



Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 10-Oct-2023 | Report No: PIDC34673

BASIC INFORMATION

A. Basic Project Data



Project Beneficiary(ies) Kazakhstan	Operation ID P179204	Operation Name Kazakhstan Digital Acceleration for an Inclusive Economy (DARE) Project	
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date 14-Nov-2023	Estimated Approval Date 30-Sep-2024	Practice Area (Lead) Digital Development
Financing Instrument Investment Project Financing (IPF)	Borrower(s) Republic of Kazakhstan	Implementing Agency Ministry of Digital Development, Innovations and Aerospace Industry of the Republic of Kazakhstan	

Proposed Development Objective(s)

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

PROJECT FINANCING DATA (US\$, Millions)**Maximizing Finance for Development**

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

Is this project Private Capital Enabling (PCE)? Yes

SUMMARY

Total Operation Cost	136.00
Total Financing	136.00
of which IBRD/IDA	100.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**

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

Commercial Financing	36.00
Unguaranteed Commercial Financing	36.00



Environmental and Social Risk Classification

Moderate

Concept Review Decision

The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **The largest landlocked country in the world located at the crossroads of Europe and Asia, Kazakhstan, is a resource-rich, upper-middle-income economy that – prior to the Coronavirus (COVID-19) pandemic – demonstrated robust economic growth and poverty reduction but remained largely dependent on its natural resources and vulnerable to climate change.** Given its location between China and the Russian Federation as well as its growing economic ties to the European Union (EU), Kazakhstan lies at the heart of trade and investment opportunities linked to Eurasian connectivity. The country has vast natural resource wealth, being one of the world's most mineral-rich nations and among the top 15 in terms of oil reserves. It has been the economic success story of Central Asia, transitioning from a lower-middle-income to upper-middle-income status in less than two decades.¹ Its gross domestic product (GDP) per capita climbed from US\$5,292 in 2006 to US\$10,041.5 in 2021,² while the poverty rate fell from 36 to 12.4 percent over the same period.³ However, productivity growth in Kazakhstan has declined steadily over the past two decades, shifting to a contraction since 2010. As highlighted in the 2018 Kazakhstan Systematic Country Diagnostic (SCD) and the 2019 Productivity Country Economic Memorandum (CEM), this reflects the approaching limits of what an oil-dominated and export-oriented economy with little progress towards diversification can deliver. The underlying factors are also rooted in structural bottlenecks and a substantial presence of the state in the economy that stifle the private sector and impede enhanced competitiveness.^{4,5}

2. **Socioeconomic vulnerabilities have been exacerbated due to the COVID-19-induced crisis, domestic instability and the war in Ukraine, which have all had serious repercussions for Kazakhstan's economy.** As in most other countries, pandemic-related economic decline, augmented for Kazakhstan by disrupted global value chains and decreased international oil demand, has resulted in a negative real GDP growth of -2.6 percent in 2020, the first contraction in almost a quarter century. Reduced employment and lower earnings, particularly among already vulnerable groups, are estimated to have increased the poverty rate to 14 percent in 2020, resulting in as many as 1.5 million additional poor. The largest absolute increase in poverty occurred in rural areas (from 8 to 17 percent). The Government of Kazakhstan (GoKZ) responded to the pandemic with a substantial and targeted fiscal stimulus package worth US\$10 billion – that included

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

² GDP per capita (current US\$), as reported by the World Development Indicators based on World Bank national accounts data. Available at: <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=KZ>

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

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

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



increased spending on social protection, health, and education – supplemented by a robust liquidity provision of the Central Bank. Economic activity returned to pre-pandemic levels in 2021 with a real GDP growth of 4 percent driven by a rebounding economy, consumption growth, and supportive fiscal policy. However, overlapping and compounding global crises are likely to reduce growth to 1.5 percent in 2022. The poverty rate is expected to fall in 2022 but remain above pre-pandemic levels.⁶ Importantly, the country continues to face deep-rooted vulnerabilities, including wealth inequality, rising living costs, limited job opportunities and weak institutions, which prompted the largest protests in the country’s history in January 2022. Certain gender inequalities remain and, despite close to parity in educational attainment and health indicators, there continue to be gaps in labor force participation (63.3 percent for women versus 75.5 percent for men), estimated earned incomes and representation in high-level political posts, with Kazakhstan ranking 65th out of 146 countries in the 2022 Global Gender Gap Index.⁷

Sectoral and Institutional Context

3. **The total Kazakhstani ICT sector in 2021 is roughly estimated at US\$ 2.3 billion, representing 3 percent of GDP, heavily dominated by the telecommunications (telecom) and IT markets.** In non-oil GDP of Kazakhstan, ICT sector represents 4.2 percent⁸. Indeed, telecom and IT sub-sector account for 66 percent and 34 percent of the total ICT sector, respectively.⁹ The telecom sector has been liberalized with 589 registered telecom operators, 524 of them being active. Most of the players (208) are operating in East Kazakhstan region while only least 32 operate in South Kazakhstan. Kazakhstan’s approach to digitalization is strategically balanced but the country needs to accelerate efforts in areas where its digital performance is lagging. The “Technological Breakthrough through Digitalization, Innovation and Science” (TBDIS) national Project was adopted in November 2021 guides sectoral development. Until recently less advanced, telecommunications sector became a constraint to accelerating digital development efforts because of suboptimal performance towards achieving good quality broadband for all.

4. **On the supply side, Kazakhstan is facing significant broadband access problem.** National fixed high-speed broadband household penetration stood at 37,4 percent in 2022, which is over 28 percentage points (p.p.) below the regional average and slightly over a third of the level observed in countries with a similar GDP per capita.¹⁰ In relation to mobile internet, unique subscriptions per 100 inhabitants are also low (at 57 percent¹¹) 28.2 percent of the population (or 5.4 million people) lives in unserved or underserved areas, with, based on the Ookla’s internet quality analysis and Ministry of Digital Development, Innovations and Aerospace Industry (MDDIAI) data, nearly 775,000 people remaining unserved are concentrated in four regions: Akmola, South Kazakhstan, West Kazakhstan and East Kazakhstan. Affordability continues to be an issue, with Kazakhstan ranking 41st in the affordability subcategory of the 2022 Inclusive Internet Index by the Economist Intelligence Unit (EIU) – down from the 36th rank in 2020. A dedicated national broadband program was only adopted in 2023 recognizing broadband connectivity as a challenge. MDDIAI seeks to ‘eliminate digital inequality’ and improve broadband quality to ensure 100 Megabits per second (Mbps) internet connectivity for all households at affordable prices.

⁶ World Bank, 2022. Macro-Poverty Outlook for Kazakhstan. Available at:

<https://thedocs.worldbank.org/en/doc/d5f32ef28464d01f195827b7e020a3e8-0500022021/related/mpo-kaz.pdf>.

⁷ World Economic Forum, 2022. Global Gender Gap Report. Available at: https://www3.weforum.org/docs/WEF_GGGR_2022.pdf.

⁸ According to the Kazakhstan National Bureau of Statistics.

⁹ US International Trade Administration, 2022. Kazakhstan – Country Commercial Guide. Available at: <https://www.trade.gov/country-commercial-guides/kazakhstan-information-and-communication-technologies>

¹⁰ Telegeography, 2022. Global Comms Database. Available at: <https://www.telegeography.com/products/globalcomms/data/country-profiles/as/kazakhstan/kazakhstan.pdf>.

¹¹ Global System for Mobile Communications Association (GSMA) for 2022.



5. **The GoKz is working to improve telecommunications market's efficiency through several reforms.** With respect to the legal framework, the country's main telecom sector law was enacted in 2004¹² and is largely outdated compared to good international practices, albeit some reforms are being introduced.¹³ There is no independent sectoral regulator in Kazakhstan, as the telecom market is overseen by MDDIAI and its subordinate divisions (such as the Telecom Committee, the Information Security Committee, the Public Services Committee, and the State Radio Frequency Service) established in June 2019, collectively acting as a policymaker and sector regulator. In a context of state-backed operators dominating the fixed market (65.2-percent market share) and the mobile market (57.2 percent market share), improvements are focused on policy reforms having a significant impact on affordability and on pushing the market frontier.

6. **On the demand side, Kazakhstan has taken systematic actions to improve digital skills of the population and achieved substantial progress in this area.** "Digital Kazakhstan" State Program (DKSP) and its successor TBDIS included improvement of basic digital skills of the population among its key initiatives. A multi-agency digital literacy program implemented in Kazakhstan has covered such areas as basic digital skills, e-government services usage, open government, e-commerce, and cybersecurity skills. Approximately 1.53 million people were trained between 2018 and 2020. As a result, according to the National Bureau of Statistics, the level of digital literacy in Kazakhstan grew from 77.3% in 2018 to 85.3% in 2021, even though the situation varies across the regions, with the level of literacy ranging from 76.5% and 76.8% in North-Kazakhstan and West-Kazakhstan oblasts, respectively, to 94.6% in Astana¹⁴. In the Wiley 2021 Digital Skills Gap Index, Kazakhstan ranked 43rd out of 134 countries assessed globally and 24th out of 45 Europe and Central Asia countries¹⁵.

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

Relationship to CPF

8. **Consistent with the GoKZ's strategic priorities, the proposed Project is fully aligned with the World Bank Group (WBG) Country Partnership Framework (CPF) for Kazakhstan for the period FY20-25.**¹⁶ The proposed Project supports two CPF priority areas: (i) promoting inclusive growth; (ii) securing sustainable, resilient, and low carbon growth. Under CPF Focus Area 1 (Promoting Inclusive Growth) the proposed Project underpins Objective 1 (Strengthening Environment for Private Sector Development) and Objective 3 (Strengthening Connectivity Infrastructure and Regional Services Delivery for Better Local and Regional Integration) by supporting legal and regulatory reforms leveling the playing field in telecom, while improving digital connectivity and broadband service delivery.

C. Proposed Development Objective(s)

9. Support equitable access to high-quality and resilient broadband infrastructure in selected unserved and underserved areas of Kazakhstan.

Key Results (From PCN)

¹² Law of the Republic of Kazakhstan of July 5, 2004 No. 567-II "About communication" (as amended on 02.07.2020) ("Communications Law") (unofficial translation). Available at: <https://cis-legislation.com/document.fwx?rgn=6622>

¹³ For instance, the latest change introduced cross-sector infrastructure sharing provisions with the electricity sector.

¹⁴ Kazakhstan National Bureau of Statistics. Statistics of Information and Communication Technologies. Available at: <https://stat.gov.kz/official/industry/29/statistic/7>

¹⁵ Wiley, 2021. The Digital Skills Gap Index (GSGI). Available at: <https://dsgi.wiley.com/global-rankings/>

¹⁶ World Bank, 2020. Kazakhstan Country Partnership Framework for 2020-2025 (Report No. 143372). Available at: <https://www.worldbank.org/en/country/kazakhstan/publication/cpf-2020-2025>.



10. The achievement of the PDO could be measured by the results indicators below:
 - i. Household broadband penetration (% households that subscribe to high-quality broadband) in the Project areas, of which female-led households; - gender-related indicator.
 - ii. Newly built or upgraded broadband infrastructure that is resilient to climate-related hazards (%) – climate indicator.
 - iii. Number of beneficiaries satisfied with the quality of access to digital infrastructure, of which women (%) – CE indicator.

D. Concept Description

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

(1) Equitable access to digital infrastructure – deploying backhaul and access networks to households, businesses and public institutions in selected areas and equipping schools in such areas with relevant IT equipment and internal wiring. Matching grants will be provided to qualified ISPs.

(2) Improving 5G readiness of mobile infrastructure – deploying resilient, climate-friendly, and future-proof backhaul infrastructure to underserved mobile towers that could be shared by more than one operator. Matching grants will be provided to qualified MNOs.

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

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



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

Summary of Screening of Environmental and Social Risks and Impacts

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APPROVAL

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