Climate Policy-Based Financing Program
P000999 The Republic of Kazakhstan: Inclusive and Sustainable Economic Growth Program

Environmental and Social Assessment of the Prior Actions Supported by the Program

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 are 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

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		mitigation mechanism. The government's social protection system is considered adequate to contain residual distribution effects, and no 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.

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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; and (b) updated regulations to strengthen the verification process for emissions measurement and reporting.	**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 the sectoral level remain 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.