



Kazakhstan: Kazakhstan Urban Infrastructure Modernization Program and Finance Facility

Project Name	Kazakhstan Urban Infrastructure Modernization Program and Finance Facility	
Project Number	51365-001	
Country	Kazakhstan	
Project Status	Proposed	
Project Type / Modality of Assistance	Loan	
Source of Funding / Amount	Loan: Kazakhstan Urban Infrastructure Modernization Program and Finance Facility	
	Ordinary capital resources	US\$ 250.00 million
Strategic Agendas	Environmentally sustainable growth Inclusive economic growth	
Drivers of Change	Governance and capacity development Knowledge solutions Partnerships Private sector development	
Sector / Subsector	Finance - Infrastructure finance and investment funds Water and other urban infrastructure and services - Other urban services - Urban policy, institutional and capacity development - Urban sanitation - Urban solid waste management - Urban water supply	
Gender Equity and Mainstreaming	Effective gender mainstreaming	
Description	The Asian Development Bank (ADB), jointly with the World Bank, proposes to establish the Kazakhstan Urban Infrastructure Modernization Program as a medium- to long-term roadmap to ensure sustainable development and financing of urban infrastructure, operationalized through a national level facility the Kazakhstan Urban Infrastructure Finance Facility (KUIFF)(the Project), in the Republic of Kazakhstan. This supports Kazakhstan's annual estimated \$20 billion investment need for urban infrastructure and services required for promoting economic diversification, and an environmentally sustainable and inclusive growth for an improved quality of life, aligned with the government's Strategic Plan for Development of Kazakhstan 2025: Technological Modernization for Accelerated Growth and Better Quality of Life. It is aligned with ADB's country partnership strategy, 2017-2021, for Kazakhstan, which highlights urban infrastructure development and responds to the government request for support to the urban sector, particularly for urban water supply and sanitation.	

Project Rationale and Linkage to Country/Regional Strategy

Aging infrastructure and inadequate investments. There is a growing infrastructure deficit with 75% of infrastructure requiring replacement and/or rehabilitation. Investment requirements through 2040 have been projected to total at least \$150 billion with annual requirements estimated at about \$2.8 billion for water supply improvements and \$1.3 billion for sewage treatment (in 28 cities), \$2 billion for solid waste management, \$3 billion for district heating, \$8 billion for integrated district heating, energy efficiency and housing improvement measures, \$3 billion for urban transport, and \$3 billion for integrated urban development of new areas (footnote 3). The government prefers to avoid sovereign borrowing given their current financial constraints, but its own funding for infrastructure investment was about \$270 million in 2016 from both the government's budget subsidies and investments given the substantial reduction in Kazakhstan's gross domestic product from about \$224 billion in 2013 to \$133 billion equivalent in 2016.

Weak Institutional Capacity. Municipalities are responsible for the delivery of urban infrastructure and services through their public utility companies. Weak technical and financial management capacity of the utilities have led to inefficient operations and maintenance, and poor asset management (including outdated equipment). Low tariffs for water and district heating services limit the revenues for utility companies and are insufficient for the operations and maintenance or for capital investments. As tariffs are inadequate to sustain utilities, ad hoc emergency funds are regularly transferred from the national government to oblast and city Akimats, and from them to utility companies. Public budget commitments in Kazakhstan can extend to a maximum of 3 years, which is not sufficient for the long-term planning needed to build and operate complex infrastructure for urban services delivery. Uncertainty of budget transfers and future tariff levels preclude long-term planning, financial sustainability and development of utilities, and their ability to keep pace with urban growth leading to poor creditworthiness. The capacity at local level to structure and implement projects including with private participation is weak given the limited incentives, accountability, and training for updated business practices.

Financing gap. Private, institutional, and commercial (PIC) finance into urban projects is limited due to a weak enabling environment i.e. policy, legal, institutional, and financial frameworks; weak technical and operational efficiency and financial management of municipalities and utilities; as well as the lack of a pipeline of bankable projects. Although utility companies can borrow commercially, they lack creditworthiness and their owners, city Akimats, are not allowed by law to borrow. A significant share of Kazakhstan banks' combined \$80 billion assets is tied up in loans. Even if banks could lend, they most likely would not do so without corporate credit enhancement for utility entities. They also do not have the experience and capacity to do project finance. Foreign banks remain focused on trade finance and export credits with political/commercial risk cover and are unlikely to consider lending to cities or their utilities in the foreseeable future.

Lack of a market in long-term tenge. Although there are major tenge-based government institutional funds with long-term liabilities, there are no long-term tenge securities in the Kazakhstan capital market nor long-term tenge deposits in the banking system. Banks are, therefore, unable to fund the sort of long-term i.e. 25-year loans required by utilities for major investments in infrastructure such as heating and water networks. There is also no existing local capital market mechanism, such as a municipal or utility bond market, as an alternative to banks. Acknowledging the prevailing conditions and private sector participation and financial market challenges, the government is keen to systematically develop and finance the country's municipal infrastructure with simple and conventional projects backed by feasible financing plans.

Impact	Quality of life for people improved and economic growth accelerated in Kazakhstan's cities. Universal access to safe and affordable drinking water by 2030 (SDG 6) Cities and human settlements made inclusive, safe, resilient, and sustainable (SDG 11)
Outcome	Financing for urban infrastructure and services projects increased
Outputs	KUIFF established with operational technical support and financing units under a Directorate Key policy, legal and regulatory, and institutional frameworks improved Capacity of the government to screen, evaluate and implement urban infrastructure and services projects including with private sector participation strengthened
Geographical Location	Nation-wide, Astana

Safeguard Categories

Environment	B
Involuntary Resettlement	B
Indigenous Peoples	C

Summary of Environmental and Social Aspects

Environmental Aspects	The program will involve infrastructure investments across urban, transport, and other sectors that will require environmental assessments. An Environmental and social management system arrangement will be established.
Involuntary Resettlement	The program will involve infrastructure investments across urban, transport, and other sectors that will trigger land acquisition and resettlement resulting physical and/or economic resettlement. An Environmental and social management system arrangement will be established.

Indigenous Peoples The proposed project does not have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples. The TRTA will determine the pilot subprojects and assess the potential benefits and/or expected impacts and suggest actions and measures.

Stakeholder Communication, Participation, and Consultation

During Project Design The main stakeholders of the proposed program will be the Ministries and agencies at national, provincial, and city level, the related provincial, local governments, and financial institutions. Project design includes stakeholder consultations with these groups to establish social eligibility criteria for subproject selection. The project will include criteria for stakeholder consultations and other local people, including women and any other collaborating agencies during subproject preparation. Opportunities for involving civil society organizations will be sought during subproject preparation. The views of poor and vulnerable groups will be included during subproject preparation and implementation.

During Project Implementation An inter-ministry steering committee will be established to oversee the project to ensure institutional collaboration. Working group will be established for smooth implementation. GRM will be established. Suitable opportunities for ensuring participatory planning and consultations during project implementation will be enabled. Opportunities for involving civil society organizations will be sought during implementation. Criteria for stakeholder engagement will be included into the ESMS.

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Timetable

Concept Clearance	12 Dec 2017
Fact Finding	15 Sep 2018 to 30 Sep 2018
MRM	09 Nov 2018
Approval	-
Last Review Mission	-
Last PDS Update	27 Sep 2018

Project Page <https://www.adb.org/projects/51365-001/main>

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