Executive Summary

The Inclusive and Sustainable Economic Growth Program is a JPY-denominated Climate Policy-Based Financing (CPBF) in the amount of JPY62,364,000,000 (equivalent to USD 400 million) proposed to be extended to the Republic of Kazakhstan to support Kazakhstan's climate-aligned reforms under the World Bank (WB)-led Second Inclusive and Sustainable Economic Growth Development Policy Operation. Key policy actions include enabling small-scale distributed renewable energy, implementing electricity and heating tariff adjustments, tightening industrial energy efficiency norms, strengthening the Emissions Trading System (ETS), and enacting a new Water Code.

AIIB partnered with the World Bank to align and calibrate climate policy reforms. AIIB leveraged its sectoral expertise to assess the proposed reforms, which aim to create an enabling environment for private investment in Kazakhstan's energy infrastructure by removing barriers to participation in and modernization of RE. AIIB also draws on experiences from other countries to enhance its support, including by developing a fully functioning ETS.

AIIB's ESP and the Environmental and Social Exclusion List apply to the Program. AIIB carried out its assessment of the environmental and social impacts of the Program, drawing upon the analytical work of the WB, including an environmental and social impact analysis matrix prepared for specific policy actions.

The Program is expected to result in net positive environmental impacts through: increase in RE generation; energy efficiency through electricity and heating tariff reform; reductions in energy consumption and GHG emissions; improvement of the verification of emissions reporting, thereby contributing to a more effective achievement of the NDC; and improved water availability and sustained biodiversity through better management of water resources. The Program's social impacts are assessed to be neutral to positive, with transitional affordability risks mitigated through a strengthened social protection system.

Risks related to implementation capacity and potential policy reversals are mitigated by strong government ownership, ongoing policy dialogue, and careful political economy considerations. Technical assistance and advisory support to key counterpart institutions are being explored with the WB and other development partners.

The Program is Paris Agreement-aligned, with 100% of the financing classified as climate finance (83% mitigation, 17% adaptation).

Project No. and Name	P000999 Inclusive and Sustainable Economic Growth Program		
AIIB Member	Kazakhstan		
Borrower	Republic of Kazakhstan		
Guarantor	Not Applicable		
Project Implementation Entity	Ministry of Finance, Kazakhstan		
Proposed AIIB financing (USDm)	USD400.00	**Instrument type/subtype**	Loan/Direct Sovereign
		Currency of financing requested	Yen
Sector (Subsector)	Energy (Multi-subsector)	**E&S Category and Comments (if any)**	C
Project Objective	The program development objective is to support Kazakhstan's transition to a greener and more resilient economy through climate policy and institutional reforms in energy and water management.		
Project Description	Project Scope Kazakhstan is an upper-middle-income country and the largest economy in Central Asia. Kazakhstan is currently the 20th largest emitter worldwide of greenhouse gases (GHG) on a per capita basis, with electricity and heating accounting for 84 percent of overall emissions. Kazakhstan is among the top ten most energy-intensive economies, using three times as much energy per unit of output compared to the OECD average. Therefore, decarbonizing the economy is an urgent priority, and Kazakhstan has ambitious targets for addressing climate change, which require strong action. This includes scaling up the development of large-scale and distributed renewable energy, enabling the emission trading scheme to contribute to meeting the NDC, implementing tariff reforms in electricity and heating to remove energy subsidies, achieving full cost recovery, and strengthening energy efficiency. The proposed Program supports the GoK's climate-aligned reforms under the World Bank's (WB) 2nd Inclusive and Sustainable Economic Growth Development Policy Operation (DPO2). The reforms include several key areas: (i) facilitating a cleaner energy transition through developing small-scale distributed renewable energy, (ii) improving financial sustainability in electricity by enacting systematic electricity tariff adjustments in line with a new incentive-based methodology to achieve full cost recovery levels, (iii) reducing fossil-fuel subsidies in heating through tariff reforms, (iv) promoting energy efficiency to reduce the carbon footprint of the economy by implementing more stringent energy efficiency norms for the highest energy-intensive industrial enterprises, (v) strengthening emissions monitoring,		

	reporting, and verification to help meet the GoK's NDC, and (vi) enhancing water conservation and supporting climate adaptation by enacting a new Water Code which allows for water resource management on the basis of regulation permits. The Government of Kazakhstan has requested AIIB to provide co-financing in the amount of USD400 million to the Government's climate-related reform efforts under the DPO2, with the WB as the lead co-financier, contributing USD600 million. The Ministry of National Economy (MNE), in collaboration with the Ministry of Finance, coordinates the implementation of the actions supported by this operation. The main implementing agencies include the Ministry of Energy, the Ministry of Ecology and Natural Resources, and the Ministry of Industry and Construction, and the Agency for Protection and Development of Competition of the Republic of Kazakhstan. Institutional Arrangements The MOF is responsible for coordinating all reforms with relevant line ministries, including the Ministry of National Economy (MONE), the Ministry of Energy, the Ministry of Ecology and Natural Resources, the Ministry of Industry and Construction, and the Committee for Regulation of Natural Monopolies under MONE. Financing Modalities This is a single-tranche CPBF, supporting the government's climate-aligned reforms under the WB's Second Inclusive and Sustainable Economic Growth Development Policy Operation. Analytical Work The policy reforms supported by the CPBF are grounded in robust analytical work, primarily the World Bank's 2022 Kazakhstan Country Climate and Development Report (CCDR), which provides the foundational evidence base for all six prior actions, encompassing renewable energy deployment, electricity and heating tariff reforms, industrial energy efficiency, ETS strengthening, and water conservation, alongside complementary analyses including the WB's 2017 Energy Efficiency Transformation study for Astana and Almaty, the IMF's 2024 Financial Sector Assessment Program on climate-related risks, and outputs from the Supporting Kazakhstan in Climate Change and Environmental Action PASA (P179659). Operational support is further provided through WB's Kazakhstan Energy Sector Strategic Engagement (P180209) and the Partnership for Market Implementation (PMI) Trust Fund (USD4.8 million grant), which specifically targets ETS reforms, including auctioning, offset systems, and international mitigation outcome trading. Identified gaps include weak enforcement of climate policies, fragmented adaptation planning (no formally adopted National Adaptation Plan), limited private sector readiness, and incomplete emissions MRV systems. WB is also currently finalizing an ESF Overview Assessment evaluating Kazakhstan's environmental and social risk management capacity, which will inform future capacity-building efforts and support the

	design of a planned stand-alone CPBF. Progress Update on Reform Implementation All six prior actions under the Program have been completed.		
Implementation Period	Start Date: September 30, 2025 End Date: September 30, 2027	**Expected Loan Closing Date**	June 30, 2026
Co-financing type	Co-financing led by another financier	**Following other Financier's E&S Policy?**	No
Lead financier	World Bank	**Following other Financier's Procurement Policy?**	
Financing Plan	World Bank: USD 600 millionAIIB: USD 400 million		
Policy Assurance	The Vice President, Policy and Strategy, confirms an overall assurance that the proposed Bank Financing complies with the applicable Bank operational policies considering the requested derogation of the ESP.		

Risk	
Key Risks	**Mitigation Measures**
Institutional Capacity for Implementation and Sustainability	□ Key risks include challenges in stakeholder coordination and institutional capacity across numerous ministries and agencies, compounded by shifting political priorities, and influential interest groups. □ The World Bank Group (WBG, IFC, MIGA) is strengthening policy dialogue, leveraging analytical evidence, and collaborating with other international and local partners to build consensus and support more challenging reforms.
Institutional capacity to manage downstream environmental and social risks and impacts related to the future increase	□ The scaling up of investments in small-scale distributed renewable energy sources is expected to carry low to minimal downstream environmental risks. These risks are considered manageable under the government's Environmental Code, which mandates due diligence for all projects and ensures that environmental protection requirements are integrated throughout the design, construction, and operation phases of all facilities. The Ministry of Ecology and Natural

in renewable energy investments.	Resources is responsible for environmental regulation and enforcement, thereby ensuring that the expansion of distributed solar and wind energy is conducted in an environmentally sound manner, in alignment with Kazakhstan's environmental policies.
Macroeconomic risk	□ Kazakhstan's macroeconomic policy framework is adequate and well-aligned with sustained growth, macroeconomic stability, and debt sustainability. Debt is sustainable, and the country has built substantial asset buffers. A stabilization fund exists to manage oil revenues and mitigate oil price volatility. Some progress is being made with diversification, and the ongoing tax reforms should reduce reliance on oil. Authorities have also implemented fiscal rules to enhance sustainability, ensure counter-cyclical fiscal policy, and preserve room for development spending, although stronger enforcement of these rules would be beneficial.
Political, Policy, and Technical Design Risks	Kazakhstan continues to implement a robust and consistent political and institutional reform agenda. The Government has strengthened its commitment to enhancing the rule of law, fostering transparency and accountability, tackling corruption and vested interests in economic policymaking, and creating a more transparent and competitive landscape for market participants, with substantial political and public support.
ECap	30.69USDm 10.23%

Strategic Alignment	
Alignment with AIIB's thematic priorities	Green infrastructure
Alignment with AIIB's strategies	Sustainable Energy for Tomorrow Strategy

Key Outcomes			
Indicator	**Unit of measure**	**Baseline (Year)**	**Target (Year)**
MW of renewable energy from IPPs contracted through auctions and from distributed energy	MW	440 (2022)	2,500 (2026)
Number of emissions facilities reports being prepared under the new verification regulations	Number	0 (2023)	230 (2026)
Number of water permits issued in line with the new water resource management principles	Number	0 (2025)	75 (2027)

Climate Action		
Climate Finance	Adaptation Finance (USDm)	USD66.67
	Mitigation Finance (USDm)	USD333.33
	Dual Benefit (USDm)	USD0.00
	Total (USDm)	USD400.00

Other Key Financing Requirements	
Conditions of Effectiveness	
Key Conditions for 1st Disbursement	n/a
Key Covenants	n/a

President	Jiayi Zou
Chief Investment Officer	Konstantin Limitovskiy
Director General	Xiaohong Yang
Manager	Evren Dilekli
Project Team Leader	Emil Zalinyan
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ASIAN INFRASTRUCTURE INVESTMENT BANK

Climate Policy-Based Financing

Approval Program Document

P000999 The Republic of Kazakhstan: Inclusive and Sustainable Economic Growth Program

Currency Equivalents

(As of January 31, 2026)

Fiscal Year

January 1 to December 31

Conversions

Currency Unit –
KZT1.00 = USD0.00194
USD1.00 = KZT515.0

Abbreviations

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
CCDR	Country Climate Development Report
CPBF	Climate Policy-Based Financing
DPO2	World Bank's 2nd Inclusive and Sustainable Economic Growth Development Policy Operation
ETS	Emissions Trading System
ESP	Environmental and Social Policy (AIIB)
ES	Environmental and Social
FX	Foreign Exchange
GDP	Gross Domestic Product
GHG	Greenhouse Gas
IMF	International Monetary Fund
MDB	Multilateral Development Bank
MW	Megawatt
NDC	Nationally Determined Contribution
NDP	National Development Plan
PA	Paris Alignment
PBF	Policy-Based Financing
PFM	Public Financial Management
PMI	Partnership for Market Implementation
RE	Renewable Energy
SOE	State-Owned Enterprise
USD	United States Dollar
WB	World Bank

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1. Program Context

1.1 **Background and Development Constraints.** The Government of Kazakhstan aims for Kazakhstan to be among the top 30 high-income economies by 2050, as it transitions to a greener growth trajectory. Kazakhstan has grown rapidly over the last decades, with an average annual growth rate of 4.7% from 2006 to 2021, propelling the economy to achieve an upper-middle-income status and into becoming the largest in Central Asia. Its economic expansion was driven by domestic consumption and natural resources—albeit with limited diversification—and the energy source is mainly fossil fuel. This has led to emissions nearly doubling between the years 2001 and 2018, mostly from the electricity and heating sectors, which together account for more than 80% of overall emissions. Kazakhstan is the 20th-largest emitter worldwide per capita.[1]

1.2 Kazakhstan's key challenge is its stagnating economy, following the global financial crisis in 2008-2009. Declining productivity is a key issue, associated with the state's large footprint in the economy and the significant role of natural resources. The traditional fossil fuel-led growth model is no longer sufficient for Kazakhstan to meet its development aspirations. Private investment remains limited. There are also gaps in the regulatory environment that create uncertainty for investments. Going forward, to mitigate the impacts of risks related to the global low-carbon shift, Kazakhstan aims to transition its economy and energy supply away from fossil fuels. To do this, the government will need to address underinvestment in infrastructure, particularly in the power sector. Aging coal plants, grid bottlenecks, and regional imbalances limit Kazakhstan's ability to achieve its energy targets and renewable energy (RE) integration.[2]

1.3 **Climate Change Challenges and Vulnerabilities.** Amid this challenging economic backdrop, Kazakhstan is also already experiencing the adverse effects of climate change. Average annual air temperatures have been increasing by approximately 0.32°C per decade since the mid-20th century, faster than the global average. In 2020, Kazakhstan recorded an anomaly of 1.92°C above historical norms. Temperature extremes are becoming more frequent, with a growing number of days exceeding 35°C, particularly in the southern regions. Climate projections indicate further warming of 1.7–1.9°C by 2030, 2.4–3.1°C by 2050, and up to 6.0°C by 2100 under a high emissions scenario (Representative Concentration Pathway [RCP] 8.5), compared to 3.2°C under a moderate scenario (RCP4.5). Alongside increased winter precipitation, rising temperatures will intensify drought frequency and reduce snowpack and glacier mass in mountainous regions, thereby diminishing water availability. Since 2000, droughts of varying severity have affected over half of Kazakhstan's land area in two out of every five years. In parallel, more intense rainfall is triggering flash floods, mudslides and river overflows, while receding water levels in the Caspian Sea suggest the potential loss of coastline and ecosystem degradation. Compounding these risks are by Kazakhstan's

[1] Ranking is based on greenhouse gas (GHG) emissions, including land use, land use change, and forestry (LULUCF) in carbon dioxide (CO_2) equivalent terms per capita in 2018. World Bank (WB). 2022. Kazakhstan: Country Climate and Development Report. November.
[2] WB. 2022. Kazakhstan: Country Climate and Development Report (CCDR). November.

geographic profile, spanning forest-steppe to desert zones, and its structural water scarcity, making it especially vulnerable to climate variability and extremes.[3]

1.4 Water is one of the sectors most vulnerable to climate change in Kazakhstan. While glacial melt may temporarily increase flows in the east and south, long-term projections indicate significant nationwide declines, especially in the west and northeast, driven by rising temperatures, aridification and upstream withdrawals. This mounting water stress threatens agriculture, which consumes most of the water and is highly vulnerable to drought, reduced rainfall and extreme weather. In 2023, southern Kazakhstan declared a state of emergency due to a severe shortage of water needed for irrigation.[4] These changes will put pressure on critical water-dependent sectors, such as agriculture, water supply, industry, environment and energy. Addressing these challenges and enhancing water resilience are therefore central priorities of Kazakhstan's climate change adaptation agenda.

1.5 Kazakhstan is one of the top 20 per capita emitters globally.[5] It is the 15th-most energy-intensive economy in the world.[6] Kazakhstan contributes significantly to global GHG emissions, with annual CO_2-equivalent emissions reaching approximately 340 million tons in 2021, 3.5 times the global average per person.[7] The energy sector (power generation, heat, transport and oil/gas) accounts for roughly 80% of Kazakhstan's GHG emissions.[8] Since 2001, emissions have risen by 60%, driven by fossil fuel combustion in power generation, transport, and residential use. Road transport alone accounts for 84% of transport emissions, while residential energy consumption has increased more than fivefold since 2000. Kazakhstan's energy system is highly carbon-intensive due to its heavy reliance on coal and oil and limited use of cleaner energy sources.[9]

1.6 Kazakhstan has taken steps to achieve its climate goals with a growing set of policies over the past decade. The Strategy on Achieving Carbon Neutrality by 2060[10] and Kazakhstan's updated Nationally Determined Contribution (NDC 3.0),[11] submitted in 2025, underscore its commitment to a low-emissions and climate-resilient development pathway. NDC 3.0 adopts the Paris Agreement common timeframe of 2026–2035 and commits Kazakhstan to reduction in GHG emissions, including the LULUCF sector, by 17% below 1990 levels by 2035 on an unconditional basis, and up to 25% conditional on international support, including finance, technology transfer and capacity building. The NDC 3.0 integrates strengthened mitigation ambition with an expanded focus on adaptation and climate resilience, with particular emphasis on water scarcity, drought and flood risks and sustainable water resource management. Key climate-related initiatives of the government include the Concept for the Transition to a Green Economy (2013), the revised Environmental Code (2021), and

[3] Government of Kazakhstan, Ministry of Ecology and Natural Resources. 2023. Updated Nationally Determined Contribution of the Republic of Kazakhstan to the Global Response to Climate Change; WB and Asian Development Bank (ADB). 2021. Climate Risk Country Profile: Kazakhstan; WB. 2022. Kazakhstan: Country Climate and Development Report. November.
[4] Wawiernia, K. 2024. Kazakhstan Steps up to the Plate on Climate Change – Creating a Road Map for a More Sustainable Future. United Nations Development Programme (UNDP). Oct. 28
[5] Ranking is based on GHG emissions, including LULUCF in CO_2 equivalent terms per capita in 2018. WB. 2022. Kazakhstan: Country Climate and Development Report. November.
[6] Measured as carbon intensity of GDP as an average between 2014-2023, World Development Indicators (accessed May 2025).
[7] International Monetary Fund. 2024. Republic of Kazakhstan: Financial Sector Assessment Program-Technical Note on Climate-Related Risks and Financial Stability. April 24.
[8] Climate Action Tracker, Kazakhstan
[9] WB. 2022. CCDR. November.
[10] Government of Kazakhstan. 2024. Strategy of the Republic of Kazakhstan on Achieving Carbon Neutrality by 2060.
[11] Source: https://unfccc.int/sites/default/files/2025-11/NDC_Kazakhstan%203.0%20eng.pdf

the Emissions Trading System (ETS), which is identified under NDC 3.0 as Kazakhstan's core market-based mitigation instrument and is being progressively strengthened through enhanced measurement, reporting and verification (MRV) and declining carbon budgets. Sectoral efforts include the Renewable Energy Development Plan, the Energy Efficiency 2030 Roadmap, and the evolving green taxonomy.[12] However, implementation gaps remain due to weak enforcement, limited follow-through on policy measures, and resistance from vested fossil fuel interests. Adaptation efforts, meanwhile, remain nascent and fragmented, with no officially adopted National Adaptation Plan (NAP) to guide a coordinated national approach.

1.7 **Institutional Context**. Kazakhstan has made meaningful progress toward its climate ambitions by establishing climate targets and legal frameworks. However, achieving these ambitions depends on translating policy commitments into action, which in turn relies on an enabling institutional environment. Governance, coordination, and implementation challenges continue to complicate the translation of policy commitments into concrete action. Institutional fragmentation, varying incentives, the influence of vested fossil fuel interests, and weak mainstreaming of climate considerations into development and financial systems present ongoing areas for improvement. Addressing these structural aspects would help strengthen the sustainability of long-term commitments, support a smoother transition, and enhance resilience across vulnerable sectors.

(a) **Reducing fossil fuel dependence**. Kazakhstan's economic structure, which remains centered mainly on fossil fuel production and exports, presents governance challenges for advancing the climate transition. The power sector, comprising coal, oil, and gas industries, many of which have state participation, remains a key contributor to GDP and exports, yet accounts for nearly 80% of national emissions. As witnessed by many economies, vested fossil fuel interests continue to resist reforms such as fuel subsidy rationalization and carbon pricing. Despite the ambition of the ETS introduced in 2013, the mechanism has faced implementation challenges, including cap levels that at times exceed actual emissions, thereby limiting its regulatory impact. These factors may affect the pace of climate policy advancement, contribute to implementation delays, and increase exposure to transition risks associated with global decarbonization trends and mechanisms, including the Carbon Border Adjustment Mechanism (CBAM) of the European Union (EU).

(b) **Central coordination and governance gaps.** Kazakhstan's Ministry of Ecology, Geology, and Natural Resources (MEGNR) serves as the lead agency under the 2021 Environmental Code. However, effective cross-ministerial coordination continues to face challenges related to mandates, capacity, and institutional influence. Sectoral ministries pursue important initiatives—such as the Ministry of Energy's RE auctions targeting 15% RE by 2030—but a more substantial alignment with national climate targets and market instruments such as the ETS would enhance coherence. High-level bodies, including the Agency for Strategic Planning and Reforms, and core economic ministries such as the Ministry of National Economy and the Ministry of Finance, could play a more active role in integrating climate priorities into planning and budgeting processes. Strengthening interministerial coordination and policy ownership would

[12] Green Finance Platform. Green Taxonomy Kazakhstan.

support more consistent and effective implementation of Kazakhstan's climate commitments.

(c) **Weak private sector readiness and incentives for climate action.** Kazakhstan's progress toward its climate mitigation and adaptation goals is constrained by the limited capacity of the private sector to effectively contribute to the green transition. The prominent role of state-owned enterprises (SOEs) and specific market regulations can reduce competition and limit opportunities for innovation and investment by small and medium-sized enterprises (SMEs). The private sector currently accounts for about a quarter of national employment, below levels observed in some comparable fossil-fuel-based economies. Policy practices such as preferential treatment of SOEs in procurement, price controls, and domestic supply requirements may affect the competitiveness of low-carbon alternatives and constrain private-sector initiative. Furthermore, the current absence of comprehensive climate policy instruments, such as carbon pricing or emissions standards, may weaken incentives for firms to invest in green technologies. Strengthening policy clarity and coordination could help enhance private sector engagement in advancing Kazakhstan's climate goals.

(d) **Incomplete adaptation policy framework.** Kazakhstan has taken foundational steps to build its adaptation framework, including legal reforms and sectoral planning initiatives. The 2021 Environmental Code introduced a dedicated chapter on climate adaptation, designating MEGNR as the lead agency and outlining a phased approach that prioritizes sectors such as agriculture, water and disaster risk management. However, a fully adopted NAP is still pending, with current actions guided by interim instruments like the Draft Adaptation Roadmap, the 2021–2030 Green Economy Action Plan and new strategic planning projects under development. Water management is central to adaptation planning due to Kazakhstan's increasing vulnerability to glacial melt, aridification and declining water availability. While Kazakhstan is piloting Integrated Water Resources Management (IWRM) approaches in several river basins and water-related adaptation measures are integrated into the updated NDC, implementation remains fragmented. The newly adapted Water Code, signed into law on April 9, 2025, [13] represents a significant advancement in Kazakhstan's climate adaptation strategy.

1.8 **Sectoral Constraints.** Sectoral constraints present significant challenges for Kazakhstan's sustainable development and climate objectives. They stem from legacy infrastructure, institutional fragmentation, limited adaptive capacity and high emissions intensity. The following sections outline constraints in energy, transport, buildings and industry, and water.

(a) **Energy.** The energy sector, which generates 80% of Kazakhstan's GHG emissions, is central to achieving the 2035 NDC targets and 2060 net-zero goal. Legacy infrastructure designed around centralized coal-fired generation is outdated and unable to support large-scale integration of renewables. Cross-subsidization distorts energy pricing, discourages investment in clean energy and weakens utility finances. Industrial customers often leave the grid for self-generation, further weakening the

[13] Government of Kazakhstan. 2025. Water Code of the Republic of Kazakhstan, April 9, 2025, No. 178-VIII

financial viability of public utilities. A least-cost pathway for deep decarbonization requires synchronized transformation across power, industry, buildings and transport, supported by robust investment in grid modernization and storage. Despite having strong renewable potential, progress remains uneven, and implementation gaps—particularly in sector-specific energy efficiency, private investment mobilization and coal transition planning—pose significant risks to achieving climate goals on time.

(b) **Buildings and industry.** Kazakhstan's buildings and industrial sectors are major sources of energy-related emissions, together accounting for one-third of total GHG emissions. In buildings, outdated coal-based heating systems and poor insulation drive excessive energy consumption and local air pollution. Inefficient centralized coal-fired networks supply nearly 80% of urban heating, with average boiler efficiency at 40% and heat losses as high as 36%. Residential energy intensity remains high at 270 kilowatt-hours per square meter, more than double the average in Europe. Natural gas is being deployed as a transitional fuel in cities like Astana, Karaganda, and Akmola, improving air quality but risking the locking in of new fossil infrastructure. Decarbonization of buildings requires accelerating retrofitting of existing stock, electrifying heating systems and upgrading building codes. In the industrial sector, emissions are concentrated in heavy manufacturing, such as steel, aluminum and cement, where decarbonization technologies remain nascent. Unlocking emissions reductions will require energy audits, process optimization and early piloting of technologies such as carbon capture and storage (CCS) and green cement in energy-intensive subsectors like cement and steel.

(c) **Water.** Kazakhstan's NDC highlights that its water sector faces growing scarcity intensified by climate change, with projections that by 2040 available freshwater could satisfy only half of national demand, while irrigation networks lose about half of the conveyed water and on-farm practices remain inefficient. Historical gaps in permitting, ecological flow planning and digitized data systems compound these pressures, weakening the alignment between water use and adaptation goals and leaving flood and drought risk management fragmented.

1.9 **Government Strategies, Programs, and Priorities.** Despite complex cross-sectoral challenges, Kazakhstan is advancing an integrated approach to climate action, anchored in mitigation and adaptation. Guided by its enhanced NDC and the Strategy for Achieving Carbon Neutrality by 2060, the government is prioritizing energy system decarbonization, phasing out fossil fuel subsidies, and scaling up RE, aiming to reach 6.5 gigawatts (GW) by 2035. Cost-reflective tariff reforms in electricity and heating, alongside energy efficiency measures for buildings and industry, aim to reduce emissions and mobilize private investment. These reforms signal a strategic shift toward low-carbon and climate-resilient development. The new Water Code establishes key guiding principles for climate adaptation, including articles on general approaches to adaptation, flood adaptation and avoidance measures, prevention and management of the harmful impact of waters and measures for adaptation to the effects of droughts and the prevention of artificial droughts.

1.10 The proposed Program supports Kazakhstan's transition to a greener and more resilient economy by advancing key reforms in energy and addressing some of the sectoral and cross-

sectoral constraints discussed above. It promotes RE scale-up through legal changes enabling small-scale distributed generation, improved auction systems and clearer grid access rules supporting small-scale solar generation. It strengthens energy efficiency measures for high-consuming sectors by introducing stricter norms and monitoring systems in industry and public buildings. It also enhances water conservation and supports climate adaptation by ensuring the new water permits are associated with a water conservation plan aligned with national adaptation goals.

2. Program Description

A. Program Overview

2.1 **Development Objectives.** The Program development objective is to support Kazakhstan's transition to a greener, more resilient economy through climate policy and institutional reforms in energy and water management. The Program is aligned with the goals of: (a) the Low Emissions Development Strategy (LEDS) of the Republic of Kazakhstan, which was adopted in February 2023 and aims to reduce GHG emissions by 15% by 2030 and attain carbon neutrality by 2060 and (b) the 2025 Kazakhstan's NDC 3.0 commitment to reduce net GHG by 17% below 1990 levels by 2035 on an unconditional basis, and up to 25% with international support (conditional). NDC 3.0 places greater emphasis on adaptation implementation, including strengthening water governance, improving resilience to droughts and floods and integrating climate risk considerations into sectoral planning. The update covers major economic sectors, such as energy, industry, agriculture, land use/forestry and waste. In its 2025 NDC, Kazakhstan also reaffirms its long-term goal of carbon neutrality by 2060.[14] The Program will also contribute to the second and fourth components of the National Development Plan (NDP) 2029 of the Republic of Kazakhstan. The NDP 2029 has four components:

(a) High Quality of Life (healthcare, education and science, social protection, and a comfortable living environment).
(b) A Strong Economic Foundation (mineral resource base: oil and gas, metals and other minerals, energy, and manufacturing).
(c) New Growth Points (transport and logistics, agro-processing and irrigation, innovation, digital and creative economy, and tourism).
(d) Cross-Cutting Economic and Social Transformations (including the creation of a dynamic entrepreneurial environment, enhancing environmental sustainability through the ETS, and ensuring effective public finance through procurement).

2.2 **Scope and Eligibility**. The Program supports the government's climate-aligned reforms under WB's USD600 million Second Inclusive and Sustainable Economic Growth Development Policy Operation (DPO2). WB's DPO2 aims to help Kazakhstan transition toward a greener and more inclusive economy, with more competitive markets, by implementing three Pillars of reforms that build on earlier reforms undertaken under DPO1.[15] Pillar 1 operationalizes climate mitigation-aligned recommendations from the Country Climate

[14] Source: https://unfccc.int/sites/default/files/2025-11/NDC_Kazakhstan%203.0%20eng.pdf
[15] Inclusive and Sustainable Economic Growth Development Policy Operation, 24 January 2024. https://documents1.worldbank.org/curated/en/099013124094518216/pdf/BOSIB136c3bbf20501b10e11342fcbaadc1.pdf

and Development Report (CCDR); [16] Pillar 2 supports more competitive markets and transparent procurement practices; and Pillar 3 focuses on inclusion and regional development, including climate change adaptation. The reforms under AIIB's Program include several key areas across DPO2: (a) facilitating a cleaner energy transition through developing small-scale distributed renewable energy; (b) improving financial sustainability in electricity by enacting systematic electricity tariff adjustments in line with a new incentive-based methodology to achieve full cost recovery levels; (c) reducing fossil-fuel subsidies in heating through tariff reforms; (d) promoting energy efficiency to reduce the carbon footprint of the economy by implementing more stringent energy efficiency norms for the highest energy-intensive industrial enterprises; (e) strengthening emissions monitoring, reporting, and verification to help meet Kazakhstan's NDC and (f) enhancing water conservation and supporting climate adaptation by enacting a new Water Code which allows for water resource management based on regulation permits.

2.3 **Proposed Financing**. The government requested that the Asian Infrastructure Investment Bank (AIIB) provide a Japanese yen-denominated Climate Policy-Based Financing in the amount of JPY62,364,000,000 (equivalent to USD400 million) in parallel co-financing to the government's climate-related reform efforts under the DPO2, with WB as the lead co-financier for the operation. AIIB and WB will provide separate, parallel financing for the agreed reform agenda. Funds will be disbursed separately under each financier's rules. As the lead co-financier for this operation, the World Bank led the policy dialogue with the government on the reform agenda. AIIB and the World Bank maintained a close dialogue and cooperated on all climate-related actions. AIIB will continue to collaborate closely with WB, leveraging WB's analytical work and assessments to inform AIIB's own assessment, project design and financing decisions.

2.4 **Strategic Fit for AIIB.** The Program is in line with AIIB's Articles of Agreement, meets the eligibility criteria for Climate Policy-Based Financing (CPBF), supports the Bank's Corporate Strategy and contributes to its climate financing. The Program is consistent with AIIB's mandate and thematic priority to promote Green Infrastructure. It aims to facilitate the development of distributed RE by enabling transparent and competitive third-party grid access and priority offtake for privately driven distributed RE generation. The Program aligns with AIIB's Energy Strategy by supporting Kazakhstan's transition to a cleaner energy system (Principle 2) and helping it realize its energy efficiency potential (Principle 3). It is also consistent with AIIB's Water Strategy by embedding sustainable, integrated resource management through permit-based governance tied to conservation plans, mandating ecological flows and digital data systems, and enhancing resilience.

2.5 **Paris Alignment and Climate Finance.** Based on the joint multilateral development bank (MDB) methodological principles for Paris Agreement Alignment for Policy-based lending, the Program is aligned with the objectives of the Paris Agreement. The prior actions (PAs #1–#6) are not expected to increase GHG emissions/create carbon lock-in or undermine climate resilience. Instead, they enable Kazakhstan's low-emissions transition by promoting distributed renewable generation (PA#1), removing fossil-fuel subsidies and introducing cost-reflective electricity and heating tariffs (PA#2 and PA#3), tightening industrial energy-efficiency standards (PA#4), strengthening the ETS through emissions caps and enhanced

[16] WB. 2022. Kazakhstan CCDR. November.

verification framework (PA#5), and enhancing resilience to water scarcity through the Water Code Reform (PA#6), which embeds adaptation measures such as flood and drought management, ecological-flow maintenance, and mandatory water-conservation plans. In addition, efforts were also made to ensure that the proposed reform Program is not exposed to material physical climate risks which may undermine the achievement of its development objectives. Accordingly, the Program is considered aligned with the mitigation (BB1) and adaptation and resilience (BB2) goals of the Paris Agreement, with 100% of total AIIB financing (equivalent to USD400 million) classified as climate finance, with 83% (equivalent to USD333.33 million) for mitigation and 17% (equivalent to USD66.67 million) for adaptation.

2.6 **Value Addition by AIIB.** Beginning October 2024, AIIB began an upstream dialogue with the government to foster long-term engagement on Kazakhstan's climate policy reforms. To strengthen this effort, AIIB partnered with WB to align policies and combine AIIB's sectoral expertise—calibrating policy measures and ensuring the climate compatibility of priority reforms—so engagement is coherent and effective. The proposed reforms, informed by AIIB's regional experience in energy across Central Asia and beyond, are designed to create an enabling environment for private investment in Kazakhstan's energy infrastructure by removing barriers to renewable energy participation and modernization. AIIB also brings considerable experience with leveraging private sector investment in the region – including in Kazakhstan – through its non-sovereign operations in the energy, transport, telecommunications, and health sectors. This experience can help inform the design of the enabling environment supported under the Program. This joint approach with WB supports a sustainable, resilient energy transition and fosters growth through greater private sector involvement. At the same time, the partnership with WB reinforces the MDBs' push to implement more challenging reforms, including steps toward an ETS. AIIB brings lessons from other CPBFs, particularly Brazil, where the Bank is supporting the launch and implementation of an ETS; and Uzbekistan, where reforms are enabling greater investments in RE and energy efficiency. AIIB can leverage its ongoing involvement on the Brazilian ETS to complement WB's existing assistance to the Government of Kazakhstan (through the Partnership for Market Implementation (PMI) Project),[17] to enable a fully functioning ETS.

2.7 **Value Addition to AIIB.** On Sep. 2, 2025, AIIB and the government signed a Memorandum of Understanding (MOU) establishing a Multi-Year Rolling Pipeline (MYRP) comprising 14 projects with an aggregate value of up to USD6 billion for infrastructure investments from 2025 through 2029. Of the 14 projects in the MYRP, nine are in the transport sector, two are in social infrastructure, two are CPBFs (which include this operation and a future stand-alone CPBF), and one in the energy sector (large hydropower). This proposed CPBF provides an opportunity for sustained policy dialogue with the government to inform updates to the Bank's MYRP and to link policy reform with downstream financing and private capital pathways. Conversely, the MYRP can help reveal gaps in Kazakhstan's enabling environment for infrastructure investments. The CPBF can be a powerful tool to address deficiencies in the enabling environment for the sectors in the pipeline. The Program, in

[17] As a background on WB's engagement on Kazakhstan's ETS, the Ministry of Ecology and Natural Resources, in collaboration with Zhasyl Damu JSC (the ETS operator), and with WB support, launched the Partnership for Market Implementation Project (PMI). WB's PMI Trust Fund has allocated a grant of USD4.8 million to Kazakhstan for the project to be implemented by June 30, 2028. The PMI Trust Fund helps governments develop, test, and implement pricing instruments in line with their development priorities. The PMI project in Kazakhstan will help strengthen the effectiveness of the its ETS and support carbon pricing expansion to contribute to Kazakhstan's updated 2030 NDC targets and 2060 carbon neutrality goals. WB. Kazakhstan Partnership for Market Implementation; WB. 2025. New Partnership Supported by the World Bank to Help Shape the Future of Kazakhstan's Carbon Market. March 27.

particular, supports the growing and sustained private sector participation and financing in Kazakhstan's renewable energy sector, where AIIB is acting as an investment mobilizer. The MYRP can also serve as a platform to sequence downstream investments and sustain policy-investment linkages beyond this operation, with consideration of the proposed stand-alone CPBF in the making. For example, AIIB can work with the government to identify bankable investments that will generate emission reductions or tradable credits to support ETS implementation and carbon market development. These projects can be part of the MYRP updates, thus shaping AIIB's future pipeline and enhancing its reform-to-investment linkages. This Program also serves as a crucial initial step toward AIIB's more comprehensive dialogue with Kazakhstan on climate reforms, potentially anchored in a future stand-alone CPBF, as well as downstream opportunities for the Bank to support Kazakhstan's energy infrastructure. The proposed Program also enhances AIIB's internal capacity and reinforces its relationship with the government.

2.8 **Lessons Learned.** AIIB's engagement in Kazakhstan over the last five years, as well as the Bank's experience in other CPBFs, yielded several key lessons. AIIB previously co-financed two policy-based loans under the AIIB COVID-19 Crisis Recovery Facility (CRF) in Kazakhstan in 2020 and 2023. Additionally, the Bank approved three energy projects in Kazakhstan through non-sovereign-backed financing. The knowledge and experience gained from these projects greatly enhanced AIIB's understanding of Kazakhstan's development landscape and the specific challenges faced in the energy and other sectors. Lessons from previous policy-based financings (PBFs), together with CPBFs in Egypt (co-financed with WB), Uzbekistan (one co-financed with ADB and another one with WB), and Bangladesh (also co-financed with ADB), underscored the importance of utilizing analytical work and technical assistance to inform the policy dialogue. The effectiveness of PBFs is closely tied to strong analytical frameworks that guide the selection of policy actions and priorities. Reform programs rooted in robust analytical foundations tend to achieve better outcomes. Another key lesson is the significance of ownership and commitment from the member to sustain the reforms initiated through PBFs and reduce the risk of policy reversals. Under the Bank's CPBFs in Brazil and Uzbekistan, recently approved by the Board in October 2025 and November 2025, respectively, a key lesson is that the CPBF instrument can be effectively leveraged to advance climate-aligned reforms while unlocking markets and mobilizing private investment. The energy sector reforms, for instance, can catalyze the mobilization of private capital for green and low-carbon projects. This creates an impactful CPBF that unlocks private capital to flow into Kazakhstan's climate and other development priorities. Collaboration with the International Monetary Fund (IMF) and other MDBs was regarded as instrumental in reinforcing support for essential policy changes. The proposed Program builds on these lessons and benefits from the analytical work conducted by the World Bank and other institutions.

B. Policy Actions, Results and Sustainability

2.9 **Reform Areas, Prior Actions, Expected Results, and Analytical Underpinnings.** Reforms in the proposed Program support Kazakhstan's gradual transition toward a greener and more resilient economy. The energy system is currently highly dependent on fossil fuels, with approximately 70% of electricity generated from coal and serving as the primary energy source for residential heating. Decarbonizing the energy sector is critical for achieving the

government's climate goals and supporting a more diversified economy, consistent with the updated NDC and NDP. The Program supports scaling up distributed RE, developing cost-reflective tariffs in electricity and heating to reduce subsidies and increase investments, and strengthening energy efficiency. It also enhances water conservation and supports climate adaptation, aligned with national adaptation goals.

2.9.1 **Prior Action 1: Facilitating a cleaner energy transition through increasing renewable energy.** To further enable RE in Kazakhstan, the government has allowed transparent and competitive third-party access to privately driven distributed RE generation through amendments to the Law on Renewable Energy[18] and other regulatory framework amendments.[19]

(a) **Rationale:** Accelerating the deployment of RE is crucial for achieving carbon neutrality in the power sector and for establishing a more diversified energy mix. Kazakhstan possesses significant untapped RE generation potential that is competitive with conventional coal and gas technologies as abatement costs rise. To achieve carbon neutrality, the share of solar and wind in the total power mix must increase from 4% in 2022 to 72% by 2060, through both centralized and decentralized RE solutions.[20] Decentralized RE solutions are essential for increasing RE generation because they broaden participation, enable faster installation, and make full use of local energy resources. In Kazakhstan, the development of decentralized solutions, small-scale distributed RE, is at an early stage. The government wants to expand its development and has therefore, initiated a series of reforms to increase small-scale distributed RE projects.

As a background, the government's long-term energy generation plan targets adding 6.5 GW of RE capacity by 2035. Annual additions fell from 850 megawatts (MW) in 2018 to 90 MW in 2021. The decline resulted from the lack of long-term planning, sector risks, fossil fuel subsidies and bankability issues in the auction system, all of which affected private investment decisions. To turn this situation around, the government enhanced the bankability of RE auctions to enable private investments, by incorporating foreign-exchange risk-mitigation options into renewable electricity tariffs and raising the maximum ceiling cap price for auction tariffs. This attracted around USD1.2 billion in investments, reducing auction tariffs by 50% for solar and 67% for wind projects.[21]

[18] Government of Kazakhstan. 2024. Law of the Republic of Kazakhstan No. 96- VIII dated June 19, 2024 on "Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan on Issues of Supporting the Use of Renewable Energy Sources and Electric Power Industry."

[19] Other amendments to the regulatory framework include: (a) Approval of the Rules for Connection to Electric networks by small-scale renewable energy facilities through Order of the Minister of Energy of the Republic of Kazakhstan No. 349 dated Sep. 30, 2024, "On Approval of the Rules for Connection to Electrical Networks and Operation of Small-Scale Facilities;" (b) Amendments to the Rules for Purchase from Net-Consumers through Order of the Acting Minister of Energy of the Republic of Kazakhstan No. 328, dated Sep. 19, 2024 "On Amendments to the Order of the Minister of Energy of the Republic of Kazakhstan No. 309 on "Approval of the Rules for the Purchase and Sale of Electricity from the Net-Consumers;" and (c) Approval of the standard PPA for net-consumers through Order of the Minister of Energy of the Republic of Kazakhstan No. 350 dated Sep. 30, 2024 "On Approval of a Standard Contract for the Purchase and Sale of Electric Energy from Net-Consumers."

[20] WB. 2022. Kazakhstan CCDR. November.

[21] Total investments were estimated based on data from the IRENA Renewable Cost Database, which indicate that the global weighted average installed cost was USD1.154 million per MW for onshore wind and USD0.758 million per MW for utility-scale solar PV for projects commissioned in 2023. RE auctioned volumes were 480 MW in 2023, 560 MW in 2024, and 90 MW in 2025.

The government is now further enhancing the enabling environment for small-scale distributed RE systems to meet targets and create a more resilient and diversified energy landscape. Clear rules for connecting and operating these facilities are essential for net consumers and energy transmission organizations. To scale up the RE market, the government is reforming legislation to facilitate the development of small-scale distributed RE projects. The proposed Program supports this objective by amending the "Law on Supporting the Use of Renewable Energy Sources," aiming to accelerate small-scale distributed RE on a non-discriminatory basis to encourage private sector participation. Key amendments include defining "small-scale renewable energy facility," enhancing project viability by increasing maximum capacity from 100 to 200 kilowatts (kW), improving market entry by simplifying market requirements, removing interconnection barriers by mandating free grid access for net consumers and lowering transaction costs while ensuring predictable integration through developing clear connection rules and standard contracts to enhance transparency for integrating small-scale renewables into the grid.[22]

(b) **Significance of the Prior Action:** Prior to the amendments, Kazakhstan's RE law covered mainly large RE generators that sell the power they produced into the grid via auctions or feed-in tariffs. The prior action enables the expansion of small-scale decentralized distributed RE by recognizing small-scale generators in the law, including households and SMEs. By doing so, the prior action enables these small-scale, decentralized producers to become active participants in Kazakhstan's clean energy and green transition. It also opens the door to net metering-like arrangements.

(c) **Expected Results:** The reform is expected to increase the sourcing of RE in Kazakhstan's energy generation system. This is expected to be reflected in an increase in private sector-driven RE generation (developed by Independent Power Producers (IPPs) contracted through auctions and by net consumers through distributed energy generation) from 440 MW in 2022 to 2,700 MW in 2027.

2.9.2 **Prior Action 2: Improving financial sustainability in the electricity sector through tariff reforms.** To remove energy subsidies and strengthen the tariff framework, the government has adopted systematic electricity tariff adjustments in line with the new methodology to achieve full cost recovery levels as evidenced by the Committee for Regulation of Natural Monopolies. [23]

(a) **Rationale:** Kazakhstan ranks among the top 15 economies with the largest fossil fuel subsidies, which are incompatible with a low-carbon transition, and thus require their phasing out. The electricity sector relies heavily on fossil fuels, with fuel subsidies estimated at 2.2% of GDP in 2023, one of the highest among peer fossil-fuel-producing economies.[24] Regulated retail electricity tariffs in Kazakhstan fall

[22] The law allows for third-party access for privately driven distributed RE generation, which refers to individuals or entities that can connect their small-scale RE facilities to the grid, use the electricity they produce and sell any surplus to the grid without needing to register as entrepreneurs. Energy supply organizations must offer standard contracts and ensure transparent procedures for connection, metering and payment, making it easier for private actors to participate in the energy market.
[23] Letter issued by the Committee for the Regulation of Natural Resources of the Ministry of National Economy, dated Jan. 27, 2026, as updated by the letter dated Jan. 30, 2026.
[24] Estimation of explicit fossil fuel subsidies in the electricity sector. Total explicit fossil fuel subsidies are estimated at 6%. International Energy Agency (IEA), 2023 (most recent value available), data extracted in January 2026.

short of actual costs and investment needs, with average cost recovery estimated at 85% in 2022, with residential rates in some regions up to seven times lower than those for other categories. Public institutions cover the resulting gap through cross-subsidization, which weakens the sector's financial sustainability. To address this, the government approved the framework for a new incentive-based tariff methodology[25] in 2023. The incentive-based methodology sets electricity tariffs for a five-year period using a Regulated Asset Base (RAB) multiplied by the weighted average cost of capital (WACC). The methodology distinguishes between controllable and uncontrollable expenditures and incorporates allowances for efficiency savings based on meeting industry-specific key performance indicators (KPIs). In contrast, the previously prevailing "cost-plus" approach to tariff setting provided limited incentives for companies to enhance their operational efficiency or invest in asset development. The new incentive-based methodology provides greater revenue certainty, which is expected to encourage investments in modernizing the electricity network, reducing asset wear and energy losses, optimizing operating costs and increasing efficiency. The incentive-based methodology also provides financial incentives in the form of higher returns for increased investment, automatic adjustments to account for uncontrollable cost changes, and rewards for improving service quality.

Tariff rates for residential and non-residential consumers were adjusted in 2022 and 2023 to reduce cross-subsidies. Further progress in enhancing the electricity sector's financial sustainability requires the government and private regional distribution companies to systematically adjust tariffs in line with the new methodology to achieve full cost recovery. The proposed reform supports implementing tariff adjustments across regions to move toward cost recovery, while applying the cost-plus approach in some segments during the transition to the new methodology. Adequate pricing promotes efficient energy use, encourages RE development, and improves the sector's ability to address climate change impacts. The proposed reform supports the expanded implementation of the new tariff methodology, and the associated tariff increase for all consumers to achieve full cost recovery. This approach will standardize and streamline tariff-setting, encouraging companies to transition to the incentive-based methodology while maintaining flexibility.

As of January 2026, all 17 regional electricity distribution companies had rolled out new tariffs nationwide. Of the 17 companies, four fully applied the incentive-based methodology, while the remaining 13 raised their tariffs using the cost-plus approach, and simultaneously addressed adoption barriers to adopt the incentive-based methodology.[26] Based on systematic tariff adjustments using the new methodology and a cost-plus approach in some segments, by June 2025, average cost recovery levels for regional electricity distribution companies had reached 99%. Nonetheless, the full implementation of the incentive-based methodology is critical for sustaining cost recovery levels and strengthening incentives for efficiency.

[25] The incentive-based methodology for electricity was developed with assistance from WB and the Energy Sector Management Assistance Program (ESMAP) under the Kazakhstan Energy Sector Strategic Engagement (P180209).
[26] To fully implement the incentive-based methodology, private electricity distribution companies must meet certain criteria such as: (i) measuring and reporting key performance indicators, which is often unfulfilled as data quality and management are weak; (ii) implementing appropriate accounting systems to monitor cost changes and applying annual automatic adjustments; and (iii) establishing an investment program for the approval of the Committee for the Regulation of Natural Monopolies.

(b) **Significance of the Prior Action:** The prior action promotes a cost-recovery regulatory framework for the electricity sector. In doing so, the prior action helps enhance the financial viability of the electricity sector and sends price signals that encourage energy efficiency, which lowers overall energy demand and therefore, the associated GHG emissions. The expanded adoption of the new methodology by regional electricity distribution companies aims to sustain cost recovery levels while enhancing operational and financial efficiency. The government intends for the incentive-based approach to become prevalent and aims to standardize it for tariff setting, as regional electricity distribution companies improve their readiness to transition to the new methodology by addressing various adoption barriers through the implementation of DPO2.

(c) **Expected Results:** Systematic electricity tariff adjustments, including through the adoption of the new tariff methodology approved in 2023, are expected to result in full cost recovery. Electricity tariffs for all regional distribution companies are expected to be adjusted in line with the methodology to achieve and sustain full cost recovery, increasing from 85% in 2022 to 100% by 2026. As knowledge and experience with this new methodology increases, all electricity distribution companies are expected to gradually adopt the incentive-based methodology by addressing the adoption barriers.

2.9.3 **Prior Action 3: Reducing fossil fuel subsidies in heating through tariff reforms.** To remove energy subsidies and strengthen the tariff framework, the government has adopted systematic heating tariff adjustments in line with the new methodology to achieve full cost recovery levels as evidenced by the Committee for Regulation of Natural Monopolies Letter.[27]

(a) **Rationale:** Kazakhstan faces extreme weather, requiring substantial energy for heating and cooling. In 2020, buildings accounted for 20% of energy-related GHG emissions, primarily for heating and cooling. Heating of residential and commercial buildings is provided mainly by state-owned plants through centralized networks in large cities, with 80% of the plants powered by coal. Fossil-fuel subsidies have kept heating tariffs artificially low, averaging only at 70% cost recovery in 2022. Ad hoc tariff increases have hindered sector investments, leading to recent heating emergencies. Gradually removing subsidies and achieving full cost recovery in the heating sector is essential to enhancing financial and operational efficiency, promoting energy security and supporting decarbonization.

To enhance the heating sector’s financial and operational efficiency, the government is implementing a new tariff-setting methodology to ensure gradual tariff adjustments and achieve full cost recovery by 2026. Kazakhstan's heating sector tariff principles have been aligned with those of the decentralized electricity sector, resulting in varied tariffs across consumer groups and regions.

[27] Letter issued by the Committee for the Regulation of Natural Resources of the Ministry of National Economy, dated Jan. 27, 2026, as updated by the letter dated Jan. 30, 2026.

The heating supply chain, dominated by private companies, provides heating services to retail consumers at regulated tariffs. The government introduced an incentive-based tariff methodology in 2023 to encourage investments in modernizing the heating network, reducing asset wear and energy losses, optimizing operating costs, and increasing efficiency. While the government regulates tariffs, private companies are not mandated to adopt the new methodology, and not all will transition immediately.

The government intends for the incentive-based approach to become prevalent and aims to standardize it for tariff setting, but companies may face adoption barriers. The proposed Program supports the expanded implementation of the new methodology and the associated tariff increase for all consumers to achieve full cost recovery. Between 2023 and 2025, the government systematically adjusted heating tariffs, enabling heating companies to reach an average cost recovery level of 93% by June 2025. As of June 2025, two heating companies have fully applied the new incentive-based methodology, while the remaining 20 companies have adjusted their tariffs using the previously prevailing cost-plus approach while simultaneously addressing adoption barriers for the incentive-based methodology.[28]

(b) **Significance of the Prior Action:** Similar to the electricity sector, the government is implementing heating tariff adjustments to achieve cost recovery in line with the new incentive-based tariff methodology. Cost recovery will lead to the sector's financial and operational efficiency and send price signals that encourage energy efficiency. The latter will lead to lower overall energy demand, and therefore, lower associated GHG emissions.

(c) **Expected Results:** Systematic heating tariff adjustments are expected to result in full cost recovery, supported by the adoption of the new tariff methodology in 2023. Heating tariffs are expected to achieve full cost recovery, increasing from 70% in 2022 to 100% by 2026. As knowledge and experience with this nascent methodology increase and as adoption barriers are overcome, heating companies are expected to gradually adopt the methodology in the coming years, given the associated financial incentive promoting its adoption.

2.9.4 **Prior Action 4: Promoting energy efficiency to reduce the carbon footprint of the economy.** To enhance energy efficiency, the government has adopted more stringent standards and energy-saving requirements by tightening energy efficiency targets for the first-tier highest energy-intensity consumers as evidenced by Order No. 322 on Amendments to the target indicators for energy efficiency.[29]

(a) **Rationale:** Kazakhstan ranks among the world's most energy-intensive economies and promoting greater energy efficiency will yield cost savings and reduce emissions

[28] To fully implement the incentive-based methodology, heating companies must meet certain criteria such as: (a) measuring and reporting key performance indicators, which is often unfulfilled as data quality and management are weak; (b) implementing appropriate accounting systems to monitor cost changes and applying annual automatic adjustments; and (c) establishing an investment program for the approval of the Committee for the Regulation of Natural Monopolies.

[29] Order of the Acting Minister of Industry and Construction of the Republic of Kazakhstan No. 322 dated Sep. 10, 2024 "On Amendments to the Order of the Acting Minister of Industry and Infrastructure Development of the Republic of Kazakhstan No. 663 dated Nov. 29, 2022 on "On Establishment of Target Indicators for Energy Efficiency for Entities of the State Energy Registry Consuming Energy Resources in a Volume Equivalent to Fifty Thousand or More Tons of Standard Fuel per Year."

intensity. Kazakhstan's economy uses three times as much energy per unit of GDP (in purchasing power parity terms) as the Organisation for Economic Co-operation and Development (OECD) average. This high energy intensity can negatively impact the competitiveness of Kazakhstan's industrial sector, particularly in energy-intensive categories such as metallurgy, cement, and manufacturing.[30] While industry was the largest energy consumer in 2014, by 2020, the residential sector became the largest contributor to total final energy consumption, accounting for 33.4%. In 2023, Kazakhstan's industrial sector accounted for 27% of total energy consumption, following the residential sector.[31] Enhancing energy efficiency is key to reducing energy waste across these sectors. Since energy in Kazakhstan comes from fossil fuels, reducing energy use directly cuts GHG emissions. Energy efficiency can therefore help decarbonize both the industrial and building sectors.

The government implemented reforms to reduce energy intensity in industries and buildings. These reforms included setting benchmarks for the top 109 energy-intensive industrial enterprises, updating the Buildings Code to enhance energy-saving parameters, and recommending energy-efficient technologies, construction materials, and energy consumption labeling. Introducing stricter standards and requirements for energy-intensive consumers will enhance energy efficiency and help transition the economy toward greater resilience, diversity and sustainability. The proposed Program supports measures to reduce the economy's energy intensity and carbon footprint, focusing on the highest energy consumers in the industrial and building sectors. In 2024, the Ministry of Industry and Infrastructural Development implemented more stringent energy-efficiency norms to further promote energy savings for the most energy-intensive industrial enterprises.[32] Furthermore, the ministry introduced energy consumption norms for buildings and a measurement, reporting and verification (MRV) system to track their energy efficiency.

(b) **Significance of the Prior Action:** The proposed reform refines specific energy efficiency target indicators for selected first-tier industrial enterprises with significant energy consumption. The reform aims to achieve further efficiency gains, in line with the Energy Conservation and Energy Efficiency Law. This will reduce the overall demand and, therefore, associated GHG emissions. The amendments introduce modifications to consumption rates across production processes and energy types (e.g., electricity consumption in the production of copper and zinc, ore mining, copper ore extraction and processing and rail production). The enterprises affected by these reforms are part of Kazakhstan's most energy-intensive industrial sub-sectors, including metallurgy and mining.

(c) **Expected Results:** The reforms will reduce energy intensity and GHG emissions, directly supporting Kazakhstan's NDC and net zero targets. The expected outcome is a 7.5% reduction in the industrial sector's energy intensity by 2027, up from a 2% reduction in 2022, compared with the 2019 benchmark.[33] As of June 2025, the

[30] A study by the UNDP in 2025 showed that buildings in Kazakhstan consume two to three times more energy per surface area than those in northern parts of Western Europe (240 kW/m^2 compared to ~80 kW/m^2 in Western Europe).
[31] International Energy Agency (IEA), 2025
[32] These industrial enterprises consume approximately 70%-80% of the total energy among entities in the State Energy Registry, which is currently being revamped to cover over 7,000 companies/consumers above a certain threshold.
[33] The value of energy intensity of the industrial sector in tons of oil equivalent/real GDP was 0.4 in 2019. This is the value taken as a reference by the government to benchmark future reductions (by 2% in 2022 and by 7% until 2026).

energy intensity level compared to the 2019 benchmark had already been reduced by 4.9%. Measures under Prior Actions (PAs) 2 and 3 to achieve full cost recovery tariffs will also support energy efficiency and improve demand-side energy use.

2.9.5 **Prior Action 5: Reforming the ETS to help meet the NDC.** To enable the ETS to contribute to meeting the NDC, the government has: (a) announced a set of emissions caps for 2026 to 2030 that are consistent with the NDC target, as evidenced by Government Resolution No.1209[34] and (b) updated regulations to strengthen the verification process for emissions measurement and reporting.[35]

(a) **Rationale:** The ETS commenced in 2013 and limits the emissions of around 225 large installations responsible for 43% of national emissions.[36] While the government has announced a reduction of the emissions cap by 2.6% for 2025, the cap is still too high for the ETS to play a meaningful role in achieving the NDC. Lowering the cap for the period 2026 to 2030 is, therefore, critical to meet Kazakhstan's climate targets. Analyses indicate that a 3.41% annual reduction during the period would result in a positive and rising carbon price, which would drive emissions reductions for ETS-covered sectors. This is expected to constitute about half of the emission reductions needed to meet the NDC.[37] In addition, strengthened MRV procedures are needed to facilitate independent third-party verification. Regulations under the Environment Code have been passed by Parliament, which aim to improve the verification process for emissions reporting. WB's technical assistance, funded under the PMI program, supports these reforms.

(b) **Significance of the Prior Action:** The prior action enables the ETS to play a key role in achieving the NDC, and therefore, increases Kazakhstan's ability to meet climate targets. The prior action also enhances the measures that verifiers should adopt to reduce risks to the accuracy of emissions verification. This will improve the independent third-party process for reviewing companies' emissions reports. Independent verifiers are required to check the accuracy of reports and provide recommendations to improve emissions reporting. This is seen to enhance trust in Kazakhstan's ETS.

(c) **Expected Results:** The prior action is expected to reduce GHG emissions in terms of tons of carbon dioxide (tCO_2) from the ETS-covered entities from a baseline of 157,478,483 in 2024 to less than 151,000,000 by 2027. Strengthened verification of emissions reporting will help to improve confidence in the system.

2.9.6 **Prior Action 6: Addressing water stress through improving water conservation.** To enhance water conservation and support climate adaptation, the government has enacted a new Water Code that allows for water resource management based on regulation permits.[38]

[34] Government Resolution Dec. 31, 2025, № 1209 "On Approval of the Nationally Determined Contribution of the Republic of Kazakhstan to the Global Response to Climate Change until 2035."
[35] Order dated Feb. 28, 2024 No. 49 "On Amendments and Additions to the Order of the Minister of Ecology, Geology and Natural Resources of the Republic of Kazakhstan dated Jan. 14, 2022 No. 12 'On Approval of the Rules for Validation and Verification.'"
[36] WB. 2022. Kazakhstan CCDR. November.
[37] Background modelling prepared for the Kazakhstan Country Climate and Development Report and updated by WB staff.
[38] Water Code of the Republic of Kazakhstan of the Republic of Kazakhstan No. 178-VIII dated April 9, 2025.

(a) **Rationale:** Efficient water management is needed to help address the growing climate-induced water scarcity in Kazakhstan. Kazakhstan withdraws 34% of its renewable freshwater resources,[39] placing it in the "medium-high" water stress category according to the World Resources Institute (WRI). WB's CCDR [40] underscored Kazakhstan's growing water scarcity, and estimated that by 2040, Kazakhstan is projected to face severe water shortages, with available freshwater meeting only 50% of national demand due to the impacts of climate change. Kazakhstan's NDC highlights that its most serious climate change-induced consequence is its growing water scarcity.

Kazakhstan had an existing Water Code enacted in 2003, the main framework law for IWM for over two decades. However, the new climate change realities needed to be considered as well as global good practices in water governance that can be adopted in Kazakhstan. The new Water Code supported by the prior action, enacted after two years of stakeholder consultations, contains a dedicated chapter that provides for climate adaptation, by clearly drawing the link between climate change and increased water scarcity. The new 2025 Water Code replaces and modernizes the 2003 Water Code version.

(b) **Significance of the Prior Action:** The new Water Code aims to strengthen Kazakhstan's resilience to climate-induced water scarcity through improved governance, technology, and sustainable water resource use. The Water Code establishes key guiding principles for climate adaptation, including articles on general approaches to adaptation, flood adaptation and avoidance measures, and prevention and management of the harmful impact of waters and measures for adaptation to the effects of droughts and the prevention of artificial droughts. The Water Code includes the introduction of water permits to be issued with water conservation plans, which are aligned with national adaptation goals. Furthermore, the Water Code mandates planning for ecological flows and the use of digital systems for data collection, thereby strengthening Kazakhstan's ability to adapt to more frequent and intense climate extremes. The updated code encourages scientific research and public participation in adaptation planning, while prioritizing integrated management of surface and groundwater. It also introduces the concept of water security, emphasizing protection against droughts, floods, and water availability risks. Secondary regulations are under preparation to support the implementation of the Water Code.

(c) **Expected Results:** The reforms to the Water Code is the foundation to a comprehensive approach to water conservation and is expected to improve water conservation, specifically through ensuring that new water permits issued are associated with a water conservation plan in line with national adaptation goals. The number of water permits issued under the new methodology is expected to increase from 0 in 2025 to at least 75 in 2027, in the most water-stressed regions, covering an estimated 23.5% of total annual water consumption. This focus on water

[39] Refers to the proportion of clean water that is naturally refilled through the water cycle.
[40] WB. 2022. Kazakhstan CCDR. November.

conservation supports the broader objectives of the Water Code, including meeting key water saving targets, such as increasing water savings sixfold by 2030 (2,192 million cubic meters [m^3]), which will also be supported by new water-saving technologies in irrigated agriculture. These improvements in water management and use are essential to addressing the growing water scarcity exacerbated by climate change.

2.10 **Policy Actions and Resulting Infrastructure Investment**. The proposed Program aims to support policy actions in the energy sector that align with AIIB's core strategic focus. Those reforms are essential for creating an enabling environment that promotes clean infrastructure investments. As previously mentioned, PA1 aims to enhance RE by redefining "small-scale renewable energy facilities," increasing the capacity limit from 100 to 200 kW, and exempting net consumers from registering as legal entities. It mandates free grid access for these consumers and seeks to establish clear connection rules and standard contracts. To achieve complete decarbonization of the energy system, Kazakhstan requires substantial investment in the power sector, estimated at USD109 billion by 2060, averaging USD3.1 billion annually, a large portion of which is expected to come from private-sector investments.[41]

2.11 Reforming energy pricing and eliminating implicit fossil fuel subsidies under PA2 and PA3 can deliver more cost-reflective pricing essential to attract private capital to the power and heating sectors. The current system of artificially low tariffs and high subsidies undermines investment. The proposed reforms could drive increased investment in clean infrastructure through several key mechanisms. By redirecting energy subsidies away from fossil fuels, governments can eliminate the market advantage that these fuels currently hold. This shift allows for more cost-reflective pricing, thereby attracting investment in RE and facilitating efficient resource allocation. Additionally, phasing out fossil fuel subsidies can generate significant savings for government budgets. For instance, gradually reducing these subsidies could yield up to USD3.3 billion by 2030 and close to USD15.4 billion from 2023 to 2030. These funds could be allocated to alleviate the impacts of rising fuel prices and support essential public investments needed for the green transition. Moreover, removing subsidies and providing proper pricing signals can incentivize energy efficiency and stimulate the implementation of sustainable heating and energy-saving programs. The savings from subsidy reform can also be used to fund a just transition, providing social protection to workers and communities adversely affected by the transition while creating conditions conducive to private investment in economic transformation. Finally, subsidy reforms can release resources to support innovation and research and development in low-carbon technologies. This support is crucial for reducing the costs of transitioning to sustainable energy sources and for addressing market failures that hinder effective mitigation efforts.

2.12 Reforms under PA4, implementing more stringent energy efficiency standards, can incentivize private investment in low-carbon technologies and energy efficiency investments. More stringent standards drive the adoption of sustainable practices such as retrofitting existing buildings and constructing zero-emission buildings, which can stimulate demand for green building materials and technologies. Investments in energy efficiency reduce the costs of decarbonization by reducing the need for power and heating infrastructure. The energy

[41] WB. 2022. Kazakhstan CCDR. November.

efficiency improvements achieve total system cost savings (capex and opex) of over USD70 billion through 2060.

2.13 PA6, enacting a new Water Code that manages water resources based on regulation permits, could encourage water-efficient infrastructure investment by reducing regulatory risk through clear, enforceable abstraction/use rights tied to conservation plans; creating demand for efficiency assets because permits must align with national adaptation goals; mandating ecological flow planning and digital data systems that improve project preparation quality and bankability; and prioritizing early implementation in the most water-stressed regions, where returns and impact could be highest, via a results target of at least 75 permits by 2027.

2.14 **Policy Actions to Enable Private Capital Mobilization.** PA1 seeks to crowd in private-sector investments in RE to increase private-sector electricity generation by allowing third-party access for privately driven distributed RE generation. PA1 is expected to result in a substantial increase in private-sector capital invested in solar and wind energy, of about USD1.5 billion in debt and equity, estimated using the average cost of solar and wind energy generation, based on the targeted megawatts of installed generation. The removal of energy subsidies and the strengthening of the tariff framework under PA2 and PA3 are also designed to encourage greater private investment in the transition toward cost-recovery.

2.15 **Development Financing Needs and Budget Support.** Kazakhstan is steadily increasing its focus on climate-related investments, although comprehensive expenditure data remains limited. ECONOMY KZ[42] conducted an initial assessment and the results reveal that Kazakhstan is gradually scaling up climate-related investments, with climate-relevant expenditures reaching 4.9% of the state budget in 2023 (approximately USD2.4 billion), including 3.2% (USD1.57 billion) for direct mitigation and adaptation up 1.4 times over five years. According to Kazakhstan's First Biennial Transparency Report (BTR1),[43] total climate investment needs across energy, water, agriculture, and infrastructure are estimated at USD610 billion by 2060, with 96.2% expected to come from private sources. A green budgeting methodology is under development to improve expenditure tracking, mandate climate impact assessments, and build institutional capacity. In the water sector, the newly adopted Water Code introduces conservation plans, digital monitoring, and tariff reforms to reduce irrigation losses. In energy, private-led mitigation is gaining traction through initiatives such as the EUR50 billion SVEVIND green hydrogen project and competitive RE auctions. To meet long-term climate goals, stronger fiscal integration and scaled-up adaptation finance are critical.

2.16 **Consultations and Collaboration with Development Partners and Stakeholders.** Reforms supported by this Program have benefited from the government's strong collaboration with development partners, including the WB, AIIB, ADB, the European Bank for Reconstruction and Development, the United Nations Development Programme, the United States Agency for International Development and the Organization for Economic Cooperation and Development). AIIB and WB have cooperated on all the climate-related actions that the AIIB is proposing to co-finance.

42 EconomyKZ. 2025. Kazakhstan's Climate Budget: Current Status and Future Steps. Feb. 24
43 Government of Kazakhstan. 2024. Biennial Transparency Report (BTR). BTR1.

2.17 The new laws and policies supported by the proposed Program are in line with Kazakhstan's well-defined process for public consultations, which includes engagement with civil society. Each year, the government publishes its legislative work plan, allowing citizens to track legislative acts expected to be developed and adopted. The procedures for public hearings to discuss draft legislative acts are stipulated in several laws and regulations, and include public consultations, dedicated meetings with the business community, including the Chamber of Commerce, and an internet portal for legal acts (https://legalacts.egov.kz).[44] Laws supported by this Program have been subject to consultation processes. Once the draft laws are approved, they are available in open portals such as *http://adilet.zan.kz* in Kazakh and Russian.

2.18 **Implementation Arrangements.** The MOF is the main executing agency and is coordinating the implementation of all policy actions supported by this operation with respective line ministries and MONE.

2.19 **Sustainability.** The sustainability of the reforms is anchored in the government's ownership of the Program. In addition, the proposed reforms are anchored in the government's medium and long-term national plans and strategies, which provide overarching frameworks to sustain reform continuity beyond this operation. Furthermore, the government and AIIB can use the MYRP and their engagement with partners to clarify the downstream investment pathways through which the CPBF-supported reforms will be implemented and reinforced over time.

3. Program Appraisal

A. Macroeconomic Policy Framework

3.1 **Macroeconomic Background.** Kazakhstan is an upper-middle-income economy with a population of 20 million and an income per capita of approximately USD15,000 (or USD 47,000 in purchasing power parity). It is among the top 15 economies globally in proven oil reserves. The economy remains reliant on hydrocarbons, which account for around 20% of its GDP, half of its exports, and one-third of its revenues. The state footprint in the economy remains significant, with SOEs playing a dominant role. Kazakhstan benefits from a strategic geographic location, positioning it as a potential key logistics hub along the increasingly vital Middle Corridor trade route connecting Asia and Europe.

3.2 During periods of high oil prices, Kazakhstan experienced strong economic growth and large fiscal surpluses, enabling it to build substantial asset buffers. Following the 2014 oil price slump Kazakhstan has implemented a series of reforms aimed at strengthening macroeconomic frameworks and reducing dependence on oil, including the adoption of fiscal rules to support long-term sustainability and enable development investments. Monetary policy has also shifted toward inflation targeting, with improvements in policy transparency, operations, and banking supervision.

[44] The Law on Legal Acts (№ 480-V, 2016) outlines the procedure for public consultations. The Law of Public Councils (No. 383-V, 2015) outlines the procedure for public hearings on proposed legislative changes that affect the rights and freedoms of citizens. The Law on Access to Information (No. 401, 2015) outlines procedures for public hearings through the open government web portal.

3.3 **Economic Growth and Drivers**. Kazakhstan has demonstrated economic resilience amid a range of domestic and external shocks. In 2025, the economy is estimated to have grown by 6.2%, driven by rising oil production, expansionary fiscal stance, strong consumer credit growth and robust domestic investment. Over the past years, Kazakhstan recorded substantial gains in agriculture, construction, trade, and transport/logistics, with the latter two sectors aided by activity along the Middle Corridor.

3.4 **Economic Reform Program.** To promote economic diversification, Kazakhstan has launched the National Infrastructure Plan, committing KZT40 trillion (approximately USD80 billion, or 27% of GDP) through 2029 to key sectors including utilities, transport, water, and digital infrastructure. Kazakhstan is also undertaking major tax reforms, with new budget code and a new tax code approved in 2025. Key measures include strengthening fiscal rules, raising the value-added tax (VAT) rate to 16% and lowering the VAT registration threshold to broaden the tax base. These measures are expected to reduce reliance on oil revenues and help narrow the non-oil deficit. Sustaining long-term growth will require deeper progress on more complex and sensitive reforms, such as privatization and enhancing market competition.

3.5 **Inflation, Monetary Policy, and the Financial Sector.** Inflation fell from the peak of over 20% in early 2023 to less than 9% in 2024, thanks to easing food prices. However, renewed pressures from currency depreciation, rising food costs, higher utility tariffs, strong domestic demand, and fiscal expansion pushed inflation back to over 12% recently. In response, the central bank raised the policy rate by 375 basis points to 18% cumulatively to January 2025, and is expected to maintain tight policy to anchor inflation expectations and affirm its commitment to the 5% inflation target. The banking sector remains strong, with stable capital and liquidity, good profitability, and low non-performing loans. Despite tighter financing conditions, household loans nearly doubled during 2020-24, raising concerns about financial vulnerability for low-income households. Consumer credit growth decelerated slightly in 2025.

3.6 **Fiscal Policy.** Kazakhstan benefits from ample fiscal buffers, supporting fiscal resilience and mitigating liquidity pressures. At the same time, debt service costs have increased and are expected to remain elevated. The fiscal stance is accommodative, with a 4% of GDP deficit in 2025, up from 1.5% in 2023. Deficits are projected to gradually decline from 2026 along measured fiscal consolidation, and as tax reforms take effect, supporting the government's goal of reducing the non-oil deficit to 5% of GDP by 2030 and maintaining fiscal space.

3.7 **Macroeconomic Outlook.** Looking ahead, GDP growth is expected to moderate to around 4.4% in 2026, amid softer domestic demand, stabilizing oil output and tighter policies, both monetary and fiscal. Over the medium term, GDP growth is expected to slow towards its long-term trend, which, absent accelerated structural reforms, is estimated at around 3-4%.

Table 1. Key Macroeconomic Indicators

	2023	2024	2025*	2026*	2027*	2028*	2029*	2030
Real GDP growth 1/	5.1	5.0	6.2	4.4	4.2	3.0	3.4	3.4
Inflation (CPI, end-of-period) 1/	9.7	8.6	12.4	11.1	9.1	8.5	6.8	5.0
Fiscal balance	-1.5	-3.5	-4.0	-3.5	-3.0	-2.8	-2.3	-1.9
Public debt	23.0	24.4	25.2	27.5	28.8	30.5	31.8	32.9
Gross public financing needs	2.2	7.3	6.8	6.2	5.6	5.0	4.8	5.2
Current account balance	-3.6	-2.7	-4.1	-4.3	-4.2	-3.7	-3.3	-3.1

External debt	61.3	56.5	62.7	63.9	63.8	63.5	62.7	62.0
FX reserves (USD billion) 2/	35.9	45.8	65.4	..	..	..	..	..
Exchange rate (KZT/USD) 2/	454.6	523.5	502.6	494.8	..	..	..	..

Source: IMF (country report 26/17, WEO Oct 2025); in percent of GDP unless indicated otherwise; '*' = projections or estimations
1/ percent change, year-on-year 2/ end-of-period, most recent data from central bank; as of Feb. 10, 2026

3.8 **Debt Sustainability.** Public debt is sustainable with a low risk of distress. Debt levels are low by peer standards and supported by substantial fiscal buffers, sufficient to cover all external public debt with a large margin, providing flexibility to respond to economic shocks and manage contingent liability risks. Foreign exchange (FX) reserves have reached USD65 billion in 2025, covering about eight months of imports. This is in addition to further USD60 billion in FX assets in the National Fund. Kazakhstan has maintained an investment-grade rating for more than two decades, despite shocks, and is currently rated at BBB stable (Fitch), BBB- positive (S&P), and Baa1 stable (Moody's). Moody's upgraded the rating to Baa1 in 2024, while S&P changed the rating outlook to positive in 2025, on account of a good progress in economic diversification, continued reforms and steadier fiscal outlook.

3.9 **Macroeconomic Adequacy.** Kazakhstan's macroeconomic policy framework is adequate and well-aligned with sustained growth, macroeconomic stability, and debt sustainability. The central bank is independent. An inflation-targeting regime anchors monetary policy, maintained with an appropriately tight stance. The floating exchange rate regime helps cushion shocks. Debt is sustainable, and the economy has built substantial asset buffers. A stabilization fund exists to manage oil revenues and mitigate oil price volatility. Some progress is being made with diversification, and the ongoing tax reforms should reduce reliance on oil. Fiscal rules are in place to enhance sustainability, ensure counter-cyclical fiscal policy and preserve room for development spending, although stronger enforcement of these rules would be beneficial. Recommendations from the 2023 Financial Sector Assessment Program are being implemented resolutely to strengthen the resilience of the financial sector.

3.10 **IMF's Relation**. The most recent Article IV staff report from January 2026 serves as the Assessment Letter, consistent with IMF policies. According to the IMF, Kazakhstan's economic growth remains robust, with a stable medium-term outlook of around 3%-4%. Fiscal stance is assessed as expansionary, but a gradual fiscal consolidation is expected. The monetary policy is tight, which is appropriate amid ongoing inflationary pressures. Inflation is expected to stay elevated for some time, before declining toward the 5% target by 2030. The banking sector is resilient, with strengthened macroprudential policies and risk-based supervision. Recalibrating quasi-fiscal activities and curbing excessive consumer credit growth is recommended. Structural reforms are progressing more slowly than desired.

3.11 **World Bank's Views.** WB deems Kazakhstan's macroeconomic policy framework adequate, underpinned by strong fiscal buffers, low levels of debt, and manageable internal and external imbalances. The assessment highlights robust economic growth despite shocks, prudent policies (inflation targeting, floating exchange rate, fiscal consolidation), large buffers, sustainable debt and authorities' overall commitment to fiscal discipline.

B. Institutional Capacity

3.12 Kazakhstan has clearly articulated targets and a carbon-neutrality strategy, which provide policy direction. However, the challenge is institutional coordination and the ability to

deliver reforms with longer-term payoffs given the numerous ministries and agencies involved. To address these risks, all reform areas are supported by robust analytical work that have been broadly disseminated. WB, the International Financial Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) are working with other international and local partners to help ensure broader support for reforms related to the low-carbon transition. The government has adopted a number of WB's policy actions in its strategic documents such as on tariff reform, thereby enhancing ownership.

C. Public Financial Management and Disbursement

3.13 **Public Financial Management (PFM).** The 2025 PEFA assessment highlights steady and notable progress in Kazakhstan's PFM since the 2018 assessment, driven by robust IT systems that strengthen budget execution and cash management. Recent amendments to the Budget and Tax Codes have enhanced fiscal transparency and accountability, while aggregate fiscal discipline remains stable, supported by effective revenue administration and timely payments. Strategic resource allocation has improved through stronger links between medium-term budgeting and strategic planning. Revenue administration is guided by a clear legal framework and risk-based tools, contributing to low tax arrears. Budget execution benefits from strong internal controls, the operation of a Treasury Single Account managed by the Treasury Committee under the Ministry of Finance, and effective commitment controls, with no significant expenditure arrears. Accountability mechanisms are reinforced by regular publication of state budgets and execution reports,[45] and by strengthened internal and external audit functions. The internal control and audit function is overseen by the Committee on Internal Public Audit (CIPA), and since 2022 the Supreme Audit Chamber (SAC) has expanded its mandate to issue annual audit opinions on consolidated government financial statements, which are publicly disclosed.

3.14 Despite the overall progress, further enhancements to Kazakhstan's PFM system are needed. While economic classification is applied during budget execution and reporting, it is not used at the annual budget approval stage, limiting transparency and parliamentary oversight. It is noted that work to refine the budget classification structure is ongoing under the 2025 Budget Code.

3.15 Additionally, reforms in Kazakhstan's accounting and financial reporting system are underway, with a government priority to completely transition to International Public Sector Accounting Standards (IPSAS) as outlined in the Kazakhstan Concept of Public Finance to 2030.[46] Additionally, the International Standards of Supreme Audit Institutions (INTOSAI) Standards are not consistently applied in practice by either the SAC or CIPA. Strengthening adherence to these standards will require sustained effort, time, and resources. Currently, the World Bank is supporting the transition to INTOSAI by strengthening the capacity of Supreme Audit Institutions across Central Asia, including in Kazakhstan, through the Strengthening Supreme Audit Institutions in Central Asia Advisory Services and Analytics initiative.

3.16 **Foreign Exchange Control Environment.** WB has confirmed that the National Bank of Kazakhstan (NBK) maintains adequate operational control over its foreign exchange reserve

[45] Kazakhstan Open Budgets website: https://budget.egov.kz , PEFA: https://www.pefa.org/node/5405
[46] Concept of Public Finance Management of the Republic of Kazakhstan until 2030, Decree of the President of the Republic of Kazakhstan dated Sep. 10, 2022, No. 1005.

management, supported by institutional safeguards for financial reporting, internal controls and external oversight. Furthermore, the January 2026 IMF Article IV consultation did not identify any specific weaknesses in the NBK's FX control environment. The NBK prepares and publishes annual consolidated financial statements, which are independently audited in accordance with International Standards on Auditing. For the year ended Dec. 31, 2024, PricewaterhouseCoopers LLP audited the consolidated financial statements and issued an unmodified (clean) audit opinion.

3.17 **Disbursements and Auditing.** Aligned with WB's disbursement approach, the loan proceeds will be released in a single tranche to Kazakhstan upon the effectiveness of the Loan Agreement and submission of a withdrawal application. AIIB will disburse funds into a foreign-currency deposit account held by NBK as part of Kazakhstan's official foreign exchange reserves. The government may utilize the loan proceeds to: (a) make budgeted foreign currency payments directly from this account; (b) transfer funds from the foreign currency account to a local currency bank account for domestic budgetary expenditures; or (c) apply a combination of both methods. If any portion of the loan proceeds is used for purposes deemed ineligible under the Loan Agreement, the Government will be required to refund the corresponding amount to the AIIB. Such refunded amounts will be cancelled from the total loan amount. No specific audit of the deposit of the loan proceeds will be required. However, AIIB reserves the right to request such an audit at its discretion.

3.18 **Procurement.** The Recipient's procurement systems and arrangements shall include reasonable measures to ensure that AIIB's loan is used for productive activities. According to WB's latest program documents, one of the ways to promote inclusive growth is by developing a more competitive and open public procurement system, as well as promoting transparent procurement practices (as in the Pillar II of the Project) to improve transparency in the public procurement system and ultimately boost the value for money. Despite progress, challenges persist in enhancing the effectiveness of the public procurement system. To address these issues, it is recommended to reduce reliance on direct and single-source contracting and to increase sustainable procurement practices. Promoting accountability and preventing corruption can be achieved by ensuring that public contracts are awarded to companies owned by individuals without close affiliations to the public sector.

3.19 The Government of Kazakhstan is reforming procurement practices to increase transparency, promote sustainable procurement and introduce climate-sensitive procurement practices. A new/updated Public Procurement Law (PPL) was adopted to enhance fairness by limiting SOEs' participation in the same tendering process as private firms. Furthermore, the PPL supports sustainable and climate-sensitive procurement approaches by considering quality and non-price factors, which can be implemented through the Rated Criteria evaluation method as appropriate, in awarding contracts through public tenders in Kazakhstan.

3.20 **Risk Assessment.** The overall fiduciary risk for this operation is assessed as moderate, reflecting steady and continuous improvements in the PFM system and the absence of any indications of significant weaknesses in the foreign exchange control environment, with continued improvements noted by the IMF. The PFM systems should ensure that loan proceeds are allocated and utilized for productive activities and not for excluded expenditures, as to be reflected in the legal agreement.

D. Environmental and Social Aspects

3.21 AIIB's Environmental and Social Policy (ESP), including the Environmental and Social Exclusion List (ESEL) and provisions related to CPBF set forth in Section 16 of the ESP, are applicable to this Program. AIIB carried out its assessment of the environmental and social impacts (ES) of the Program, drawing upon the analytical work of the World Bank, which includes an ES impact analysis matrix (ES Matrix) prepared for DPO2 that covers policy actions under Pillar 1. This outlines the potential direct and indirect impacts of each prior action, along with corresponding mitigation measures. The final ES Matrix will be disclosed prior to CPBF approval, in line with AIIB's ESP requirements.

3.22 The Program will cover Pillar 1 policy reforms under parallel co-financing with WB. Pillar 1 mainly supports Kazakhstan's transition to greener energy and building environmental resilience through six key reforms: (a) facilitating a cleaner energy transition through increasing renewable energy, (b) improving financial sustainability in electricity through tariff reforms, (c) reducing fossil-fuel subsidies in heating through tariff reforms, (d) promoting energy efficiency to reduce the carbon footprint of the economy**,** (e) reforming the ETS to help meet the NDC and (f) enhancing resilience to water scarcity through the Water Code reform. No infrastructure investment is directly supported, but some policy actions may result in downstream ES impacts, given the target to increase RE (i.e., solar and wind), including include production, installation, and maintenance of RE technologies.

3.23 The Program will not involve any involuntary resettlement or impact Indigenous Peoples. However, some policy actions, such as tariff adjustments, may lead to short-term socioeconomic impacts, including energy affordability concerns for low-income households and vulnerable groups, and environmental impacts.

3.24 **Environmental Aspects.** The PAs under Pillar 1, which consist of reforms to government policies and processes, are expected to generally result in net-positive environmental impacts by supporting Kazakhstan's international commitment to the NDC and strengthening its resilience to climate-induced water scarcity. Specifically, PA1 is expected to lead to an increase in renewable energy generation, particularly through the development of small-scale distributed RE projects. PA2 and PA3, through electricity and heating tariff adjustments, will enhance operational and financial efficiency while encouraging modernization of the electricity network and promoting energy efficiency. Reforms under PA4 will drive reductions in energy consumption and GHG emissions in Kazakhstan's most energy-intensive industries, i.e., metallurgy and mining. PA5 is anticipated to contribute to more effective achievement of the NDC targets by reducing the ETS emissions cap and improving the verification of emissions reporting. PA6 is expected to contribute to water conservation through effective water resource management, thereby enhancing water availability for competing uses and helping sustain biodiversity.

3.25 Overall, Pillar 1 will facilitate wide-ranging cascading benefits to both the environment and socioeconomic conditions through the implementation of strategies that support decarbonization efforts, energy efficiency improvements and advancement of RE technologies. All PAs will help create an enabling environment to scale up RE sourcing,

promote efficient energy use, and lower the reliance on fossil fuels, thereby amplifying Kazakhstan's just transition to cleaner energy. In turn, this will contribute to overall reductions of GHG emissions, climate change mitigation, air quality improvement, and better public health and environmental quality.

3.26 Considering that the reforms under Pillar 1 will promote RE investments, particularly PA#1, the deployment of RE sources is expected to increase substantially in the future. Although indirect, potential downstream environmental risks and impacts associated with the actual installation and operations of RE technology, such as site-specific impact on air, soil and water quality, land use, occupational health and safety, and biodiversity impacts related to habitat displacement or disturbances, will be managed by the government in line with the applicable legislations. Adverse impacts are expected to be limited and manageable, given that the policy amendments under PA1 are targeted to support and promote private investments in small-scale distributed RE systems, such as rooftop solar and small wind turbines with minimal physical footprint. In line with WB's assessment, the government's capacity for environmental management is deemed adequate, with recent developments such as the series of updates to the Environmental Code to mainstream environmental sustainability in projects. Kazakhstan's Environmental Code is the primary policy aimed at environmental protection, which establishes the environmental management framework. Despite the low environmental risks of small-scale distributed solar and wind projects, Kazakhstan's regulations mandate environmental due diligence for all projects and require that any environmental risks, including those from small-scale renewables, be mitigated from the outset. As stipulated in the Environmental Code, environmental protection requirements must be integrated at the design, construction, and operation stages of all facilities. The Ministry of Ecology and Natural Resources is responsible for environmental regulation and enforcement, ensuring that the expansion of distributed solar/wind power is conducted in an environmentally sound manner and aligns with Kazakhstan's environmental policies.

3.27 WB published an in-depth evaluation of Kazakhstan's policy environment in their November 2022 CCDR, which also outlines strengthening measures to enhance its framework and improve alignment with national climate goals. The proposed reforms in this Program are supported by and aligned with the CCDR's key recommendations. Additionally, WB recently conducted and is currently finalizing an ESF Overview Assessment (OA) evaluating Kazakhstan's capacity for ES risk management, alongside key policy reform, legal and institutional frameworks. The assessment also covers air, water and soil pollution; land-use change; occupational health and safety; and biodiversity impacts on wildlife and natural habitats in general. Once completed, this can help inform long-term capacity-building in environmental management in Kazakhstan.

3.28 **Climate Risks and Opportunities.** Kazakhstan faces material, physical and transition climate risks that could affect long-term economic performance if not adequately addressed. Rising temperatures, increasing frequency of droughts and floods, glacial retreat and declining water availability**,** particularly in water-stressed basins**,** pose significant risks to agriculture, energy production, industrial activity and public service delivery. At the same time, Kazakhstan's high emissions intensity, heavy reliance on coal and fossil-fuel subsidies and exposure to global decarbonization trends, including carbon border measures, create transition risks for carbon-intensive sectors and state-owned enterprises.

3.29 These risks also present strategic opportunities to accelerate structural reforms that support a more resilient and competitive growth model. The Program helps mitigate physical climate risks by strengthening water governance and embedding climate adaptation measures through the new Water Code, while reducing transition risks by enabling renewable energy deployment, improving energy efficiency, reforming energy pricing, and strengthening the ETS. Together, these measures enhance Kazakhstan's ability to manage climate-related shocks, mobilize private investment, and align its development pathway with its NDC and long-term carbon-neutrality objective.

3.30 **Social Aspects.** The Program's energy and climate reforms present opportunities for inclusive and sustainable development in Kazakhstan, with transitional affordability risks mitigated through a strengthened social protection system. In general, the social impacts are assessed to be neutral to positive.

3.31 PA1 reforms on RE expansion are expected to indirectly benefit low-income population and vulnerable communities in industrial and rural areas who face disproportionate environmental health risks from pollution and climate change. Specifically, the promotion of distributed RE and grid access for small producers is expected to generate long-term social benefits, including improved air quality, enhanced energy security, and local employment opportunities, without significant direct adverse distributional impacts..

3.32 PAs 2 and 3 introduce systematic tariff adjustments in the electricity and heating sectors aimed at improving financial sustainability and reliability of energy services. The government currently has strengthened its social protection system to protect the low-income population and vulnerable groups. These measures build on the World Bank's first DPO and incorporate lessons from the earlier operation. The current Program supports further enhancements in social assistance coverage, adequacy and delivery. Key complementary measures include (a) the Housing and Utilities (HU) benefit program, which has been simplified and expanded through digitalization, with the eligibility threshold for reimbursements of utility costs lowered from 10% to 5% of household income, allowing more households to qualify for assistance; (b) the Targeted Social Assistance (TSA) program, which has revised its eligibility threshold by adjusting the poverty-line methodology to reflect median income, which enhances coverage and benefit adequacy for low-income households; and (c) the Digital Family Card (DFC), which has been introduced as a unified social protection registry to identify and target vulnerable households likely to be affected by tariff adjustments across programs.

3.33 PA4, combined with higher energy sourcing from renewables (PA1), will be beneficial for both human and economic health and productivity. Those benefits will be particularly important for the poor and vulnerable, including those living near industrial sites and in rural areas, who often have less voice and fewer means to cope with pollution or build resilience to climate change. PA5 is considered to have insignificant adverse distributional impacts, with negligible household welfare and poverty effects and no material impact on low-income or vulnerable households. PA6 has significant effects, as the reforms support the sustainability of the agriculture sector against climate impacts, particularly for farmers who are among the rural poor.

E. Gender Aspects

3.34 The Program's policy reforms are expected to generate broad socioeconomic benefits with gender-differentiated impacts, particularly in energy affordability and access and household welfare. In Kazakhstan, women-headed households are more vulnerable due to lower labor force participation rates and lower average incomes, heightening their sensitivity to increases in utility expenditures. PAs 2 and 3, which support tariff adjustments in the electricity and heating sectors, may therefore have greater short-term effects on women-headed and low-income households. To mitigate these risks, the government has strengthened its social protection measures through reforms to the HU benefit, TSA and Digital DFC systems. These measures simplify eligibility processes, broaden the threshold for assistance, and improve the identification of vulnerable households, building on lessons learned from DPO1. The expanded use of the DFC is also expected to enhance the visibility of women-headed households within the social registry and support more gender-responsive targeting.

3.35 Reforms supported under other PAs are also expected to provide indirect gender co-benefits. PA1 on distributed RE expansion will contribute to cleaner air and reduced household energy costs over time, benefiting women who are more exposed to indoor and local air pollution and who often manage household energy use. PA4 on improving energy efficiency in industrial processes will help reduce emissions and air pollution in surrounding communities, contributing to better health outcomes for women and children, who are more sensitive to environmental pollutants. PA5 on ETS reforms may generate indirect gender co-benefits by improving environmental quality and public health outcomes, while PA6 on the Water Code is expected to improve water resource management and climate resilience. These benefits are particularly important for rural communities where women play a central role in water collection, household food production and agricultural livelihoods.

F. Monitoring, Oversight and Accountability

3.36 **Monitoring and Oversight.** The MOF is responsible for coordinating all reforms with relevant line ministries, including the Ministry of National Economy (MONE), the Ministry of Energy, the Ministry of Ecology and Natural Resources, the Ministry of Water Resources and Irrigation, the Ministry of Industry and Construction, and the Committee for Regulation of Natural Monopolies under MONE. Systems are in place for citizens to complain or seek grievance redress. Communities and individuals who believe that they are adversely affected by specific policies supported by PAs under a WB DPO may submit complaints to the responsible government authorities and appropriate local/national grievance mechanisms.

3.37 **Governance and Anti-Corruption.** The AIIB's Policy on Prohibited Practices applies to the Program. The legal agreement will incorporate adequate provisions on (a) a definition of Excluded Expenditures in accordance with the Bank's OPF; (b) that the CPBF may not be used to finance Excluded Expenditures, as well as expenditures with respect to which the Bank determines that misuse of resources, theft, or corrupt, fraudulent, collusive, obstructive, or coercive practices has occurred; and (c) recourse to the Bank in the event that the CPBF is used to finance Excluded Expenditures.

3.38 The government has reinforced its commitment to strengthening the rule of law, promoting transparency and accountability, and combating corruption. The IMF's November 2024 Article IV Consultation welcomed these efforts and emphasized the need for continued progress in addressing governance and corruption vulnerabilities. In particular, the IMF recommended that the authorities strengthen the framework for anti-money laundering and countering the financing of terrorism. It also called for concrete steps to address earlier recommendations, including (a) enhancing law enforcement efforts against high-level corruption, (b) promptly adopting proposed legal amendments to anti-corruption laws, and (c) fully operationalizing the asset declaration system.

3.39 **Grievance Redress and Bank's Project-Affected People's Mechanism.** Individuals and communities who believe they are adversely affected by the Program may submit complaints to the relevant government authorities and the appropriate local/national grievance mechanisms.

3.40 The Project-affected People's Mechanism (PPM) has been established by AIIB to provide an opportunity for an independent and impartial review of submissions from Project-affected people who believe they have been or are likely to be adversely affected by AIIB's failure to implement its ESP in situations when their concerns cannot be addressed satisfactorily through the processes of AIIB's Management. For information on AIIB's PPM, please visit: https://www.aiib.org/en/about-aiib/who-we-are/project-affected-peoples-mechanism/how-we-assist-you/index.html.

G. Risks and Mitigation Measures

3.41 Table 2 presents a summary of Program risks and corresponding mitigating measures.

Table 2: Summary of Risks and Mitigating Measures

Risk Description	Assessment (H/M/L)	Mitigation Measures
Preparation Risks		
• Political Risk and Governance • Sector Strategies and Policies • Technical Design of the Program	M	• Kazakhstan continues to implement a robust and consistent political and institutional reform agenda. The government has strengthened its commitment to enhancing the rule of law, fostering transparency and accountability, tackling corruption and vested interests in economic policymaking and creating a more transparent and competitive landscape for market participants, with substantial political and public support. • Political economy is considered in the Program to ensure reform success. Firstly, the tariff reform is gradual. Second, it is accompanied by complementary social measures to mitigate distributional impacts.
• Macroeconomic risk	M	• Kazakhstan's macroeconomic policy framework is adequate and well-aligned with sustained growth, macroeconomic stability and debt sustainability. Debt is sustainable, and the government has built substantial asset buffers. A stabilization fund exists to manage oil revenues and mitigate oil price volatility. Some progress is being made with diversification, and the ongoing tax reforms should reduce reliance on oil. Authorities have also implemented fiscal rules to enhance sustainability, ensure counter-cyclical fiscal policy, and preserve room for development spending, although stronger enforcement of these rules would be beneficial.
Implementation Risks		
• Institutional Capacity for Implementation and Sustainability	H	• Key risks include challenges in stakeholder coordination and institutional capacity across numerous ministries and agencies, compounded by shifting political priorities, and influential interest groups. • The WB Group (WBG, IFC, MIGA) is strengthening policy dialogue, leveraging analytical evidence, and collaborating with

Risk Description	Assessment (H/M/L)	Mitigation Measures
		other international and local partners to build consensus and support more challenging reforms. Technical assistance (TA) and advisory support to key counterpart institutions could be explored and discussed among MDBs to ensure coherence and complementarity of interventions. Such support may include institutional diagnostics and mechanism for cross-sectoral coordination mechanisms to sustain reform momentum.
• Institutional capacity to manage downstream environmental and social risks and impacts related to the future increase in RE investments.	M	• The scaling up of investments in small-scale distributed RE sources is expected to carry low to minimal downstream environmental risks. These risks are considered manageable under the government's Environmental Code, which mandates due diligence for all projects and ensures that environmental protection requirements are integrated throughout the design, construction, and operation phases of all facilities. The Ministry of Ecology and Natural Resources is responsible for environmental regulation and enforcement, thereby ensuring that the expansion of distributed solar and wind energy is conducted in an environmentally sound manner, in alignment with Kazakhstan's environmental policies.

4. Next Steps

Milestones	Actual or Expected Completion Dates
Screening	April 14, 2025
Concept Review	June 18, 2025
Appraisal Review	Nov. 5, 2025
Negotiation	March 17-18, 2026
Board/President Approval	April 23, 2026
Loan Signing	Q3 2026
Effectiveness	Q4 2026
First Disbursement	Q4 2026

Annex 1: Policy and Results Matrix (PRM)

Overall Program Objective: The program development objective is to support Kazakhstan's transition to a greener and more resilient economy through climate policy and institutional reforms in energy and water management.

Prior Action	Implementing Agency	Results			
		Output Indicator	Unit of measurement	Baseline (Year)	Target
Prior Action 1: To further enable renewable energy in Kazakhstan, the government has allowed transparent and competitive third-party access for privately driven distributed renewable energy generation through amendments to the Law on Renewable Energy[a] and other amendments to the regulatory framework. [b]	Ministry of Energy	MW of RE from IPPs contracted through auctions	MW	2022: 440 MW	2027: 2,700 MW
Prior Action 2: To remove energy subsidies and strengthen the tariff framework, the government has adopted systematic electricity tariff adjustments in line with the new methodology to achieve full cost recovery levels as evidenced by the letter issued by the Committee for the Regulation of Natural Monopolies.[c]	Ministry of National Economy (Committee for Regulation of Natural Monopolies)	Cost recovery level of the electricity tariff	% of cost recovery	2022: 85%	2026: 100%

Prior Action	Implementing Agency	Results			
		Output Indicator	Unit of measurement	Baseline (Year)	Target
Prior Action 3: To remove energy subsidies and strengthen the tariff framework, the government has adopted systematic heating tariff adjustments in line with the new methodology to achieve full cost recovery levels as evidenced by the letter issued by the Committee for the Regulation of Natural Monopolies.[c]	Ministry of National Economy (Committee for Regulation of Natural Monopolies)	Cost recovery level of heating tariff	% of cost recovery	2022: 70%	2026: 100%
Prior Action 4: To enhance energy efficiency, the government has adopted more stringent standards and energy saving requirements by tightening energy efficiency targets for the first-tier highest energy intensity consumers as evidenced by Order No. 322 on Amendments to the target indicators for energy efficiency.[d]	Ministry of Industry and Construction	Reduction in energy intensity level of the industrial sector, compared with the 2019 benchmark	%	2022: 2.2%	2027: 7.5%
Prior Action 5: To enable the Emissions Trading Scheme (ETS) to contribute to meeting the Nationally Determined Contributions (NDC), the government has: (a) announced a set of emissions caps for 2026 to 2030 that are consistent with the NDC target, as evidenced by Government Resolution No.1209;[e] and (b) updated regulations to strengthen the verification process for emissions measurement and reporting.[f]	Ministry of Ecology and Natural Resources	A reduction in GHG emissions from ETS-covered entities	tCO2	2024: 157,478,483	2027: Less than 151,000,000

Prior Action	Implementing Agency	Results			
		Output Indicator	Unit of measurement	Baseline (Year)	Target
Prior Action 6: To enhance water conservation and support climate adaptation, the government has enacted a new Water Code which allows for water resources management on the basis of regulation permits.[g]	Ministry of Water Resources and Irrigation	Number of water permits issued in line with the new water resource management principles	Number	2025: 0	2027: 75

[a] Law of the Republic of Kazakhstan No. 96- VIII dated June 19, 2024 on "Amendments and Supplements to Certain Legislative Acts of the Republic of Kazakhstan on Issues of Supporting the Use of Renewable Energy Sources and Electric Power Industry.

[b] Other amendments to the regulatory framework include: (a) Approval of the Rules for Connection to Electric networks by small-scale renewable energy facilities through Order of the Minister of Energy of the Republic of Kazakhstan No. 349 dated Sep. 30, 2024, on "Approval of the Rules for Connection to Electrical Networks and Operation of Small-Scale Facilities;" (b) Amendments to the Rules for Purchase from Net-Consumers through Order of the Acting Minister of Energy of the Republic of Kazakhstan No. 328 on "Amendments to the Order of the Minister of Energy of the Republic of Kazakhstan No. 309 on "Approval of the Rules for the Purchase and Sale of Electricity from the Net-Consumers"; and (c) Approval of the standard PPA for net-consumers through Order of the Minister of Energy of the Republic of Kazakhstan No. 350 dated Sep. 30, 2024 on "Approval of a Standard Contract for the Purchase and Sale of Electric Energy from Net-Consumers."

[c] Letter issued by the Committee for the Regulation of Natural Resources of the Ministry of National Economy, dated Jan. 27, 2026, as updated by the letter dated Jan. 30, 2026.

[d] Order of the Acting Minister of Industry and Construction of the Republic of Kazakhstan No. 322 dated Sep. 10, 2024 on "Amendments to the Order of the Acting Minister of Industry and Infrastructure Development of the Republic of Kazakhstan No. 663 dated Nov. 29, 2022 on "Establishment of Target Indicators for energy efficiency for entities of the State Energy Registry Consuming Energy Resources in a Volume Equivalent to Fifty Thousand or More Tons of Standard Fuel per Year."

[e] Government Resolution Dec. 31, 2025, № 1209 "On Approval of the Nationally Determined Contribution of the Republic of Kazakhstan to the Global Response to Climate Change until 2035."

[f] Order dated Feb. 28, 2024 No. 49 "On Amendments and additions to the Order of the Minister of Ecology, Geology and Natural Resources of the Republic of Kazakhstan dated Jan. 14, 2022 No. 12 'On Approval of the Rules for Validation and Verification.'"

[g] Water Code of the Republic of Kazakhstan No. 178-VIII, dated April 9, 2025.

Annex 2: Paris Agreement and Climate Finance Assessment

The Program development objective is to support Kazakhstan's transition toward a greener, more sustainable economy through policy reforms in RE, tariff structures, energy efficiency and water conservation to support climate adaptation. The Program is assessed as aligned with both the mitigation (BB1) and adaptation and resilience (BB2) goals of the Paris Agreement, in accordance with the Joint MDB Methodological Principles for Assessing Paris Agreement Alignment of New Operations – Policy-Based Lending (PBL).

Step 1: Assessing consistency of the PBL-supported government reform program with the country's priorities on climate change

The operation is consistent with Kazakhstan's national climate strategies and international commitments. It supports the implementation of the Updated Nationally Determined Contribution (NDC 3.0), submitted in 2025, which commits to reducing net GHG emissions by 17% below 1990 levels by 2035 on an unconditional basis, and up to and 25% conditional on international support. Compared to the previous NDC, NDC 3.0 places greater emphasis on adaptation implementation, recognizing water scarcity, droughts, and floods as among the most significant climate-related risks facing Kazakhstan and highlighting the need for strengthened water governance and resilience measures. It is also aligned with the Strategy for Achieving Carbon Neutrality by 2060 (LT-LEDS), which prioritizes the gradual phase-out of inefficient fossil-fuel subsidies, the expansion of renewable energy, targeting a 72% share in the power mix by 2060, and improvements in energy efficiency across buildings and industry. In addition, the Program is consistent with the Energy Efficiency 2030 Roadmap, the Concept for the Transition to a Green Economy (2013) and the updated Environmental Code (2021), which collectively provide the legislative and institutional framework for advancing mitigation and resilience objectives. Finally, it reflects the priorities identified in the 2023 WB CCDR, which emphasizes energy-sector decarbonization, subsidy reform, and industrial energy efficiency as key enablers of Kazakhstan's low-carbon transition, and urgent adaptation measures in the water sector.

The new Water Code (2024) builds on these frameworks by explicitly integrating climate adaptation principles into water management, ensuring regulatory coherence across national policy instruments.

Step 2: Assessing the BB1 and BB2 alignment of the reform program

Mitigation (BB1) Assessment: The reforms are assessed as aligned with the mitigation goals (BB1) of the Paris Agreement. Prior Actions PA1 to PA5 contribute directly to or enable Kazakhstan's decarbonization pathway, and all prior actions do not include any activities considered universally non-aligned. The amendments to the Law on Renewable Energy (PA1) actively promote distributed renewable generation by ensuring transparent third-party access and grid connection, while the electricity and heating tariff reforms (PA2 and PA3) remove fossil-fuel subsidies and establish cost-reflective pricing that incentivizes efficient consumption and investment in clean energy. The introduction of stricter industrial energy-efficiency norms for the top energy-consuming enterprises (PA4) reduces emissions intensity in the industrial sector, while PA5 strengthens the integrity of Kazakhstan's ETS by establishing emissions caps for the 2026–2030 period consistent with the NDC pathway and strengthening emissions measurement, reporting, and verification, thereby supporting credible emissions tracking and

carbon-market integrity over the medium term. None of these policy actions is expected to increase greenhouse-gas emissions or create carbon lock-in; rather, they collectively enable a sustained low-carbon transition in line with Kazakhstan's NDC and Carbon Neutrality Strategy. Accordingly, the reform program is considered Paris Agreement-aligned with respect to mitigation (BB1).

Adaptation and Resilience (BB2) Assessment: The reforms are assessed as aligned with the adaptation and resilience goals (BB2) of the Paris Agreement. The PAs were reviewed to determine whether risks from climate hazards could adversely affect their contribution to the Program, and none of the six PAs face significant risks from current or future climate hazards. The reforms directly or indirectly enhance Kazakhstan's adaptive capacity. The amendments to the Renewable Energy Law (PA1) diversify the energy mix toward distributed solar and wind generation, reducing vulnerability to floods or storms that can disrupt centralized power systems. The electricity and heating tariff reforms (PA2 and PA3) promote cost recovery and incentive-based pricing, strengthening utilities' financial and operational resilience to service outages induced by demand surges during severe weather conditions. The industrial energy-efficiency standards (PA4) mitigate the impact of heat stress and water scarcity by lowering energy intensity and system demand, while the enhanced ETS verification framework (PA5) improves institutional transparency and adaptive policy-making capacity during extreme events.

In addition, PA6 (Water Code Reform) acts as a direct and explicit adaptation measure. The new Water Code includes a dedicated chapter on climate adaptation, underlining the importance of flood prevention, drought management, and maintenance of ecological flows. It requires that all new water permits be issued with water conservation plans aligned with national adaptation goals and mandates the adoption of digital monitoring systems and ecological flow planning, strengthening Kazakhstan's preparedness against climate-induced hydrological extremes. The reform also enhances inter-ministerial coordination for integrated water resources management, addressing a key vulnerability identified in both the CCDR and the NDC.

The reforms are therefore considered Paris Agreement-aligned with respect to adaptation and resilience goals (BB2).

Climate Finance

The total climate finance for the operation is estimated at USD400 million, representing 100% of AIIB's total financing. Of this, USD333.33 million (83%) is attributed to mitigation finance, and USD66.67 million (17%) to adaptation finance. The RE amendments (PA1) expand distributed solar and wind generation; the electricity and heating tariff reforms (PA2 and PA3) remove fossil-fuel subsidies and promote efficient energy use; the industrial energy-efficiency standards (PA4) reduce emissions intensity in heavy industries; and the enhanced ETS verification framework (PA5) strengthens emissions tracking and supports carbon-market integrity. In addition, the Water Code Reform (PA6) directly enhances resilience to water scarcity by embedding climate adaptation measures, such as flood and drought management, ecological-flow maintenance, and mandatory water conservation plans with digital monitoring, into national water governance.

Annex 3: Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Prior Action 1 (to increase renewable electricity supply and encourage new private sector investments)	Government of Kazakhstan. 2023. "*Strategy for Achieving Carbon Neutrality Until 2060*" and WB. 2022 "*Country Climate and Development Report* (CCDR)" highlight the need for Kazakhstan to improve the investment environment and investment climate to accelerate RE deployment through private sector participation. *Operational Support:* WB's Kazakhstan Energy Sector Strategic Engagement (P180209) activities
Prior Action 2 (to improve the financial sustainability of the electricity sector)	WB. 2022. *CCDR* highlights that subsidy reform in the electricity sector is critical for strengthening financial sustainability, improving operational efficiency, ensuring electricity supply security and enabling RE development at scale. *Operational Support:* WB's *Kazakhstan Energy Sector Strategic Engagement – (P180209)* is supporting the government on electricity subsidy reforms.
Prior Action 3 (to improve the financial and operational efficiency of entities in the heating sector)	WB. 2022. *CCDR* highlights how the heating sector is dependent on coal. Tariff reforms in heating can help to decarbonize the heating sector, incentivize more efficient use of heating and promote alternative sources of heating supply. *Operational Support:* WB's *Kazakhstan Energy Sector Strategic Engagement (P180209)* is supporting the government on heating tariff reforms.
Prior Action 4 (to foster energy efficiency through strengthened energy efficiency requirements)	WB. 2022. *CCDR* and WB analysis on *Energy Efficiency Transformation in Astana and Almaty (2017)* identify the importance of setting energy efficiency standards for industries and energy efficiency classification in buildings. *Operational Support:* WB's *Kazakhstan Energy Sector Strategic Engagement (P180209)* is supporting the government in advancing energy efficiency measures to promote carbon neutrality
Prior Action 5 (to reduce the ETS cap and improve reporting of emissions to help meet the NDC)	WB. 2022. *CCDR* discusses the importance of accurate emissions measurement and reporting. *Operational Support:* WB's Kazakhstan *Partnership for Market Readiness (P150680)* program explored the improvements needed to Kazakhstan's facility-level emissions reporting system.
Prior Action 6 (to improve water conservation to address water scarcity)	WB. 2022. *CCDR* and outputs from the *Supporting Kazakhstan in Climate Change and Environmental Action* PASA (P179659) outline the importance of addressing water scarcity and approaches to doing so.

Annex 4: Environmental and Social Matrix

Prior Action	Likely environmental impact	Likely social impact
Prior Action 1: To further enable renewable energy in Kazakhstan, the government has allowed transparent and competitive third-party access for privately driven distributed renewable energy generation through amendments to the Law on Renewable Energy and other amendments to the regulatory framework.	**Positive impact:** The reform will generate significant positive environmental effect by supporting Kazakhstan's international commitment to the NDCs. The transition to clean energy will lead to a direct reduction in environmental pollution and GHG emissions. **Likely adverse impact:** Scaling up small-scale distributed renewable energy investments may lead to indirect environmental risks during installation and operation. Overall, such projects generally pose minimal, localized downstream risks relative to large-scale plants, which can be effectively managed under the government's existing and recently strengthened environmental management framework.	**Indirect positive impact:** The reform is not expected to have direct distributional impacts. The indirect positive effects of the reform are expected to be long-term and in the form of reliability of electricity supply due to increased competition and reduction in pollution-related health issues.
Prior Action 2: To remove energy subsidies and strengthen the tariff framework, the government has adopted systematic electricity tariff adjustments in line with the new methodology to achieve full cost recovery levels as evidenced by the letter issued by the Committee for the Regulation of Natural Monopolies.	**Positive impact:** The reform will generate significant positive environmental effect by supporting Kazakhstan's international commitment to the NDCs. The enhancement of operational and financial efficiency resulting from electricity tariff adjustments will encourage modernization of electricity network and in turn, promote energy efficiency. The reform is expected to directly decrease GHG emissions, or at least contribute, to an enabling environment for GHG reduction.	**Insignificant adverse impact:** The reform is expected to have insignificant adverse direct distributional impacts. Simulation results from World Bank's Poverty and Social Impact Analysis (PSIA) indicate that cumulative electricity tariff adjustments between 2024 and 2026 would result in negligible increase in the national poverty rate of approximately 0.07 percentage points, reflecting low household energy budget shares that is estimated at 2.7 percent for the lowest-income decile. The government's Housing Utilities (HU) transfer program, which compensates households where utility expenditures exceed applicable regional income thresholds, serves as the primary mitigation mechanism. The government's social protection system is considered adequate to contain residual distribution effects, and no

Prior Action	Likely environmental impact	Likely social impact
		significant shortcomings in the member's system have been identified.
Prior Action 3: To remove energy subsidies and strengthen the tariff framework, the government has adopted systematic heating tariff adjustments in line with the new methodology to achieve full cost recovery levels as evidenced by the letter issued by the Committee for the Regulation of Natural Monopolies.	**Positive impact:** The reform will generate significant positive environmental effect by supporting Kazakhstan's international commitment to the NDCs. The enhancement to operational and financial efficiency resulting from heating tariff adjustments will reduce dependence on coal and help decarbonize the heating sector—supporting direct reductions in pollution and GHG emissions.	**Insignificant adverse impact:** The reform is expected to have insignificant adverse direct distributional impacts. Similar to electricity tariff adjustments under PA 2, simulation results indicate negligible poverty effects, with low household heating expenditure shares among the lowest-income decile. Kazakhstan's Housing Utilities transfer program mitigates residual adverse distributional effects on low-income and vulnerable groups. Cost recovery for heating companies is expected to reach 100 percent by 2026 from 80 percent in 2022, with tariff increases implemented gradually. No significant shortcomings in the Member's system to address these impacts have been identified.
Prior Action 4: To enhance energy efficiency, the government has adopted more stringent standards and energy saving requirements by tightening energy efficiency targets for the first-tier highest energy intensity consumers, as evidenced by Order No. 322 on Amendments to the target indicators for energy efficiency.	**Positive impact:** The reform will generate significant positive environmental effect by supporting Kazakhstan's international commitment to the NDCs. This reform will drive direct reductions in energy consumption and GHG emissions in high energy-intensive industries.	**Indirect positive impact:** The reform targets the first-tier highest energy intensity industrial consumers and is not expected to generate direct distributional impacts on households. The long-term indirect effect is positive, which includes more stringent energy efficiency standards that are expected to reduce operating costs and improve competitiveness in energy-intensive industries, contributing to broader economic productivity gains. No adverse distributional effects on households are projected.
Prior Action 5: To enable the Emissions Trading Scheme (ETS) to contribute to meeting the Nationally Determined Contributions (NDC), the government has: (a) announced a set of emissions caps for	**Positive impact:** The reform will generate significant positive effect by contributing to mitigation and improving the verification process for emissions reporting, enhancing the ability for Kazakhstan to achieve its NDC.	**Insignificant adverse impact:** The reform is expected to have insignificant adverse direct distributional impacts. ETS-covered entities will initially receive free emission permits, limiting direct cost pass-through to consumers. Price effects at

Prior Action	Likely environmental impact	Likely social impact
2026 to 2030 that are consistent with the NDC target, as evidenced by Government Resolution No.1209; and (b) updated regulations to strengthen the verification process for emissions measurement and reporting.		the sectoral level remains small, and the simulated rise in the national poverty rate is negligible at approximately 0.03 percentage points. No significant shortcomings in the member's system to address these impacts have been identified.
Prior Action 6: To enhance water conservation and support climate adaptation, the government has enacted a new Water Code which allows for water resources management based on regulation permits.	**Positive impact:** The reform will generate significant positive impacts on the environment as water savings from the reforms will directly contribute to better environmental water flows, thereby enhancing the water availability for competing uses and supporting biodiversity.	**Indirect positive impacts:** It is expected to have indirect positive distributional impacts. The reform to water tariffs incentivizes conservation and resilience-building. This can lead to cost savings for users who adopt conservation practices.

Source: World Bank Project Document 2025

Annex 5: Required Accompanying Document(s)

A. The Borrower's Development Policy Letter

ҚАЗАҚСТАН
РЕСПУБЛИКАСЫ
ҚАРЖЫ МИНИСТРЛІГІ

МИНИСТЕРСТВО
ФИНАНСОВ
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11.03.2026 №005-ДТ/2052-И

To the President
Asian Infrastructure Investment Bank
Ms. Zou Jiayi

Dear Madame Zou,

On behalf of the Government of the Republic of Kazakhstan, please allow me to express our gratitude to the Asian Infrastructure Investment Bank (AIIB) for its continued support in improving our citizens' economic growth and social well-being. We greatly value our strong partnership guided by our Government's and AIIB's Multi-Year Rolling Pipeline.

We are establishing a streamlined and adaptable State Planning System, which will ensure coherence among sectorial strategies and plans, considering the human and physical capital of the country as well as available financial resources. The "Kazakhstan-2050" Strategy and the National Development Plan until 2029 establish our long-term development objectives. Key priorities of the Government include emissions reduction, digitalization, and enhancing competition to support private sector growth. These efforts are designed to ensure nationwide inclusivity and shared prosperity of the Republic of Kazakhstan.

Implementing the Government's vision requires stable macroeconomic conditions. Kazakhstan's economy realized solid growth in 2025, underpinned by domestic consumer spending, with real GDP expanding by 6.5 percent. We are taking steps to keep inflation under control, underpinned by an independent National Bank of Kazakhstan which is pursuing monetary tightening to help control excess demand in the economy. The Government of Kazakhstan is committed to responsible fiscal management even while we plan ambitious government spending on important infrastructure and development priorities. Although we are faced with a widening fiscal deficit, we are taking steps to increase revenues, including through the approval of a new Tax Code, which will support the development of a more competitive and fairer economy. Overall, we are developing our overall fiscal and debt management strategy, prioritizing financing sources that reduce our debt servicing costs.

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To realize our ambitions, the Government is committed to carrying out reforms in the following areas:

1. Strengthening the commitment to reducing greenhouse gas emissions

In February 2023, the Government adopted a Strategy for achieving our target of carbon neutrality by 2060. This Strategy outlines a comprehensive vision for economic diversification, fostering the adoption of new technologies and reducing our carbon footprint. Our country's commitment to a low-carbon development path is being supported by AIIB, the World Bank, and other international organizations.

We are currently developing a Strategy Implementation Roadmap, which will identify the key measures that need to be implemented to achieve climate targets. The Government is planning the shift toward low-carbon development to address climate and environmental concerns, which will serve as an additional catalyst for long-term sustainable economic growth.

A key element of achieving our climate goals is the decarbonization of the power sector, which will be driven by increased use of renewable energy. The Government aims to add 6.5 GW of renewable energy by 2035, building on the 3 GW currently in place, while also incentivizing the use of distributed energy. We have improved and scaled up our use of renewable auctions and reformed legislation to facilitate small-scale distributed renewable energy projects.

Recognizing that Kazakhstan is among the most energy-intensive economies in the world, we adopted the Concept for the transition of the Republic of Kazakhstan to a green economy. This Concept aims to decrease energy intensity by 15 percent of GDP by 2030, compared to 2021. We are prioritizing efforts to address the energy intensity of the industrial and construction sectors, which jointly consume 70 percent of total final energy consumption. We are implementing more stringent energy efficiency standards for new buildings. In parallel, we set energy efficiency targets for the most energy-intensive enterprises. We aim to ultimately reach the level of OECD countries. Such improvements will boost the development of the energy service market, improve the competitiveness of local production, and help achieve the country's Nationally Determined Contribution (NDC).

Furthermore, we will continue to develop the Emissions Trading System (ETS), which we established in 2013. The system limits the emissions of about 200 large enterprises in the power and industry sectors, which account for 43 percent of national emissions. By the end of 2025, the Government will set the emissions caps for the period of 2026-2035, a period crucial for the achievement of the 2035 emissions target. The caps (equaling the number of quota allocated to firms or sold at auction plus the quota reserve for a given year) will be set consistent with the target requiring an average annual reduction of at least 3.41 percent over the period 2026-2030. A detailed National Allocation Plan will be issued to establish how the emissions allowances are distributed and what the sectoral emissions caps are. At the same time, the Government will implement auctioning of quota, enabling the ETS to raise revenue. The Government has also been reforming the process for reporting of emissions by ETS

companies, helping to improve transparency and confidence in the system. We have received financial and technical support from the World Bank on the ETS, through the Partnership for Market Implementation program. This program will support many activities enhancing the ETS, such as the introduction of auctioning, improvement to the offset system, and the development of a strategy for the international trade of mitigation outcomes.

2. Tariff policy reforms

We are taking important steps to reform tariff policy to promote investment in energy infrastructure and improve the financial sustainability of the energy sector. These reforms will also reduce subsidies and increase the availability of resources for our economic development and social programs.

The Ministry of National Economy has been implementing an incentive-based approach to tariff regulation to achieve full cost recovery, which is necessary for increasing investments. Recent tariff reforms have increased the cost recovery of electricity companies from 85 percent to 99 percent by June 2025. Similarly, heating tariff reforms have resulted in the cost recovery of the heating sector increasing from 70 percent in 2022 to 93 percent by June 2025. The incentive-based methodology sets tariffs based on projected costs for a five-year period, which provides greater cost certainty. Financial incentives are also provided in the form of higher returns for increased investments, automatic adjustments for changing cost drivers, as well as rewards for improving service quality.

To ensure that we reach full cost recovery and that the tariff increases are sustained, throughout the course of 2026, we will work with electricity and heating distribution companies to ensure that they can fully meet the criteria from the incentive-based methodology, which requires: (i) measuring and reporting key performance indicators, which is often unfulfilled as data quality and management are weak; (ii) implementing appropriate accounting systems to monitor cost changes and applying annual automatic adjustments; and (iii) establishing an investment program for the approval of the Committee for the Regulation of Natural Monopolies. These reforms are necessary for continued investment in the power and heating sectors, and to underpin our future energy security.

3. Addressing water scarcity

Due to the impacts of climate change, Kazakhstan faces increasing water insecurity. We seek to address water scarcity, we have updated the Water Code to introduce a range of ambitious measures aimed at promoting water conservation. These include reforming water tariffs, introducing subsidies for water savings technologies, and requiring water permit holders to submit water conservation plans. The legislation also mandates planning for ecological flows and the use of digital systems for data collection, strengthening Kazakhstan's ability to adapt to more frequent and intense climate extremes.

These reforms will help contribute to meeting key water saving targets, including increasing water savings sixfold by 2030 through introduction of water-saving technologies in irrigated agriculture, and reducing irrigation water losses from 50 percent to 25 percent by 2030 via infrastructure upgrades and enforcement of best available techniques. These improvements in water management and use are important for addressing the growing water scarcity exacerbated by a changing climate change, and securing freshwater resources for agriculture, industry and the people of Kazakhstan.

4. Our future reform ambitions

The Government is firmly committed to the continued implementation of the reforms mentioned above and appreciates the assistance of the AIIB. These reforms will significantly contribute to the development of the national economy while supporting economic stability and improving our population's standard of living. Looking ahead, we aim to build on the initial set of reforms supported under the Kazakhstan Inclusive and Sustainable Economic Growth Development Policy Operation series. Our ambition is to implement future reforms that will continue our development pathway to have more energy from cleaner and more sustainable sources in line with the Low Emissions Development Strategy, to improve the competitiveness of markets according to the goals set out in the Liberalization Decree, and to ensure that the welfare gains from these reforms are fairly distributed, as stipulated in the National Development Plan of the Republic of Kazakhstan for 2025-29.

In light of the above, we would be grateful for a positive response to our request and further cooperation on proposed financing to support Kazakhstan's economic transition to a greener and more resilient economy through climate policy and institutional reforms in energy and water management.

Yours sincerely,

Mr. Dauren Kengbeil,
Vice-Minister of Finance

B. International Monetary Fund Assessment Letter (e.g., IMF Article IV Consultation)

PRESS RELEASE

PR 26/021

IMF Executive Board Concludes 2025 Article IV Consultation with Kazakhstan

FOR IMMEDIATE RELEASE

Washington, DC – January 27, 2026: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Kazakhstan[1].

Kazakhstan's economy continued to grow at a rapid pace in 2025, boosted by rising oil output and robust activity in non-oil sectors. Strong domestic demand, underpinned by an expansionary public sector stance, has contributed to clear signs of economic overheating. Alongside imported price pressures, this has helped push inflation well above its target. Overall, banks remain resilient amid rapid consumer credit growth. In the medium-term, growth is projected to moderate to around 3½ percent, and inflation would decline only gradually to its 5 percent target by 2030.

The National Bank of Kazakhstan continues to maintain a tight monetary stance amid persistent inflation pressures. Planned fiscal consolidation in the 2026 state-budget will be largely offset by expanding quasi-fiscal activities by State Owned Enterprises, resulting in a continued overall loose public sector stance. Rapid progress in implementing the 2023 FSAP recommendations and ongoing deployment of prudential measures should continue to support financial stability.

Structural reform implementation faces persistent challenges, with the state footprint remaining large and constraining private sector development. Enhancing efforts to diversify the economy and promote private activity in key productivity-enhancing sectors will be crucial to delivering higher levels of sustainable growth.

Executive Board Assessment[2]

Executive Directors commended the Kazakh authorities for the economy's resilience amid global policy uncertainty and oil price fluctuations. They noted that strong economic growth, however, has been accompanied by persistently high inflation and widening current account deficit, consistent with signs of economic overheating. Directors stressed the importance of ensuring a more restrictive and well-coordinated macroeconomic policy mix and additional structural reform efforts to deliver more sustainable, inclusive growth.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

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Directors emphasized the importance of maintaining a tight monetary policy stance until inflation is close to target and noted the need for further policy rate hikes should inflation increase. They also called for more effective liquidity management, including through greater issuance of short-term notes by the National Bank of Kazakhstan, coordinated with the issuance of treasury bills by the Ministry of Finance. Directors noted such efforts would help strengthen the transmission of monetary policy, enhance government cash management, and support domestic capital market development.

Directors recommended an overall fiscal consolidation to avoid fiscal procyclicality. They emphasized the importance of additional measures to strengthen planned fiscal consolidation, including by phasing out remaining tax exemptions, while stressing that the off-budget activities of SOEs should be more restrained and carefully calibrated to avoid undermining disinflation efforts. Enhancing the fiscal framework is also a priority.

Directors welcomed that the banking sector remains sound, but noted risks related, in particular, to rapid consumer credit growth. They encouraged continuing to implement key 2023 FSAP recommendations and further strengthen the stability of the banking system. Directors urged giving priority to enacting the new Banking Law, establishing the necessary capacity to operationalize the new bank resolution framework, and regulating and supervising activities in the digital asset space. Ensuring prudential measures are well-targeted will help mitigate potential financial stability risks from household over-indebtedness.

Directors urged the authorities to accelerate market and governance structural reforms to further reduce the role of the state and promote private sector activity. They agreed that further investments in health, education, digitalization, and infrastructure should be complemented by reforms to reinforce legal protections, ensure property rights, and reduce the cost of doing business to level the playing field for the private sector. Strengthening the AML/CFT framework is also key.

Table 1. Kazakhstan: Selected Economic Indicators, 2024–27

		Projections		
	2024	2025	2026	2027
Output and prices		(Annual percent change)		
Real GDP	5.0	6.2	4.4	4.2
Real Oil GDP	-2.2	11.5	3.6	4.0
Real Non-Oil GDP	6.9	4.9	4.6	4.2
Headline Inflation (AVG)	8.7	11.4	10.7	10.0
General government fiscal accounts		(Percent of GDP)		
Revenues and grants	19.2	17.6	17.8	18.3
Expenditures and net lending	22.7	21.6	21.3	21.3
Overall fiscal balance	-3.5	-4.0	-3.5	-3.0
Non-oil fiscal balance	-8.2	-8.3	-7.4	-7.1
Gross public debt	24.4	25.2	27.5	28.8
Monetary accounts		(Annual percent change)		
Broad money	33.4	34.3	34.8	34.9
Credit to the private sector	25.5	26.0	26.4	26.9
External sector	(Percent of GDP, unless otherwise indicated)			
Current account balance	-2.7	-4.1	-4.3	-4.2
Reserves Assets (USD billion)	45.8	56.1	62.6	62.8
In months of following year imports of G&S (Units)	7.0	8.2	8.9	8.8
NFRK assets	19.9	19.4	19.2	19.5
External debt	56.5	62.7	63.9	63.8

Sources: Kazakhstani authorities and IMF staff estimates and projections.