, health, social, and other public services); job creation decelerated after 2011; and the private sector was no longer the engine of job creation after the 2000s. Moreover, fiscal resources are often used to promote the state's involvement in the economy and depress private sector dynamism.

73. The Government is committed to creating an inclusive society. The core goals of the Kazakhstan 2025 Strategic Development Plan contain inclusive growth-related targets, including raising incomes of the bottom 40 percent and narrowing regional economic gaps. To achieve these, however, structural reforms are an imperative: Kazakhstan faces tough decisions to deliver inclusive growth and return to a growth trajectory consistent with the long-term goals of the Kazakhstan 2050 Strategy.

74. The WBG objectives within this CPF focus area include (a) strengthening the environment for private sector development by improving policy framework, institutional capacities, and business conditions, including the financial sector, and reducing SOE footprint; (b) promoting market-led transformation of the agriculture sector—which has high growth potential due to intrinsic natural and market advantages—to increase value addition and jobs, on-farm and pre- and post-farm; and (c) strengthening connectivity infrastructure to tap into growth potential of the different regions and for external trade reinforce local service delivery and spread out the economic opportunities.

Objective 1: Strengthen Environment for Private Sector Development

Institutional constraints to be addressed

- Weak framework for bank and NPL resolution
- Low trust in judicial institutions and dispute resolution systems
- Weak private sector governance, institutional and business environment support for SMEs and MSMEs
- Underdeveloped laws, regulations, systems to support digital economy investments and business models

75. In its 2025 Strategic Development Plan, the Government recognizes the critical importance of fostering private sector development by creating the conditions for the growth of private business and entrepreneurship and reducing the role of the state in the economy. The SCD has discussed the multiple development constraints to achieving private sector-led economic growth, especially with respect to (a) promoting contestable markets, robust business environment, and fair and transparent regulations; (b) improving financial sector management and growth and financial inclusion of SMEs and individual entrepreneurs; (c) rightsizing the role of the state; and (d) rolling back dominance and distortionary effects of SOEs. The Government has a number of initiatives underway to push reforms in these areas.

76. This CPF supports the government efforts in the following specific areas through a mix of ongoing and new activities:

Strengthening institutions and policies for the business environment

- **Rule of law.** An ongoing operation will continue to improve the efficiency and transparency of and access to key justice services and strengthen judicial independence and professionalism.
- **Trade, business, and export policies.** Besides capital intensive sectors which will support the overall export orientation of the economy (agriculture, logistics, and connectivity), IBRD will continue to support progress in Doing Business through RAS in Sub-National Doing Business and also by linking IBRD programs in other Central Asian countries to decrease border-crossing effects.
- **Tax reform.** An ongoing operation will continue to enhance the quality, efficiency, and transparency of tax administration through reengineered business processes, improved data analysis and automated audit, and streamlined VAT procedures.

Consolidating and bringing stronger institutions for the Financial sector

- **Banking reform and legacy nonperforming assets.** The WBG, in coordination with the International Monetary Fund (IMF) and ADB, will provide advice on the formulation of a roadmap

to recognize and resolve NPLs and address capital shortfalls based on the results of the ongoing bank asset quality review. If needs arise, a financial sector consolidation operation could provide the Government with resources to support the implementation of the roadmap. Recently, Baiterek JSC expressed a desire to attract a private operator as majority shareholder of its wholly owned distressed asset fund. IFC is working with Baiterek JSC on the privatization. More generally for the reform of the banking sector, this is an area where IFC's market-based approach to credit can help with better risk management.

- **Capital market development and intermediation.** IFC stands ready to continue supporting capital markets development (such as local currency bond issuance, including bonds issued by municipal agencies), while IBRD may consider further use of the bond market for its loan management, contributing to the local currency market as well. In 2018, IFC Treasury issued a local currency bond in support of an IFC client's expansion plans in the agribusiness sector.

Enabling innovation and supporting private operators and transformation of the economy

- **SME support.** An ongoing operation will continue to provide support for SME competitiveness through promoting links and integration of SMEs in existing and emerging competitive sectors and supply chains. Through its Advisory Services, IFC will aim to help improve SMEs' operational efficiency; risk management; environmental, social, and corporate governance practices; adherence to international safety standards; and so on.
- **Digital economy.** A proposed operation (SCAI) will support a government program to develop the sector. It will strengthen institutions, laws/regulations, and infrastructure to enhance digital economy skills, services, and business innovation and increase skills in artificial intelligence (AI) in several sectors.
- **MSME finance.** IFC will continue to assess new investment opportunities with selected banking, microfinance, and nonbanking institutions to help increase access to credit for the private sector, particularly MSMEs. Finally, a proposed IBRD operation, potentially within the overall financial sector support, may seek to develop new financial products (such as securitization, leasing, and factoring) which are especially important for MSMEs and strengthen the operations of the SME development bank.
- **Support to innovation systems.** The ongoing innovation project will continue to promote high-quality, nationally relevant research and commercialization of technologies, which the digital engagement will also support. JERP activities will better inform the link between firms' innovation and productivity.
- **SOE restructuring and privatization.** IFC stands ready, upon the Government's request, to support with transaction advisory services in energy and transport, as well as support companies listed for privatization by providing pre-privatization financing and advisory services to improve their corporate governance. IBRD may work with IFC or directly with SOEs to support SOEs' financial and operational restructuring for companies of strategic importance.

Objective 2: **Promote Market-led Agriculture Transformation**

Institutional constraints to be addressed

- Weak institutional capacity for harmonized policies, regulations, and incentives to support climate-resilient, sustainable agriculture practices
- Weak and distorted systems to support smallholder farmers with extension, finance, and key services/inputs
- Weak systems and capacities to support export-oriented food system quality and safety, including traceability and risk-based inspection and certification

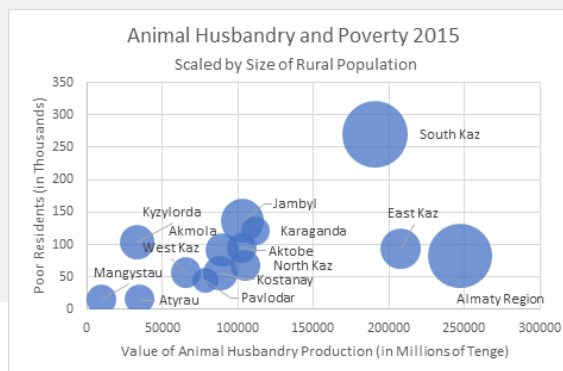
77. There is significant untapped potential for value addition, jobs, and growth in Kazakhstan's agriculture sector. Agricultural growth is also important for addressing Kazakhstan's inclusion problem. Agriculture remains a key anchor for local and regional economies, with nearly one in five workers relying on this sector for employment. Poverty also tends to be concentrated in rural areas with subsistence agriculture production. Hence, a productivity-driven agricultural growth can have a greater poverty-reducing effect than growth emanating from other sectors providing that it includes the right incentives for small farmers. However, to enable a productive transformation of agriculture, the Government will need to continue to address structural, technical, institutional, market-related, and sustainability-related constraints. Government support will need to shift from provision of subsidized credit and inputs to a renewed focus on productivity and quality. Incentives and farmer-based institutions will need to be aligned and strengthened for commercial production, especially by the small farms. Investments in new technologies, water resources, and water supply and wastewater services management practices and risk-bearing instruments will need to be promoted to make agriculture climate resilient and safeguard food security.

78. The WBG will build on its long partnership in the agriculture, water, and related sectors to contribute to this objective in the following ways. Through an ongoing IBRD operation on irrigation, the WBG will support farmers' adoption of innovative technologies and water management practices and strengthen water user associations for more effective local management of water resources. A new IBRD project will support an ambitious government plan to transform the livestock sector into an export-led, high-value sector while allowing small farmers to grow (the National Livestock Development Strategy for 2018–27). Through the innovative use of a Program-for-Results (PforR) approach, the project will seek to improve the sector policy framework (especially for a more productive use of subsidies), strengthen food quality system and institutions, and enable development of export value chains and supporting services. This would be complemented by Advisory Services and Analytics (ASA) work on quality assurance arrangements in agriculture and livestock and the synergy between the development of multimodal transport arrangements and agriculture development. The proposed connectivity and North Aral Sea development and revitalization projects can also benefit agriculture in several lagging areas.

Box 2. The Potential of Kazakhstan's Agri-business and Livestock Sector

A World Bank Public Expenditure Review (PER) on the agriculture sector indicates that underinvestment in agriculture and supporting infrastructure is a key limiting factor. To attract investors, the sector needs wholesale modernization and policy reform, including to encourage competition; eliminate distorting subsidies; and address weaknesses in local, regional, and national transport networks and trade logistics. There are thousands of small-scale family farmers and livestock producers but due to lack of technology transfer and investment, they are unable to capture economies of scale. Inefficient transport and logistics infrastructure (particularly secondary and tertiary roads) further limit access to regional markets. There are also major gaps in upstream value chains, making it hard to meet quality standards. At the same time, a lower level of state capture in some parts of the livestock sector, and its concentration particularly in the poorer southern regions of the country (see figure 4), suggest livestock holds particular promise to promote more inclusive growth.

Source: World Bank staff calculations based on official data published by the authorities and the Household Budget Survey (2015).



79. IFC will aim to increase its complementary support for sustainable agribusiness and livestock.

IFC is exploring new opportunities to support agribusiness value chains in promising sectors such as livestock, seeds, grains, and horticulture, as well as food processing and retail, with a combination of investments, improved access to credit, and advisory services in the areas of food standards and resource efficiency. Agriculture offers opportunities for all parts of the WBG to work together to contribute to growth, enhanced food security, and inclusive economic development in rural areas. IFC could also support agriculture sector lenders, as introduction of adequate credit assessments via local banks, using, for example, IFC's commercially oriented covenants, would increase the quality of their portfolio. MIGA guarantees can be used to help encourage foreign investments in these areas. To help build the synergy within the WBG, a JIP will be established under which the teams will work together to develop a joint MFD program, covering policy dialogue, investments, and technical assistance. The JIP on agriculture will constitute a platform to establish the goals and objectives of the WBG intervention in the agribusiness sector as well as provide an effective tool to monitor both IFC's and IBRD's progress against a set timetable and milestones.

Objective 3:

Strengthen Connectivity
Infrastructure
and Regional
Services Delivery for
Better Local and Regional
Integration

Institutional constraints to be addressed

- Need to change focus from building infrastructure to a global approach including management and maintenance
- Insufficient culture of service delivery, especially in infrastructure
- Weak coordination and institutional capacity to provide effective intermodal connectivity and logistics solutions for supply chains
- Weak capacity of regional and local institutions for development planning, coordination, and implementation

80. This objective is critical to achieving shared prosperity and balanced regional development.

In Kazakhstan, isolation and natural resources endowments reinforce social and economic divides that result in some regions being very isolated and limited between regions. Poor connectivity between regions and between urban centers and peripheral areas also aggravates and perpetuates the disparities in income, health, education, human capital, and economic opportunities by restricting mobility, impeding provision of support or services, and constraining potential private sector investments that can help reduce disparities. The Government is committed to expand transport and social infrastructure to address regional imbalances and stimulate broad-based growth. It is also interested in strengthening institutional capacity in lagging regions to improve basic services delivery.

81. WBG support has been traditionally strong in this area but will shift focus under this CPF to institution and capacity-building support to stimulate regional and local development and enhanced market and services access. Kazakhstan's national road and rail network have improved over the last 10 years, with the support of the World Bank. Infrastructure worth more than US\$10 billion has been built along intercity road and rail corridors, improving Kazakhstan's connection to the EU, Russia, China, and India. Two IBRD projects underway support the development and maintenance of over 1,600 km of road corridors critical to trade and transit traffic connecting to the Chinese border and extending to Kyzylorda, one of the poorest regions but with great agriculture potential. Further actions to support international transport would be linked to Central Asia and cross-country initiatives in relation to trade facilitation and cross-border integration. Investment is likely be of a smaller scale if deemed necessary to improve corridors efficiency and border management. While institutions have been created during the implementation of the ongoing projects, they are not yet fully implementing best practices in contracting and asset management, and local governments lag in planning and delivery.

82. The CPF will focus new lending on connecting lagging regions to markets and services and strengthening the capacity to manage economic density for inclusive growth.

Some lagging parts of Kazakhstan have been neglected and lack adequate attention to services, livelihoods, and connectivity infrastructure, particularly secondary and local roads. At the same time, they host key international corridors without getting corresponding spillover benefits. The recently announced government intention to increase funding for repair and reconstruction of local road networks is also timely. A new WBG connectivity improvement operation would help the Government develop a national transport and intermodal logistics master plan, focused on helping to link the main transport arteries to more remote regions and rural areas thus helping to transform them into economic corridors. It would also support improving the secondary and tertiary roads to provide reliable last-mile connectivity for the rural population and agricultural producers to these economic corridors and to service delivery. The strengthening of regional and local institutions responsible for managing local roads will be instrumental in the operation for ensuring safe, sustainable, and resilient access to the transport infrastructure. Through the JERP, the World Bank will develop an analytical work on spatial approach for promoting growth, mobility, and inclusive development.

83. The CPF will also attempt to expand scope for private sector-led and market driven support for connectivity infrastructure using the MFD approach.

IFC will aim to support work that facilitates and helps mobilize financing for logistics and transport infrastructure projects being developed by municipalities that are able to attract non-sovereign-backed financing. In the transport sector, IFC can work through PPP advisory work and direct investments with both private sector and subnational sponsors. The recent experience with BAKAD (see box 3) provides a good example of what could be achieved between the public and private sectors in Kazakhstan, as well as the catalytic role the WBG can play. BAKAD is the first infrastructure PPP of this type in Central Asia. IFC was considering providing financing to the sponsor for the project's implementation; although the project's historical land acquisition issues have impeded IFC's (as well as other lenders such as ADB) funding of the project once it was awarded, the model can still be replicated in other subsectors. MIGA will also coordinate closely with IBRD and IFC for areas of synergy and joint collaboration on project opportunities in the private sector space through its political risk insurance and non-honoring products, with an emphasis on fostering foreign investments by new international entrants, sponsors, or lenders that have no or limited exposure in Kazakhstan.

Box 3. The 'BAKAD' Experience: What Is Possible in Kazakhstan

The Ministry for Investment and Development of Kazakhstan and the Turkish and Republic of Korea consortium Alsim Alarko-Makyol-SK Engineering and Construction-Korea Expressway Corporation recently signed a 20-year concession agreement to design-finance-build operate-transfer-a 66 km long tolled motorway, equipped with modern traffic management and toll collection systems (BAKAD) to the north of Almaty City.

The consortium will invest approximately US\$740 million in construction in the first four years of the contract, after which it will maintain the road and collect tolls from road users on behalf of the GoK. In turn, the GoK will compensate private sector partners through annual availability payments, set against strict performance criteria. This is the first infrastructure PPP of this type and magnitude in Central Asia.

The GoK engaged IFC to support the transaction, which will mobilize private finance of about US\$340 million. IFC worked closely with the client ministry, several regulatory bodies, and the Ministry of Economy. Development partners, especially the World Bank and European Bank for Reconstruction and Development (EBRD), assisted the GoK in implementing necessary changes to the legal framework that had been a disincentive to private financing of infrastructure projects. While the World Bank contributed to improvement in the PPP environment in Kazakhstan through analytical work supported by the JERP, IFC worked to educate key policy makers and decisionmakers on novel contractual structures and best international practice in PPP and public procurement and, with the support of potential lenders, successfully made the case for the inclusion of appropriate environment and social safeguards in the Concession Agreement, even if the concession grantor decided in the end against applying the historical land acquisition environment and social standards.

84. Finally, the CPF recognizes the importance of strengthening local governments, including primary and secondary cities as potential regional growth hubs and centers for services delivery.

Given the high level of regional disparities and the importance placed on developing more competitive regional economies, it will be important to carry out more detailed assessments of the structure of regional economies, including firm performance and productivity. It will also be important to get a more qualitative understanding of local government structures and governance challenges at the regional and local levels. Through its integrated investment-advisory cities initiative, IFC is exploring how to support Kazakhstan's municipalities in addressing the challenges from rapid urbanization. This work includes a preliminary legal review to assess options for mobilizing non-sovereign and private investment, with the view to help the municipalities and subnational utilities become creditworthy and mobilize investments for much-needed infrastructure financing. The World Bank may also provide analytic support through RAS on (a) strengthening urban utility management and urban financing and (b) preparing and implementing territorial development plans of selected oblast Akimats to better realize the socioeconomic potential of the regions. These tasks could eventually lead to a project should the Government so request or could use the engagements in the North Aral Sea area and on regional connectivity to leverage their benefits; at least three cities will be piloting the SCAI program.

85. In the ongoing and future engagements, the WBG teams will team up with a large number of stakeholders to ensure inclusion of local governments and civil society in projects benefitting regions and ensure good use of existing consultation and voice mechanisms. Work related to bridging the gap between the most isolated and poor populations and the developed centers will also include components increasing the outreach to citizens' feedback.

Focus Area 2: Strengthening Human Capital

86. This focus area is of central importance in managing transition to a new economic model.

Kazakhstan needs to strengthen its human capital and establish an environment that enables workers and citizens to adapt to rapidly changing economic, social, and technological conditions and supports them through the transitions. Kazakhstan's natural capital wealth, which almost tripled in nominal terms during the first decade of the 2000s, has not been converted effectively into human and institutional capital. Despite huge natural resource rents over the decade, the country did not add significantly to its stock of human and institutional capital, thereby threatening the sustainability of growth and of poverty reduction propelled by the resource gains.

87. The Government is committed to investing in human capital, especially around the goals of an educated nation, a healthy nation, expansion of employment and new jobs, and creation of an effective social security system.

While Kazakhstan has increased its outlay on health, education, and social services, it needs to put greater emphasis on quality and effective service delivery. This includes the capacity to more effectively manage programs, monitor results, and analyze the evidence to adapt and improve.

88. The two objectives in this focus area relate to the two major constraints in developing productive and sustainable human and natural capital:

uneven delivery of education and of health and social protection services, respectively. Weaknesses in these two areas lead to insufficient quality and relevance of education and skills training to employers' needs; inadequate education financing and unsustainable health financing; persisting poor health outcomes, particularly for men; and fragmented and insufficient SSN coverage, with minimal use of means testing. In these areas, the WBG benefits from strong ongoing engagements and a comparative advantage given its capacity to combine knowledge and lending resources.

Objective 4:

Enhance Relevance, Quality, and Equity of Education and Skills Development

Institutional constraints to be addressed

- Weaknesses in curriculum and teacher training institutions
- Weak links between research, training, and labor market institutions
- Need to improve efficiency of service delivery, including through PPPs

89. Continued upgrading of human capital is essential to enable the country's workforce to adapt to changing labor market conditions. Educational attainment has increased in the last decade, but gaps remain in quality, relevance, and equity, which impede young people's transition to productive employment. Although large numbers of young people join the labor market each year from vocational colleges and universities, many lack the skills to meet the needs of a rapidly diversifying and modernizing economy. The mismatch of labor supply and demand stems from supply-driven skills development, weak links between education and training providers and the labor market, and obsolete education standards and curricula that are not based on occupational and functional analysis.

90. Expanding and accelerating reforms to modernize and upgrade the education system should be part of a longer-term plan to build more adaptable human capital. Kazakhstan needs to accelerate efforts to build a lifecycle approach to education and skills development, to better equip citizens to adapt to a changing labor market. Important steps required over the next 5-7 years include building stronger cognitive and socioemotional skills, starting with expanding access to early childhood education, overhauling the qualifications system, and deepening collaboration between skills development institutions and employers to improve the relevance of skills training. Another top priority over the next five years is investment to close the gaps in education outcomes across socioeconomic and demographic groups and regions. Investments to improve the quality of healthcare services across the country will be an important complement to education to improve human capital

91. The WBG will support basic education through its ongoing project aimed at strengthening education institutions and improving curriculum and teacher training. The WBG also has several ongoing operations to help connect skills with jobs; the focus of these programs is on training workers in skills that private businesses need and training SME entrepreneurs for future success, with special attention to youth and women.

92. The WBG will complement these ongoing efforts with analytic support, as needed, as well as IFC investments. The JERP will be available to complement these efforts, including looking at ways to improve efficiency and reach through the private provision of education and training services and the link between skills and the labor market. IFC will also explore private provision of education and training services.

Objective 5:

Increase Access to Quality Health Services and Social Protection

Institutional constraints to be addressed

- Weaknesses in design and delivery of social health insurance system
- Institutional gaps in private sector provision of affordable healthcare (through PPPs)
- Poor targeting and delivery system weaknesses in SSNs

93. This objective relates to ensuring continued success of Kazakhstan's development goals and longer-term aspirations. As the population ages, addressing health-related issues will be critical not only to improve the quality of life but also to ensure a workforce that can deliver sustainable productivity gains. Similarly, a sound social protection system is critical for reducing poverty and for raising the productive potential of individuals to arrest the intergenerational transmission of poverty. In both areas, however, Kazakhstan lags behind its peers. While some health indicators have improved in Kazakhstan, overall the health outcomes lag well behind the country's economic achievements. With respect to coverage of the social protection system, Kazakhstan is in the lower range of upper-middle-income countries in Europe and Central Asia.

94. Health sector reform is a key component of the Kazakhstan 2050 Strategy. Despite an extensive system of health services, disparities in health access and outcomes remain an issue. Suboptimal resource allocation, lower availability of primary health care (PHC) centers in rural areas, and informal barriers such as high out-of-pocket payments have acted to limit access by those most in need. Social safety net coverage is fragmented and insufficient, with minimal use of means testing. Pensions, unemployment benefits, and active labor market programs are not supporting a formal, mobile workforce.

95. The WBG's interventions target a selected set of issues. An ongoing IBRD operation on social health insurance supports the Government's rollout of a health insurance program, combined with increasing the number of functional PHC facilities. The Ministry of Health had also requested the IFC PPP Transaction Advisory's assistance in studying optimal private sector participation options for healthcare, including a university hospital with 1,200 beds, but the Government ultimately opted to drop the PPP tender in favor of a negotiated deal. The World Bank and IFC will coordinate this effort so that the ongoing World Bank health operations and analytic work and IFC activities have a strong degree of synergy. MIGA will coordinate closely with IBRD and IFC for areas of collaboration in the healthcare infrastructure space.

96. Although there are no ongoing or planned operations in SSNs, the World Bank will continue to provide analytic support in this area. The potential JERP work program would include analyses on ways to improve Kazakhstan's SSN, to make it less fragmented and more means-tested with a greater bridge to employment participation and worker mobility.

Focus Area 3: Securing Sustainable, Resilient, and Low Carbon Growth

97. This focus area is critical for the long-term sustainability of Kazakhstan's growth model. The old growth model's reliance on extractives as well as legacy from Soviet economy has damaged the environment and increased vulnerability to climate change. Moreover, Kazakhstan is one of the most exposed and least resilient economies (along with Kuwait) to a low-carbon transition because of the structural decline in demand for fossil fuel, carbon-intensive goods.

Objective 6:
Support Climate
Resilience and
Enhance
Energy Efficiency

Institutional constraints to be addressed
<ul style="list-style-type: none">• Significant institutional, regulatory, and financial barriers to promoting energy efficiency in key energy-consuming sectors• Underdeveloped markets in private investment in energy efficiency

98. The energy mix in Kazakhstan shows little diversification over time. Close to 50 percent of the economy's primary energy needs are supplied by domestic coal, and two-thirds of it are used in the power sector. Competitive industrial production is held back by an increasingly strained electricity network and lack of investment in energy efficiency, both outcomes of long-standing subsidies in the energy sector. Kazakhstan uses 1.7 times as much energy per unit of GDP (based on purchasing power parity) as the OECD average, attributable in part to low energy efficiency in key energy-consuming sectors, incentivized by continuing subsidies for energy. This limits the capacity of the country to meet its agreed climate targets.¹⁶

99. Looking across the sectors, key risks and resilience approaches of relevance have been factored into national strategies, programs, and action plans to varying degrees. Kazakhstan is mapping a path to the green economy, including through its Green Economy Concept and Action Plan, and setting targets for GHG emissions and energy efficiency. This objective will enable Kazakhstan to enter the path of low-carbon 'green' development by decoupling economic growth from intensive energy use and pollution. Yet, much remains to advance from strategy to action to meet these targets and to manage resilience, including coordinating actions across government agencies, stakeholders, and development partners.

100. The WBG will support Kazakhstan to develop a sustainable growth model through ongoing and planned ASA and RAS products. An ongoing grant-funded Partnership for Market Readiness (PMR) ASA continues its support to Kazakhstan in strengthening its Emissions Trading Scheme as well as the country's climate change mitigation strategy for its submission of an updated Nationally Determined Contribution (NDC) to the United Nations Framework Convention for Climate Change. A new trust fund ASA will support Kazakhstan's green growth through circular economy approaches. Through advisory services, potential RAS, and advocacy, the World Bank could further support the Government's efforts to promote innovative solutions in improving waste management of hazardous/persistent organic pollutants (POPs) and preventing industrial POPs and hazardous waste in key sectors as part of the Europe and Central Asia region umbrella effort to address these issues in a systematic matter. The World Bank will also explore opportunities to support establishing green finance instruments for scaling up green programs and projects for integrated GHG emission reduction.

101. The WBG will continue to support the energy efficiency drive in the country. An IBRD operation currently aims to improve energy efficiency (Kazakhstan Energy Efficiency Project [KEEP]) in public and social facilities and the enabling environment for sustainable energy financing, based on an energy performance contracting model under the PPP framework. The WBG expects to remain engaged in this area, proposing an operation to expand and advance the energy efficiency work to include industrial energy efficiency improvements alongside scaling up work with budgeted institutions, enhancing mitigation, and boosting resilience benefits. The WBG will complement these efforts with analytic support for improved environmental planning and coordination. This CPF will also explore opportunities for the broader context of support to the Government in making sustainable energy transitions from fossil fuel dependency to clean energy in the country through potential investment and ASA activities. The WBG could also support the efforts to enhance the energy connectivity in Central Asia, including strengthening internal grid infrastructure to increase reliable power supply and present multiple opportunities for economic and resource efficiency benefits at the Central Asia and, possibly, South Asia level.

¹⁶ Kazakhstan proposed, as its NDC under the Paris Agreement (ratified in November 2016), an economywide absolute reduction of GHG emissions of 15 percent from the 1990 emissions levels by 2030.

102. IFC will work to attract private sector investment in renewable energy projects. IFC is currently providing technical analysis to assess the feasibility of renewable energy projects. It will continue to engage with investors, with a view to financing new renewable energy projects (potentially with IBRD) wherever the bankability of the project and the conditions of the concessions make it feasible. MIGA will coordinate closely with IBRD and IFC to foster cross-border investments in the renewable energy space. Furthermore, IFC will focus on real sector investments where energy efficiency can be increased and will carry out advisory work, as needed, to improve market access for energy efficient products and promote more efficient and green processes in domestic industries. IFC will also engage with financial sector institutions and real sector companies to help improve their environmental and social standards. At the municipal level, IFC may support the implementation of PPPs to improve water supply and sanitation, solid waste management, and district heating.

Objective 7: Preserve and Restore Natural Capital

Institutional constraints to be addressed

- Weak institutions for environmental and forestry planning, management, and coordination
- Weak systems and capacities to ensure compliance with environmental standards
- Weak water resources and water supply services management organizations at the farm level, resulting in degradation of irrigation and drainage systems
- Inadequate systems for restoration of degraded landscapes

103. Increase in productivity, innovation, and diversification could depend to a great extent on how effectively Kazakhstan manages its natural capital. The country faces significant environmental challenges, especially under increased pressures from climate variability, economic growth, population expansion in some limited areas, and legacy effects in many less populated areas. The combined effects of climate change on land degradation, decrease in agricultural productivity, water pollution and sedimentation, and increased frequency and intensity of disasters will increase an already high vulnerability. Addressing environmental sustainability is critical for diversified, competitive sectors; for its tourism potential; and for preservation of livelihoods. This will require, among other things, improving management of water resources as well as water supply and wastewater management and measures to reduce air and water pollution, ensuring proper management of solid and hazardous waste, and adopting a climate-friendly strategy for development at the regional level in industry, agriculture, and energy. In agriculture, for instance, water and soil degradation is a major concern.

104. A new IBRD project in the North Aral Sea region—one of the most impoverished regions—will support planning for regional development at both the federal and oblast levels in an inclusive manner with multi stakeholder involvement. The planning would support data driven decision making on a wide range of issues relating to environmental watershed/groundwater usage, environment, fisheries, agriculture, and eco-tourism and support services. The operation is expected to be implemented within the context of regional cooperation in Central Asia, especially with Uzbekistan. The World Bank would consider complementing this project with capacity support at the oblast level.

105. Kazakhstan is committed to increasing the country's forest cover from 4.7 to 5.0 percent by 2030 and to international efforts to combat climate change and a sustainable low carbon future. At the Astana Ministerial Conference in June 2018, Kazakhstan announced that by 2021 the 'green belt' surrounding Nur-Sultan will exceed 100,000 ha. The World Bank is assisting countries in the region to implement the Astana Resolution with a new program for Resilient Landscapes (RESILAND)

A proposed GEF engagement will support community-centric approach for landscape restoration in targeted degraded landscapes while reinforcing forestry sector planning. The proposed landscape restoration project will be part of the RESILAND umbrella program, whose objective in Central Asia is to avoid, reduce, and reverse further degradation, desertification, and deforestation of land and ecosystems in dryland areas, through the sustainable management and restoration of production landscapes, including forest and rangelands. The GEF engagement would provide inputs to both the livestock and North Aral Sea engagements.

106. Finally, several other engagements in competitive sectors will also aim at preserving natural capital. For example, engagements in SMEs and innovation will likely have targets among the tourism industry, and the SCAI engagement may encourage both efficiency at the city level and research areas linked to climate and natural capital monitoring and modeling.

Cross-cutting emphasis: Efficient governance with strengthened market and social institutions

107. This orientation is already reflected in all three focus areas, but it is also proposed to work with the central government administration and the main SOE holdings to improve public sector governance and performance, including PFM systems, while enhancing citizens' and social institutions' engagements through more feedback and bottom-up approaches.

Objective 8: Support Evidence-based Delivery of Public Sector Reforms and Increased Stakeholders' Engagement	Institutional constraints to be addressed
	<ul style="list-style-type: none">• Inadequate fiscal framework for sustaining macroeconomic stability and supporting private sector dynamism• Rigid planning system, with lack of alignment between financing sources and development priorities• State support to SOEs maintaining inefficient structures• Inefficient central/local government performance and links with dominance of central-level institutions• Insufficient sharing of data and underuse of data-driven processes and e-government

108. Through analytical work under the JERP and WBG-funded operations, the World Bank will support better monitoring and evaluation of government programs and improvements in PFM and fiscal and macroeconomic management. This will also include supporting comprehensive approaches to link objectives, programs, budgets, and their execution in a results-based approach, with pilots in the three focus areas, including the trade policy. IFC and IBRD will work on corporate governance in the SOE sector (for which IFC has already started supporting the financial sector Baiterek JSC). Given the strong state presence in the economy and reliance on natural resource wealth (the National Fund) to stimulate economic activities, strengthening the implementation of fiscal rules and governing institutions for fiscal policies are also fundamental for macroeconomic stability and sustained economic growth. In this regard, through economic monitoring and analytical work, IBRD will continue the dialogue to strengthen the fiscal framework. IBRD may also support modernization and restructuring of key SOEs which are not planned to be privatized, mostly through advisory services and technical assistance, for example, in the railway sector. Finally, and on a demand basis, the WBG could engage at the regional or city level for comprehensive local government improvement programs.

109. Several ongoing engagements are already supporting either the use of data for technological progress (Fostering Productive Innovation Project) or the digitization of government functions (Social Health Insurance Project, Tax Administration Reform Project) and growth in skills in the related area (Skills and Jobs Project). Through the GoK program Digital Kazakhstan and the AI initiative of the Nazarbayev University, Kazakhstan wants to position itself as a leader in big data use and AI, both under a public and a public-private approaches, and is following approaches from several other countries such as Singapore and the United Arab Emirates. In that context, IBRD will work under the SCAI program using a results-based approach to develop AI capabilities in Kazakhstan which would address policy, data collection, and storage and implementation of initiatives across sectors. IBRD will support these initiatives, using a PforR modality, through the design and commissioning of an enabling environment from which a digital entrepreneurship ecosystem can be grown. This program will include the creation of a Legal, Regulatory, and Institutional Framework, based on the needs of a data and AI-driven economy, development of cloud AI platforms and establishing of an AI research institute, and support to the development of digital skills for data and AI economy. The objectives of this intervention will be to enable, among other things, better-performing data-driven and innovative private sector/SMEs; improved public sector capacity to manage the delivery of public services based on data and AI in selected cities; and better outcomes and possibility of engagement for citizens (employment, transport, health, urban environment) in selected pilot cities. The focus will be around smart cities to allow the main cities in the country to maximize their readiness for rolling out data-driven services.

IV. IMPLEMENTING THE CPF



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110. The overall structure of the program will shift toward fewer new projects and more analytic support through RAS. This shift is an endorsement that Kazakhstan is on the trajectory toward graduation and Kazakhstan's ability to borrow directly from the markets for many of its development needs is growing. In such circumstances, well-targeted analytic support to strengthen the effectiveness and market orientation of institutions can often be as effective as operations. It is also a recognition that in some areas such as human capacity, there are considerable undisbursed funds within ongoing operations that would need to be spent before new operations are considered.

IBRD

111. A key instrument of the WBG's program will be the successful implementation of the current portfolio. The current IBRD operations portfolio (US\$3.66 billion) consists of 13 projects with an undisbursed amount of US\$1.05 billion. Restructuring of relatively new operations (Fostering Productive Innovations, SME Competitiveness, and Skills and Jobs) has been completed in response to changes in the reform agenda. Savings under the two large roads projects were reallocated to support additional road investments and expand the use of tolling to ensure a reliable revenue stream to support operations and maintenance.

112. Although World Bank-supported projects in Kazakhstan have a good track record of completion, project processing, including approval and implementation of projects, has been slow. Of the nine projects that closed over the past five years, 78 percent were rated Moderately Satisfactory (MS) or above, higher than the World Bank average. At the same time, implementation has been slow. The disbursement rate has dropped from 20.0 percent in FY15 to 7.0 percent in FY18 but then increased to 9.2 percent in FY19. Of the 13 ongoing projects, 4 are still encountering implementation issues—Second Irrigation and Drainage Improvement (IDIP2), SME Competitiveness, Skills and Jobs, and Tax Administration Reform—primarily due to delays in effectiveness, restructuring, and procurement. Some of the issues are lengthy government approval procedures including on feasibility studies, delays in budget allocation and in the preparation of tender and bid documents, high staff turnover and poor contract management, and weak interagency coordination and oversight arrangements. Delays in effectiveness can cascade down to implementation as most implementing agencies do not initiate procurement processes before effectiveness.

113. Unfortunately, continuous past efforts to address implementation bottlenecks have not been effective and change in several processes should be agreed with the Government. Steps were taken in 2012–13 to reduce the review time of the draft ratification law in the ministries and issuing of legal opinion by the Ministry of Justice. However, even with these changes, there were long delays in effectiveness. In 2017, the Government explored the option of having a framework agreement covering all World Bank loans approved by Parliament and delegating signing of all legal agreements to the Minister of Finance, but these actions were not taken. In February 2019, the Government agreed to the following actions: (a) hold more frequent portfolio meetings—bimonthly portfolio meetings at the Project Implementation Unit (PIU) level of all projects and quarterly high-level meetings co-chaired by the Deputy Governor of the World Bank for Kazakhstan and the World Bank Country Manager or Director; (b) prepare proposals to reduce, by half, the time allocated for review of the decree providing signing authorization and ratification in law; and (c) initiate consultations with Parliament to reduce the time required for individual loan ratification (being

planned by the Government). Other actions under discussion include enabling projects to proceed before effectiveness through advanced procurement and retroactive financing. If these efforts are taken, the disbursement ratio is expected to rise above 15 percent in FY20 and thereafter remain above 20 percent, as achieved in FY15.

114. The implementation of new activities will focus on an increased use of country systems and to reinforce delivery of country programs. The use of results-based approaches will be favored wherever possible, while work with the OECD and under the JERP will continue to strengthen better coherence between planning and budgeting systems and reinforce fiduciary systems. Analytical work will also strive to increase the use of local human resources and institutions. The first two operations programed for the CPF period plan to use the PforR instrument, which combines use of country systems and a results-based approach. Other loans will likely focus on resilience and sustainable institutions and processes.

IFC

115. Given the Government's stated objective to increase the role of the private sector, IFC can be a key partner in the implementation of this agenda. The current IFC investment portfolio, as of the end of August 2019, consists of seven clients with a total financing balance of US\$170.2 million with investments spanning across the financial, manufacturing, infrastructure, and agribusiness sectors. There are no NPLs in IFC's portfolio.

116. However, growth in IFC's investments in Kazakhstan will depend on overcoming significant constraints. The expansion of IFC's investment program in Kazakhstan is constrained by the continued dominance of the public sector, concerns related to governance, persistent fragility in the domestic banking sector, and prevalence of government subsidy programs across key sectors which distort private sector incentives. The CPF proposes a heightened focus on a coordinated approach across the WBG in developing new initiatives in support of private sector development, including helping SOEs, and upon the Government's request, to move toward a private sector orientation, supporting the growth of entrepreneurship and SMEs, a stronger financial sector, supporting the development of PPPs for the provision of improved services, and promoting investment into priority sectors, such as agribusiness, that enhance economic diversification and competitiveness.

Citizen Engagement and Gender

117. A Citizen Engagement Country Roadmap is part of this CPF. The WBG efforts in the ongoing and future engagements will include components intensifying and broadening the outreach to citizens and to all stakeholders in general, particularly those in lagging regions and the most vulnerable (such as women, youths, the elderly). Citizen engagement is a key element of the Social Health Insurance Project, with built-in feedback at both the national level (with CSOs) and the local level (with health service users). The importance of listening to citizens is also high in Skills and Jobs and Education Modernization. Looking forward, the Citizen Engagement Country Roadmap (detailed in annex 7) sets out actions that will be taken to improve the quality of citizen engagement and create models for citizens to engage with a large number of stakeholders in development initiatives and key country reforms to ensure good use of existing consultation and voice mechanisms. The CPF is committed to mainstream citizen engagement activities into the program, with technical assistance and capacity building being provided to project teams across all sectors to identify entry points and relevant citizen engagement mechanisms, including support for the use of innovative technologies. Citizen and community engagement will be particularly important in proposed World Bank

engagements in an integrated regional development project in the North Aral Sea area as well as livestock and connectivity.

118. The CPF draws on the recent Country Gender Assessment for Kazakhstan from ADB (2018) and emerging messages of the ongoing Country Gender Assessment with the existing WBG portfolio and indicative pipeline presenting opportunities to address the findings of the assessments. Many of the World Bank and IFC operations are already gender sensitive. In education, since the issue is not enrollment, the Education Modernization Project targets gender parity in administrators and quality assessments. In the Skills and Jobs and Fostering Productive Innovation projects, the target for female participation is 25 percent and 18 percent, respectively (it is expected that these would be increased in any new projects). Youth Corps and Social Health Insurance both target over 50 percent female beneficiaries; more broadly, having health insurance would provide women and children greater access to services. Similarly, the SME Competitiveness Project has a target of 50 percent female participants.

119. Looking forward, there are several potential entry points where the WBG can provide support with interventions, including in the areas of empowerment (measured by educational attainment and political participation) and labor market participation¹⁷; in narrowing the labor force participation gap and access to finance and information. The WBG will commit to exploring ways to engage in closing identified gender gaps, including tools to track progress and screen future activities. Opportunities in the ongoing and pipeline of projects include the education, health, and sustainable development sectors, which directly target women beneficiaries and will focus on ensuring service delivery in supported areas of operations targets and monitoring impact on female beneficiaries. Overall progress in closing gaps identified as part of the ongoing Country Gender Assessment will be tracked periodically and will be reviewed during the PLR for the CPF.

Partnerships

120. The WBG will be collaborating with a number of partners in implementing its program. As noted, the program has been designed based on an alignment with the government programs and the SCD identified priorities, narrowed down by the WBG's comparative expertise stemming primarily from its ongoing programs and ASA/JERP analytic work. The Government takes the lead in coordinating assistance through the Partnership Framework Arrangement with five IFIs: the World Bank, ADB, the EBRD, the European Investment Bank, and the Islamic Development Bank (IsDB).

121. Within this broad framework, the World Bank coordinates with different partners in specific sectors. The IMF takes the lead on macroeconomic issues. In the areas of human capital—education, health, and social insurance—the World Bank is the Government's primary international partner though the World Bank is collaborating with the UN and the OECD to both measure and strengthen their progress toward SDG and OECD standards. In the areas of connectivity, agriculture, and private sector development, the Government is working with a consortium of partners including the WBG, ADB, EBRD, IsDB, and Japan International Cooperation Agency (JICA) to build its competitiveness. The consortium approach is because of the large levels of financing needed which exceed the capacity of any one institution. In the area of strengthening the Government's efficiency, there is a mixed picture. In some areas, such as tax administration and incentives, the WBG is the Government's primary international partner. In other areas, such as public expenditures and fiduciary strengthening, the Government is collaborating with the WBG, ADB, and EU (for example, the World Bank and the EU are working jointly on a Public Expenditure and Financial Accountability assessment), and in justice and the rule of law, the WBG, the UN, EU, and Deutsche Gesellschaft für Internationale Zusammenarbeit

¹⁷ The Gender Inequality Index (2018) of the United Nations Development Programme (UNDP) identified gender inequalities across these dimensions as a reason for Kazakhstan not reaching its full human development potential.

(German Agency for International Cooperation, GIZ) are working together. In energy efficiency and renewables, the Government's main partners are the World Bank, UNDP, USAID, and GIZ for technical assistance and the EBRD on the investment side. During the CPF period, the World Bank will work closely with the OECD on monitoring progress toward national goals and on strengthening institutions.

122. Partnership is particularly important for cross-country and regional programs. Kazakhstan's development is closely intertwined with the development of other countries in Central Asia and beyond. The WBG's program will therefore pay close attention to the alignment of its program in Kazakhstan not only with its program in neighboring countries (see box 4) but also with those of regional groupings involved in economic development to which Kazakhstan is a member, such as the Shanghai Cooperation Organization (SCO), the Central Asian Regional Economic Cooperation group (CAREC), and the International Fund to Save the Aral Sea (IFAS). The WBG will also seek to understand and coordinate its program, where appropriate and feasible, with that of China's BRI.

123. The issues of water, energy, transportation, digital connectivity, and trade are in the forefront of regional cooperation, and such cooperation will in turn play a major role in national development. For example, reliable water-sharing arrangements will allow Kazakhstan and other Central Asia countries to maximize their agriculture and livestock production. Energy arrangements will enable Kazakhstan to maximize its energy export potential. The proposed programs on digital innovation and the North Aral Sea area will be implemented within a broader regional strategy and planning. User-friendly transport and border agreements will be critical for Kazakhstan to maximize its export potential. This, together with participation in regional projects, will contribute to substantiate the WBG's regional program organized under a regional framework for Central Asia (see box 4).

Box 4. Regional Interventions of the WBG Group in Central Asia and Contribution from the CPF

The WBG's regional engagement in Central Asia is multifaceted and includes contribution to overall programs led by other institutions such as the CAREC program and overall policy advice but is mostly rooted in initiatives aiming at closer economic integration starting at the country level and regional public goods. Joint actions by Kazakhstan and the WBG have traditionally been strong in convening regional events and exchanges on most economic and sustainable development-related topics. The current major activities of the WBG in Central Asia revolve around (a) trade and connectivity and (b) regional public goods and include lending engagements in the regional electricity market, water resources, digital development, road interconnections, and policy engagement in trade and agricultural policies as well as outreach efforts in improved climate change knowledge services. A major element of regional projects in the rest of Central Asia lies in improving links to South Asia, especially in electricity and regional development. Kazakhstan has traditionally not participated in regional lending programs including other countries, even if several projects in the transport sector have funded international corridors. It has, however, been active in knowledge partnerships, especially in water and trade. During the CPF period, activities will contribute to the regional engagement in agriculture and trade and improvement of regional value chains (through CPF Objectives 1, 2, and 3) and a substantial engagement on natural capital in the North Aral Sea area will be coordinated with South Aral Sea activities. The CPF implementation will benefit from regional trade regional work, and upcoming activities in relation to connectivity will continue to have a cross-border dimension. Depending on demand from countries, the CPF could also accommodate multisector initiatives on key regional areas (such as South Kazakhstan - Tashkent area or Almaty region - Kyrgyz Republic). Better integration with WBG programs in South Asia and China that are of interest to Kazakhstan will also be contemplated.

V. MANAGING RISKS TO THE CPF PROGRAM



V. MANAGING RISKS TO THE CPF PROGRAM

124. Table 5 assigns risk ratings to the various dimensions of the CPF program using the World Bank's Systematic Operations Risk-Rating Tool (SORT). As shown, the overall risk is considered Substantial.

Table 5. Risk Rating for CPF FY20-25 (SORT)

Risk Categories	Rating (H, S, M, or L)
Political and governance	S
Macroeconomic	M
Sector strategies and policies	S
Technical design of project or program	M
Institutional capacity for implementation and sustainability	S
Fiduciary Environment and social	S
Overall	S

Note: H = High; S = Substantial; M = Moderate; and L = Low.

125. The biggest risk to the program is the degree to which the Government is prepared to embark on a truly transformational program. The Government has outlined an ambitious program to rebalance the public and private sectors in its main strategy document (Kazakhstan 2025), and the recently elected President confirmed an orientation combining better inclusion and a more efficient government. However, the combination of vested interests and entrenched bureaucracy may serve to dampen momentum for change. The improved macroeconomic environment with higher oil price and the financial sector 2017 bailout may also reduce the pressure for reforms. The ongoing political transition from the first president during the CPF period adds to the uncertainty. The structure of the World Bank's analytic work through the Government-financed JERP will help build ownership through formal research, brainstorming, and training, and the World Bank will increase its attention to disseminating the results to help build wide demand for reforms. The WBG will work with the GoK to improve governance by enhancing transparency and accountability. Analytics will shift partly from diagnostic to implementation of policy changes, which is more complex but has a potential for more impact, and the World Bank will also explore with the Government's incremental improvements which may be easier to implement in some sectors. This will also mitigate the risk caused by the large number of strategies which have not led to formal approval or implementation. Ultimately, the level of new World Bank and IFC operations during the CPF period will greatly depend on the speed at which the reform agenda is implemented.

126. A second risk is implementation, due to institutional capacity, fiduciary difficulties, and bureaucratic procedures. Of the 13 projects currently in the portfolio, 4 are rated problem projects and 8 have an overall risk rating of 'Substantial' or higher. As noted, the World Bank has done an in-depth review of the issues and recommended a program of action. The World Bank will follow up on this program of action; calibrate the level of new lending to the degree to which recommended actions are taken; and focus any new World Bank lending on institution strengthening and devolving responsibility, where feasible, to the private sector. Inadequate institutional capacity for policy making

is also being addressed under the JERP and that of project financial management staff is being addressed through ongoing capacity building within projects. Mitigation will also require improvements in data quality and availability and more feedback from project beneficiaries.

127. Operations can also be significantly affected by environmental and social concerns.

Investments in infrastructure and agribusiness can place particular stress on the environment. Agriculture and livestock development is expected to be affected by climate change. Over 40 percent of the country's industrial potential and a major city (Almaty, with a population of 1.5 million) are in a seismically active area. In this context, it is critical for the WBG to deepen the dialogue with the GoK, not just at the level of projects and investments but also upstream, to better understand the environmental and social implications of sector strategies. The World Bank portfolio includes a focus on mitigating harmful impacts of the energy sector and provides for catastrophic insurance through the GEF. IFC will pay attention to building institutional capacity to manage environmental risks under PPPs and to support financial institutions and companies to identify and manage environmental and social risks encouraging investment to firms with strong corporate governance and sustainability performance. IFC's Environment, Social, and Governance Advisory Program will explore opportunities to build on the work of the IFC-supported Sustainable Banking Network and IFC's Environmental and Social Risk Management advisory programs to establish relationships with financial regulators and support the sustainable finance agenda.

128. Finally, while the macroeconomic risk is Moderate, the current level of interest rates and the economic situation imply that Kazakhstan has access to very cheap resources. As a result, the WBG's attractiveness in financial conditions may be limited, especially IBRD as well as IFC and IBRD at the subnational level. The risk of absence of borrowing has materialized in the past in other upper-middle-income countries (Poland) or in Kazakhstan itself since 2019. The main mitigation measures lie in selecting projects where there is a unique comparative advantage (see table 4) and increasing the effectiveness of RAS instruments on capacity building and implementation.

Annex 1. New CPF Results Framework FY20-25

FOCUS AREA 1: PROMOTING INCLUSIVE GROWTH CPF Objective 1: Strengthen Environment for Private Sector Development

Intervention logic: The Government recognizes the need to diversify the economy and shift toward a more private sector competitive economy. But faster progress will require improved business-friendly and transparent institutions (such as tax and the rule of law) and strengthening of the financial sector oversight and lending availability. Key indicators are paying taxes and getting credit in Doing Business as the goal is not just to help the Government improve revenues or improve financial sector oversight but to do so in a manner that is business friendly and promotes credit growth. The World Bank will continue to strengthen the management and transparency of institutions in law and taxes through the ongoing operations. In the financial sector, the WBG will work to identify how best to strengthen oversight and lending and to improve management of both NPLs and underlying assets. Although the SCAI project is listed under the cross-cutting theme of reinforcing institutions, it should also have an important role in strengthening the competitiveness of Kazakhstan's service industry.

In addition to these efforts to strengthen public institutions support to the private sector, it is important to directly strengthen the skills, capacity, and financing of private enterprises, particularly SMEs and entrepreneurs. This would include support to help them build market-relevant skills, value chains, and new financial products. The World Bank will continue to support strengthening SME skills through its SME competitiveness operation and will explore analytic work and a potential operation on developing new relevant financial products. A JERP intervention is also being discussed for more granular understanding of the firm-level drivers of productivity to allow the Government to both better target its resources in financial and nonfinancial support measures to firms and better understand which firms generate productivity growth. IFC will continue to assess new investment opportunities with selected banking, microfinance, and nonbanking institutions to help increase access to credit for the private sector, particularly MSMEs, with the aim to support improved corporate governance and, if requested, assistance on SOE privatization. Furthermore, IFC stands ready to continue to support capital markets development (such as local currency bond issuance) and to support municipal finance needs. The goal is to support a significant number of MSMEs and large processing firms, improve their competitiveness through market-based improvements (training, financial products, access to markets, and new technologies). The different branches of the WBG

CPF Objective Indicators	Supplementary Progress Indicators	World Bank Group Program
<p>Indicator 1: Doing Business - paying taxes Baseline: Distance to frontier - 78 (taxes 2019) and 65 (credit 2019) Target: 82 for taxes (2024 - low end of OECD) and 85 for credit (2024 - low end for OECD)</p> <p>Indicator 2: Restored credit growth to SME sector Baseline: -19.2 percent growth in SME credit (2019) Target: Average credit growth to SMEs in line with nominal GDP growth in 2023-24</p> <p>Indicator 3: Number of MSME clients supported by IFC and IBRD through various projects Baseline: 224,000 (2018) Target: 300,000 (2024)</p> <p>Indicator 4: Private investment in firms related to AI in Kazakhstan that leverage the new AI strategy and legal/regulatory framework, US\$ Baseline: 0 Target: 20 million (2024)</p>	<p>SPI 1.1: Field tax audits selected by automated procedure Baseline: 0 Target: 50 percent (2022)</p> <p>SPI 1.2: Increase in VAT productivity Baseline: 0.27 (2016) Target: 0.35 (2024)</p> <p>SPI 1.3: Publication of main outcomes of regular monitoring of court performance and implementation of decisions on the Supreme Court website Baseline: partially done (2019) Target: yes (2024)</p> <p>SPI 4.1: Number of AI-driven companies generating revenue created Baseline: 0 Target: 10 (2024)</p>	<p>Ongoing IBRD loans: ·Tax Administration Reform ·Justice Sector Institutional Strengthening ·SME Competitiveness</p> <p>Potential new IBRD loans: ·Financial Sector ·SCAI</p> <p>Ongoing/potential JERP/ASA: ·Analysis on the Firm-level Drivers of Productivity, Update to Enterprise Survey and Doing Business, advisory services to revamp public credit support programs ·IFC advisory on corporate governance and transformation of SOEs, including privatization</p> <p>Ongoing/potential IFC: ·Microfinance (ongoing and new) ·Investments in banks (ongoing and new) ·Specific Investments in private enterprises</p>

CPF Objective 2: Promote Market-led Agriculture Transformation

Intervention logic: Agriculture represents one of the most promising areas of economic growth not linked to extractives, particularly tapping into the large markets in nearby countries including China, Russia, South Asia, and Europe. Agriculture development also provides a vehicle to widen opportunities for the poorest as well as lagging regions. However, the development of this sector will require strengthening the institutions providing services to smallholders (finance, irrigation, value chains, seeds, veterinarian services, quality control). For livestock, there is also the need for better pasture land management.

The World Bank is currently supporting the agriculture sector through its IDIP2 project which aims to improve irrigation and drainage in 100,000 ha as well as strengthen local ownership of water resources through water user associations. A new Sustainable Livestock Development project will support an ambitious government plan to transform the livestock sector into an export-led (livestock has been identified as having particularly strong export potential), high-value sector while allowing small farmers to grow. Through the use of PforR, the project will seek to improve the sector policy framework (especially for a more productive use of subsidies), strengthen food quality system and institutions, and enable development of export value chains and supporting services. This would be complemented by ASA work on quality assurance arrangements in agriculture and livestock. It is also clear that for agriculture to develop, it must be part of an integrated plan, including roads, water, and upstream/downstream value chains. The goal would be to double exports of beef. Agriculture and livestock will also benefit from activities supported in other priority areas (particularly connectivity project, North Aral Sea area project, financial products, resilient agroforestry and rangeland, environmental planning). IFC will complement these efforts through investments in agriculture and agribusinesses, as well as private providers of logistics and services. Both IFC and IBRD will work together to build a coordinated approach, as well as to ensure that women farmers receive increased support.

CPF Objective Indicators	Supplementary Progress Indicators	World Bank Group Program
<p>Indicator 5: Area of land provided with improved/new irrigation and drainage, hectares Baseline: 0 Target: 100,000 (2023)</p> <p>Indicator 6: Export revenues from beef, US\$ Baseline: 15 million (2018) Target: 30 million (2024)</p>	<p>SPI 5.1: Percentage of farmers assisted who are women Baseline: 0 Target: 33 percent (2024), IBRD, IFC</p> <p>SPI 6.1: Number of farmers reached by IFC agribusiness clients (based on Phoenix and RG Brand) and WBG other interventions Baseline: 25 (2017) Target: 20,000 (2024)</p> <p>SPI 6.2: Development and implementation of a JIP between the World Bank and IFC in agribusiness Baseline: No Target: Yes (2024)</p> <p>SPI 6.3: Traceability of livestock for export purposes Baseline: No Target: Yes (2024)</p>	<p>Ongoing IBRD loans: ·IDIP2</p> <p>Potential new IBRD loans: ·Sustainable Livestock Development</p> <p>Potential GEF: ·Landscape Restoration</p> <p>Ongoing/potential JERP/ASA: ·Role of Transport in Increasing Agriculture ·Value chains in agribusiness ·Restructuring Agriculture Subsidies ·Support to subnational governments ·IFC advisory on agro-logistics and food quality and safety, commercialization of agribusiness, value chains</p> <p>Potential IFC: ·Specific investments in agriculture, agribusiness, related logistics and/or agro-financing</p>

CPF Objective 3: Strengthen Connectivity Infrastructure and Regional Services Delivery for Better Local and Regional Integration

Intervention logic: Connectivity is critical to Kazakhstan's economy and social life. It is the ninth-largest country in the world with only 18.3 million people. If it can connect its industry and agriculture to markets through transportation, it has the potential to leverage its strategic geopolitical position between Europe and Asia. Connectivity is also critical to expanding opportunities and quality services between the main cities and from rural areas to main cities. While the Government has made important progress in building critical transport arteries, several institutional challenges exist that impede faster progress. The institutions that support road development need to pay greater attention to secondary roads and road maintenance. Improved capacity is needed for planning and service delivery at the regional level. Greater use of PPPs is also needed to increase the investment in connectivity.

The largest amount of the WBG's portfolio is in transportation, and the World Bank will continue to support this area over the CPF period. The main indicator of success will be the improved quality and maintenance of rehabilitated roads and increased users through the World Bank and IFC's ongoing projects. The World Bank and IFC will explore new projects to assist in strengthening the institutions providing connectivity, including on road safety, maintenance, inter-modal and trade logistics, and legislation facilitating PPPs. The North Aral Sea area development and revitalization project will improve data-driven planning for both environment and livelihoods in one of the most lagging regions.

These efforts will be also complemented by a technical assistance program. A planned JERP intervention is also being discussed for more granular understanding of the spatial distribution of economic activity to enable a comprehensive assessment of microeconomic reforms needed to boost productivity growth in the country while providing elements for a revision of current space-based policies to improving their impact at regional and aggregate levels. Dialogue will also be maintained seeking to work on service delivery at the local level. Finally, the proposed SCAI project will improve service delivery at the local level.

CPF Objective Indicators	Supplementary Progress Indicators	World Bank Group Program
<p>Indicator 7: Sound regional planning, operations and maintenance practices introduced (on all sections reconstructed/built under the WBG ongoing and planned operations) Baseline: No Target: Yes (2024)</p> <p>Indicator 8: Increased transit freight volumes via Kazakhstan Baseline: 201,000 TEUs (2017) Target: 1.4 million TEUs (2024)</p> <p>Indicator 9: Number of daily users transported through improved road network (for BAKAD) Baseline: 0 Target: 93,000 (2024)</p> <p>Indicator 10: Users of data and AI platforms across the economy, including in smart cities in Kazakhstan Baseline: 0 Target: 100 000 (2024)</p>	<p>SPI 7.1: Road Asset Management System (RAMS) implemented and in use as a planning tool Baseline: No Target: Yes (2024)</p> <p>SPI 7.2: Reduced travel time to local markets for rural farmers and between peripheral areas and urban centers (subject to areas covered by IBRD-supported program) Baseline/ Target: Will be added subject to project in this field</p> <p>SPI 7.3: Number of kilometers of improved local roads Baseline/Target: Will be added at interim review subject to project in this field</p> <p>SPI 10.1: Smart cities programs under implementation Baseline: 0 Target: 3 (2024)</p> <p>SPI 10.2: Q-cloud and 'data lake' developed Baseline: No (2019) Target: Yes (2024)</p>	<p>Ongoing IBRD loans: ·East-West Roads ·South West Roads</p> <p>Potential new IBRD loans: ·National Connectivity Improvement ·North Aral Sea Area Development and Revitalization ·SCAI</p> <p>Ongoing/potential JERP/ASA: ·Role of transport to support agriculture ·Capacity support at the oblast level ·Managing the geography of density for improving productivity and promoting inclusive growth</p> <p>Ongoing/potential IFC: ·Follow-up PPP on transport infrastructure and trade logistics ·Mobilization through PPP structuring: BAKAD</p>

FOCUS AREA 2: STRENGTHENING HUMAN CAPITAL

CPF Objective 4: Enhance Relevance, Quality, and Equity of Education and Skills Development

Intervention logic: Kazakhstan has achieved commendable progress in achieving near universal primary and secondary school attendance and considerable gains in learning outcomes. However, the gains to date were driven by increases in the share of top performing schools and students. Achieving more equitable outcomes across the whole system requires policy and investment in closing the gaps between a large number of small rural multi-grade schools and city schools, spreading the innovations from top schools systemwide, and making education and training more relevant to the market place requirements. The World Bank has four ongoing operations in this area, with substantial undisbursed funds so further education operations are not envisaged until these are utilized. However, they will benefit from additional analytic work on the relationship between skills and the labor market use of PPPs in education and training to leverage life-long learning opportunities, including workplace training, as well as on innovation and productivity, and capacity building at the oblast level. The relevance of education and skills can be further enhanced in all fields by creating shared digital platforms. Key indicators will be an increase in education quality and relevance as shown in math, science, and reading scores; the effectiveness of training programs helping the unemployed obtain jobs; and the number of users in newly created digital platforms. The proposed SCAI project would also benefit university institutions given the strong involvement of Nazarbayev University.

CPF Objective Indicators	Supplementary Progress Indicators	World Bank Group Program
<p>Indicator 11: Increase in quality of education countrywide (based on achievements in math, science, and reading) based on PISA data Baseline: Math 460, Science 456, Reading 427 (all - PISA 2015) Targets: Math 490 (2024-current OECD average), Science 490 (2024), Reading 465 (2024)</p> <p>Indicator 12: Share of unemployed beneficiaries who are employed six months after receiving training in World Bank projects Baseline: 0 Target: 50 percent (2024)</p>	<p>SPI 11.1: Teachers in schools using new curricula and processes, grades Baseline: 10 grades out of 11 (2018) Target: all grades (2021)</p> <p>SPI 11.2: Number of new technical and vocational education training and higher education programs developed with input from industry and based on occupational standards Baseline: 0 Target: 115 (2024)</p> <p>SPI 11.3: Number of research papers and patent applications in the area of AI in top 10 publications Baseline: 0 Target: 10 (2024)</p> <p>SPI 11.4: Number of certified data management specialists with support from WBG interventions Baseline: 0 Target: 300 (2024)</p> <p>SPI 12.1: Number of direct beneficiaries from all regions of Kazakhstan under the Youth Corps Project Baseline: 5,500 (2019) Target: 8,500 (2021)</p>	<p>Ongoing IBRD operations: ·Education Modernization ·Fostering Productive Innovation ·Skills and Jobs ·Youth Corps</p> <p>Potential new IBRD loans: ·SCAI</p> <p>Ongoing/potential JERP/ASA: ·Skills, labor market ·Innovation and productivity ·Use of PPPs in education and training</p> <p>Potential IFC: ·Explore supporting private provision of education and training services, including under a PPP framework.</p>

CPF Objective 5: Increase Access to Quality Health Services and Social Protection

Intervention logic: Health indicators and institutions have significantly improved, but there is a real need to ensure that these services are made available at an affordable level to the less affluent. The most critical institutional need is the smooth and full rollout of the mandatory social health insurance (MSHI) system, which will provide coverage without excessive out-of-pocket expenses. An ongoing World Bank operation will continue to support this. The World Bank's program also seeks to strengthen the quality and use of health clinics and greater transparency of hospital institutions. The JERP will complement the World Bank's program by providing analytic support on health institutions and the potential for PPPs. The JERP will also support further work on streamlining social protection programs, strengthening their correlation to poverty, and linking graduation to the labor market. The World Bank and IFC will both explore the potential to support PPPs in the education and health fields. Specifically, in health, IFC and MIGA will support the mobilization of private investments through PPPs to upgrade aging hospital infrastructure and address inefficiencies in the provision of health services.

CPF Objective Indicators	Supplementary Progress Indicators	World Bank Group Program
<p>Indicator 13: Effective countrywide rollout of MSHI, as measured by share of population covered Baseline: 0 Target: 80 percent (2024)</p> <p>Indicator 14: Proportion of the bottom 40 percent of households spending 10 percent or more of total expenditures on health services and non-food goods Baseline: 10.5 percent (2016) Target: 8 percent (2024)</p>	<p>SPI 13.1: Number of fully functional PHC centers rises Baseline: 0 Target: 16 (2024)</p> <p>SPI 13.2: Private sector investment mobilized in the health sector, US\$ Baseline: 0 Target: 100 million (2024)</p> <p>SPI 13.3: Achievement of key benchmarks for functioning the MSHI Baseline: MSHI implementation roadmap approved (2017) Target: All benchmarks defined in the roadmap achieved (2024)</p> <p>SPI 14.1: Eligibility threshold for targeted social assistance, percentage of minimum consumption basket Baseline: 60 percent (2019) Target: 80 percent (2024)</p>	<p>Ongoing IBRD loans: ·Social Health Insurance</p> <p>Ongoing/potential JERP/ASA: ·Analytic work on increasing market incentives in health, including private provision of services ·SSNs and labor markets ·Strengthening statistical capacity, including on poverty</p> <p>Potential IFC: ·Specific investments in private hospitals</p>

FOCUS AREA 3: SECURING SUSTAINABLE, RESILIENT, AND LOW-CARBON GROWTH

CPF Objective 6: Support Climate Resilience and Enhance Energy Efficiency

Intervention logic: The high energy intensity of Kazakhstan's economy hampers the country's overall sustainable growth prospects. Increasing vulnerability to climate change is already having public health effects as well as impact on agriculture production. At the same time, Kazakhstan has the potential to make its current energy footprint more efficient. The institutional requirements for greater progress include improved environmental planning and coordination, greater use of private institutions to scale up energy efficiency and promote renewable energy penetration, and support to both public and private institutions to strengthen their compliance with environmental standards.

The World Bank is supporting this agenda through KEEP, which aims to improve energy efficacy in public facilities, and the enabling environment for sustainable energy financing. The goal is to reduce CO2 emissions by 250,000 metric tons. An existing investment project in support of the energy efficiency improvements in the public sector will be reinforced by new engagements in the energy sector (potential follow-up investment lending). The World Bank is also helping to strengthen the approach to risk insurance through the Catastrophic Risk Insurance Project. These efforts will be augmented by analytic work on improving environmental planning, regulations, and coordination. IFC and MIGA will focus on real sector investments in energy efficiency and renewable energy, and IFC will also focus on targeted credit lines to banks to support energy efficiency and the green economy. IFC will also provide advisory services to help companies strengthen their compliance with environmental stands and explore opportunities in improving efficiency in the utilities sector, including district heating through PPPs or management contracts.

CPF Objective Indicators	Supplementary Progress Indicators	World Bank Group Program
<p>Indicator 15: CO2 emissions reduced or avoided (through energy efficiency investments in material and equipment life cycle of 15 years and/or other measures), metric tons Baseline: 92,000 (2018) Target: 250,000 (2024) IBRD; IFC</p> <p>Indicator 16: Share of electricity generated from renewable energy sources - solar and wind Baseline: 1.3 percent (2019) Target: 5 percent (2024)</p>	<p>SPI 15.1: Quantified energy savings achieved through greater efficiency, GWh Baseline: 300 (2018) Target: 620 (2023)</p> <p>SPI 15.2: Establishment of commercially-based energy efficiency financing mechanism, as informed by the pilot tested Baseline: No Target: Yes (2024)</p> <p>SPI 16.1: Supported entrance of Independent Power Producers into renewable energy generation, as measured by financial closure of new IPP in the renewable energy sector Baseline: 0 Target: 1 (2024)</p>	<p>Ongoing IBRD operations: ·Energy Efficiency (KEEP) ·South East Europe and Central Asia Catastrophic Risk Insurance Facility (GEF)</p> <p>Ongoing/potential JERP/ASA: ·Ongoing Climate Change Group (CCG) ASA ·Partnership for Market Readiness (PMR) technical assistance grant with potential to scale up under the Partnership for Market Implementation in FY21</p> <p>Potential IFC: ·Specific investments in solar and renewable energy, energy efficiency, and other green sectors of the economy</p>

CPF Objective 7: Preserve and Restore Natural Capital

Intervention logic: Kazakhstan faces the challenge of addressing the real costs of environmental damage while it is clear that environmental sustainability is critical for diversified, competitive sectors. This will require transforming the use of natural capital through better understanding the role that natural capital plays in sustaining the population's well-being; integrating this information into decision and policy contexts; and changing institutions, policies, and incentives to reward long-term stewardship. This will include, among other things, improving management of water resources as well as water supply and wastewater management and measures to reduce air and water pollution, ensuring proper management of solid and hazardous waste, and adopting a climate-friendly strategy for development at the regional level in industry, agriculture, and other sectors.

The proposed new North Aral Sea area project will help manage resources and climate adaptation in the neighboring regions, while the GEF on landscape restoration would also be critical for forestry resources and enhancing sustainability of Kazakh landscapes. This CPF will also explore opportunities for the broader context of support to the Government in making a path to accelerate progress toward sustainable development in the country through potential investment and ASA and RAS activities.

Finally, the proposed livestock development project will target mitigation of the carbon impact of this industry, with an overall goal to achieve carbon savings or compensation coming in parallel to the development of value chains and exports.

CPF Objective Indicators	Supplementary Progress Indicators	World Bank Group Program
Indicator 17: Dryland area restored using a community-centric approach, hectares Baseline: 0 Target: 40,000 (2024)	SPI 17.1: Dryland area under sustainable landscape management practices using innovative implementation models, hectares Baseline: 0 Target: 300,000 (2024)	Potential new IBRD loans: ·Sustainable Livestock Development ·North Aral Sea Area Development and Revitalization Potential GEF: ·Landscape Restoration
Indicator 18: Percentage of livestock subsidies directed to programs boosting climate co-benefits Baseline: 0 Target: 30 percent (2024)	SPI 17.2: Restored aquatic ecological services in NAS-Syr Darya basin through improved information base, infrastructure investments, and institutional support Baseline: No Target: Yes (2024)	Ongoing/potential JERP/ASA: ·Grant-funded ASA on resource efficiency (KGGTF) ·Environmental Impact on Agribusiness Development ·Planning and Coordination in Environment
	SP 18.1: Systems to monitor carbon sequestration in grassland are in place Baseline: No Target: Yes (2024)	

Cross-Cutting Theme: Effective governance and strengthened market and social institutions Cross Cutting Objective 8: Support Evidence-based Delivery of Public Sector Reforms and Increased Stakeholders' Engagement

Intervention logic: The Government has made significant strides over the past decade in building state institutions. However, the challenge is to shift their approach from bureaucratic regulatory control and subsidies toward incentivizing private sector and creating a service-oriented public service. Improving institutional effectiveness and public sector performance will therefore be a key driver within all of the new lending and analytic work in each of the priority focus areas. In addition to priority area-specific institutional goals, the CPF will provide support for economywide institutional interventions. In particular, the Government has requested that the World Bank helps it set up efficient monitoring and evaluation systems for its economic programs. The Government has also expressed interest for support to further strengthen the fiscal framework to keep non-oil deficit on a sustainable path. In addition, the CPF will provide analytic support for strengthening institutional planning and budgeting, as well as other PFM elements. These will benefit from a consistent and complementary approach, including how lessons learned in one sector could benefit other sectors.

Use of data-driven technologies progress in e-services is already supported (Fostering Productive Innovation project) or the digitization of government functions (Social Health Insurance project). Further support is planned for this work to create an enabling environment for the development of the national data ecosystem. The World Bank will also work with the Government under the Digital Kazakhstan program and Nazarbayev University for a results-based approach to develop AI capabilities in the country, which would address policy, data collection, and storage and implementation of initiatives across sectors. This will be one of the ways by which the World Bank program will increase stakeholder engagement in policy decisions in the country. Indicator 10 under Objective 3 already reflects increased engagement through digital platforms.

CPF Objective Indicators	Supplementary Progress Indicators	World Bank Group Program
Indicator 19: Significant progress toward monitoring and meeting the Government's 2025 result indicators Each of the 2025 results indicators has its own baseline, target, monitoring and implementation plans. The CPF indicator will be for at least 50 percent of results to achieve improved monitoring (by 2024).	SPI 19.1: All new World Bank-supported operations and ASAs will have at least one indicator on institutional effectiveness Baseline: No Target: Yes (2021)	All new operations and analytic support activities. These are noted within the specific focus areas above. In addition, the World Bank will provide several whole of government analytic support efforts including the following:

Annex 2: Completion and Learning Review Report

Date of CPS (FY12-FY17): March 30, 2012 (Report No. 67876-KZ)

Date of CPS Progress and Learning Review: September 26, 2016 (Report No. 108396-KZ)

Period Covered by the Completion and Learning Review: July 1, 2011 to June 30, 2017

I. INTRODUCTION

1. Kazakhstan's Strategic Plan for Development 2020 formed the strategic underpinning for the three main areas of engagement of the Country Partnership Strategy (CPS), which were: (i) Improving Competitiveness and Fostering Job Creation; (ii) Strengthening Governance and Improving Efficiency in Public Services; and (iii) Ensuring Development is Environmentally Sustainable. The CPS recognized that the program had to be implemented in the context of increasing challenges to the country's medium- to long-term development prospects, most notably in continuation of stability-oriented macroeconomic policies and in raising non-oil productivity in a competitive environment.

2. Overall CPS outcome is rated Moderately Satisfactory. This rating is based on the assessment of the program's achievements in the areas of the World Bank Group's (WBG) (IBRD, IFC and MIGA) engagement and against self-evaluation of the CPS Results Matrix, revised through the CPS PLR. Most of the twenty-eight CPS outcomes were either fully or partially achieved.

3. Overall WBG performance in designing and implementing the CPS is rated Good. The program design was relevant to the country's development goals, and was supported by a mix of adequate interventions and instruments. Program implementation was flexible, enabling the WBG to respond to shifts in client's priorities as well as to increased needs in the aftermath of the crisis. Total actual IBRD delivery reached US\$2.6 billion, while the IFC's portfolio was well diversified and investments reached US\$319 million.

II. PROGRESS TOWARDS CPS DEVELOPMENT OUTCOMES

4. The CPS Development Outcome rating is Moderately Satisfactory. The program was built on three areas of engagement, 13 strategic objectives and 28 outcomes, as revised in the CPS PLR, of which most were either achieved or partially achieved. The details of the achievements and status of outcomes and indicators as well as relevant WBG activities are presented in Annex 2.

Table 1. Summary of outcome ratings:

Area of Engagement	No. of Outcomes	Achieved	Mostly Achieved	Partially Achieved	Not Achieved
Competitiveness and Jobs (Moderately Satisfactory)	17	12	0	4	1
Governance and Public Services (Moderately Satisfactory)	6	4	0	1	1
Environmental Sustainability (Moderately Satisfactory)	5	2	1	0	2
Total	28	18	1	5	4
Percentage	100%	64%	4%	18%	14%

5. There has been good progress under each of the three areas of engagement. Satisfactory advancements were made in improving fiscal and financial sustainability, improving public service delivery (customs, inspections) and access to services (health care, vocational education), and improving the regulatory environment. The projects that supported important infrastructure development, in particular in energy and transport, achieved their targets and supported establishment of good practices and introduction of new and innovative tools into the sectors (e.g. road asset management). Similarly, the projects' investments in restoration and rehabilitation of the legacy environmental hot spots transformed the selected regions. IFC's program supported a major modernization effort of Kazakhstan's transport infrastructure through a Public Private Partnership (PPP) in the Almaty Ring Road (BAKAD). In addition, IFC's investments and advisory services in financial sector, corporate governance and renewable energy yielded good results, helping the Government and the private sector to improve performance, create new jobs and increase productivity.

6. The following sections provide highlights of the CPS outcomes, grouped under the three areas of engagements and country outcomes supported by the CPS, and describe major WBG activities that contributed to the results.

Area of Engagement 1: Improving Competitiveness and Fostering Job Creation

7. Activities under this Area of Engagement aimed to support progress towards four country development goals, namely: achieving competitiveness through macro-stability and international integration; bolstering human capital; boosting employment in agriculture; and developing infrastructure connectivity to reduce economic distance. Progress was assessed against 17 outcomes and, with 12 outcomes achieved, four partially achieved and one not achieved, the overall outcome of this Area is rated Moderately Satisfactory.

Country Outcome supported by CPS: Strengthened fiscal discipline and trade openness/integration

8. Prudent management of oil revenue (Outcome 1) - The outcome, as set in the CPS for measuring the prudent management of oil revenues, namely the government's net financial worth/assets, was achieved. The Government's net worth was 17.8 percent of GDP¹⁸ on the average for 2012-2016 (further details in Annex 2), thus above the 2012 level of 15.8 percent. During most of the CPS period, the government was applying countercyclical fiscal stimulus measures as a response to the oil-price shock since mid-2014. As a result, the non-oil deficit widened during 2014-17, mainly financed by draw-downs of oil revenue reserves from the oil fund, the National Fund of the Republic of Kazakhstan (NFRK), and was also supported by the FY16 Development Policy Loan (DPL) (see below). Later, realizing that the oil-price shock is structural rather than cyclical, the government revised the NFRK rule and identified targets for cutting the non-oil fiscal deficit over the medium term.¹⁹

9. The FY16 DPL was a cornerstone of the WBG's support to the Government in implementing reforms that strengthened the sustainability of the macroeconomic framework. The US\$1 billion operation was initiated at a time when Kazakhstan was adjusting to the sharp decline in oil prices, and it supported substantive institutional reforms in budget and monetary management. The operation supported improving overall competitiveness of the non-oil economy through several policy actions focused on improving selected aspects of industrial policy, regulatory oversight, competition policy, and state-owned enterprises' (SOEs) governance. The design built on the rich knowledge base resulting from a series of Reimbursable Advisory Services under the Joint Economic Research Program (JERP). It is also worth noting that it provided a catalyst for stronger coordination of economic, financial, and institutional reforms at the center of the Government. The Ministry of Finance (MoF) set up an inter-governmental working group which coordinated and monitored the reform program supported by the operation.²⁰

¹⁸ Government's net financial assets are measured as a difference between the stock of FX assets of the NFRK and the stock of total government debt at the end of a period.

¹⁹ The new NFRK rule was adopted in December 2016, with regular (guaranteed) transfers from the NFRK to the budget to be cut gradually from about US\$8 billion to a tenge equivalent of US\$6 billion by 2020 onward. Moreover, to increase budget transparency, the rule introduced a prohibition for any off-budget transfers from the NFRK. The rule also set targets for the non-oil deficit which is planned to be cut to 7 percent of GDP by 2020 and 6 percent by 2025.

²⁰ Although the timespan of the inter-governmental working group was limited to the timeline of the DPL, the group proved to be a very efficient institutional set-up for targeted policy interventions.

Country Outcome supported by CPS: Expanding non-oil sector exports and employment

10. Improving the regulatory environment (Outcome 2) - This outcome, as measured by the Doing Business (DB) ranking, was achieved. Kazakhstan has overall maintained solid progress towards improving DB ranking, coming at 35th place in DB2017 (up from 46 in 2011). The recent accomplishments include simplifying and streamlining processes that ease starting a business, obtaining construction permit, trading across borders and resolving insolvency. Over the last year of the CPS, further improvements have been made in the areas of property registration, minority investors protection and contract enforcement. Assistance with business environment reforms provided through JERP facilitated a steady improvement in business entry and exit conditions, the payment of taxes, and the protection of investments rights, improving Kazakhstan's overall Doing Business rating, and the simplification of the licensing and permits regime. A review of Kazakhstan's tax policy and administration framework led to the development of a new tax code based on JERP recommendations.

11. Technology commercialization (Outcome 3) - This outcome, as measured by results of the WBG-supported technology commercialization grants program, was achieved. The way the Government engaged with the WBG on a long-term strategy for innovation, placing WBG projects at the core of the national innovation strategy, was exemplary, as it helped leverage the use of public resources, increase policy coherence, and maximize the development impact. The Technology Commercialization Project (TCP) exceeded original targets in improving commercial relevance of groups of scientists: all grantees have reached the commercialization results using scientific research, whereas 40 companies created under TCP reached first sales by the project closing date. The number of patents applications and industrial prototype license agreements significantly exceeded national performance in previous years. Namely, previously (2011 to 2014) the number of PCT applications averaged 20, while TCP alone had five Patent Cooperation Treaty (PCT) agreements approved in 2015 only. The number of patents applications registered per 1,000 researchers at the Eurasian level was 11.2 (in national sciences and engineering, 2014 and 2015,) while TCP's support led to substantial increase to 18.3 (64 percent increase) for the same scientific fields. In 2014, only three industrial prototype license agreements were made in Kazakhstan, whereas TCP-funded projects signed 11 license agreements (eight sold, three bought), significantly above the national performance before the project.

12. Investment in manufacturing, agribusiness and real estate (Outcome 4) - This outcome, as measured by actual IFC investments, was achieved. IFC's engagement with the private sector provided a significant contribution in this area. Investments in manufacturing and agribusiness companies contributed to support about 2,400 direct jobs, half of which for women.

13. Advisory services on corporate governance provided to the Government and companies (Outcome 5) - This outcome was partially achieved. While the target as to number of companies was not met, IFC provided services on corporate governance to selected companies, contributing to improved decision making and performance, and played a significant role to enable their access to financing in the amount of US\$115 million. Advisory services on corporate governance to the Government were not provided. The Bank conducted several reviews on tax policy that included tax transparency issues through the JERP. Following the recommendations of the Tax Administration Reform Project, the authorities published the list of large taxpayers that are subject to monitoring on its website, and through a searchable database provided access to the types and amounts of taxes paid by physical and business entities. Technical Assistance (TA) on the development of a new Tax Code provided specific recommendations on ensuring stronger transparency in preferential treatments, tax incentives, tax appeals and international taxation. In line with the 2015 DPL's trigger action on introduction of an Automatic Exchange of Information on tax matters with other countries, Kazakhstan signed a Model 1 Foreign Account Tax Compliance Act Intergovernmental Agreement with the United States in 2017 and OECD's Common Reporting Standard Multilateral Competent Authority Agreement on automatic exchange of financial account information in 2018.

Country Outcome supported by CPS: Re-invigorating financial sector

14. Reduction of Non-Performing Loans (NPLs) (Outcome 6) - This outcome, was partially achieved. The specific CPS target of halving the ratio of NPLs from 2012 baseline of 32.6 percent was achieved, with the level of NPLs at 10.7 percent, with the loan provisioning well maintained and at 11.2 percent, as of end-June 2017. However, the reduction of NPLs was largely due to a substantial bail-out package channeled via the recapitalization of the state-owned Problem Loans Fund (PLF). Additionally, the financial sector JERP produced technical guidance and recommendations to the National Bank of the Republic of Kazakhstan (NBRK), e.g. on risk-based supervisory approaches, guidance about strengthening the financial safety net, risk-based inspections regime, which the authorities implemented. Given the insolvency regimes are some of the main tools to solve the NPL problem, the Bank supported this agenda in the CPS period through a series of four annual JERPs involving work on insolvency. As a result of the technical assistance by the Bank, better protection to creditors and to the assets of the debtors and acceleration of access to the insolvency proceedings - rehabilitation or liquidation - has been achieved, including through enactment of the new law on corporate insolvency in 2014. This in turn resulted in substantial job savings and debt repayments.

15. Investments and advisory services provided to the financial sector (Outcomes 7 and 8) - These outcomes, as measured by actual IFC investments and advisory services provided, were achieved. The financial sector benefited from IFC's investments in the financial institutions, that helped extend their services to more than 134,000 MSMEs. Also, IFC's advisory services to the microfinance institution, Arnur Credit, contributed to its transformation into a commercially sustainable financial institution that expanded its outreach to rural areas and doubled its loan portfolio.

Country Outcome supported by CPS: Building skills for employment

16. Raising quality and relevance of the technical and vocational education (Outcome 9) - This outcome, as measured by the results of the WBG support provided to technical vocational education (TVE) programs, was achieved. WBG program supported investing into TVE primarily in improving the policy framework and through capacity building of TVE institutions for more efficient delivery of skills. The process of setting occupational standards supported by the TVE Project was an intervention that helped Kazakhstan to transform the system from a supply- to a more demand-driven one that was reflected in the relevant legislation. As of end-June 2017, 91 percent of TVE programs had been revised with new competency standards, to equip graduates with skills demanded in labor market. The ongoing Skills and Jobs Project further supported modernization of educational and training standards, and the curriculum toward competency-based modular programs was aligned with occupational standards.

Country Outcome supported by CPS: Strengthening knowledge for sustained growth in agriculture

17. Application of new technologies in agriculture (Outcome 10) - Not achieved. The fact that the planned livestock project did not materialize was part of the reason that the set targets have not been reached. However, technical assistance provided through JERP contributed to the sector as a whole by supporting improvements in efficiency of the governments' subsidies program, primarily in better targeting and elimination of subsidies that were found to be inefficient.

18. Investments in agribusiness (Outcome 11) - This outcome, based on results achieved by actual IFC investments, was achieved. IFC's investment provided to RG Brand food processing company helped improve its risk profile and supported over 2,000 direct jobs in 2017. As the company grows its business internationally, it is also expected to support employment.

19. Food safety program (Outcome 12) - This outcome, based on results achieved by IFC's advisory services to companies in implementing food safety standards and practices, was partially achieved. In-depth advisory services have been provided by IFC to a food production company, Kazbeef, to implement food safety management systems (good manufacturing practices, good hygiene practices, Hazard Analysis and Critical Control Points, and traceability). Nevertheless, it is premature to report results from the adoption of these systems. The project also provided advisory to improve food safety practices of a leading retailer and helped build the capacity of eight suppliers of processed food in partnership with this retailer.

20. Energy and resource efficiency (Outcome 13)- This outcome, based on results achieved by IFC's advisory services, was partially achieved. Taking IFC's recommendations on board, RG Brand food processing company already saw savings in their water and energy use leading to the avoidance of 236 metric tons of GHG emissions.

Country Outcome supported by CPS: Improving energy transmission to poor areas

21. Increasing transmission capacity (Outcome 14) - This outcome has been achieved. Transmission capacity has been increased by about 8 percent and the quality and reliability of power supply in the Almaty region has substantially improved. The dramatic, ten-fold drop in frequency and duration of outages provided a significant benefit to households and businesses and reduced constraint to economic growth. An additional outcome is related to the implementing agency, the Kazakhstan Electricity Operating Company KEGOC. Strong implementation of a number of the WBG-financed projects (including in period prior to this CPS) contributed to good reputation of KEGOC as a reliable and financially stable partner, helping the company to achieve a stable positive credit rating from leading international rating agencies and also attract new investments from international funding institutions.

Country Outcome supported by CPS: Building transport connectivity and lowering costs

22. Increase transport efficiency (Outcome 15) - This outcome, as measured by reduction in road-user costs and rate of road crash fatalities, was achieved, with 8 and 14 percent reductions (vs the 10 percent target), respectively. The transport projects constitute by far the largest part of the investment lending portfolio, and the key aspects of this engagement are presented in more details in the Box 1 below.

23. Investments in railways company (Outcome 16) - This outcome, as measured by the results of the actual IFC's investments, was achieved. IFC's equity investments in Eastcomtrans, a private railcar leasing company, helped to fund the company's expansion program (totaling US\$120 million), as well as to renew and diversify its existing fleet, enhancing the company's sustainability. Despite the significant local currency devaluation, the company managed to grow its sales from US\$66.5 million in FY 2012 to US\$73.26 in FY 2017.

24. Advisory services on PPP (Outcome 17) - This outcome was achieved, with IFC providing advisory services to the Ministry of Transport to structure a PPP transaction for the concession of the Almaty Ring Road (BAKAD). The government has been keen to attract private investor through a PPP in BAKAD, as this is part of a major modernization effort of Kazakhstan's transport infrastructure and a national priority for the Government. IFC successfully structured the transaction, supported the tender process as well as the negotiations between the Government and the preferred bidder which came to commercial closure in February 2018.

Box 1. Support to the Roads Development Agenda

The WBG's embarked on an ambitious agenda to help address a number of challenges in the roads sector, such as high cost of unsatisfactory road network, low institutional capacity, funding limitation, inefficient management of road assets, inefficient communication with users and lack of coordinated actions on road safety. Trainings were conducted to strengthen capacity of the line Ministry, Committee of Roads (CR), and KazAutoZhol (KAZ) on a number of topics ranging from project management to sector specific aspects of road asset management, e-tolling, road safety. Consultants were mobilized to support CR to manage a massive program of road rehabilitation and construction and

The WBG-supported reform helped KAZ to become a sustainable joint stock company, able to offer competitive salary scales and social benefits, and so attract and retain high-qualified professionals. The program co-financed by the WBG jointly with other IFIs allowed the transfer of technologies that were not available to Kazakhstan before, both in design and construction (eg. state of the art concrete pavements, bridges). The works were initially done by foreign contractors who then transferred the knowledge, together with specialized equipment, to the local road construction

The WBG supported development of the Road Asset Management System (RAMS)--a tool to ensure quality, accuracy, and reliability of data on road assets as well as a planning tool to assess future periodic maintenance and rehabilitation needs and assign priorities when the budgets are constrained, using internationally accepted methods. RAMS is currently being finalized and once operational, will help establish the results chain as per the international practice and implement it as prioritized in the Kazakhstan Transport Strategy up to 2020, and manage their road network rationally, economically, and efficiently (define indicators, set targets, link them to result-based budgets).

The understanding of the tolling set-up and technology has advanced with the support from the WBG and EBRD. The WBG is supporting CR and KAZ in the planning and implementation of the e-tolling system on a wide range of emerging and critical topics, including willingness-to-pay, financial modelling, and communication strategy. The government sees revenues from tolled roads as additional support to cover the operation and maintenance cost; therefore, it decided to toll up to 25 percent of the republican network by 2023. Communication with users has

When WBG started support to the roads sector, there was hardly any mechanism to interact with road users. Now, what started as a project website, has grown into a website that informs the public on various aspects of the Western Europe -Western China corridor development preparation and implementation, covering procurement, progress of works, grievance redressal, and other topics, and covers all sections of the corridor financed by all participating IFIs.

The WBG team designed a Performance Assessment Tool (PAT), with the initial purpose to internally manage a large program of civil works for over 1,450km of road and evaluate performance against core set of FIDIC standards as well as WBG's requirements. This methodology is now being rolled out gradually to the entire transport portfolio of the WBG worldwide.

Area of Engagement 2: Strengthening Governance and Improving Efficiency in Public Services

25. Activities under this Area of Engagement aimed to support progress towards two country goals: to improve public financial management and fight corruption and to raise efficiency in delivering critical public services. Progress assessment was based on six outcomes, of which four achieved, one partially achieved and one not achieved, and the overall outcome of this Area is rated Moderately Satisfactory

26. Reducing physical inspections and average customs processing time (Outcome 18) - This outcome was achieved. Physical inspections have been substantially reduced, to 4.9 percent (vs target of 20 percent) as has been the average customs processing time at border posts, down to seven hours (reduced to 71 percent vs targeted 75 percent). Although the drop in the percentage of physical inspections can be partly attributed to the requirements of the Eurasian Customs Union (ECU), the legislation on introducing the risk based post-customs clearance and implementation of the risk management system supported by the Customs Development Project contributed to further decline of physical inspections in 2016-2017. Also, the number of documents required for border and customs clearance for imports were reduced while revenue collected by customs staff increased. While some design shortcomings, implementation hurdles and changing environment did not allow for the project's full scope to be implemented, recommendations arising from all the efforts remain relevant and to be considered for implementation in future efforts in this area.

Country Outcome supported by CPS: Strengthening budget and accounting institutions.

27. Increasing efficiency in procurement (Outcome 19) - This outcome was achieved. Notable progress was achieved with the introduction of the new e-Procurement system. In 2016, a total of 123,310 open bidding transactions have been undertaken through this new system, compared to baseline of 25,000 and thus substantially exceeding the CPF target of 20 percent increase. Also, as of January 2015 the main modules which include e-Tendering and e-Reverse Auction, are fully functional and their use is obligatory for all government agencies. The assessment of the Kazakhstan's e-Tendering system conducted by the World Bank in 2016 found e-Tendering and e-Reverse Auction compliant for Shopping and National Competitive Bidding (NCB) for procurement of goods. The e-Reverse Auction module can be used for procurement of simple goods (shopping) under the WB-financed projects.

28. Improving quality and efficiency through targeted reviews (Outcome 20)- This outcome was achieved. Quality and efficiency of public spending significantly improved over the CPF period. PEFA analysis showed that fiscal discipline was maintained; planning of cash expenditure on most functions was generally realistic; systematization of public investment planning contributed to a more strategic allocation of resources; IT systems were increasingly used to improve efficiency of service delivery; budgets were submitted to and approved by Parliament in a timely manner and contained medium-term and performance-based information; transfers to subnational government were subject to clear rules and there was improved monitoring of subnational government's (SNG) fiscal position; internal audit was developing and there was evidence of improved follow-up on audit recommendations. Overall, performance on 14 out of 28 indicators assessed for the period 2009-2017 had improved. While targeted public expenditure reviews did not take place, the Bank conducted a review of performance-based budgeting, IPSAS gaps assessment, Integrated Fiduciary System Review, Public Finance Review, and, lastly, PEFA, which highlighted positive developments in Public Finance Management (PFM) system and identified areas for further improvement. Implementation support was provided to the MNE and MOF through the JERPs on results-based budgeting, intergovernmental fiscal relations, internal audit, introduction of accrual accounting, and public service pay.²¹ As for the targeted reviews, the JERP task on Improving performance orientation of budget management provided detailed recommendations on the format and implementation arrangements for budget reviews. The need for budget reviews was highlighted in 2015 President's Address to the Nation, and the GoK conducted a series of budget program reviews using its own methodology and funds.

²¹As a result of Results Based Budgeting JERP task, Kazakhstan introduced a program budgeting structure so that the budget is appropriated according to budget programs, and the strategic plans focused on measurable results. In 2016, strategic plans of all central government agencies were approved in the new format, linking the targets to the objectives, allowing monitoring of progress and even more so assessment of the impact of budget program outcomes on the achievement of strategic objectives. Also, in preparation of the republican budget for 2016-2018, budget programs were consolidated, reducing the number of the programs for central government bodies from 468 to 187. FY12 Intergovernmental Fiscal Relations JERP task supported reforms in allocation of targeted development transfers as well as reforms in system of subventions and withdrawals (reviewed, incorporated in legislation and implemented). FY15 Intergovernmental Fiscal Relations JERP task addressed an urgent issue related to delimitating the areas financed by public investment projects from the republican and local budgets. The Bank's recommendations on improving methodology of general transfers allocation to sub-national governments, including inter alia practical recommendations on the use of indicators and special coefficients, revenue forecasting methodology, frequency of allocation decisions, transparency and openness of the system, were for the most part accepted and incorporated in the legislation in FY17.

29. Improving quality and reliability of statistical data (Outcome 21) - This outcome, as measured by the results of the standard user satisfaction survey on quality and reliability of statistical data, was achieved. The Strengthening the National Statistical System (KazStat) Project was a relevant and timely intervention that triggered the long-term reform process, and sped up several processes on the ground. It improved efficiency and effectiveness of the national statistical system to provide relevant, timely and reliable data in line with internationally accepted methodology and best practices. The improvements achieved are evidenced by the production and dissemination at lower costs of better quality data in many areas of economic and social statistics. User surveys in past years reflected high level of satisfaction with quality and reliability of statistical data.

Country Outcome supported by CPS: Reforming social protection system

30. Conditional cash transfers (Outcome 22) - Achieved. Conditional cash transfers were piloted in three regions, and the program grew to cover all regions, except Karaganda Oblast, as of June 1, 2017. Policy support provided through JERP translated into a new employment program and social safety net system with a conditional cash transfer component to improve the balance between the protection and promotion objectives of the Government's interventions. Advisory support to the development of a new social modernization strategy informs the Government's evolving program on financing and delivering social services for the accelerated improvement of human capital outcomes.

Country Outcome supported by CPS: Sharpening strategic approach to health reforms

31. Reduction in population's out-of-pocket health expenditures (Outcome 23) - Not Achieved. The share of household out-of-pocket expenditure on health exhibited a steadily increasing trend over the CPS period due to the country's worsening economic situation amidst global economic crisis (2015-2016). However, the Health Sector Technology Transfer and Institutional Reform Project supported key sector reforms, including development of strategic documents, changing the regulatory environment to increase autonomy of health institutions, improving the quality of medical education, and laid foundations for a major health financing reform - introduction of Social Health Insurance.

Area of Engagement 3: Ensuring Development is Environmentally Sustainable

32. Activities under this Area of Engagement aimed to support progress towards the country goal to fight climate change with a cleaner environment. Progress assessment was based on five outcomes, of which two were achieved, one mostly achieved and two not achieved, and the overall outcome of this Area is rated Moderately Satisfactory.

Country Outcome supported by CPS: Safeguarding the environment

33. Remediation of high priority industrial waste dumps (Outcome 24) - This outcome was achieved. Through the Ust-Kamenogorsk Environmental Remediation Project, five industrial waste dumps polluting the air and groundwater were remediated, based on an international design to ensure that no further contamination of groundwater would take place. Modern laboratory equipment as well as international training was provided to ensure sufficient institutional capacity. Local state laboratories are now capable of analyzing heavy metals and organic compounds in ground and surface water as well as industrial effluents, and have an ongoing monitoring program.

34. Reforestation and reduction of fire damage (Outcome 25) - This outcome, as measured by results of the WBG support targeted to the Irtysh Pine Forest reforestation and protection, was achieved. The Forest Protection and Reforestation Project was successful in the rehabilitation of forest lands and associated rangelands through its reforestation and planting of the Irtysh Pine Forest and covering of the dry Aral Seabed with vegetation. The project supported participatory approaches that the community members, forestry employees and officials now consider important for raising and resolving issues around forest management, and a powerful tool to improve governance of the forest sector.

35. Rehabilitating water supply systems (Outcome 26)- Not Achieved. The investments that had been designed to support this outcome were delayed due to late start of implementation of the Second Irrigation and Drainage Project, and no results can be reported at CPS closure.

Country Outcome supported by CPS: Raising energy efficiency

36. Increasing energy savings (Outcome 27)- This outcome was not achieved. The CPS target was not achieved due to delays in starting with investments funded through Energy Efficiency Project. It is worth noting that the savings of 98.5 KWh were recorded in the set of bills for the objects that have been completed by end CPS.

37. IFC providing advisory services on renewable energy and energy efficiency at policy and company levels (Outcome 28) - This outcome was mostly achieved. The advisory services helped address legal and regulatory barriers to private investments in renewable energy, and IFC supported negotiations for company level advisory engagements with developers of solar and HPP projects (detailed in paragraph 38 below and in Annex 2).

38. In the area of renewable energy (RE), IFC, in coordination with the IBRD, supported important steps towards opening up the market for private investment in the sector. This entailed a comprehensive three-phased advisory engagement with the Ministry of Energy. In the period from 2014 to 2016, IFC experts supported the drafting of 11 key laws and regulations, six of which have already been adopted (legislation related to the Green Economy). IFC also delivered recommendations on the feed-in tariff methodology, mitigation of effects from the tenge devaluation, creditworthiness of the RE off-taker (Financial Settlement Center), grid connection procedures and other measures to improve the bankability of RE projects. In parallel, IFC has provided technical assistance to the Ministry of Energy and KEGOC to improve the planning of RE development and facilitating integration of RE in the power system. The market-level (indirect) impact from this policy engagement is estimated at 172 MW of new RE capacity installed since 2013 and US\$300 million of investment in RE units that will help avoid almost 200,000 tons of CO₂ emissions per year. The program also completed a market entry study for turbine manufacturer Vestas to enter the Kazakh market, directly supported the development of a 24 MW solar photovoltaics (PV) project in Kulan District of Zhambyl Region and produced a "Renewable Energy Investment Guidebook" that guides developers and investors through Kazakhstan's RE support framework and permitting/authorization procedures.

III. WORLD BANK GROUP PERFORMANCE

39. The overall performance of the WBG in designing and implementing the CPS in support of selected country objectives was Good. As presented in the discussion above and detailed in the results framework (Annex 2), 64 percent (18 out of 28) of the CPS outcomes were fully achieved, while four

percent (one outcome) were mostly achieved, 18 percent (five outcomes) were partially achieved and 14 percent (four outcomes) not achieved. This assessment is also based on: (i) continued relevance of the CPS objectives with Kazakhstan's country development goals, (ii) the proactive and constructive dialogue carried out with key stakeholders, as well as effective mid-course revision to align with the country's evolving needs and challenges, and to mitigate risks as appropriate; and (iii) effective coordination with other IFIs. The main obstacles to the full achievement of results were: (i) worsening economic outlook, impacting the country's fiscal policy and (ii) processing and procedural bottlenecks, in particular upstream in the project cycle, that continued to delay effectiveness and thus project implementation.

Design

40. The CPS objectives remained relevant to Kazakhstan's development agenda. The initial CPS objectives were aligned with Development Strategy 2020 and remain broadly relevant to the long-term strategy Kazakhstan 2050. The CPS rightly took a flexible approach to programming, which put it in position to effectively respond to the changing external environment and client demand. The WBG shifted gears quickly to support the Government's effort in macroeconomic adjustments required at the onset of the large shocks to the economy from 2014 and beyond, including by providing a US\$1 billion DPO as well as scaling up the advisory support. The CPS PLR was used appropriately to tighten up some of the outcomes, maintaining a balanced results matrix.

41. The identification of risks was candid and realistic, and the critical economic and political risks identified in the CPS materialized - yet to some degree not as foreseen. The euro zone debt crisis and a slowness of upturn in global growth and trade were seen as potential risks to Kazakhstan's economy at the approval of the CPS program in mid-2012. Both risks materialized, manifesting themselves in the sharp drop in international oil prices two years later, and remained until the end of the CPS. The DPO program as well as the expanded advisory services were adapted accordingly, helping the Government to take important measures towards ensuring medium-term fiscal sustainability. The CPS PLR added the risks of institutional capacity for implementation and sustainability as substantial risks to portfolio implementation, as the program was continuously affected by delays and slowdown in overall implementation pace. This risk had two aspects (both strongly influenced by political will): the first one related to the pace of multi-sectoral and structural reforms and the second one related more narrowly to the performance of the WBG portfolio. Capacity building through the RAS helped some of the aspects of complex reforms implementation and the proactive portfolio management approach led to tackling some of the long-standing systemic issues. Yet, most of the issues persist and follow-on steps towards stronger capacity require careful consideration, from both the Government and the WBG, going forward in designing the new program.

42. The PLR made the necessary adjustments to the Program in response to the changed circumstances. It confirmed the relevance of CPS's focus areas while it reflected two significant adjustments: diversification of the instruments to be applied in the remaining CPS period as well as large increase of lending. As for the CPS results matrix, the outcomes were kept the same, and few indicators were modified to adjust to the changed circumstances, including revision of IFC's planned interventions, or dropped due to issues of data availability or attributability of the progress to the WBG's program. While some of the indicators may have had inherited weaknesses, overall, the changes were adequate. Most CPS outcomes were supported by measurable indicators that were linked to project-level results, and had a solid link with national level outcomes.

Implementation

43. New IBRD lending commitments in the CPS period reached US\$2.6 billion. The original CPS target of US\$2 billion for FY12-17 was revised upwards at the time of the CPS PLR to a total expected

US\$4.2 billion. The proposed additional support to regional development corridors (Center-West and Center-South) of about US\$1.6 billion did not materialize (it is, nevertheless worthwhile to note that parts of the planned investments were covered from the Government's own financing and savings under the ongoing road projects), and the second DPO in the programmatic series was cancelled. The main reason behind this was the escalation of the foreign debt servicing ratio that resulted from the depreciation of the tenge. Combined with the downgrade of Kazakhstan's sovereign credit rating in early 2015, it led the Government to re-think its debt policy towards substituting domestic debt to foreign debt.

44. IBRD portfolio has performed well overall during the first years of the CPS, yet with a slowdown of implementation in the later part of the CPS period. At the beginning of the CPS period, the active portfolio comprised 12 projects in total value US\$3.6 billion. Intensive portfolio monitoring resulted in proper detection of problems and actions, mainly restructurings and cancellations, that helped improve performance, as most notably reflected in reduced number of problem projects and improved proactivity at the end of FY17. The overall implementation pace, however, witnessed a slowdown in the mid-point of the CPS, as reflected in the lower disbursement ratio. This resulted mostly from delays in effectiveness²² of five new operations and subsequent protracted project implementation. The 2016 CPPR produced a 12-point action plan agreed with the Government suggesting concrete action to address such delays, as well as other bottlenecks in projects' implementation. While some of the important steps have already been taken, such as various actions to support more efficient procurement processes, a proposal for amendment of legislation and procedures towards more expedient signing and effectiveness did not result in the actual legislative changes. And finally, the WBG kept particular focus on strengthening client's capacity throughout the implementation of the Program, via day-to-day implementation support as well as through knowledge sharing in numerous regional fiduciary and safeguards forums.

Table 2. Selected IBRD Portfolio Indicators for Kazakhstan (FY12- 17)

Indicator	FY12	FY13	FY14	FY15	FY16	FY17
Active Projects #	12	12	15	16	17	13
Net Commitments Amt US\$ m	3,594.12	3,649.02	3,679.22	3,812.39	5,838.25	3,772.43
Disbursement Ratio for IPF only %	23.1	15.9	22.4	19.8	12.0	11.8
Actual Problem Project #	3	3	3	5	7	3
Projects At Risk %	25.0	25.0	20.0	31.3	41.2	23.1
Commitments at Risk %	2.0	4.4	5.6	4.6	6.6	4.7
Proactivity %	66.7	66.7	66.7	100.0	40.0	71.4

45. The JERP Program expanded during the CPS period and evolved into a RAS program. The expansion was prompted partly by increased client demand for policy advice and TA during the WBG's response to the macroeconomic crisis and partly by the new Kazakhstan-World Bank Group Partnership Framework Arrangement (PFA) signed in May 2014. As a result, in FY15 the program was fully RAS funded and increased to an annual average of US\$6.4 million. The JERP was anchored in policy analysis, good practice options notes, and brainstorming sessions with high-level officials on a variety of topics where the government needed to form a view.

²² Due to complicated and lengthy signing and ratification procedures, loan agreements become effective with significant delays. Some of steps in the process take months. For instance, approval of the loan agreement (LA) is required first from the same ministries who participated in and signed the minutes of negotiations (although the LA remains unchanged), and subsequently by Prime Minister's office and Presidential Administration, which may take up to five months. About three months are needed for reconciling the draft resolution to submit the Ratification law to the Parliament, and then the Parliament approval procedure itself may take up to 4 months. Specifically, in case of five projects approved in second half of the CPS, it took between 11 to 13 months from board approval to effectiveness. As a result, Kazakhstan is the last among ECA countries in terms of the average time required for approved project to become effective.

These JERP-induced brainstorming sessions have become a critical platform to share opinions and help the authorities systematically think through issues with substantial analytical support from the Bank. Overall, implementation of the JERP during the CPS period proved to be an important tool for strengthening the partnership and advancing the reform agenda. JERP advisory products were designed to support achieving CPS outcomes, and some key contributions have been noted above. At the same time, the demand-driven nature of the program imposed some limitations on the Bank in defining strategic priorities in its advisory work and dissemination strategies. The effectiveness of Bank assistance was uneven across the engagement areas with a larger focus on the macroeconomic and fiscal areas.

46. IFC's investment and advisory program remained aligned with the strategy defined in the CPS document and reaffirmed in the CPS PLR. IFC's program was designed to contribute to the WBG strategy for the country through investments and advisory services in two main priority areas: economic diversification and improved competitiveness and job creation. It is important to highlight that IFC's investments, and through local currency finance options in particular, have been instrumental in supporting private sector in the difficult economic period of 2015/16 when tenge's major devaluation occurred. As planned, IFC invested in rail transport, manufacturing, agribusiness, microfinance, and financial institutions including facilitating trade finance. At the initiation of the CPS, IFC put forward a very ambitious target of US\$200-300 million investments annually, provided suitable projects that meet IFC criteria for financial reporting, transparency, and commercial viability could be identified. However, IFC's investments in Kazakhstan during the CPS period have been constrained by: (i) continued dominant role of the public sector in the economy and unrealized privatization plans; (ii) ongoing concerns related to corporate governance and corruption; (iii) high NPLs in the domestic sector; (iv) reduced demand for non-tenge denominated financing as result of devaluation and financial crisis; and (v) availability of government subsidy programs across sectors.

47. IFC has committed US\$319 million in 16 investments during the CPS period, of which US\$87 million was in short-term trade finance lines. These commitments include trade finance guarantees totaling US\$87 million provided to two financial institutions to facilitate export-import operations through the Global Trade Finance Program. Overall, IFC's current outstanding portfolio amounts to US\$110 million including ten investments in the financial, manufacturing, real estate, transport, and agribusiness sectors. IFC advisory programs delivered impact both on regulatory and company level: (a) built capacity of financial intermediaries, in particular in microfinance with a focus on rural areas; (b) enhanced the investment climate and tax administration; (c) improved corporate governance in local companies; (d) provided advice on renewable energy and energy efficiency to open up new markets, by removing regulatory barriers and providing targeted assistance to first-mover companies; (e) assisted food companies in implementing food safety practices, developing local capacity to promote suppliers' food safety standards, and raising awareness of agribusiness standards; and (f) developed PPP projects, currently in the transport sector. As of June 30, 2017, there were no NPLs in the IFC portfolio in Kazakhstan. Despite the substantial devaluation of the currency, IFC portfolio quality did not show signs of deterioration and remained profitable throughout the CPS period.

48. IFC's investment portfolio is well diversified. The portfolio is more diversified now compared to the beginning of the CPS period, with a greater share in the real sector: at the start of FY12, 66 percent of committed portfolio was in the financial sector and the rest in manufacturing, agriculture and services. Currently, the financial sector accounts for 35 percent, the manufacturing, agriculture and services for 47 percent, and the infrastructure accounts for 18 percent of IFC's portfolio.

49. During the CPS period, MIGA had three active political risk insurance guarantees in the financial sector. The three contracts pertained to MIGA's support of shareholder loans from UniCredit Bank Austria to its subsidiary in Kazakhstan, ATF Joint Stock Company. The original contracts were executed during the global financial crisis prior to the start of the CPS; the shareholder financing provided important capital injections into ATF which helped it to continue operating and to grow its loan portfolio thereby supporting the financial sector and the economy more broadly during this challenging period. MIGA also looked at support to projects under its non-honoring cover for state-owned enterprises, and is planning to continue to explore similar opportunities in the upcoming CPF period.

50. Collaboration and coordination with the other IFIs and international agencies on the ground has been successful. The Swiss Embassy provided trust funds to the two projects under implementation: Youth Corps Program, focused on promoting young people's community engagement and life skills through a community-based service learning program, especially for vulnerable youth, and Energy Efficiency Project. Collaboration with ADB in coordinating strategies and action in several areas of joint engagement has been very effective, and the joint work on water resources management, utilities and urban infrastructure and services financing facility is particularly noteworthy. The collaboration with the UN Agencies has been ongoing in many areas, including the justice sector. The WBG collaborated closely with the WHO in the implementation of the Bank-financed Kazakhstan Health Sector Technology and Institutional Reform Project, including joint participation in the relevant coordination teams and committees. The collaboration with the OECD has been very fruitful, resulting in a number of reviews in the area of early childhood education and care (ECEC), and most recently in ECEC Policy Review Report completed in 2017. Transport is an area where the work goes in parallel rather than jointly with the many IFIs involved: ADB, EBRD, IDB, JICA (participation along the Western Europe - Western China International Transport Corridor). Both ADB and IDB support the water sector irrigation in particular, and the implementation is in parallel rather than jointly. The overall collaboration was significantly supported by the PFAs that the government initiated and signed with the WBG as well as with three other IFIs, as they provided a platform for coordinating and ensuring complementarity between the respective IFIs programs, jointly supporting the reforms agenda.

51. There were no major fiduciary issues during the CPS period. Government has overall a good track record in compliance with the fiduciary aspects when it comes to loans financed by the WBG. However, there were delays stemming from lengthy procurement processes that had impacted the overall implementation pace. These have been dealt with on case by case basis, as well as systematically through an action plan agreed in the joint portfolio reviews, as well as the provision of necessary trainings.

IV. ALIGNMENT WITH CORPORATE GOALS

52. While the twin goals of supporting poverty reduction and boosting shared prosperity had not yet been articulated at the time the original CPS was prepared, these objectives were incorporated in the CPS PLR. Overall, the original CPS objectives were aligned with the broad goal of poverty-reducing growth. This is most notably the case with the projects that supported substantial improvements in various public services. Improvements in quantity and quality of the electricity supply in the Southern region, including dramatic reductions in power interruptions that disproportionately affect the poor, positively affect the region's growth. Projects that focused on education and skills, such as TVE, targeted some of the most vulnerable groups of students and in some of the vulnerable areas. Furthermore, projects addressing safeguarding of the environment, such as Reforestation Project, provided increased employment opportunities, albeit mostly seasonal, for the local population.

And finally, the large infrastructure projects supported by the WBG program, such as South-West Roads Project, helped create 30,000 jobs, taken up mainly by the local workers from underdeveloped or less privileged regions. The projects prepared at the later stage of the CPS were closely aligned with the twin goals. The DPO supported policies to strengthen macroeconomic sustainability and increase the competitiveness of the non-oil economy. Also, it specifically supported protection of social expenditures and enhancement of social protection envisaged by the Orleu program, and the Government remained committed to mitigating the social impact of the slowdown.

53. Mainstreaming of citizen engagement in the Kazakhstan portfolio has progressed significantly over the CPS period. Much effort has been placed on establishing new platforms for genuine citizen engagement relevant to a number of sector reforms. With regards to corporate targets, the portfolio improved from 50-62 percent in FY14 to 100 percent compliance in FY17. More importantly, quality, measured through the ECA citizen engagement quality index has improved from 1.9 in FY14 to 2.2 in FY17, and Kazakhstan has developed a number of highly relevant and transformational platforms for CE. Notable is the citizen engagement framework in the Health sector reform, and an innovative Municipal Services Benchmarking initiative recently launched in Shymkent to pilot the importance of service users providing comparative feedback on basic service delivery. As a part of the ECA roll out, a Citizen Engagement Country Roadmap was introduced in the PLR and will be developed further in the context of the upcoming CPS. For details, please see to Annex 4.

54. The WBG's initiative on climate change knowledge and information exchange in Central Asia helped create a platform for a continued dialogue in the region, while the CPS program addressed some of the legacy environmental issues. Initially, two Central Asia Regional Knowledge Conferences on Climate Change took place in 2013 and 2014 (with the third one organized in January 2018). The key objective of these conferences is to maintain regional dialogue, knowledge and information exchange on climate change adaptation, and explore opportunities for further joint actions among all international, regional and national stakeholders. At the second conference, policy-makers of the Central Asian countries expressed their interests and eagerness to have a joint initiative on climate change in Central Asia. This has also paved the way to the possibility of having an operation in Kazakhstan contributing to this cause in the new CPF cycle (Aral Sea Development and Revitalization). During the current CPS, the WBG's Program helped the selected regions to better respond to climate change. Remediation of 26 ha of highly contaminated land in Ust-Kamenogorsk and putting in place the systems for monitoring and protection of groundwaters helped preserve the resources and thus indirectly mitigated the adverse impact of the climate change. Reforestation of 46,000 ha in Irtysh Pine Forest, vegetation of 61,000 ha of the dry Aral seabed as well as substantially improved fire management system made the vulnerable areas more resilient to future risks of fire.

55. The CPS predates the corporate requirements of gender tagging, yet some of the operations implemented during this period are gender informed and indirectly contribute to narrowing the gender gap. The Conditional Cash Transfer JERP task supported families and although pilot programs did not specifically target women, this assistance targeted families in need, of which women constituted a large part. Youth Corps Program supported community-based service learning and life skills development, with 55 percent participation target for girls/women. The recently approved Education Modernization Project is focusing on reducing the disparity between boys and girls in reading and also gender parity in administrators and quality assessments. Social Health Insurance Project targets over 50 percent female beneficiaries, where having health insurance would provide women and children greater access to care.

V. KEY LESSONS LEARNED

56. Due to the long-term engagement, the knowledge acquired, and the flexibility to adjust its support to the country, the WBG remains a valued partner in Kazakhstan. Knowledge of the country, implementation of a large lending program and targeted analytical work allowed the Bank to effectively engage in the government's development agenda, provide guidance and opinion on the relevance and prioritization of the reform program. The JERP has been key in this exchange of knowledge with the authorities. Growing trust in the WBG's advice along with expansion of the JERP program in the future with carefully prioritized demand-driven tasks will further strengthen the policy dialogue. Developing monitoring and evaluation tools to track the effectiveness of the JERP by better capturing its results and lessons learned will support such efforts.

57. Systemic issues related to delays in project processing and effectiveness need to be addressed to further improve impact and efficiency of the program. Continued delays in loan signing and effectiveness led to delayed start, protracted implementation, slow loan disbursements, and frequent and lengthy extensions of closing dates. Some remedial actions envisaged were partly implemented, but more is needed in particular with respect to the needed legislative changes and Government's internal procedures for loan signing and ratification. Namely, the WBG team had analyzed the respective procedures and provided certain proposals for changes in government and parliamentary procedures, designed to reduce time required to process loans from IFIs. The Government has not endorsed the proposals but has agreed that substantive changes are to be introduced for the projects under the next CPF. The WBG should follow up and provide further support to this process as needed, as well as to further efforts to harmonize procedures. The use of the country systems was an important step that has already been taken, and WBG has already expressed its readiness to use the Government's e-tendering module for the WBG program-supported procurements (Shopping and NCB methods, concretely). In addition, the WBG can promote further some of the mechanisms that could advance availability of financing, such as advance payment and retroactive financing.

58. Selectivity and flexibility remained key in achieving results and need to be further strengthened to advance the development agenda. This is demonstrated by the strong results and by delivering more than envisaged in the original CPS program, in terms of both lending and knowledge, including developing JERP into a fully-RAS program. Going forward, the WBG should seek to build further its agility for responding to the country's increasingly ambitious goals. To this end, it may need to look into 1) further diversifying the instruments to ensure engagement with key players in the economy, including the private sector and 2) building stronger partnerships with other IFIs and international partners to deepen the productive dialogue with the counterparts and leverage additional resources where needed.

59. The DPO Program helped the Government in increasing its capacity and commitment to address vulnerabilities and mitigate the impact of an external shock. The Program was designed to help Kazakhstan respond to the global financial crisis, and the WBG's trust in the Government's commitment and capacity translated into a signal to the international community that Kazakhstan could navigate safely through the challenging environment created by the drop in the price of oil. The cancellation of the second operation in the programmatic series of two DPLs did not hamper the continuation of the reform program, albeit slowed the pace.²³ A stand-alone DPL operation can thus be more effective when the design of the program is aligned with government priorities, ownership by the client is high, sufficient knowledge is available, and the short-term actions adequately address the main concerns. Political economy considerations should be taken into account at program design stage as they may represent a difficult terrain for an international financial institution to navigate for the purpose of supporting implementation of meaningful reforms, as in the case of the Kazakhstan's banking sector.

²³ The second operation in the programmatic DPL series did not materialize as initially expected by June 2016 and was cancelled by the World Bank in July 2017. The anti-crisis program implemented by the Government in 2014 and 2015, partly financed from external sources, led to an escalation of Kazakhstan's foreign debt burden. The depreciation of the tenge, as a result of its floating, also contributed to increasing the burden of foreign debt. Total debt rose from about 10 percent to 20 percent of GDP, while the share of foreign debt increased to 50 percent, posing risks owing to the floating of the exchange rate. These developments led the Government to rethink its debt policy, towards substituting domestic debt to foreign debt. The whole IBRD pipeline portfolio was impacted by this change, which eventually led to the cancellation of the second DPL.

60. Government commitment, close collaboration with the private sector and other development partners and the “one WBG” approach are important in helping the country's reform and sector modernization agenda. IFC's continuous engagement with the Government and other development institutions, primarily EBRD and ADB, facilitated the development of the Almaty Ring Road PPP Project, which would also complement IBRD's involvement in the Western China-Western Europe road corridor. The efforts were also supported through the analytical work done through JERP program. When the signing of the concession was experiencing delays, mostly due to concerns of increased cost following the dramatic depreciation of the tenge in 2015/6, IFC PPP Advisory and the other IFIs in their capacity as potential lenders, worked with the designated preferred bidder and the Government to reduce the cost of the project, minimize the foreign exchange risk to the government and further optimize the project structure. As a result, the Government payments were reduced, and the overall project cost was agreed between the Government and the bidder. Successful finalization of this PPP (the Concession Agreement was signed in February 2018) establishes a strong precedent demonstrating that private sector can participate in the implementation of infrastructure projects in the country, which needs to be replicated in other parts of the economy and can increase the confidence of investors to participate in the Government's privatization program. It also underlines the strong potential of IBRD and IFC when they strategically join forces in supporting transformational projects. This is the first infrastructure PPP of this type and magnitude in Kazakhstan and in Central Asia.

61. While many of the lessons learned from the projects implemented during the CPS period were project specific, a few cross-cutting themes emerge and merit to be highlighted:

i. Careful sequencing of project phases supports more effective implementation. This is particularly the case in projects entailing extensive institutional capacity building components. Initial implementation phase should include robust trainings and knowledge-transfer efforts that strengthen capacity and ownership, followed with a phase of actual practical use of the knowledge, allowing its transformation into day-to-day practice. These efforts considerably enhance implementation of the next phases of project activities and the project as a whole. Ideally at this phase the WBG should provide training to the key project counterparts in relevant procedures and processes that the WBG financed projects mandate.

ii. Building ownership at all levels of the institutions remains key for smooth implementation of complex projects, and in particular those tackling institutional reforms. Commitment and leadership go beyond continuity of management and staff and the project that maintained the focus on reform had (a) continued understanding of project objectives and support, related decision making and management of the project; (b) clear understanding of how the project is helping in development of the institution and supporting them in their work. Frequent changes of leadership, where ownership has not been embodied in the institution itself, are one of the main factors causing implementation delays, reform fatigue and loss of institutional memory.

iii. And finally, the importance of maintaining the results of the project and the overall longer-term sustainability cannot be overstated. While this is primarily to be steered by the government, the WBG can help in this regard through continuous policy dialog, building the flexibility and scalability in project designs and using more the tools available (e.g. proactive restructuring). Where possible, piloting of the activities should be planned, as pilots can help in redesigning the scope of the projects' interventions for optimal results.

Annex 1: Status of CPS FY12-17 Results Matrix

Description	Status at CLR	Overall Rating
Area of Engagement 1 - Competitiveness and Jobs		
Outcome 1: Prudent management of oil revenue maintained, with government net financial worth (as measured by difference between stock of National Fund of the Republic of Kazakhstan (NFRK) assets and sovereign debt) above its 2012 level of 20% of GDP by 2017.	Achieved	Moderately Satisfactory
Outcome 2: Improved regulatory environment, as measured by Doing Business ranking (up from 46 in 2011 to 35 by 2017)	Achieved	
Outcome 3: Technology Commercialization Office (TCO) established, awarding at least 10 small technology commercialization grants (pre-commercialization, joint research with industry, international patenting, industrial internship for scientists) and enabling at least 15 groups of scientists to perform high-quality research	Achieved	
Outcome 4: IFC invested in manufacturing (paper packaging, cement), agribusiness (food and beverages, agriculture commodities), and real estate	Achieved	
Outcome 5: IFC provided advisory services on corporate governance to Government and over 100 companies and conducted studies on tax transparency and regulatory reform.	Partially Achieved	
Outcome 6: Ratio of NPLs to total loans (32.6% in 2012) at least halved by 2017 and well provisioned	Partially Achieved	
Outcome 7: IFC invested in financial institutions, including microfinance and universal banking, also provided trade guarantees. Sector portfolio serving 15,200 microfinance and 10,000 SME clients.	Achieved	
Outcome 8: IFC providing advisory services to microfinance institution to improve its lending operations, serving more clients in rural area and thus supporting rural development.	Achieved	
Outcome 9: Share of technical vocational education programs revised in line with new (2013) competency standards by at least 20% by 2017—better equipping graduates with skills demanded in labor market	Achieved	
Outcome 10: New applied technologies in farming (for example, conservation agriculture, new methods of veterinary diseases testing) result in increased crop/fodder output, supporting 50% increase in meat production (0.84 million tons in 2010) by 2017	Not Achieved	
Outcome 11: IFC invested in agribusiness (food and beverages, agriculture commodities).	Achieved	
Outcome 12: IFC Food Safety Program focuses on (a) assisting one food company in implementing food safety practices; (b) stimulating development of local institutional capacity for promotion and implementation of suppliers' food safety standards; and (c) promoting sector-wide demand by raising awareness about agribusiness standards and developing client pipeline	Partially Achieved	
Outcome 13: IFC providing advisory services on energy efficiency at two levels as explained in Area of Engagement 3, Outcome 28 (Raising Energy Efficiency)	Partially Achieved	
Outcome 14: Kazakhstan Electricity Grid Operating Company's (KEGOC) transmission capacity increased by 5% between 2012 (34,000 MVA) and 2017 to alleviate existing and projected power shortages in South and East Kazakhstan	Achieved	
Outcome 15: Increased transport efficiency through reduction in road-user costs and rate of road crash fatalities along 1,062 km section of Western Europe-Western China (WE-WC) Road Corridor by at least 10% by 2017 (in 2007: road users' cost was US\$0.26 per vehicle-km and road crash fatalities were 11/100 million vehicle-km).	Achieved	
Outcome 16: IFC invested in a rail leasing company.	Achieved	
Outcome 17: IFC advises Government on structure and implementation of international tender for Big Almaty Ring Road (BAKAD).	Achieved	
Area of Engagement 2 - Governance and Public Services		
Outcome 18: Physical inspections of import declarations by customs reduced from 70% in 2007 to 20% by 2017; and average customs processing time at border posts (24 hours in 2010) reduced by 75% by 2017 as evidenced from client surveys.	Achieved	Moderately Satisfactory
Outcome 19: Increase in e-procurement transactions (25,000 in 2012) by 20% by 2017, and efficiency of e-procurement system enhanced by introduction by 2014 of electronic reverse auction system.	Achieved	
Outcome 20: Quality and efficiency of public spending improved through introduction of targeted reviews of selected areas on rolling basis, with at least four reviews completed during 2013–16.	Partially Achieved	
Outcome 21: International standard user satisfaction survey on quality and reliability of statistical data introduced in 2012 with 80% satisfaction rates by 2017	Achieved	
Outcome 22: Conditional cash transfers piloted in at least two regions	Achieved	

Outcome 23: By 2016, 10% reduction in population's out-of-pocket health expenditures as share of total health expenditures (32.9% in 2010).Area of Engagement 2 - Environmental Sustainability	Not Achieved	
Area of Engagement 2 - Governance and Public Services	Achieved	
Outcome 24: Remediation of the high-priority industrial waste dumps polluting the air and groundwater in Ust-Kamenogorsk and establishment of groundwater monitoring system.	Achieved	Moderately Satisfactory
Outcome 25: Reforestation of 44,000 ha completed; and damage from forest fire in Irtysh Pine Forest reduced by 50% by 2017 (9 ha per case of fire on average during 2009-11).	Achieved	
Outcome 26: Water supply systems rehabilitated in 113,000 ha covering four southern oblasts, bringing water distribution by service providers to levels demanded by farmers.	Not Achieved	
Outcome 27: Cumulative energy savings in targeted public facilities will increase from 0 to 825 GWh by 2017.	Not Achieved	
Outcome 28: IFC providing advisory services on renewable energy and energy efficiency at two levels: (a) policy level, to open up new markets by removing legal and regulatory barriers to private investments and (b) company level, to provide targeted assistance to first-mover private sector and utility efficiency projects.	Most Achieved	

Annex 2: CPS FY12-17 Results Matrix Evaluated

Kazakhstan Development Strategy Outcomes supported by CPS	CPS Outcomes	Progress	Main Instruments
	AREA OF ENGAGEMENT 1: IMPROVING COMPETITIVENESS AND FOSTERING JOB CREATION		
Strengthening fiscal discipline and trade openness/integration	(1) Prudent management of oil revenue maintained, with government net financial worth (as measured by difference between stock of National Fund of the Republic of Kazakhstan (NFRK) assets and sovereign debt) above its 2012 level of 20% of GDP by 2017.	Achieved (based on revised baseline of 15.5% for 2012 government net financial worth). For most of the CPS period, the government net financial worth was maintained at levels above the one of 2012, at 17.8 on the average (2013: 17.4%, 2014: 18.6%, 2015: 12.5%, 2016: 25%). 2017 shows somewhat of a downward trend, and is currently projected at 15.3%.	JERP/RAS: Fiscal Policy for Growth; Improvement of Public Debt Management, including Mechanisms for Monitoring SOE Debt; Improvement of Competitiveness through Reduction of Trade Barriers; Enhancement of Fiscal Sustainability Lending: DPL Partners: International Monetary Fund (IMF), European Commission (EC), U.S. Agency for International Development (USAID)
Expanding non-oil sector exports and employment	(2) Improved regulatory environment, as measured by Doing Business ranking (up from 46 in 2011 to 35 by 2017). (3) Technology Commercialization Office (TCO) established, awarding at least 10 small technology commercialization grants (pre-commercialization, joint research with industry, international patenting, industrial internship for scientists) and enabling at least 15 groups of scientists to perform high-quality research. (4) IFC invested in manufacturing (paper packaging, cement), agribusiness (food and beverages, agriculture commodities), and real estate.	Achieved Kazakhstan Doing Business rating in 2017 was 35. This progress reflects important reforms in the areas of starting a business, dealing with construction permits, getting electricity, protecting minority investors, trading across borders, enforcing contracts, and resolving insolvency. The reforms in the critical business regulatory areas affect the entire cycle, making it easier, faster and less expensive for entrepreneurs to start, run, and close businesses. Achieved TCO merged with Science Fund and is expected to continue grant programs of Ministry of Education and Science adapting TCO experience and involved in implementation of Fostering Productive Innovations Project by providing technical inputs. In addition, the Association of Technology Commercialization is established and fully functional, ensuring sustainability of project results. Technology Commercialization Project awarded 33 technology commercialization grants, and 77 partnerships were signed with various commercial companies.	JERP/RAS: Enhancement of Business Environment; Enhancing Productivity and Competitiveness through Enterprise Modernization Support Mechanisms; Corporate Financial Reporting; Improving Conditions for Doing Business to Increase Competitiveness and Facilitate Economic Diversification; Improved Policy for Competition Protection; Improvement of Competitiveness through Reduction of Trade Barriers; Services Sector Gap Analysis; Job Sector Specific Analysis of Barriers and Opportunities; Mineral Taxation Regime, EITI Review Reports Lending: Technology Commercialization IFC: Real sector investments (manufacturing, agribusiness, and services) Partners: USAID, ADB, EBRD

Kazakhstan Development Strategy Outcomes supported by CPS	CPS Outcomes	Progress	Main Instruments
	<p>(5) IFC provided advisory services on corporate governance to Government and over 100 companies and conducted studies on tax transparency and regulatory reform</p>	<p>Achieved IFC portfolio diversified in favor of real (non-financial) sector from 34% to 65%. IFC investments in manufacturing and agribusiness companies of Kazakhstan contributed to support about 2,400 direct jobs, half of which are jobs for women.</p> <p>Partially achieved IFC provided advisory services on Corporate Governance (CG) best practices, including improvements in their governance and control bodies, and contributed to the adoption of by-law/ToR/codes for their functioning and others, to 10 companies. Two of these companies, Humo&Partners and Eastcomtrans, reported an improved decision making and performance due to the adoption of CG practices, which played a significant role in the companies' access to financing in the amount of US\$115 million. At the regulatory level, IFC prepared scorecards for the adoption by the Stock Exchange (KASE) and SZP (Partner). In addition, the Bank conducted several reviews on tax policy that included tax transparency issues through the JERP. Following the recommendations, the authorities published the list of large taxpayers that are subject to monitoring on its website, and through a searchable database provided access to the types and amounts of taxes paid by physical and business entities. TA on the development of a new Tax Code provided specific recommendations on ensuring stronger transparency in preferential treatments, tax incentives, tax appeals and international taxation. In line with the 2015 DPL's trigger action on introduction of an Automatic Exchange of Information on tax matters with other countries (in line with the Global Forum standards), Kazakhstan signed a Model 1 Foreign Account Tax Compliance Act Intergovernmental Agreement with the United States in 2017 and OECD's Common Reporting Standard Multilateral Competent Authority Agreement on automatic exchange of financial account information in 2018.</p>	<p>JERP/RAS: Enhancement of Business Environment; Enhancing Productivity and Competitiveness through Enterprise Modernization Support Mechanisms; Corporate Financial Reporting; Improving Conditions for Doing Business to Increase Competitiveness and Facilitate Economic Diversification; Improved Policy for Competition Protection; Improvement of Competitiveness through Reduction of Trade Barriers; Services Sector Gap Analysis; Job Sector Specific Analysis of Barriers and Opportunities; Mineral Taxation Regime, EITI Review Reports Lending: Technology Commercialization IFC: Real sector investments (manufacturing, agribusiness, and services) Partners: USAID, ADB, EBRD</p>
Reinvigorating financial sector	<p>(6) Ratio of NPLs to total loans (32.6% in 2012) at least halved by 2017 and well provisioned.</p> <p>(7) IFC invested in financial institutions, including microfinance and universal banking, also provided trade guarantees. Sector portfolio serving 15,200 microfinance and 10,000 SME clients.</p> <p>(8) IFC providing advisory services to microfinance institution to improve its lending operations, serving more clients in rural area and thus supporting rural development.</p>	<p>Partially achieved As of end June 2017, ratio of NPLs to total loans stood at 10.7%, and loan provisioning at 11.2%. However, this has resulted mostly from to assumption by KazKommerzbank of BTA's NPLs. In this regard, the financial sector JERP produced technical guidance and recommendations to the NBRK, for example, risk-based supervisory approaches, guidance about strengthening the financial safety net, risk-based inspections regime, which authorities have taken to implement. Given the insolvency regimes are some of the main tools to solve the NPL problem, the Bank supported this agenda in the CPS period. As a result of the technical assistance by the Bank, better protection to creditors and to the assets of the debtor and acceleration of access to the insolvency proceedings - rehabilitation or liquidation - has been achieved, including through enactment of the new law on corporate insolvency in 2014. This in turn resulted in substantial job savings and debt repayments.</p>	<p>JERP/RAS: Improvement of insolvency system FY13-16; Strengthening Financial Sector IFC: Financial sector investments; trade finance lines and credit lines for SMEs Partner: IMF</p>

Kazakhstan Development Strategy Outcomes supported by CPS	CPS Outcomes	Progress	Main Instruments
		<p>Achieved During the CPS period, IFC investments in financial institutions of Kazakhstan (Kaz MicroFinance, BCC, and Sberbank KZ) helped expand their financial services to more than 134,000 MSMEs.</p> <p>Achieved During the CPS period, IFC provided advisory services to Arnur Credit, contributing to its transformation into a commercially sustainable financial institution and expansion of outreach to rural areas. Arnur Credit has recently received its SMART certification and has doubled its loan portfolio from KZT 3.9 billion in 2016 to KZT 6.24 billion in 2017. This is equivalent to portfolio of loans of US\$19.5 million in 2017.</p>	
Building skills for employment	(9) Share of technical vocational education programs revised in line with new (2013) competency standards by at least 20% by 2017 - better equipping graduates with skills demanded in labor market.	<p>Achieved A total of 147 and thus 70% of total programs (212) have been revised in 2016, as supported by TVEM Project. MOES continued with revising the programs, and as of June 2017, 91% of programs have been revised, and a plan in place to reach 100% target by 2019.</p>	<p>JERP/RAS: Education System Analysis toward Improving Quality; Post-Graduate Education Development Lending: Technical and Vocational Education Modernization; Youth Corps (Swiss Trust Fund); Education System Modernization Partners: EC, German Agency for International Cooperation (Deutsche Gesellschaft für Internationale Zusammenarbeit; GIZ)</p>
Strengthening knowledge for sustained growth in agriculture	<p>(10) New applied technologies in farming (for example, conservation agriculture, new methods of veterinary diseases testing) result in increased crop/ fodder output, supporting 50% increase in meat production (0.84 million tons in 2010) by 2017.</p> <p>(11) IFC invested in agribusiness (food and beverages, agriculture commodities).</p> <p>(12) IFC Food Safety Program focuses on (a) assisting one food company in implementing food safety practices; (b) stimulating development of local institutional capacity for promotion and implementation of suppliers' food safety standards; and (c) promoting sector-wide demand by raising awareness about agribusiness standards and developing client pipeline.</p> <p>(13) IFC providing advisory services on energy efficiency at two levels as explained in Area of Engagement 3, Outcome 28 (Raising Energy Efficiency).</p>	<p>Not achieved The meat production reached 0.96 million tons at the end of 2016. There has been little progress in applying new technologies in farming, also due to the fact that the project that had intended to support the livestock sector did not materialize. However, the Bank delivered technical assistance (primarily through JERP) and supported a series of brainstorming events that contributed to improvements in delivery of respective government's programs. Most notably, recommendations have been taken on board for improving the efficiency of the governments' subsidies program, primarily in better targeting and elimination of subsidies that were found to be inefficient. Results of the JERP "Analysis of the effectiveness of current measures to support agriculture and develop possible alternative measures consistent with WTO rules" allowed government subsidy amount to stay safely within limits agreed under WTO rules.</p> <p>Achieved IFC provided long-term funding (in local currency and US\$) to RG Brand food processing company, in order to improve its risk profile. In FY17, IFC investment helped RG brand to support over 2,000 direct jobs. As RG Brand grows its business internationally, it is also expected to support employment.</p> <p>Partially achieved Through the ECA Agri-standards regional project, IFC provided in-depth advisory services to Kazbeef- a food producers in Kazakhstan - to implement food safety management systems (good manufacturing practices, good hygiene practices, HACCP, and traceability). It is premature to report the adoption of these systems. The project also provided advise to improve food safety practices of a retailer - Metro - and a helped to build the capacity of eight suppliers of</p>	<p>JERP/RAS: Strengthening Agricultural Strategy and Livestock Policy; Analysis of the effectiveness of Current Measures to Support Agriculture; Improvement of Approach to Agricultural Policy and Budget Formulation Lending: Irrigation and Drainage II IFC Investments (INV): Lending to agribusiness companies (food processing, food retail) IFC Advisory Service (AS): Food Safety Advisory, Resource Use Efficiency Partners: GIZ</p>

Kazakhstan Development Strategy Outcomes supported by CPS	CPS Outcomes	Progress	Main Instruments
		<p>processed food in partnership with this retailer.</p> <p>Partially Achieved Through the regional project ECA Energy and Water, IFC provided advisory services on energy and resource efficiency to RG brand- a food processing company recipient of IFC investments. In FY17 RG brand adopted IFC recommendations to improve water and energy efficiency, saving 13,572 cubic meters of water and 539 MWh of energy. However, while the IFC also contributed with the drafting and adoption of the legislation related to the Green Economy, these advisory services relate to renewable energy with no policy/regulatory level work on energy efficiency during the CPS period.</p>	
Improving energy transmission to poor areas	(14) Kazakhstan Electricity Grid Operating Company's (KEGOC) transmission capacity increased by 5% between 2012 (34,000 MVA) and 2017 to alleviate existing and projected power shortages in South and East Kazakhstan.	<p>Achieved As of end-2016 (KEGOC Annual Report 2016), KEGOC power transmission capacity was increased to 36,663 MVA, which alleviated existing power shortages in South and East Kazakhstan.</p>	<p>Lending: Moinak Electricity Transmission; Alma Electricity Transmission; North-South Electricity Transmission Partners: EBRD, USAID</p>
Building transport connectivity and lowering costs	<p>(15) Increased transport efficiency through reduction in road-user costs and rate of road crash fatalities along 1,062 km section of Western Europe-Western China (WE-WC) Road Corridor by at least 10% by 2017 (in 2007: road users' cost was US\$0.26 per vehicle-km and road crash fatalities were 11/100 million vehicle-km).</p> <p>(16) IFC invested in a rail leasing company.</p> <p>(17) IFC advises Government on structure and implementation of international tender for Big Almaty Ring Road (BAKAD).</p>	<p>Achieved As of end-June 2017, the government data indicate 9.5 crash fatalities /100 million vehicle-km in Southern Kazakhstan and Kyzylorda regions and road-user costs of US\$0.24 per vehicle-km, thus a reduction of 14% and 8%, respectively.</p> <p>Achieved IFC equity investments (US\$21 million committed) in Eastcomtrans, a private railcar leasing company in Kazakhstan, helped to fund the company's expansion program (totaling US\$120 million), as well as to renew and diversify its existing fleet, enhancing the company's sustainability. Despite the significant local currency devaluation between 2015 and 2016, Eastcomtrans grew its sales from US\$66.5 million in FY12 to US\$73.26 in FY 2017. The company also paid US\$7 million of taxes to the government and supported 174 jobs (81 of which for women).</p> <p>Achieved IFC provided advisory services to the Ministry of Transport to structure a PPP transaction for the concession of the Almaty Ring Road, and supported the tender process. The signing of the concession agreement had been delayed due to protracted negotiations between the Government and the preferred bidder. However, IFC facilitated the revamped negotiation in FY17. The negotiations between the Government and the preferred bidder came to commercial closure in February 2018 and US\$ 800 million of private investment will be mobilized.</p>	<p>JERP/RAS: Rail Trade Logistics Study Lending: South-West Roads and East-West Roads IFC INV: Private infrastructure projects IFC AS: PPP Transaction Advisory Project Partners: ADB, EBRD</p>
AREA OF ENGAGEMENT 2: STRENGTHENING GOVERNANCE AND IMPROVING EFFICIENCY IN PUBLIC SERVICE DELIVERY			
Improving energy transmission to poor areas	(18) Physical inspections of import declarations by customs reduced from 70% in 2007 to 20% by 2017; and average customs processing time at border posts (24 hours in 2010) reduced by 75% by 2017 as evidenced from client surveys.	<p>Achieved Physical inspections down to 4.9% by 2017, compared to 70% in 2007; and average customs processing time at border posts down to 7 hours by 2017, thus reduced by 71% compared to 24 hours in 2010, based on client surveys.</p>	<p>JERP/RAS: Civil Service Reform; Improvement of Financial Monitoring System (Anti-money Laundering and Combating Financing of Terrorists [AML/CTF]); Revenue Code Development, Technical Assistance in Selected Tax Areas Lending: Customs Development; Tax Administration Reform Partners: EC, UNDP, USAID, GIZ</p>

Kazakhstan Development Strategy Outcomes supported by CPS	CPS Outcomes	Progress	Main Instruments
Strengthening budget and accounting institutions	<p>(19) Increase in e-procurement transactions (25,000 in 2012) by 20% by 2017, and efficiency of e-procurement system enhanced by introduction by 2014 of electronic reverse auction system.</p> <p>(20) Quality and efficiency of public spending improved through introduction of targeted reviews of selected areas on rolling basis, with at least four reviews completed during 2013-16.</p> <p>(21) International standard user satisfaction survey on quality and reliability of statistical data introduced in 2012 with 80% satisfaction rates by 2017.</p>	<p>Achieved In 2016, a total of 123,310 open bidding transactions were undertaken via a newly developed e-Procurement system, substantially exceeding the CPF target of 20% increase. This system replaced the old, slow and expensive system that was difficult to use and manage. The electronic e-Reverse as well as e-Tendering modules were fully functional, and their use is obligatory for all government agencies. The e-Reverse auction module includes the following functionality: registration, announcements/advertisements, publishing of procurement plans, publications of tenders, submission of bids, clarification process, bid opening ceremony, evaluation, publication of contact award information, contracts are signed and managed electronically. The e-Reverse Auction module of the e-Procurement system can be used for procurement of simple goods (shopping) under the Bank-financed projects. The assessment of the system conducted by the Bank in 2016 concluded both e-Tendering and e-Reverse Auction to be compliant for Shopping and NCB for procurement of goods and are consistent with the Bank procurement guidelines.</p> <p>Partially achieved While no public expenditure reviews have been done in the given period, numerous ASA that looked into a wide range of topics that affect public expenditures have been completed and lead to changes in the government policies that contributed to the quality of public spending. All of the data and analysis were synthesized in the upcoming PFR (finalized and published in December 2017).</p> <p>Achieved User satisfaction with quality and reliability of statistical data has been steadily improving and maintained at very high levels over last few years. The last (2016) survey indicates 94.4% satisfaction rate.</p>	<p>Institutional Development Fund (IDF) Grants: Public Sector Audit Capacity Building; Building Capacity in Procurement Audit Agency Partners: EC, UNDP, USAID, GIZ</p>
Reforming social protection system	(22) Conditional cash transfers piloted in at least two regions.	<p>Achieved Conditional cash transfers were piloted in three regions during 2014-2017 period, starting initially in 49 districts in 2014 and covering 182 districts in 2016. As of June 1, 2017, all regions are involved except Karaganda Oblast.</p>	<p>JERP/RAS: Improvement of Social Safety Net System; Strengthening Pension System; Social Policy for Growth: Modernization of the Social Sphere</p>
Sharpening strategic approach to health reforms	(23) By 2016, 10% reduction in population's out-of-pocket health expenditures as share of total health expenditures (32.9% in 2010).	<p>Not achieved The share of out-of-pocket expenditures on health in the total health expenditures exhibited a steadily increasing trend over the CPS period, increasing up to 45% and then coming down to at 35.3% at end 2016. This is due to the country's worsening economic situation amidst two global economic crises (2007-2010 and 2015-2016). Given this situation, the GoK decided to introduce a national mandatory social health insurance as a way to ensure a broad consolidation of funds reflecting the principle of "shared responsibility for health". The program is, though, scheduled to start only in 2020.</p>	<p>Lending: Health Sector Technology Transfer and Institutional Reform; Social Insurance Partners: World Health Organization (WHO), USAID, United Nations Children's Fund (UNICEF), EC</p>

AREA OF ENGAGEMENT 3: ENSURING DEVELOPMENT IS ENVIRONMENTALLY SUSTAINABLE

<p>Safeguarding the environment</p>	<p>(24) Remediation of the high-priority industrial waste dumps polluting the air and groundwater in Ust-Kamenogorsk and establishment of groundwater monitoring system.</p> <p>(25) Reforestation of 44,000 ha completed; and damage from forest fire in Irtysh Pine Forest reduced by 50% by 2017 (9 ha per case of fire on average during 2009-11).</p> <p>(26) Water supply systems rehabilitated in 113,000 ha covering four southern oblasts, bringing water distribution by service providers to levels demanded by farmers.</p>	<p>Achieved Remediation of five industrial waste dump polluting the air and groundwater completed, with 26 ha of highly contaminated land managed, including the PCB contaminated site; groundwater quality monitoring system established; and levels of heavy metal pollution in the groundwater near the city drinking water well-field below international limits.</p> <p>Achieved Reforestation of 46,000 ha completed and fire damage in Irtysh Pine Forest reduced by 70%; 61,000 ha of the dry Aral seabed covered with vegetation; 650,000 ha of forest under improved fire management.</p> <p>Not achieved The Second Irrigation and Drainage Project has experienced substantial delays, mostly due to the delay in effectiveness. While tendering has proceeded for four larger schemes comprising 40% of the whole targeted areas, the works are only to start and the results will be achieved at later stage.</p>	<p>JERP/RAS: (a) Improving Industrial Competitiveness through Greener Production; (b) Towards Cleaner Industry and Improved Air Quality Monitoring in Kazakhstan; (c) Towards a Strategy for Industrial Hazardous Waste Management in Kazakhstan; (d) Legal, Institutional, Financial Arrangements and Practices of the Solid Waste Management Sector in Kazakhstan; and (e) Review and Analysis of Norms and Standards Applicable to Industrial Hazardous Wastes in Kazakhstan; (f) Implementation Support for Modernizing and Strengthening Efficiency of Irrigation; A Road Map for Strengthening Water Management for Improved Water Efficiency and Security</p> <p>Lending: Forest Protection and Reforestation; Ust-Kamenogorsk Environmental Remediation; Second Irrigation and Drainage Project</p> <p>Global Environment Facility (GEF): Forest Protection and Reforestation; Persistent Organic Pollutants Management</p> <p>Partnership for Market Readiness (PMR) TA: Tranche I: 1. Identifying Barriers in Emissions Trading Scheme of Kazakhstan and Development of Appropriate Recommendations on How to Address and Mitigate them; (b) Adaptation of Benchmarks for Allowances Allocation for Specific Sectors in Kazakhstan; and (c) Development of Policy Options for Mid- and Long-term Emissions Pathways and Role of Carbon Pricing (iNDC support)</p> <p>PMR TA: Tranche II: (a) Stakeholder Consultation Process on Developed Benchmarks; (b) Development of E-Reporting and Supporting Institutional and Legal Frameworks; and (c) Support to Enhancement of Transaction Registry</p> <p>Partners: EC, GIZ, UNDP, GEF, PMR</p>
<p>Raising energy efficiency</p>	<p>(27) Cumulative energy savings in targeted public facilities will increase from 0 to 825 GWh by 2017.</p> <p>(28) IFC providing advisory services on renewable energy and energy efficiency at two levels: (a) policy level, to open up new markets by removing legal and regulatory barriers to private investments and (b) company level, to provide targeted assistance to first-mover private sector and utility efficiency projects.</p>	<p>Not achieved The Energy Efficiency Projects has been delayed due to, among others, delay in effectiveness. The remediation works on the first set of projects are ongoing, with the first 19 projects (out of total targeted 75) already substantially or fully completed, while the tendering and contracting is proceeding on the subsequent batches. The achievements with respect to the target are thus modest, with savings of 13.9KWh. However, it is worth noting that the savings recorded in the first set of bills for the completed objects are about 40% for energy consumption, and are expected to increase further once heating costs are also taken into account.</p> <p>Mostly Achieved Through the Central Asia and Caucasus Energy Infrastructure regional project, IFC helped address legal and regulatory barriers to private investments in renewable energy. The project contributed to drafting and adoption of the legislation related to Green Economy, as well as recommended changes to secondary regulations, and to adopt a mechanism for indexing fed-in tariffs to foreign exchange rate fluctuations. In 2017, IFC initiated negotiations for company level advisory engagements with Promondis (a developer of a 35 MW solar project) and Energomost (a developer of HPP projects). IFC recommendations to RG Brand to improve water and energy efficiency contributed to water and energy savings (noted above) and leading to 236 metric tons of GHG emissions that were avoided.</p>	<p>JERP/RAS: Development of renewable energy market in Kazakhstan, including through support to SMEs</p> <p>Lending: Energy Efficiency (Swiss Trust Fund)</p> <p>IFC AS: Resource Use Efficiency</p> <p>Partners: EBRD</p>

Annex 3: Planned Lending and Actual Deliveries, FY12-17

CPS PLANS (at entry 03/30/12) ²⁴			STATUS (as of 06/30/16)	
2012	East-West Roads	1,200.0	East-West Roads	1,200.0
	Energy Efficiency (Swiss Trust Fund)	20.0	Energy Efficiency (Swiss Trust Fund)	20.0
	Youth Corps (Swiss Trust Fund)	20.0	Youth Corps (Swiss Trust Fund)	20.0
	Hazardous and POPs Waste Management	34.0	Hazardous and POPs Waste Management	34.0
	Subtotal:	1,274.0	Subtotal:	1,274.0
2013	Energy Efficiency (Swiss Trust Fund)	0.0	Approved 05/22/13	21.8
	2nd Irrigation and Drainage Improvement	105.0	Approved 06/27/13	102.9
	Syr Darya Control and North Aral (Phase II)	106.0	Forwarded to FY beyond CPS	0.0
	Subtotal:	211.0	Subtotal:	124.7
CPS PLANS, FY14-17 (as revised in PLR) ²⁵			STATUS (as of 06/30/17)	
2014	Youth Corps (Swiss Trust Fund)	0.0	Approved 03/26/14	0.0
	Electricity Transmission	0.0	Dropped	0.0
	Justice Sector Institutional Strengthening	36.0	Approved 03/19/14	36.0
	Public Sector Accounting Reform	0.2	Approved 06/12/14	0.2
	Subtotal:	36.2	Subtotal:	36.2
2015	Fostering Productive Innovation	88.0	Approved 12/22/14	88.0
	SME Competitiveness	40.0	Approved 03/02/15	40.0
	Skills and Jobs	100.0	Approved 03/30/15	100.0
	Subtotal:	228.0	Subtotal:	228.0
2016	Macroeconomic Management and Competitiveness DPL	1,000.0	Approved 11/03/15	1,000.0
	Social Health Insurance	80.0	Approved 04/27/16	80.0
	Center-West Regional Development Corridor	978.0	Approved 06/09/16 but cancelled after approval.	0.0
	Subtotal:	2,058.0	Subtotal:	1,080.0
2017	Education System Modernization	80.0	Approved 11/03/15	80.0
	Climate Change and Mitigation	10.0	Dropped	0.0
	Center-South Regional Development Corridor	645.0	Dropped	0.0
	Subtotal:	735.0	Subtotal:	67.0

²⁴ See Report No. 67876-KZ, March 30, 2012, Table 2 (page 19) - plans for FY12-13.

²⁵ See Report No. 108396-KZ, September 26, 2016, Annex 5 (page 33) - plans for FY14-17

Annex 4: Citizen Engagement

1. The context for effective CE in Kazakhstan is still emerging. Kazakhstan lags behind its comparators and the ECA average on all major voice and accountability indicators. Political openness, independent media, and civil society remain stunted in Kazakhstan. Kazakhstan has been continuously rated as 'Not Free' in the Freedom House, 'Freedom in the World,' 2017 Report which rates countries on political rights and civil liberties.¹ Kazakhstan's percentile rank on WGI's Voice and Accountability indicator remained low over the past decade with only slight improvement in recent years, but still significantly lower than the ECA average (17 compared to 66 in 2016). There are some 30,000 officially registered NGOs in Kazakhstan, but only a fraction of these are operational and effective. Unlike some other Central Asian neighbours, does allow western-funded NGOs mostly focused on social projects and technical reform to operate in the country. Consistent with this, actions to mainstream some CE practices according to Bank corporate requirements have improved, especially in investment projects.

¹ 2017 Freedom in the World – Freedom House https://freedomhouse.org/sites/default/files/FH_FIW_2017_Report_Final.pdf

2. The GOK is in the process of establishing a more enabling legislative framework for transparency and accountability through the implementation of the 100 steps agenda. Significant progress has been made in the areas of e-government and access to information. Three laws passed in 2015 on "Access to Information", "Public Councils" and "Combating Corruption" have the potential to bring about reform, but are not yet defined or implemented in a way that embodies genuine open government. Guidelines to promote social accountability and meaningful citizen engagement are yet to be established. Moreover, the government's stated commitment to transparency, openness and consultation stands in contrast to the severe restrictions on rights to public assembly.²

3. **Country Portfolio.** In FY16, CE was ramped up both in terms of compliance and intensity in projects moving towards appraisal (Table 1).

Table 1. Compliance with corporate requirements for citizen engagement at appraisal

	% compliance Beneficiary feedback indicator	% compliance Citizen-oriented design
Pre-FY14 (6 projects)	50%	62%
FY14 (1 project)	100%	100%
FY15 (3 projects)	75%	100%
FY16 (2 projects)	100%	100%
FY17 (1 project)	100%	100%
Number of projects in portfolio currently compliant/not compliant (incl. pre-FY14)	9 compliant/ 4 not compliant	11 compliant/ 2 not compliant

4. All projects approved FY16-17 were compliant for both indicators - up from 50-62 percent in FY14. There has also been significant improvement in the types of engagement integrated into IPF project design. This is reflected in the improvement in the ECA Quality index (from 1.9 to 2.2) which measures quality according to four criteria (depth of engagement, frequency, multiple channels for feedback as well as the scope for reporting on any issue of the citizen's choosing). As part of the ECA roll out, a CE Country Roadmap was introduced in the PLR and several projects processed in FY16 have included substantive CE platforms:

- **Municipal Service Benchmarking.** In September 2017, a participatory municipal services benchmarking initiative to collect citizen feedback and guide municipal investment decisions was launched in the municipality of Shymkent. The NGO implementing partner has recently been recruited and operational activities are expected to begin in early December. The purpose of this initiative will be to: (i) create a platform for citizens to voice their opinions and suggestions regarding priority municipal services; and (ii) allow municipal officials, service providers and municipal financing facilities to be well-informed about citizen priorities and views. The MSB will use an adapted Citizen Report Card (CRC) methodology, which will establish baseline and benchmarking indicators; gather reliable information about coverage and quality of services; detect inequities in service accessibility and quality among different population groups; and, identify and prompt action for improvement. During the CRC process, a survey will be conducted to assess and compare citizen satisfaction across different priority services. Actions to address identified problems and weaknesses will be planned and monitored. Following the 8-moth pilot initiative in Shymkent, lessons will be documented and the CRC methodology fine-tuned before expanding it to other municipalities.

²The Law on Public Assembly requires protesters to seek permission from the government ten days in advance for any public gatherings if there are more than 20 participants. According to BTI experts, permission for opposition rallies is often refused, and, if granted, they are only allowed to take place in remote locations outside of the city center (BTI).

- **Social Health Insurance Project.** Given the importance of the social health insurance reform, the GOK recognized the importance of a structured CE strategy to underpin the change processes. A comprehensive CE framework has been developed, which embodies and is linked to improved communications and knowledge flows. The SHIP CE activities operate at three levels: (i) a feedback and complaints handling mechanism to address (both positive and negative) suggestions and complaints from beneficiaries and stakeholders; (ii) an informed community monitoring and dialogue mechanism (based on an adapted Community Scorecard methodology) to provide qualitative and quantitative feedback, and engage providers in responsive actions; and (iii) an annual national multi-stakeholder review forum to present updated information to interested stakeholders and to provide feedback to the Ministry of Health. Efforts to put the CE framework in place are well underway and have prioritized the development of a detailed operations manual, as well as staffing in the PIU. Training for PIU staff on the Theory and Practice of CE and the Community Scorecard methodology was conducted in October 2017. Ongoing support and capacity building is being provided to ensure that genuine processes are established.
- **Skills and Jobs Project.** To date, the Ministry of Labor and Social Protection and the PMU have hired a firm to develop and implement a Feedback and Resolution Mechanism (FRM) for the duration of the Project (until 2020). The purpose of the FRM is to obtain feedback from the beneficiaries and project stakeholders on the project implementation, to create a transparent and accountable mechanisms to address project-related feedback/grievances, and to promote public confidence in respect of the Project. The following results are expected: (i) development of the FRM procedures and delivery of training to PMU specialists, EC (EU) staff, and rural akimats; (ii) development of information and communication materials on FRM procedures for mass media channels; and (iii) feedback collection from project beneficiaries through multiple feedback channels.

5. Despite the recent achievements on citizen engagement in Kazakhstan, especially in service delivery, there is much to be done. Effort to develop objectives and priorities linked to the CPS will be developed in the context of an updated citizen engagement country roadmap.

Annex 3. Selected Indicators of Bank Portfolio Performance and Management

CAS Annex B2 - Kazakhstan Selected Indicators* of Bank Portfolio Performance and Management As of Date 10/28/2019

Indicator	FY17	FY18	FY19	FY20
Portfolio Assessment				
Number of Projects Under Implementation ^a	11.0	11.0	11.0	11.0
Average Implementation Period (years) ^b	3.4	4.4	5.4	5.8
Percent of Problem Projects by Number ^{a, c}	27.3	45.5	36.4	36.4
Percent of Problem Projects by Amount ^{a, c}	4.8	9.1	5.0	5.0
Percent of Projects at Risk by Number ^{a, d}	27.3	45.5	36.4	36.4
Percent of Projects at Risk by Amount ^{a, d}	4.8	9.1	5.0	5.0
Disbursement Ratio (%) ^e	13.9	6.4	8.0	3.8
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY80	Last Five FYs
Proj Eval by IEG by Number	38	7
Proj Eval by IEG by Amt (US\$ millions)	4,133.2	1,185.5
% of IEG Projects Rated U or HU by Number	18.4	28.6
% of IEG Projects Rated U or HU by Amt	1.5	1.1

As shown in the Annual Report on Portfolio Performance (except for current FY).

Average age of projects in the Bank's country portfolio.

Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).

As defined under the Portfolio Improvement Program.

Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

*U – unsatisfactory

**HU – highly unsatisfactory

Annex 4. Operations Portfolio

CAS Annex B8 - Kazakhstan Operations Portfolio (IBRD/IDA and Grants)

As of 09/30/2019

Closed Projects					39						
IBRD/IDA*											
Total Disbursed (Active)		2,565.65									
of which has been repaid(1)		584.30									
Total Disbursed (Closed)		4,133.23									
of which has been repaid		2,302.01									
Total Disbursed (Active + Closed)		6,698.88									
of which has been repaid		2,886.31									
Total Undisbursed (Active)		1,038.47									
Total Undisbursed (Closed)											
Total Undisbursed (Active + Closed)		1,038.47									
Active Projects											
Last PSR										Difference Between Expected and Actual	
Supervision Rating					Original Amount in US\$ Millions					Disbursements%	
Project ID	Project Name	Development Objectives	Implementation Progress	Fiscal Year	IBRD	IDA	Grants	Cancel.	Undisb.	Orig.	Frm Rev'd
P128050	EAST-WEST ROADS	S	MS	2012	1,068.0	0.0		0.0	442.0	12.0	161.7
P153496	Education Modernization Project	MS	MS	2017	67.0	0.0		0.0	66.8	44.1	0.0
P086592	IRRIG/DR 2	MU	MU	2013	102.9	0.0		0.0	91.2	70.1	35.2
P143274	Justice Sector Instntl Strengthening	MS	MS	2014	36.0	0.0		9.0	16.9	25.9	16.9
P150402	Kz: Fostering Productive Innovation	S	MS	2015	88.0	0.0		24.0	36.2	0.0	14.1
P152230	KZ: SEECA CRIF	S	S	2016	0.0	0.0	5.0	0.0	0.8	0.0	0.0
P150183	KZ SKILLS AND JOBS PROJECT	MU	MU	2015	100.0	0.0		55.2	39.5	74.7	24.2
Active Projects											
Last PSR										Difference Between Expected and Actual	
Supervision Rating					Original Amount in US\$ Millions					Disbursements%	
Project ID	Project Name	Development Objectives	Implementation Progress	Fiscal Year	IBRD	IDA	Grants	Cancel.	Undisb.	Orig.	Frm Rev'd
P147705	SME Competitiveness Project	MU	MU	2015	40.0	0.0		22.0	14.0	0.0	8.8
P152625	Social Health Insurance Project	MS	MS	2016	80.0	0.0		0.0	72.4	-7.6	14.0
P099270	SOUTH WEST ROADS	S	MS	2009	2,125.0	0.0		0.0	251.6	251.6	86.6
P116696	Tax Administration Reform Project	MS	MU	2010	17.0	0.0		3.5	7.2	10.7	7.2
Overall Result					3,723.9	0.0	5.0	113.7	1,038.5	481.4	368.6

* Disbursement data is updated at the end of the first week of the month.

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

Annex 5. Statements of IFC's Held and Disbursed Portfolio

B8 (IFC) For Kazakhstan Committed and Disbursed Outstanding Investment Portfolio *As of 09/30/2019* (In USD Millions)

FY Approval	Company	Committed					Disbursed Outstanding				
		Loan	Equity	**Quasi Equity	*GT/RM	Participant	Loan	Equity	**Quasi Equity	*GT/RM	Participant
FY13	EASTCOMTRANS	0.00	19.76	0.05	0.00	0.00	0.00	19.76	0.05	0.00	0.00
FY09	JAMBYL CEMENT	0.00	4.75	0.00	0.00	0.00	0.00	4.75	0.00	0.00	0.00
FY11	JAMBYL CEMENT	0.00	1.02	0.00	0.00	0.00	0.00	1.02	0.00	0.00	0.00
FY12	JAMBYL CEMENT	0.00	2.24	0.00	0.00	0.00	0.00	2.24	0.00	0.00	0.00
FY18	KFP	22.10	0.00	0.00	0.00	0.00	22.10	0.00	0.00	0.00	0.00
FY16	KMF KZ MFI	7.16	0.00	0.00	0.00	0.00	7.16	0.00	0.00	0.00	0.00
FY18	KMF KZ MFI	56.97	0.00	0.00	0.00	0.00	56.97	0.00	0.00	0.00	0.00
FY20	KMF KZ MFI	50.01	0.00	0.00	1.00	0.00	20.01	0.00	0.00	0.45	0.00
FY19	PHOENIX FRUITS	10.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
FY15	RG BRANDS	18.42	0.00	0.00	0.00	0.00	12.28	0.00	0.00	0.00	0.00
Total Portfolio:		164.66	27.77	0.05	1.00	0.00	118.52	27.77	0.05	0.45	0.00

Annex 6: Consultations on the FY20-25 CPF with Kazakhstan

1. Between April 11 and 13, 2018, the WBG conducted in-country consultations with the Government of Kazakhstan (GoK) as well as representatives of Parliament, civil society organizations (CSOs), think tanks, and the private sector. The consultations involved participants from Almaty, Nur-Sultan, Aktau, Karaganda, Kostanay, Pavlodar, and Shymkent.²⁹ Participants in all sessions, including online, expressed appreciation for the opportunity to comment on the objectives and priorities of the draft partnership framework as well as the WBG's ongoing commitment to ensuring that its work was appropriately informed by citizen engagement and the views of critical stakeholders.

2. Additionally, in March 2019 the Bank Information Center Europe (BIC Europe) organized a meeting in Almaty that allowed soliciting views from some more Kazakhstan CSOs regarding the CPF areas of focus. Following the BIC's meeting with the Central Asia Country Director in Washington, DC, the online consultations page was reopened from May until the end of June 2019 to give the BIC for Europe and other CSOs and interested parties another opportunity to provide additional feedback. Finally, the WBG undertook another round of consultations with civil society on October 9, 2019, to keep stakeholders informed of the progress.

3. **There was broad support for the proposed priorities and objectives of the draft CPF, with an appreciation for its close alignment to the Government's own strategy and objectives as embodied in the seven major systemic reforms in the Kazakhstan 2025 Strategy.** As the Government's strategy was modified during the CPF preparation including a new presidential address on September 2, 2019, these were progressively factored in the strategy. In each consultation, participants reconfirmed their agreement on improving the efficiency and effectiveness of the public sector and creating the conditions for private sector development and investment. These two goals were seen as highly interconnected, with successful and sustainable private sector development and growth unlikely without fundamental and ambitious reform in the public sector. Reform of public sector institutions and policies was seen as essential if Kazakhstan was to diversify its sources of growth away from extractives, successfully establish a secure and prosperous middle class, achieve the momentum needed to join the ranks of the OECD group of countries, and avoid getting 'stuck in transition'.

4. **Many participants agreed that a greater willingness on the part of the public sector to step back and create the space necessary for the private sector to develop was essential to private sector-led growth.** There were calls for greater public scrutiny of procurement, and WBG support was sought in building the capacity of citizens and civil society to monitor projects, budgets, and budget policy to support greater citizen engagement in the WBG operations, as well as a greater role for civil society in monitoring government programs more broadly. The GoK and WBG were encouraged by participants to support private sector development and productivity growth by working toward a more transparent public sector, including with respect to procurement and privatization, moving away from a reliance on subsidies as a means of support, shifting instead to supporting the private sector through the construction and maintenance of better quality infrastructure (particularly in transport), and creating an enabling environment that would improve incentives for innovation and growth and encourage competition. At the same time, CSOs were concerned that promotion of PPPs, especially in the areas of education and health, may dilute transparency and accountability of investments, claiming that the private sector first approach could fail to acknowledge the trade-offs between commercial goals and the public interest and that it can restrict the state's right to regulate in the public interest.

²⁹ Consultations on the draft FY20-25 CPF continued until the end of June 2019. A CPF Consultation web page has been set up with background documentation on the draft CPF and contributing analysis and diagnostics (<https://consultations.worldbank.org/consultation/kazakhstan-country-partnership-framework-2019-2023>). Individuals or groups wishing to participate in the consultations are encouraged to send their comments to astana_office@worldbank.org.

5. Virtually all participants encouraged the WBG to enhance the CPF's focus on the development of human capital for a modern economy, including through education (including vocational and lifelong learning), training, and market-relevant skills development, particularly with respect to the role and use of digital technologies. This was considered essential if Kazakhstan was to successfully harness and apply rapidly evolving technology and achieve the potentially significant improvements in productivity available through digitalization. WBG representatives agreed on the importance of the human capital dimension and expressed the intention to give greater emphasis to it in the next iteration of the CPF.

6. At the same time, representatives of the private sector noted that better educated and trained workers was a necessary but not sufficient condition for a prosperous, entrepreneurial, and modern society and that workers, and the youth, also needed the incentives and opportunities to use and develop their knowledge and skills. This would require improving Kazakhstan's ability to generate quality jobs and attract, retain, and reward talented workers by addressing various shortcomings, including in municipal services, infrastructure, schools, and housing.

7. The WBG agreed to give greater attention in the partnership framework to capacity building at the regional and local levels, including with respect to fiscal management and social and environmental responsibility. This was seen as particularly important given significant disparities among regions in terms of income and opportunities for adult education, poverty reduction, and social housing. The WBG was also encouraged to maintain its support to Kazakhstan in responding to the country's environmental and climate challenges, including by advocating an approach to growth and development that anticipates and helps mitigate the potential consequences of different growth paths. CSOs reiterated the need for continued focus on protection of the environment and socially inclusive regional development supported by increased access to modern health care and education. They encouraged the WBG to continue to support the role of local populations in monitoring the quality of programs and services at the subnational level by carrying out social audit, including with respect to environmental impact.

8. Many participants agreed with the identification of the financial sector as a significant risk to the achievement of the development objectives supported by the CPF. These risks were twofold. A failure to confront and address governance shortcomings in the financial sector could lead to a repeat of the large fiscal costs associated with bailing out the banking sector, which would crowd out development spending, including in critical areas such as education, infrastructure development and maintenance, and social assistance. Moreover, without significant change, the financial sector would continue to fall short of providing the affordable financing needed to fuel entrepreneurship and investment, particularly with respect to SMEs. The GoK indicated its desire for WBG support to strengthen local currency lending and develop domestic capital markets and indicated their intention to issue their first local currency sovereign Eurobond. The private sector identified financial literacy as an impediment in enabling access to credit for the MSME segment.

9. Private sector participants highlighted that poor quality of much of Kazakhstan's infrastructure, particularly roads, and the lack of modern logistics are key impediments to business and trade development, both domestically and cross border. They also noted that monopolistic behavior in rail and energy had resulted in arbitrary and frequent tariff adjustments, to the detriment of the climate for doing business. On the agricultural sector, several participants expressed concern with large and opaque subsidies and government interventions in support of specific subsectors as a source of market distortion. Others called for greater attention to the development of renewable sources of energy, particularly given the GoK's ambitious targets for the share of energy coming from renewables. The WBG noted that these objectives could be supported through a combination of analytical and advisory support, lending operations, and investments.

10. Toward the end of the consultation process, participants and the Government insisted more on the need for the World Bank to support inclusion and public accountability. The presidential address of September 2019 provides an opportunity to increase voice and accountability, and CSOs encouraged the World Bank to build on successful past initiatives in open government elsewhere and in the transparency field (Extractive Industries Transparency Initiative) in Kazakhstan in particular. There was also widespread insistence on the need to tackle spatial and revenue inequality between regions and improve access to opportunities for persons with disabilities.

11. There was recognition of the challenges faced in implementing previous and ongoing lending operations under the previous five-year partnership strategy and up to the end of 2019, noting that failure to remove these impediments would undermine the effectiveness of future engagements. Both the GoK and the WBG committed to addressing procedural, regulatory, and administrative hurdles to project implementation to reduce the time from project approval to the achievement of results. Participants welcomed the opportunity provided by discussions of the next five-year partnership strategy to recommend a more medium-term, programmatic approach to setting priorities for the analytical, diagnostic, and advisory work supported by the GoK-financed JERP and the World Bank's own budget resources, which were seen as instrumental to informing the policy dialogue between the GoK and WBG. Additionally, participants encouraged the WBG for greater involvement of civil society in government program monitoring, which is directly linked to provision on implementation challenges and correlates with the need to strengthen citizen engagement under the WBG's supported projects.

12. CSOs reconfirmed their wish for a stronger involvement of civil society in the implementation and monitoring of the CPF. The WBG reconfirmed its readiness to apply the principles of citizen engagement described in annex 7 and to hold systematic stocktaking for lending engagement, regular CPF supervision, and topical discussions both at the initiative of the WBG teams and CSOs. An issue of efficiency evaluation of WBG projects as well as access to the summary of advisory works was raised, and publishing the same on their platforms and, where possible, jointly evaluating projects with representatives of the expert community were suggested.

Box 5. Summary of the 2017 Kazakhstan Country Opinion Survey

The FY17 Kazakhstan Country Opinion Survey (COS) was carried out between March and May 2017 to gather the opinions of major stakeholders (including from the national public administration, Parliament, local governments, project management units, academia, think tanks, private sector organizations, and media) on the WBG in Kazakhstan. The survey explored overall attitudes toward the WBG, views on the effectiveness and results of WBG operations, and opinions on the future role of the WBG in Kazakhstan. A total of 267 stakeholders participated.

The COS identified a shift in views on development priorities in the country. While corruption and governance are still top priorities, private sector development has emerged as a major development concern, according to respondents. In FY14, there was far less emphasis on private sector development and growth. In the FY17 COS, the most frequent responses from stakeholders with respect to what would best contribute to 'shared prosperity' related to growth and jobs. The WBG continues to be recognized for the respect with which it treats stakeholders, its role as a long-term partner, and staff accessibility. However, some of the survey's lowest ratings relate to how the World Bank collaborates with civil society and the private sector. In addition, ratings have decreased with respect to how the WBG collaborates with donors and other partners. It is important to consider the value of greater engagement with stakeholders outside the WBG's 'inner circle', particularly as private sector development takes on greater prominence among development priorities.

Among those who collaborate with the World Bank (and therefore have exposure/experience), the WBG receives very positive ratings for the way it operates on the ground, including implementation support, institutional capacity building, monitoring and evaluation, and the speed at which it disburses funds. At the sectoral level, impressions of the WBG's support have improved in areas that emerge as most critical—jobs and corruption—with governance emerging as one of the highest rated areas of support.

Some ratings related to the relevance, adaptability, and timeliness of the World Bank's knowledge have declined. At the same time, when asked what they like to see the WBG do more of in Kazakhstan, nearly half of the respondents identified WBG knowledge products (up significantly from FY14), and more than a quarter indicated that promoting knowledge sharing has the greatest (or second greatest) value to Kazakhstan.

Source: World Bank. 2017. Country Opinion Survey.

Annex 7. Kazakhstan Citizen Engagement Country Roadmap

3 STEP STRATEGY to enhance quality and implementation

11 CONCRETE ACTIONS

1. INTENSIFY CITIZEN ENGAGEMENT (CE) IN SELECTED CPF AREAS, BUILDING ON EXISTING INITIATIVES AND BEST PRACTICES

CPF Focus Area 1:

PROMOTING INCLUSIVE GROWTH

SME Competitiveness
Smart Cities and Artificial Intelligence
Sustainable Livestock

CPF Focus Area 2:

STRENGTHENING HUMAN CAPITAL

Social Health Insurance
Education Modernization

FOCUS AREA 3: SECURING SUSTAINABLE, RESILIENT, AND LOW CARBON GROWTH

North Aral Sea Dev and Revitalization
Landscape Restoration
Energy Efficiency

2. ESTABLISH QUALITY AND IMPLEMENTATION TRACKING

3. ESTABLISH CIVIL SOCIETY DIALOGUE PLATFORM WITH THE WBG

1. TRANSFORMATIONAL CE APPROACHES TO PROMOTE INCLUSIVE GROWTH - focused primarily on better CE in relation to the private sector engagements
Preparation of genuine and integrated citizen engagement platforms in support of the development and expansion of the private sector (WB and IFC)

For projects under preparation:

2. ENSURE CE MECHANISMS ARE INCLUSIVE of women and youth
3. ENSURE MULTIPLE CHANNELS + INTERFACE between citizens and government actors
4. IMPROVE QUALITY OF INDICATORS - actionable and measuring CE process

5. TRANSFORMATIONAL PLATFORM FOR CITIZEN ENGAGEMENT IN HEALTH
Implementation of the Social Health Insurance Project includes action at national (with civil society) and local level (with health centers) using in-depth CE instruments at the local level, and consultative platform for CSOs at the national level.

CONSIDER REPLICATION TO NEW EDUCATION MODERNIZATION PROJECT
Support for better schools in rural areas

6. TRANSFORMATIONAL PLATFORM FOR CITIZEN ENGAGEMENT IN CLIMATE CHANGE
Support existing and new operations to develop demand-side momentum (through awareness building, ideas platforms and direct engagement e.g. youth energy ambassadors) and launch activities engaging youth for climate action.

For projects under implementation:

7. SUPPORT PIU CAPACITY BUILDING, BETTER GUIDELINES to IMPROVE QUALITY OF IMPLEMENTATION
8. ENSURE 100% COMPLIANCE IN ALL WBG INSTRUMENTS
9. ENSURE STANDARDS FOR FREQUENCY, MULTIPLE CHANNELS etc.
10. IMPROVE PIU AND TASK TEAM REPORTING + PORTFOLIO REPORTING with Gov.

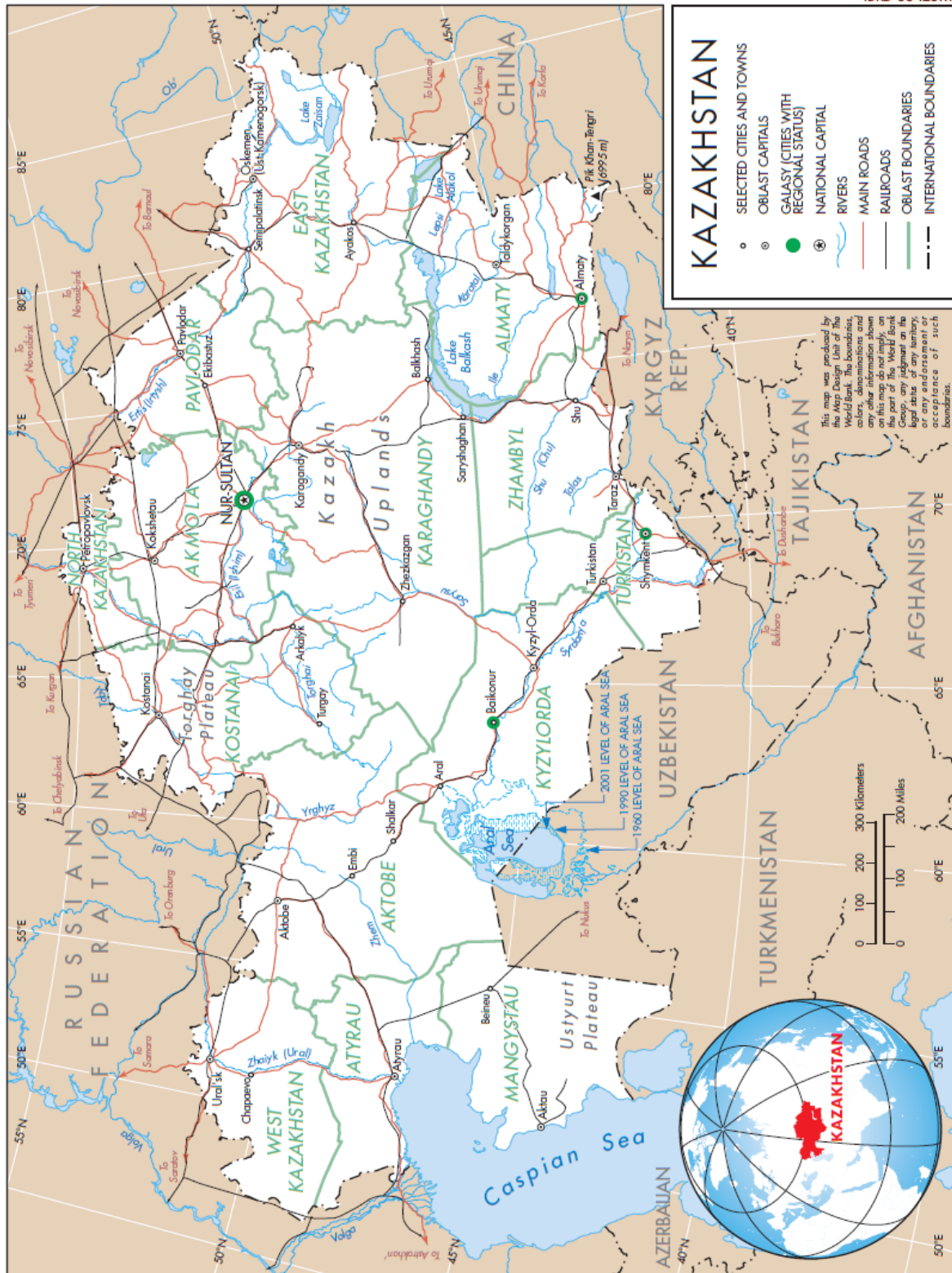
For WBG engagement

11. ESTABLISH CIVIL SOCIETY CONSULTATIVE GROUP for regular dialogue (CPF, PLR, DPLs) and specifically focus on public sector reforms (CC Objective 8)

MAINSTREAMING CITIZEN ENGAGEMENT IN CPF OBJECTIVES
SUPPORT COMPLIANCE, QUALITY AND IMPLEMENTATION OF CE IN SECTOR REFORMS AND IPFs

Annex 8. Kazakhstan Gender Roadmap

CPF FOCUS AREAS WITH HIGH IMPACT FOR GENDER EQUALITY		CONCRETE ACTIONS
CPF Objective 1: Strengthen Environment for Private Sector Development	<ul style="list-style-type: none"> • Tax Administration Reform • Justice Sector Institutional Strengthening • SME Competitiveness • MSME New Financial Products (potential new) • SCAL (potential new) • Microfinance 	<ul style="list-style-type: none"> • Support greater economic inclusion of women in the private sector • Support an enabling environment for women-owned and women-led enterprises • Support definition of sexual harassment and local accountability
CPF Objective 2: Promote Market-led Agriculture Transformation	<ul style="list-style-type: none"> • Sustainable Livestock Development (potential new) • Landscape Restoration (potential new) • IDIP2 • Restructuring Agriculture Subsidies • Support to Subnational Governments 	<ul style="list-style-type: none"> • Support greater economic inclusion, especially for excluded/vulnerable rural women • Enhance the role of women in the agriculture sector
CPF Objective 4: Enhance Relevance, Quality, Equity of Education and Skills Development	<ul style="list-style-type: none"> • Education Modernization • Fostering Productive Innovation • Skills and Jobs • Youth Corps • SCAL (potential new) • Skills, labor market • Innovation and productivity • Use of PPPs in education and training 	<ul style="list-style-type: none"> • Support greater economic inclusion by strengthening the link between skills and the labor market • Training SME entrepreneurs with special attention to youth and women • Monitor and report on changes in learning results through gender-disaggregated data
CPF Objective 5: Increase Access to Quality Health Services and Social Protection	<ul style="list-style-type: none"> • Social Health Insurance • Analytic work on increasing market incentives in Health, including private provision of services • Social Safety Nets and labor markets • Strengthening statistical capacity, including on poverty • Specific investments in private hospitals 	<ul style="list-style-type: none"> • Support universal health insurance to improve reproductive health • Support bridge to employment participation and worker mobility for women
MAINSTREAMING GENDER EQUALITY IN THE PORTFOLIO		
Develop a gender dimension in all WBG activities including the pipeline	<ul style="list-style-type: none"> • Systematic application of a gender equality filter to the whole portfolio and pipeline • Use the road map to improve efficiency and effectiveness of gender equality mainstreaming in the country portfolio • Track progress on gender equality across the portfolio and address it in reviews and the PLR by reporting on gender equality result indicators in relevant operations/CPF 	
Advocate gender equality with the Government, using all opportunities to engage	<ul style="list-style-type: none"> • Promote the gender equality filter as good practice with the Government and other development partners • Develop effective communication activities on gender equality, including capacity building of selected PIUs • Support the greater economic inclusion of women, youth, and marginalized groups 	





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