

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA54048

Project Name	Center South Road Corridor Project (P153501)
Region	EUROPE AND CENTRAL ASIA
Country	Kazakhstan
Lending Instrument	Investment Project Financing
Project ID	P153501
Borrower(s)	KazAutoZhol JSC
Implementing Agency	KazAutoZhol JSC
Environmental Category	A-Full Assessment
Date PID Prepared/Updated	16-Aug-2016
Date PID Approved/Disclosed	16-Aug-2016
Estimated Date of Appraisal Completion	22-Jul-2016
Estimated Date of Board Approval	17-Nov-2016
Appraisal Review Decision (from Decision Note)	

I. Project Context

Country Context

The Republic of Kazakhstan is an upper middle-income resource-rich economy. Its main resources are in the mineral (oil, gas, ferrous and non-ferrous metals) and agricultural sectors, all of which are to some extent dependent on an efficient level of road transport. It is the ninth largest country in the world, with a land area equal to that of Western Europe. With a population of about 17 million and a population density of 6.1 persons per square kilometer, it is sparsely populated, which makes maintaining connectivity important, both socially and economically.

The economy grew at an average rate of 8 percent between 2000 and 2013, but has significantly slowed since 2014. GDP growth slowed to 4.4 percent in 2014, an estimated 1.2 percent in 2015 and is expected to slow further to 0.5 percent in 2016. The economic slowdown is partly due to currency devaluations since February 2014 whereby the Tenge has lost about 50 percent of its value against the US\$ as of January 2016, which has affected domestic demand and the labor market. The fall in oil prices (from US\$110 per barrel in June 2014 to US\$35 in February 2016) has led to large terms of trade shock and affected Kazakhstan's oil export earnings.

The Government of Kazakhstan (GOK) is proactive in the face of current economic uncertainties. It significantly adjusted its 2015 budget based on an oil price of US\$50 per barrel and adopted a plan to consolidate its non-oil deficit in the medium term, along with prioritized expenditure to protect vulnerable groups. In March 2015, the budget was re-formulated based on reducing the budget

deficit by an estimated US\$3.8 billion, and in parallel, requested the World Bank (Bank) and the Asian Development Bank for budget support. This resulted in GoK and the Bank preparing, in 2015, a three-year programmatic Development Policy Operation (DPO) of US\$2 billion, which focuses on improving macro-economic resilience to shocks and supporting private sector growth. In November 2014, Nurly Zhol, an anti-crisis economic program was announced, aimed at addressing the country's long-term development goals.

Despite short-term vulnerabilities, the medium-term prospects for Kazakhstan are positive. This is a result of the strong growth potential from the oil sector and structural reforms, and is envisioned in the Kazakhstan 2050 Strategy, which seeks to guide the country's transition to a knowledge economy within 10 to 15 years, and to join the top 30 most developed countries by 2050. Structural reforms described in the 2050 Strategy indicate a strong commitment to building a knowledge economy, and driving growth, diversification, and global competitiveness, through improvements in human capital, institutions, and infrastructure.

The economic vulnerabilities of Kazakhstan's reliance on oil and minerals highlight the importance of diversification. Developing and improving trade opportunities will be of critical importance to meet diversification objectives and as a mechanism for sustainable growth and job creation. Regional trade and logistic expansion remains significantly underexploited. Kazakhstan has taken recent major trade policy initiatives, including accession arrangements to join the World Trade Organization (WTO) and the implementation of the Eurasian Customs Union (with Russia, Kyrgyz, Belarus and Armenia) since 2010. Both have the potential to open up regional and global markets to support export diversification. Full realization of the benefits will require concerted efforts to reduce non-tariff barriers, improve trade facilitation, and reduce the costs of trading across borders, including improvements to transport network connectivity.

Unemployment has fallen dramatically over the past fifteen years, to around 5 percent in 2014. Job creation was accompanied by strong productivity growth. Value added per worker expanded by 4.3 percent per year in real terms between 2003 and 2013, and contributed more than 90 percent to Kazakhstan's growth per capita added. This combination of rising employment and wage expansion was the most important factor contributing to poverty reduction. However, low unemployment masks a high reliance on self-employment. Close to 30 percent of those employed in Kazakhstan are self-employed, more than half in agriculture. Self-employment is particularly concentrated in rural areas, and is highly unproductive, delivering earnings that keep households poor or highly vulnerable to slipping back into poverty. For example, in the regions relevant to the project, the self-employment rates are 48 percent in Zhambyl, and 14% in Karaganda. This variation highlights the challenges of creating jobs in regions away from the country's growth poles. For workers outside metropolitan and oil extracting regions, quality jobs in the private sector are rarely available. Many lack marketable assets (skills, financial and social capital) and face barriers to pursuing opportunities elsewhere in the country.

Poverty rates have been reducing, but regional and rural-urban disparities are large. Against a benchmark of a poverty line at the PPP-corrected US\$5 per capita per day, about 35 percent of Kazakhstan's population were living in poverty in 2010, down from almost 80 percent in 2001. The share of people with income below the national poverty line varies widely across regions, from 1.7 percent in Astana to over 10 percent in South Kazakhstan. While rural poverty has been decreasing, incidence is still, on average, twice as much as in urban areas. Poverty reduction has come primarily through increased employed rates and higher wages, however a large share of the

population remains in unproductive self-employment.

Kazakhstan communicated its Intended Nationally Determined Contribution (INDC) prior to COP21. The INDC features an unconditional target for a 15 percent reduction in GHG emissions by 31 December 2030, and a 25 percent reduction subject to additional international investments, access to low carbon technology transfer mechanisms, green climate funds and other flexible mechanisms for a country whose economy is in transition.

Improving transport connectivity remains core to supporting growth and shared prosperity. Physical infrastructure and improved logistics connectivity will create a favorable environment for private-sector driven economic growth, through enhanced goods mobility and distribution and delivery systems.

Sectoral and institutional Context

Developing transport infrastructure is recognized in Kazakhstan's Economic Policy Nurly Zhol. The development of transport and logistics infrastructure, connecting Astana at the center, to the East, West, North, and South, was specifically mentioned in this policy. The program emphasizes that improved infrastructure and connectivity creates a favorable environment for business-driven regional economic integration through enhanced goods mobility and delivery systems, and has the greatest potential multiplier effect in terms of economic growth. The Nurly Zhol is expected to generate a significant number of additional jobs through increased investment expenditure. The Center South Road Corridor Project (CSRCP) is designed on these principles.

CSRCP is part of a transformative vision to connect Kazakhstan to major trading partners. Looking at the big picture, GoK is self-financing or using donor partner financing, to upgrade over 5,000 km of highway over the current decade. The Bank is playing a leading role in this transformation, currently financing three large projects; the South West Roads Project (SWRP) and the East West Roads Project (EWRP), together upgrading 1,400 km of the Western Europe to Western China corridor; and the Center West Regional Development Project (CWRDP), is financing 1,000 km of the east-west link between Astana and Aktau. These initiatives are forging international connections between Kazakhstan, China, Uzbekistan, Kyrgyz Republic and via the Caspian Sea to Azerbaijan and beyond.

A number of important institutional changes have been implemented under SWRP and EWRP and through donor partners, including separation of operational aspects from policy and planning functions, the introduction of a Quality Charter as a basis for performance based maintenance activities and improvements in road safety and sustainability. CSRCP will leverage these reforms, with a focus on sustainable revenue sources for road maintenance, safe road operations, job creation and private sector participation.

GoK wants to develop Kazakhstan as the preferred international and Central Asian regional trade, logistics and business hub. Although current trade interactions are relatively low with Europe, China, Central Asia and South Asia, they are increasing, and this is in addition to growing trade with the Eurasian Economic Union countries. Materializing this reform will drive a reduction in the costs of imported goods, but is dependent on the efficiency of the supply chain to and from Kazakhstan or transiting through the country. Reflecting this objective, national road freight volume has increased by 26 percent since 2011, reaching 3.1 billion tons in 2014. However, the economic

crisis is impacting the logistics sector with freight volumes dropping in 2015. In this context, the development of transport infrastructure, along with efforts to increase efficiencies in managing the sector, are considered by the GoK as key elements of the Kazakhstan 2050 Strategy.

Kazakhstan recognizes the challenges in promoting private sector participation to create jobs. Administrative regions between Astana and Almaty host 58 percent of the country's private sector firms, so enhancing the corridor capacity through the CSRCP, along with better linkages to the corridor, can help strengthen Kazakhstan's economic core. Between 2000 and 2014, Astana's share in national production increased from 5 to 10 percent while Almaty city increased from 15 to 19 percent. All other regions observed either low or negative changes in their production shares. The need for good connectivity between the two national economic cores is evident.

To complement improvements in transport connectivity, CSRCP will help develop the Center South link as an economic corridor. The private sector has role in economic development. Opportunities under CSRCP to increase private sector participation include: (a) development of modern road-side service facilities, building on existing assistance under SWRP; (b) engaging the private sector to design and build various ITS and e-tolling initiatives to help address asset preservation and safety issues; and (c) implementing priority actions identified under the CIIP Trust Fund that will enhance economic benefits by developing value chains which have a comparative advantage along the corridor and facilitating international trade.

The Borrower for the Project is proposed as KazAutoZhol (KAZ). KAZ was created in 2013 as Joint Stock Company with the Ministry of Investment and Development (MoID) as the sole shareholder. KAZ will also be the Project Implementing Entity (PIE). KAZ's mission is to operate and maintain republican roads and manage toll roads. CSRCP will improve the fiscal sustainability of KAZ through better business planning, improved capacity for revenue generation, support to expand the network of tolled roads, and a review of the constraints currently limiting KAZ's access to commercial financing. Refer also sub-component 3(b).

The Central Asia Regional Economic Cooperation (CAREC) corridors are important for international connectivity and trade facilitation. They link the region's key economic hubs, and connect the landlocked CAREC countries to other Eurasian and global markets. CSRCP spans two of the (CAREC) corridors. Improvements achieved through CSRCP will enhance the flow of freight from China and Kyrgyzstan via Almaty and through the east of Kazakhstan to Astana, northern Kazakhstan and Russia. CSRCP will improve connectivity between the two main urban agglomerations, Astana and Almaty, and promote productivity through lower transport costs.

The economic and geographic features of Kazakhstan while presenting significant transport challenges, also provide opportunities. The country is vast and land-locked, and the population and natural resources are unevenly distributed, resulting in a high dependence on the efficient movement of people and goods. Travel distances within the region are substantial (e.g. 2,500 km from Astana to Aktau, and 1,200 km from Astana to Almaty). But Kazakhstan is also strategically located between western China and Europe, and accessible to the Middle East via the Caspian Sea. Routes to and from dynamic growth poles such as Turkey, Russia, India and China (accounting for more than half of world economic and trade growth) transit the country.

Kazakhstan's jobs challenge is made more difficult by its land-locked geographical position. Improving road links and connectivity is crucial for Kazakhstan to interact with and benefit from

the economic growth adjacent to its borders. The ninth largest country by land mass, Kazakhstan's small population makes it one of the world's least densely populated countries, with just six people per square kilometer. Moreover, the population is dispersed, with its commercial capital, political center, and oil region separated by thousands of kilometers. This is compounded by harsh climatic conditions that limit connectivity and isolate parts of the country. The internal geography of Kazakhstan acts as a significant barrier to an integrated domestic market. This is reflected in the outcomes of a recent survey of entrepreneurs, which showed that just 7 percent of businesses surveyed sold beyond local markets. Transport costs are estimated to account for 8-11 percent of the final cost of goods, which is about double the cost in most industrialized countries.

Road Safety (RS) is a serious and growing problem in Kazakhstan. The fatality rate for Kazakhstan from road accidents is about 24 per 100,000 population, around four times higher than average fatality rates in Western Europe, with road deaths accounting for 24.2 percent of all deaths in Kazakhstan. Improvements are being made in RS under SWRP and CWRDP, and CSRCP will build on this through additional reforms and interventions.

II. Proposed Development Objectives

To make safe and sustainable improvements to transport and freight connectivity between Almaty and Astana, and improve access to economic opportunities.

III. Project Description

Component Name

1. Transport Infrastructure

Comments (optional)

Component Name

2. Jobs and Skills Initiatives

Comments (optional)

Component Name

3. Road Safety and Sustainability

Comments (optional)

Component Name

4. Project Management and Impact Assessment

Comments (optional)

Component Name

Front-End Fee

Comments (optional)

IV. Financing (*in USD Million*)

Total Project Cost:	1766.00	Total Bank Financing:	750.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			266.00
International Bank for Reconstruction and Development			750.00
Asian Infrastructure Investment Bank			750.00
Total			1766.00

V. Implementation

KAZ will be the Borrower and will take responsibility for project implementation and management. KAZ is a state-owned entity. This is unlike preceding Bank-financed projects, where the Borrower was Ministry of Finance (MoF) and Committee for Roads (CR) within the Ministry of Investment and Development (MoID) was the implementing agency. However, given the multi-sectoral nature of CSRCP, implementation arrangements are designed to ensure agencies in other sectors can participate in interventions that impact their mandates.

MoID will oversee the project, and CR is involved in its planning and preparation. MoID will oversee and administer the counterpart budget financing. CR, as part of its role to plan for new operations, is involved in preparing the design, feasibility and safeguards assessments.

KAZ will be the Borrower and Project Implementing Entity (PIE). A Project Management Unit (PMU) will be formed from existing staff at KAZ. As KAZ staff also have their normal duties, the PMU may be enriched by consultants to provide additional support, for procurement, financial, and safeguards management, engineering inputs, results monitoring, and administrative support. The PMU will be fully funded by the Borrower under Component 4, however, TA to make KAZ a more sustainable entity, will be provided under Component 3.

The cross-sectoral nature of the project components requires a number of agencies to interact. To coordinate the cross-sectoral activities during implementation, an Inter-Agency Steering Committee (IASC) will be formed and meet twice annually. The IASC will be chaired by MoID, and high level representatives of participating agencies will be invited to join. The IASC will provide general oversight, guidance, and strategic supervision of the Project, as well as nominate members for the Technical Steering Committee (TSC). The TSC will be a working-level group with flexible membership formed from the participating agencies. The TSC will, where required for components not directly within the technical mandate of KAZ, advise on technical aspects, and monitor progress. Issues and actions that go beyond the TSC will be escalated to the IASC for resolution. The PMU will provide secretariat services to both the IASC and TSC, including arranging meetings, preparing agenda, tracking key issues, and taking follow-up actions.

Independent contract supervision and monitoring will be provided by consulting firms engaged for the full term of the construction contracts. Primarily, they will administer the contracts, certify payments, and ensure compliance with the quality standards. In addition, KAZ through its PMU, will ensure the development of completion and impact reviews which will: (a) document project impacts on beneficiaries, including collection of base-line data; (b) review lessons learnt, (c) review trends within the citizen engagement systems and impact assessments; (d) review the results indicators; and (e) recommend improvements in project design.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11	x	
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)**VII. Contact point****World Bank**

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