

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 21 July 2021¹

KAZAKHSTAN

KYZYLORDA-ZHEZKAZGAN ROAD PROJECT

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

¹ As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

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ABBREVIATIONS / CURRENCY CONVERSIONS

AADT	Annual Average Daily Traffic
ADB	Asian Development Bank
BAKAD	Big Almaty Ring Road Project
bps	basis points
capex	Capital Expenditure
CAREC	Central Asia Regional Economic Cooperation
CGAP	Corporate Governance Action Plan
COOs	Countries of Operation
CO ₂	Carbon Dioxide
CPI	Consumer Price Index
DSCR	Debt Service Cover Ratio
EBITDA	Earnings Before Interests, Tax, Depreciation and Amortisation
EHS	Environmental, Health and Social
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EIRR	Economic Internal Rate of Return
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
EPFA	Enhanced Partnership Framework Agreement
EHSS	Environment, Health, Safety, Security
ESIA	Environmental and Social Impact Assessment
E&S	Environmental & Social
ETC	Electronic Tolling Collection
EUR	Euro
EV	Electric Vehicles
FX	Foreign Exchange
FY	Financial Year
GAP	Gender Action Plan
GDP	Gross Domestic Product
GET	Green Economy Transition
HQ	Hazard Quotient
HDM-4	Highway Development and Management
IFC	International Finance Corporation
IFIs	International Financial Institutions
IFRS	International Financial Reporting Standards
IRAP	International Road Assessment Programme
JSC	Joint Stock Company
km	Kilometre
KPI	Key Performance Indicators
KZT	Kazakhstani Tenge
LARF	Land Acquisition Resettlement Framework
LTT	Legal Transition Team
NDC	Nationally Determined Contributions
NFRK	National Fund of the Republic of Kazakhstan
NO _x	Nitrous oxides
NPL	Non-Performing Loan

NPV	Net Present Value
OHS	Operational Health and Safety
OVOS	Local EIA
PBMC	Performance-Based Maintenance Contract
PM	Particulate Matter
PP&R	EBRD's Procurement Policies and Rules
PPP	Public-Private Partnership
RFID	Radio-Frequency Identification
RSA	Road Safety Audit
SEP	Stakeholder Engagement Plan
SME	Small and Medium Enterprises
SO ₂	Sulphur dioxide
SSF	Shareholder Special Fund
TC	Technical Cooperation
TI	Transition Impact
TOR	Terms of Reference
USD	United States Dollar
VAT	Value Added Tax
VOCs	Vehicle operating costs
WB	World Bank
WE-WC	Western Europe-Western China
WHO	World Health Organisation
YE	Year End
y/y	Year-on-year

1 USD = 424.8 KZT

1 USD = 0.85 EUR

9 May 2021

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of JSC National Company KazAvtoZhol (the “Company”), a state-owned company incorporated in Kazakhstan, are submitted for consideration by the Board of Directors.

The facility will consist of a loan to the Company equivalent of up to USD 240 million (EUR 204 million). The loan will be provided in local currency (KZT) and will consist of two tranches. The first tranche equivalent to up to USD 187.4 million (EUR 159.3 million) will be committed on the date of signing. The second tranche equivalent to up to USD 52.6 million (EUR 44.7 million) will be committed subject to a separate Board approval following completion of relevant public disclosure and consultation requirements. The loan will be guaranteed by the Republic of Kazakhstan.

The operation will enable the Company to finance (i) reconstruction of a 204 km section of the 427-km Kyzylorda-Zhezkazgan road and (ii) construction of a new 14.8 km bypass road around the city of Kyzylorda. The Asian Development Bank (ADB) will finance reconstruction of the remaining road section.

The project’s expected transition impact stems from improving regional connectivity and road safety standards (primary quality – Integrated) as well as from supporting new sustainable funding models (e-tolling) and private sector involvement (performance-based maintenance) in the road sector (secondary quality – Resilient). In addition, the Bank will support Kazakhstan in preparing a national strategy for road infrastructure development to support electric vehicle deployment on its road network.

The project incorporates climate change adaptation measures aimed at improving resilience of the road to increasing extreme weather conditions and will reduce harmful local air pollution in Kyzylorda – 23 per cent of investment proceeds will be counted as GET finance. The project is gender additional as improving recognition of gender aspects in road safety standards, design and maintenance.

[REDACTED] The post-signing TC will include (i) the Strategic Road Safety Risk Assessment [REDACTED] and (ii) the E-mobility Strategy Development [REDACTED].

I am satisfied that the operation is consistent with the Bank’s Strategy for Kazakhstan, the Transport Sector Strategy, the Green Economy Transition Approach 2021-2025, the Economic Inclusion Strategy, the Strategy for the Promotion of Gender Equality and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loan substantially on the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

KAZAKHSTAN – KYZYLORDA-ZHEZKAZGAN ROAD PROJECT - DTM 52149	
Transaction / Board Decision	Board approval ² is sought for a sovereign guaranteed loan of up to USD 240 million (EUR 204 million) to be provided in local currency (KZT) in favour of JSC NC KazAvtoZhol (the “Company”) in two tranches of USD 187.4 million (EUR 159.3 million) as committed at signing and USD 52.6 million (EUR 44.7 million) as an uncommitted tranche. The commitment of the second tranche is subject to a separate Board approval following completion of ESIA, including relevant public disclosure and consultation requirements required for category A projects.
Client	The Company is Kazakhstan’s 100 per cent state-owned national road operator, responsible for design, construction of national highways and management of toll roads. [REDACTED]
Main Elements of the Proposal	<p><u>Transition impact</u></p> <ul style="list-style-type: none"> - Primary Quality – Integrated. The project will support (i) rehabilitation of a strategic north-south E123 route that connects the Ural region with Central Asia, also part of the Western Europe-Western China and the CAREC corridor networks; (ii) implementation of road safety risk assessment for core sections of the national road network; (iii) development and adoption of an action plan following the road safety risk assessment and introduction of mandatory post construction road safety audits for the entire road network; and (iv) introduction of a national e-mobility deployment strategy; - Secondary Quality – Resilient. The project will support (i) expansion of an electronic tolling collection (ETC) system and cost recovery of tolling charges, as well as introduction of RFID automatized toll collection technology for trucks on all tolled roads; and (ii) private sector involvement through further introduction of performance based maintenance contracts (PBMC). <p>The project incorporates climate change adaptation measures and is in line with the Bank’s Green Economy Transition 2.1 approach: 23 per cent of the project proceeds will be counted as GET finance.</p> <p><u>Additionality</u></p> <ul style="list-style-type: none"> - Long-term financing in local currency is not available from commercial banks; - The Bank’s conditionalities (e.g. PP&R and ESAP) and ongoing policy dialogue aimed at improving governance and financial sustainability in the road sector. <p><u>Sound banking</u></p> <ul style="list-style-type: none"> - The Republic of Kazakhstan will provide the sovereign guarantee; [REDACTED].
Key Risks	<p><u>Sovereign exposure risk</u>: within the Bank’s guidelines. Kazakhstan’s public debt is low and sustainable with current sovereign credit ratings investment grade (S&P BBB, Stable; Moody’s Baa3, Positive; Fitch BBB, Stable).</p> <p><u>Project implementation risk</u>: mitigated by the involvement of an engineering and supervision consultant. The Bank’s Procurement Policies & Rules (PP&R) will apply to all contracts.</p>
Strategic Fit Summary	The project is in line with the Bank’s Strategy for Kazakhstan, Transport Sector Strategy 2019-2024, the Green Economy Transition Approach 2021-2025, the Economic Inclusion Strategy, the Strategy for the Promotion of Gender Equality.

² Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	A loan of up to USD 240 million (EUR 204 million) to the Company to be provided in local currency (KZT) under a sovereign guarantee. The loan will be split into two tranches. The first tranche of up to USD 187.4 million (EUR 159.3 million) equivalent in local currency (to be committed at signing) will be provided to finance rehabilitation of a 204-km section (Category B under the Bank's ESP) of the 427-km Kyzylorda-Zhezkazgan road. The second tranche of up to USD 52.6 million (EUR 44.7 million) equivalent in local currency will finance the construction of a new 14.8-km bypass (Category A) around the city of Kyzylorda. The second tranche commitment is subject to separate Board approval following completion of public disclosure and consultation requirements for Category A operations. The government of Kazakhstan will co-finance the project by covering the VAT.
Existing Exposure	<u>Exposure to the Company/debt</u> : EUR 351 million through four transactions (OpIDs 47229, 48820, 50006 and 50382) [REDACTED]. <u>Sovereign exposure to Kazakhstan</u> : EUR 612 million [REDACTED].
Maturity / Exit / Repayment	The loan tenor is 18 years [REDACTED].
Potential AMI eligible financing	None
Use of Proceeds	The proposed loan will finance (i) road rehabilitation works for the 204 km section of Kyzylorda-Zhezkazgan road and construction of the new 15 km bypass around the city of Kyzylorda; (ii) engineering supervision and project implementation consultant; and (iii) payment of the front-end fee. The engineering supervision will verify and confirm the use of proceeds as part of the disbursement request documentation. Progress reports will be submitted on a semi-annual basis with the assistance of the project implementation consultant. For more details on implementation of ongoing projects, please refer to Annex 5 (<i>Project Implementation</i>).
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	JSC NC KazAvtoZhol as the borrower; and Ministry of Finance of the Republic of Kazakhstan as the guarantor on behalf of the Republic of Kazakhstan.
Conditions to subscription / disbursement	<ul style="list-style-type: none"> • [REDACTED]For the second tranche: (i) completion of the Environmental Social Impact Assessment, including social disclosure requirements, in accordance with the Bank's Performance Requirements; (ii) adoption of ESAP by the Company.
Key Covenants	<u>Transition Impact (TI) covenants:</u> <ul style="list-style-type: none"> • Adoption of RFID technology for e-tolling freight transport on all tolled roads [REDACTED]; • Installation of a toll collection system on roads to reach a total length of 11,000 km [REDACTED]; • Routine and winter maintenance on toll roads to be fully covered by user charges [REDACTED]; • Conduct road infrastructure safety assessment in accordance with IRAP or other international road safety standards on 5,000 km of roads [REDACTED];

	<ul style="list-style-type: none"> • Implementation of PBMC on additional 1500 km of roads [REDACTED]; • Development and adoption of a road safety action plan for the assessed 5,000 km of roads [REDACTED]; • Introduction of mandatory post construction road safety audits on the entire road network [REDACTED].
Security / Guarantees	Sovereign guarantee
Other material agreements	Sovereign guarantee agreement; Grant agreement(s) for Technical Cooperation
Associated Donor Funded TC and co-investment grants/concessional finance	<p>A. Technical Cooperation (TC)</p> <p><u>Pre-signing:</u></p> <p>TC1: Road Safety Audit [REDACTED]</p> <p>TC2: Environmental and Social Due Diligence [REDACTED]</p> <p>TC3: Environmental and Social Impact Assessment (Kyzylorda Bypass) [REDACTED]</p> <p><u>Post-signing:</u></p> <p>TC4: Strategy for Road Infrastructure Development to Support Electric Vehicle Deployment in Kazakhstan [REDACTED]</p> <p>TC5: Strategic Road Safety Risk Assessment [REDACTED]</p> <p>Reimbursement:</p> <p>The above assignments are non-reimbursable transactional TCs required to evaluate the investment and assist the Company in project implementation.</p> <p>Cost sharing: The post-signing TC [REDACTED]for engineering supervision and project implementation will be loan-funded as part of parallel cost sharing contribution. [REDACTED]</p> <p>B. Co-investment grants / Concessional Finance (Non-TC)</p> <p>None</p>

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

For Kazakhstan, as the largest land locked country with sparse population and ambitions to become a natural transit corridor between China and Europe, investing in road infrastructure has always been a top economic priority.

The 2015-2020 Nurly Zhol (*the new way*) programme³ allowed rehabilitating 13,000⁴ km of national highways, provided more than 400 thousand job opportunities and contributed to increase in freight traffic and trade. To kick start economic recovery and address priorities that have surfaced through the pandemic, such as greater digital connectivity and robust infrastructure, the programme has been extended to 2025 to include, rehabilitation of another traffic-critical 10,000 km. It also prioritises the reduction of high economic costs of road accidents⁵ and of road replacement caused by climate change as well as an environmentally sustainable transformation of the transportation sector.

While the COVID-19 restrictions introduced a set of challenges for physical implementation of projects, the government has continued to deliver on the sector reforms covenanted under the current EBRD projects in the road sector. These included (i) successful rollout of electronic tolling system (ETC) on 5,800km (vs 2,000km covenanted); (ii) introduction of corporate governance enhancements as required by the Bank; and (iii) adoption of a new development strategy with clearly set KPIs for corporate, financial sustainability of the Company. Last year (2020) also saw financial closure of the first road PPP (BAKAD) amid a pandemic environment and tendering of the first ever performance based maintenance contract (PBMC) [REDACTED].

The proposed project is identified as strategic under the new strategy and the Nurly Zhol programme. It involves the reconstruction of a 204 km section of the 412 km road, which provides the shortest link between the southern agricultural regions around Kyzylorda city and Zhezkazgan city, the copper manufacturing region in the center of the country. The project also includes greenfield construction of a 14.8 km long bypass around Kyzylorda city. The reconstruction of the road will result in a significant reduction in vehicle operating costs as well improvements in regional economic connectivity. It therefore ranks high among the priority investment projects for the Kazakh government. Currently in dire condition, with low speed (30km/h) and road safety concerns, the road, once reconstructed, will attract freight flows from China through its connection to the Western Europe-Western China and CAREC corridors

³ The Nurly Zhol Programme is an anti-crisis programme covering infrastructure investments and structural reforms in different sectors, with road infrastructure development being a cornerstone of the Programme as one of its most capital and labour intensive parts.

⁴ Where 3,000km of new roads were constructed along international corridors with EBRD and other IFIs assistance and 10,000km repaired out of state budget.

⁵ USD 2-4 billion per year (2% of the country's GDP). For every 100 thousand people in Kazakhstan -24.2 died (in Russia – 20.8, and in Norway – 2.2).

(1a, b and c) to transit along the European Route E123⁶ to Russia and Europe. The ADB will co-finance the remainder of the Kyzylorda-Zhezkazgan road.

The project includes construction of roadside facilities with gender responsive design features including: (i) separate toilets and baby changing room/family room (ii) an emergency telephone system on the road and internet coverage to respond to any emergencies; and (iii) lighting for bus stops along the alignment and the access to and from the bus stop; these facilities will be using solar power supply where electricity is scarce. The project also includes the installation of fibre-optic for broadband deployment; tolling control points with automatic ‘weigh-in motion’ sensors to measure axle loads of vehicles and traffic monitoring systems to monitor traffic flows and vehicle speeds; please see Annex 1 (*Project Description and Economic Analysis*). Once commissioned the road will be included in the national ETC network. The project incorporates climate change adaptation measures to reduce weather-related damage and disruption present in the project area; please see Annex 2 (*GET Assessment*) for more details. As part of the project, gender-sensitive road safety trainings sessions and awareness campaigns in communities will be included in contractors’ scope of work. Trainings will address potential risks for communities in particular vulnerable groups such as women and children.

The TI agenda for the project will further support the Company’s transformation into a self-financed and well-governed entity through expansion of the tolling network, maintenance costs recovery and a greater PBMC coverage. It also introduces an ambitious road safety agenda to address Kazakhstan’s high road fatalities levels (one of the highest in the Bank’s geography with 17.6 deaths per 100 000 population per WHO estimates). The TI interventions will include (i) a road safety assessment of the strategic road network (20 per cent of national highways) to identify risk sections, mitigation measures, post-construction road safety audit and will pilot collection of sex-disaggregated road accident data on transport patterns; (ii) development of an action plan, which will encompass necessary legislative and design changes following the road safety assessment and respective training of national experts; (iii) and development of a national EV deployment strategy to underpin Kazakhstan’s efforts to decarbonise the transport sector as one of the drivers towards the country’s targets to climate neutrality⁷; the strategy will complement ADB’s (the co-financier) ongoing work at an urban level. The project also aims to coordinate gender work with ADB, which primarily targets gender action plan to increase women representation at the corporate level and support technical skills of youth in the project area.

The Bank’s additionality will stem from (i) addressing gender concerns in road safety standards for road design and implementation; and (ii) gender-sensitive road safety trainings and awareness campaigns in communities, addressing potential risks for communities in particular risks for vulnerable transport users (e.g. women and children) in the project area. The proposed agenda will require policy efforts beyond the Company and full commitment of the government.

⁶ 2,713 km long strategic highway route connecting Central Asia and Russia, passing through Dushanbe in Tajikistan, Tashkent in Uzbekistan and Kazakhstan.

⁷ Under the Paris Agreement, Kazakhstan’s nationally determined contribution (NDC) target is to reduce its greenhouse gas emissions (GHG) by between 15 and 25 per cent by 2030 compared with 1990 levels and to achieve climate neutrality by 2060. Kazakhstan’s energy system, however, remains highly carbon intensive indicating insufficient progress towards achieving the announced NDCs.

The project is consistent with the Bank's Strategy for Kazakhstan as “*enhancing Kazakhstan's competitiveness and promoting inter-regional, international connectivity*”. The project is also in line with the Transport Sector Strategy, Strategic Direction 1/ Connected Networks which: (i) “*complements co-financing partners with investment in modernising of motorways, national, regional..*”; (ii) “*supports corridors such as CAREC..*”; (iii) “*supports policy dialogue on sustainable funding of road maintenance and performance-based maintenance, where feasible out-sourced to the private sector*”; Strategic Direction 2/ Private Sector Participation which “*promotes a market-based approach by combining financing of priority public sector transport projects with policy dialogue, capacity building and sector reform requirements*”; Strategic Directions 3 and 4 to address environmental and social challenges, road safety issues and climate resilience.

The project is consistent with the GET 2.1 approach. It also contributes to UN Sustainable Development Goals (SDG): SDG 3 Good Health and Well-being, SDG 8 Decent Work and Economic Growth, SDG 9 Industry, Innovation and Infrastructure, SDG 11 Sustainable Cities and Communities, and SDG 17 Partnerships for the SDGs.

1.2 TRANSITION IMPACT

Primary Quality: Integrated

Obj. No.	Objective	Details
1.1	<i>The project delivers material quality improvements of the current infrastructure between or within regions that are currently inadequately integrated.</i>	The project will facilitate economic development and integration through improving connection between two cities in Kazakhstan, Kyzylorda and Zhezkazgan on the strategic European route E123. The project will support reconstruction of a 412 km section of the A17 Kyzylorda – Zhezkazgan highway, as well as construction of the 14.8 km long ‘Kyzylorda Bypass’. It will reduce transport costs, travel time and improve road safety standards to make the road safer for all users.
1.2	<i>The project will pilot the implementation of a strategic road safety risk assessment, including formal training of road agency staff and requirements for further applications across the road network.</i>	The project will covenant the application of a strategic road safety risk assessment on 5,000 km (based on IRAP or an equivalent form of internationally recognised analysis) of the core road network to identify high risk segments and interventions for mitigation, as well as development and adoption of a road safety action plan for the assessed 5,000 km of road; staff from the road department will also be trained in the application of the methodology. Additionally, the project will covenant introduction of mandatory post construction road safety audits for the road network.
1.3	<i>Development and adoption of an e-mobility readiness strategy/action plan</i>	The project will support development of an EV strategy to assess and improve the country's readiness for electric vehicle roll-out.

Secondary Quality: Resilient

Obj. No.	Objective	Details
2.1	<i>Management contract/lease/outsourcing (i.e. without private capital investment) in an infrastructure sector where private sector involvement is either moderately or well developed [e.g. 3-5 projects].</i>	The project will covenant introduction of PBMC on additional 1,500 km of road [REDACTED].
2.2.	<i>User charges will be increased to achieve operating cost recovery from the users of infrastructure (for an infrastructure asset that currently does not cover operating costs from user charges).</i>	The project will support the maintenance costs recovery of expanding the network of tolled road in Kazakhstan. Currently, tolling tariffs are set manually without taking into account either operational or capital costs. While the development of new tolling setting methodology will be financed under ADB's section of the Kyzylorda-Zhezkazgan road, EBRD will support cost recovery and tolling system expansion through covenanting (i) routine and winter maintenance costs recovery from collected tolls; (ii) introduction of RFID automatized toll collection technology for trucks on all tolled roads; and (iii) introduction of a toll collection system on 11,000 km of the road network in Kazakhstan.

The timeframes of covenants and relevant monitoring indicators for their delivery are shown in Section 2 (*Measuring/ Monitoring Success*). Delivery risks include the ability of the Company to deliver on their contractual obligations. Close collaboration with the government of Kazakhstan and joint approach with other IFIs will be applied to address the TI objectives at the project and country level.

1.3 ADDITIONALITY

Identified triggers	Description
Repeat transaction	This will be the Bank's fifth transaction with the Company. The continued engagement of the EBRD, ADB and WB is key to the ongoing institutional policy work under current projects, aimed at improving the connectivity of Kazakhstan's transport system and enhancing road safety standards.

Additionality sources	Evidence of additionality sources
Financing Structure - EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions , e.g. a longer grace period. Such financing is necessary to structure the project.	Long-term and large volume financing required for infrastructure projects in Kazakhstan continues to be available predominantly from the IFIs.

	The loan is needed to close the funding gap. A single financier cannot meet all of the sector's financing needs. The Bank does not crowd out other sources, such as from IFIs, government, commercial banks but complements them. This road reconstruction is co-financed with the ADB.
Financing Structure - EBRD offers a tenor , which is longer than available to the client in the market on reasonable terms and conditions.	The Bank offers 18-year tenor [REDACTED]. This is not available in Kazakhstan from commercial banks.
Financing Structure - EBRD offers local currency financing on terms not readily available in the market.	The Bank offers local currency financing on terms not readily available in the market.
Policy, sector, institutional, or regulatory change - EBRD's involvement in a project is considered additional when it is designed to trigger a change in the policy , sector, institutional or regulatory framework, or enhance practices at the sector or country level (e.g., an introduction of cost-reflective pricing of energy, water etc.).	The [REDACTED] Company to ensure that tolling is at a maintenance cost-recovery level, double its tolled roads network, carry out road safety assessment on its core road network to adopt the road safety action plan for assessed road sections, introduce a compulsory post-construction road safety audit, and prepare an EV deployment strategy to transform the road infrastructure sector. All measures go beyond the scope of the project and aim to improve the sustainability of the road sector.
Standard-setting: helping projects and clients achieve higher standards – Client seeks/makes use of EBRD expertise on higher environmental standards , above 'business as usual' (e.g. adoption of emissions standards, climate-related ISO standards etc.).	The Bank requires high environmental and social standards, which go beyond local requirements. The Environmental and Social Action Plan (ESAP) agreed with the Company will ensure compliance and implementation of best practice.
Standard-setting: helping projects and clients achieve higher standards – Client seeks/makes use of EBRD expertise on higher inclusion (e.g. adherence to labour standards which goes beyond the provisions set in PR2 of the environmental and social policy, development of comprehensive and institutional corporate social responsibility programmes), gender standards and/or equal opportunities action plans (e.g. improving women's access to safe transport and/or women-led businesses participation in the client supply chain).	As a result of the EBRD's involvement, gender mainstreaming will be incorporated in the road safety approach within road sector management to address gender concerns in road infrastructure design and implementation. As such, the strategic road safety assessment supported by the Bank will pilot collection of sex-disaggregated data on transport patterns and gender travel differences with specific recommendations to improve gender sensitive data collection (as this is currently lacking) for use in policy making.

	The project will also (i) mainstream gender in the design and construction of roadside facilities to include gender-sensitive roadside facilities to improve mobility patterns for women along the road; and (ii) will implement a gender-sensitive road safety training sessions and awareness campaign in communities that are close to the road, primarily targeting vulnerable transport users as women and children. [REDACTED]
Standard-setting: helping projects and clients achieve higher standards – Client seeks/makes use of EBRD expertise on best international procurement standards .	Procurement of works and services under the project will be carried out in accordance with EBRD's Procurement Policies and Rules (PP&R), which go beyond local requirements.
Climate Risk Mitigation: EBRD helps the Company to mitigate physical transition risks and take climate action, such as to identify and manage physical climate risks and build resilience to them.	The road infrastructure is exposed to extreme weather conditions, and is expected to worsen with climate change. A set of technical measures have been integrated into the project design to ensure that the design and operation of the project addresses relevant physical climate risks and is sufficiently robust in the face of projected climate change impacts. In particular, robust materials will be used that are erosion resistant and resilient to freeze-thaw effects and salting, thereby extending the lifetime of the infrastructure.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Borrower's risk	Medium/High	[REDACTED]
Sovereign risk	Medium/High	The Republic of Kazakhstan continues to maintain a strong fiscal position with a low debt burden as well as investment-grade credit ratings (BBB-/Stable by S&P; Baa3/Positive by Moody's; BBB/Stable by Fitch).
Construction risk	High/Medium	Application of the Bank's PP&R will ensure that an experienced and creditworthy contractor is selected to perform the work and a balanced construction contract is signed between the parties. Engineering supervision funded from the loan will further mitigate construction risks.
Implementation capacity	Medium/Medium	The Company's implementation capacity is sufficient to manage the project taking into account the experience received so far and implementation assistance from international consultants.

2. MEASURING / MONITORING SUCCESS

<i>Overall objectives of project</i>	<i>Monitoring benchmarks</i>	<i>Implementation timing</i>
Timely implementation of the project	Completion according to the timeline and within the budget.	[REDACTED]
Maintaining appropriate environmental standards	Successful and timely implementation of ESAP.	[REDACTED]

Transition Impact Monitoring Indicators						
Quality	Obj. No.	Monitoring Indicator	Details	Baseline	Target	Due date
Integrated	1.1	Improved quality of infrastructure	Reduced travel time and safer journeys through reconstruction of 204 km section of the A17 Kyzylorda – Zhezkazgan highway, which lies on the strategic European Route E123, as well as construction of the 14.8 km long ‘Kyzylorda Bypass’	[REDACTED]	[REDACTED]	[REDACTED]
	1.2	Improved quality of infrastructure	Completion of Strategic Road Safety Risk assessment on 5000 km (based on IRAP or an equivalent form of internationally recognised analysis)	[REDACTED]	[REDACTED]	[REDACTED]
	1.3	New or updated road safety information system introduced	Improvement of data collection and analysis system of the road safety data within the Company, including data on road accidents, accident hotspots and enabling disaggregation by gender	[REDACTED]	[REDACTED]	[REDACTED]
	1.4	Recommended policy or strategy or regulatory framework/ standard agreed by relevant stakeholder(s)	Development and adoption of a road safety action plan for the assessed 5,000 km of road under the strategic risk assessment assignment	[REDACTED]	[REDACTED]	[REDACTED]
	1.5	Number of individuals enhancing their skills as a result of training	National experts certified capable of independently conducting EuroRAP or IRAP assessment to provide a follow-on support on	[REDACTED]	[REDACTED]	[REDACTED]

			implementation of road safety measures			
	1.6	Tailored training programme developed and implemented	Road safety trainings by contractors for vulnerable transport users (women, children) of the project area through the inclusion of relevant provisions into the tender documentation. The contractors will carry out gender-sensitive road safety training sessions and awareness campaigns in communities close to the road. At least one training for women in their designated section will be carried out per section (6 in total).	[REDACTED]	[REDACTED]	[REDACTED]
	1.7	Recommended policy or strategy or regulatory framework/ standard agreed by relevant stakeholder(s)	Development and adoption of EV deployment strategy	[REDACTED]	[REDACTED]	[REDACTED]
	2.1	Public sector contract signed and implemented	Roll-out of performance based management contracts (PBMC) for additional 1500 km	[REDACTED]	[REDACTED]	[REDACTED]
	2.2	Operational restructuring completed	Installation of a toll collection system on roads with a total length of 11,000 km	[REDACTED]	[REDACTED]	[REDACTED]
			Implementation of RFID technology for charging freight transport on all toll roads	[REDACTED]	[REDACTED]	[REDACTED]
	2.3	Operational performance of the client: other	Routine and winter maintenance on toll road to be fully covered by the collected tolls	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER

JSC NC KazAvtoZhol was established in 2013 and is a 100 per cent state-owned road agency, responsible for the design and construction of national highways. It is also responsible for the management of toll roads, including collection of tolls and road maintenance. [REDACTED].

3.2 GUARANTOR

The Republic of Kazakhstan will provide a sovereign guarantee for the project. Kazakhstan continues to maintain a strong fiscal position with low debt burden at 29 per cent of GDP as well as investment-grade credit ratings (BBB-/Stable by S&P; Baa3/Positive by Moody's; BBB/Stable by Fitch). Combined official foreign exchange reserves of the central bank and assets held by the National Oil Fund amount to approximately 56 per cent of GDP (USD 94 billion), providing a significant buffer against negative shocks. GDP contracted by 2.6 per cent in 2020, but is expected to grow by 3 per cent in 2021. For more details, please refer to Annex 6 (*Macroeconomic Assessment*).

4. MARKET CONTEXT

The total length of public road network in Kazakhstan is 96,000 km, including 25,000 km of national highways which are under management of the Company. The reminder is managed by the regional (oblast) administrations. The government strategy until 2025 in the road sector provides that all capex for rehabilitation (USD 13 billion) will be financed from the state budget, IFI loans, and private investment. Maintenance of the road network will be borne by user charges collected on the tolled road network. With 5,800 km put into operation as of today, the government expects to expand the ETC network to a total length of 11,000 km of national highways. This will allow replacement state funding by 2025 and provide a sustainable source of alternative road financing in the sector. The ETC project is the second successful PPP in the road sector following the closing of BAKAD PPP project. The Bank did not finance the ETC project, but it did provide assistance with preparation of the tolling strategy and project tender.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

The first tranche is categorised B (2019 ESP). The independent environmental and social due diligence (ESDD) of the Company and the project has confirmed that any adverse future environmental and social impacts associated with the first tranche investments (the existing road rehabilitation) will be temporary in nature and primarily limited to the construction activities. The ESDD has further confirmed that the Company's overall capacity, and related Environmental, Health & Safety and Security management systems, are generally aligned with the Bank's Performance Requirements (PRs). Furthermore, the Company is an existing client of the Bank and has demonstrated satisfactory EHSS performance on the previous projects.

Local EIA (OVOS) has been undertaken in accordance with national requirements to evaluate the risks and impacts associated with the project. Findings from the ESDD have identified that the OVOS report is in line with Kazakhstan's national requirements. Disclosure of the project related information and public engagement was organised and completed in accordance with national requirements.

Whilst the project is generally structured to meet the EBRD PRs, the ESDD has identified a number of gaps that have been included in the Environmental and Social Action Plan (ESAP) that has been agreed with the Company. Stakeholder engagement activities will need to be improved and implemented according to the project specific Stakeholder Engagement Plan (SEP) including enhanced communication with the local communities and road users during the construction stage. Occupational health and safety (OHS), and labour risks are mainly related to the construction phase and will be further elaborated and included into the Construction Environmental and Social Management Plan to be prepared by the contractors.

Whilst limited land acquisition impacts are likely to occur, as the works are largely rehabilitation and within existing alignments, there may be some impacts to 3 cafes and 2 car service areas. The Company will try to avoid such impacts through design based solutions – as required under the Land Acquisition and Resettlement Framework (LARF) that will be adopted by the Company and will be additionally publicly disclosed. The LARF will be applicable for both the first and second tranches.

No significant negative biodiversity impacts are expected as the project is not located near to protected areas, working is largely within existing alignments, but pre-construction surveys will be carried out prior to construction.

Although no issues related to cultural heritage have been identified in the OVOS report, additional archaeological surveys will be commissioned as part of pre-construction surveys at the next stage in the projects development.

A road safety audit has been completed and specific improvements and mitigation measures have been included into the project.

An ESAP has been developed to address the issues raised above, and also to further improve environmental and social management at all stages of the project implementation. The ESAP includes the following actions: improvements to

contractors management; preparation and implementation of a Construction Environmental and Social Management Plan; development of a structured and integrated Environmental, Health and Safety, Labour Management System; improvements in water monitoring; formalising and developing better labour and OHS practices; safety and emergency response procedures during construction. The ESAP also requires: the development of a formal human resources policy including standards for working conditions and employment policies (non-discrimination, promotion of equal opportunities); the introduction of employment contracts for all the workforce; improvement of safety at workplaces during construction; adoption of gender-based violence and harassment policies; training programmes; a workers grievance mechanism; obtaining and maintaining all applicable permits. If contractors provide housing facilities, these will have to be designed and managed as per EBRD/IFC guidelines for workers accommodation 2009 and national guidelines for protection against COVID-19. The ESAP also includes climate change adaptation measures such as: temporary/permanent snow (blizzard) barriers, use of road surface materials to minimize frost penetration and which are erosion, heat and freeze resistant, increasing road surface thickness and using high strength, self-compacting concrete, and others which are aimed at improving resilience of the road to increasing extreme weather conditions.

The second tranche (related to greenfield by-pass construction) is categorised A (ESP 2019) and will require a full Environmental Social Impact Assessment, which is on-going, as per the Bank's PRs. The ESIA Disclosure Package will need to be separately disclosed for a minimum of 120 days prior to the Board consideration.

The Bank will monitor the Company's environmental and social performance and implementation of the ESAP through annual E&S reports and monitoring site visits when necessary.

6.2 INTEGRITY

In conjunction with OCCO, updated integrity due diligence was undertaken on the Company, its shareholders, senior management and other relevant parties. The Company is a client of the Bank in four other projects with a positive experience to date.

The review [REDACTED] concluded that [REDACTED] this project does not pose an unacceptable reputational risk to the Bank. [REDACTED]

To strengthen the project's integrity, procurement will be carried out in line with the Bank's PP&R, and an independent consultant will monitor implementation of the project. In parallel, the Company has made noteworthy progress in implementing certain recommendations of a Corporate Governance Action Plan, including adoption of compliance policies and establishment of an independent compliance unit to effectively address anti-corruption element.

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the project. The project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the project.

ANNEXES TO OPERATION REPORT

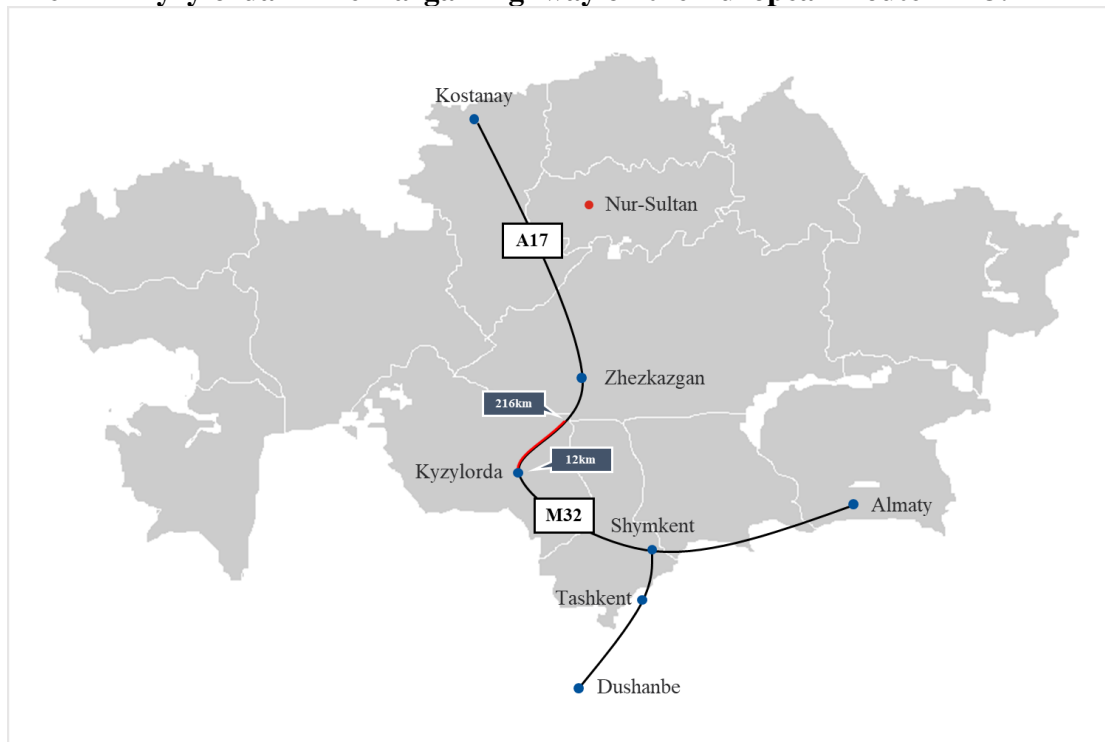
ANNEX 1:	PROJECT DESCRIPTION AND ECONOMIC ANALYSIS
ANNEX 2:	GET ASSESSMENT
ANNEX 3:	TRANSITION IMPACT SCORING CHART
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ANNEX 1 - PROJECT DESCRIPTION AND ECONOMIC ANALYSIS

1. PROJECT RATIONALE

The 412 km long A17 Kyzylorda-Zhezkazgan highway lies on the strategic European Route E123. This provides a 2,713 kms long strategic connection between Central Asia and Russia, passing through Dushanbe in Tajikistan, Tashkent in Uzbekistan and Kazakhstan. Within Kazakhstan, the E123 highway is the main north-south route running through the centre of the country and passes through the cities of Shymkent, Kyzylorda, Zhezkazgan and Kostanay. From Shymkent, the A-2 highway provides an east-west connection to Almaty, which is Kazakhstan's largest city and Kazakhstan's commercial centre. There are no parallel railway routes to the E123 highway within Kazakhstan and all passenger and freight transport using this route has to run on the E123 highway. There are airports at Kyzylorda, and Zhezkazgan, but each of these airports mainly operate passenger flights to Nur Sultan and Almaty. There are no direct passenger flights operating between Kyzylorda and Zhezkazgan.

The A17 Kyzylorda – Zhezkazgan highway on the European Route E123.



Kyzylorda is a city with a population of 240,000 and is a regional centre for rice production with two rice mills. It is also a supply centre for the Turgay Basin oilfields.

Zhezkazgan has a population of around 100,000 and the centre of the copper industry. Manganese and iron are also mined and processed nearby.

Between Kyzylorda and Zhezkazgan, the 412 km long A17 highway passes through flat open terrain containing mostly light scrub vegetation. No towns, villages or settlements are located between Kyzylorda and Zhezkazgan. No other roads connect with the A17 highway between Kyzylorda and Zhezkazgan.

Tranche 1: Reconstruction of the A-17 Kyzylorda – Zhezkazgan road. The road is a two lane single carriageway with an asphalt road pavement now in a very poor condition. It does not offer road users the condition expected of a strategic long-distance passenger and freight route. In the 204 kms long section, between km 12 and km 216, the asphalt pavement has completely broken up over a length of 58 kms (28 per cent of the total length) and vehicles run on the underlying gravel pavement layers. A further 112 kms of the road pavement (55 per cent of the total length) is presently in a very poor condition with frequent pot-holes and extensive deep cracks indicative of structural failure of the pavement. This advanced deterioration of the asphalt road pavement has resulted from inadequate pavement maintenance and the damaging effects of overloaded heavy trucks. Full reconstruction of the highway pavement is now required to restore the riding quality, strength and elastic properties of the highway pavement to provide a durable surface that will reduce road user vehicle operating costs and offer road users the level of service expected from a major highway. This reconstruction will involve removal of the remaining areas of asphalt pavement and construction of a new full-depth road pavement with the underlying granular layers and the asphalt pavement layers. The current two lane single carriageway standard will be maintained.

Tranche 2: Construction of the Kyzylorda Bypass. The A-17 highway from Zhezkazgan enters the east side Kyzylorda city. It runs through the eastern outskirts of the city for a distance of six kilometres before it leaves the city and runs eastwards, with a dual two lane carriageway (on a route now designated as the M32 highway) to Shymkent. Included in the proposed project is the construction of a new road, with a dual two lane carriageway, located some eight kilometres to the east of the city limit, which will provide a direct connection between the A-17 highway and the M-32 highway. This new 14.8 kms long road will avoid the need for long-distance travelling on the E123 route entering Kyzylorda city and then leaving it again on the adjacent radial route. The new road link is referred to as the ‘Kyzylorda Bypass’ and it will offer the long-distance traffic a distance saving of 20 kms.

Location of the Kyzylorda Bypass



2. PROJECT SCOPE

The project works will include:

- (i) removal of the remaining asphalt pavement layers and construction of new granular and asphalt pavement layers on the section of the A-17 highway between Kyzylorda (km 12) and a point mid-way between Kyzylorda and Zhezkazgan, at km 216, maintaining the existing two lane single carriageway standard;
- (ii) construction of seven rest areas along the A17 highway between km 12 and km 216, including accesses from the main road, parking areas and public toilets. Private sector companies will be able to construct and operate fuel filling stations, with charging points for electric cars, as well as over-night accommodation facilities at these rest areas;
- (iii) removal and reconstruction of four bridges on the A-17 highway, between km 12 and km 216, which are in a poor structural condition;
- (iv) removal and reconstruction of all culverts on the A-17 highway, between km 12 and km 216, which are in a poor structural condition;
- (v) construction of the new 14.8 km long link road with a dual two lane standard, which is referred to as the 'Kyzylorda Bypass';
- (vi) provision of new road markings and installation of new road signs along the reconstructed A-17 highway, between km 12 and km 216, and along the 'Kyzylorda Bypass';
- (vii) provision of an automatic traffic monitoring system which will monitor traffic flows and vehicle speeds. This monitoring system will help to prevent excessive speeds on this long and relatively straight road, which will improve road safety;
- (viii) and automatic 'weigh-in motion' sensors to measure axle loads of vehicles to detect overloaded trucks on the reconstructed A-17 highway. The 'weigh-in-motion' sensors will be connected to a control point, from which overloaded trucks can be stopped and charged for the excess load. Overloaded trucks cause premature failure of the road pavement and the axle load monitoring system will help to ensure sustainability of the reconstructed road pavement.

The project will include the following gender responsive design solutions for improved road safety for vulnerable transport users:

- (i) family rooms in rest areas equipped with tables for changing, separated toilets and other facilities;
- (ii) emergency telephone system on the road and internet coverage (currently unavailable) to respond to any emergencies;
- (iii) lighting for bus stops along the alignment and the access to and from the bus stop;
- (iv) lowered curbs ensures safe crossing for pedestrian as well as easy crossing for disabled pedestrians;
- (v) pedestrian path separated from main road which leads to bus stops;
- (vi) safe underground crossing for pedestrians under highway;
- (vii) pedestrian crossings at rest areas to warn drivers about pedestrian priority at this area;
- (viii) warning signs before junctions to warn drivers about possible pedestrian appearance on road;

- (ix) special parking spaces (wider) for disabled road users at parking places/rest areas;
- (x) guidance markings for disabled at bus stops.

3. ECONOMIC ANALYSIS

3.1. Methodology

[REDACTED]

3.2. Data

[REDACTED]

3.3. Carbon Shadow Pricing

[REDACTED]

3.4. Benefits from Induced Traffic

[REDACTED]

3.5. Results of the Economic Analysis

[REDACTED]

ANNEX 2 – GET ASSESSMENT

1. CLIMATE CHANGE ADAPTATION GET ATTRIBUTION

1. Context of climate change vulnerability in project region.

Kazakhstan is expected to face the consequences of climate change with long-term changes in climate and more frequent extreme events. Annual mean temperatures are projected to increase with a resulting strong increase in the duration of major heatwaves. Shifts in rainfall are expected with heavy rainfall events projected to be more intense and frequent. The probability of blizzards is also projected to increase.

In the context of this investment EBRD engaged a technical engineering consultant to undertake an analysis of the climate resilience of the Kyzylorda-Zhezkazgan mapping in detail the criticality and the exposure of road to climate vulnerabilities. The road sections were identified as being vulnerable to extreme high and low temperatures, heavy rainfall and snowfall, and high winds. As the frequency of extreme weather events is expected to increase with climate change, this vulnerability is expected to increase over time.

2. Statement of intent to address climate resilience.

The project includes appropriate measures, which have been identified through the climate vulnerability assessment, to address specific climate change vulnerabilities. The engineering team has also recommended technical measures that have been integrated into the detailed design and these have also been factored into the analysis. Recommended climate resilience measures have been proposed, to be integrated into the design during the preparation of detailed designs. These measures aim to ensure that the design and operation of the project addresses relevant physical climate risks and is sufficiently robust in the face of projected climate change impacts.

3. Link between climate vulnerability context and project activities.

The measures incorporated into the project are designed to either:

- a) reduce the exposure of the system to a hazard (e.g. by providing more robust/better designed structures, including contingency in the design or increasing maintenance schedules);
- b) reduce the consequence of a hazard event (e.g. through preparation and readiness or through adequately designed alternative routes); or
- c) improve the recovery from a hazard impact (e.g. by investing in effective recovery procedures or improved forecasting).

Based on the measures which have been recommended or already integrated into the design of the project, an assessment has been undertaken which calculated the effectiveness of these measures in reducing the weather related damage to the physical infrastructure of the road sections. It also calculated the climate resilience outcomes based on the reduced frequency and reduced annualised cost of road resurfacing and/or reconstruction.

Climate Resilience Outcomes.

[REDACTED]

The annual valorised outcomes are the basis for the GET allocation based on the GET Handbook.

2. LOCAL AIR POLLUTION BENEFITS

Kyzylorda city experiences referent values of pollutants that pose a significant health risk to the local population (see table below).

	Acute exposure Hazard Quotient (HQ)*	Chronic exposure Hazard Quotient (HQ)*
Suspended particles PM-10	6.7	0.8
Suspended particles PM-2.5	4.6	0.8
Nitrogen dioxide	0.6	1.3
Sulfur dioxide	0.5	1.4

Source: «Air Pollution in Kazakhstan and Its Health Risk Assessment », *Annals of Global Health*, 2019, published online @ <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6838766/>

*If HQ is equal to or less than 1.0, the risk of being subjected to harmful effects is considered extremely low, and with an increase in the HQ quotient, the probability of adverse effects occurring increases, i.e. $HQ > 1.0$ is considered as evidence of potential health risks.

The Kyzylorda city bypass will reduce the contribution of road traffic to this local air pollution by diverting the majority of heavy duty vehicles around the city. Specifically, with the project, PM, NO_x, and SO_x emissions that would have occurred as a result of vehicles passing through the city will be reduced [REDACTED].

In line with the EBRD GET Environmental Local Air Pollution approach, as these are above 15 per cent, the associated health benefits can be quantified and attributed as GET environmental finance. An independent consultant assessed the health benefits of the bypass for Kyzylorda city. [REDACTED].

3. GREENHOUSE GAS EMISSIONS ASSESSMENT

Methodology: Carbon dioxide (CO₂) emissions have been calculated for each year of the analysis period using the UK 'Emission Factors Toolkit model EFT2020_v10.1, which is released by the UK Department of Environment, Food and Rural Affairs. This model calculates pollutant emission rates of road vehicles and it is adopted by the UK Department of Transport for the evaluation of air quality impacts of road reconstruction and new road construction projects. Input data required by the model for each separate year in the evaluation period is:

- road type;
- traffic flow, expressed as annual average daily traffic (AADT);
- percentage proportion of each vehicle type in the daily traffic;
- average speed of the daily traffic (abstracted from the economic analysis);
- road link length.

Emissions have been calculated separately for each of the eight traffic sections of the project and for each separate year in the 25 year operation period from the 2025 opening year to 2049 in the do-minimum (without project) and the do-something (with project) scenarios.

Results: Implementation of the project results in an overall modest decrease of carbon dioxide emissions generated by the project in each year of the 25 year operation period that has been considered. [REDACTED]

The do-minimum scenario and do-something CO₂ emission levels do not always follow a consistent increase each year, as they are influenced by the various periodic maintenance interventions. This changes the riding quality of the road pavement and hence change traffic speed.

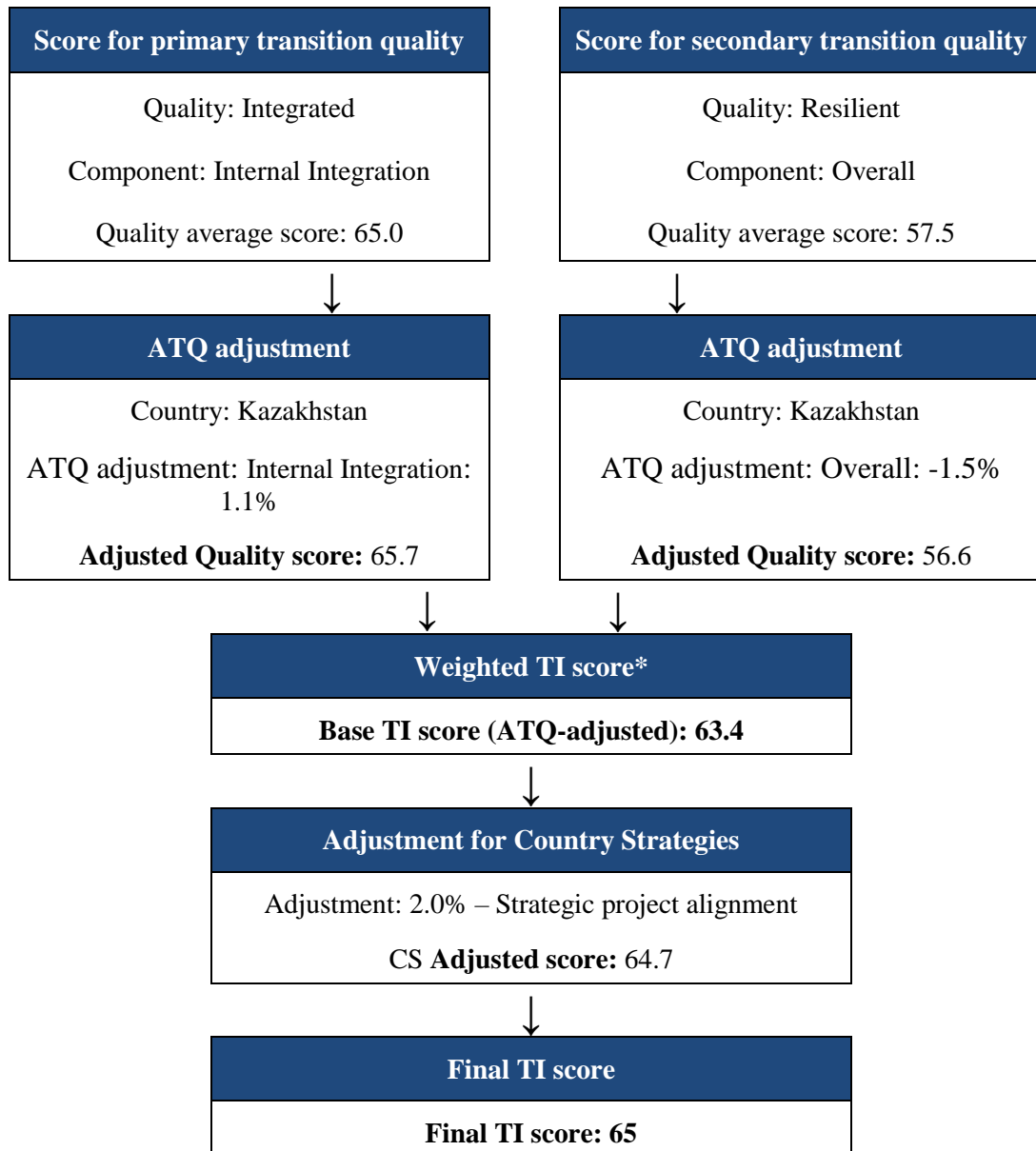
The table below shows that the modest decrease in CO₂ emissions generated by the project results from the construction of the Kyzylorda Bypass section which offers a 20 km long distance saving to long distance traffic. [REDACTED]

Although a reduction in CO₂ is anticipated, no GET attribution is proposed for mitigation.

4. GET SUMMARY

The project incorporates climate change adaptation measures which upon application of GET methodology result in a 21 per cent GET attribution across both the road reconstruction and bypass. The construction of the 14.8km long Kyzylorda Bypass section reduces harmful local air pollution in Kyzylorda city, and a 8 per cent GET attribution is applied to the second tranche (only). No GET is attributed for climate change mitigation. Across the whole project, a GET share of 23 per cent is attributed (21 per cent for Tranche 1 with USD 187.4 million and 29 per cent (21 percent plus 8 per cent) for Tranche 2 with USD 52.6 million).

ANNEX 3 – TRANSITION IMPACT SCORING CHART



ANNEX 4 - IMPLEMENTATION AND TRANSITION IMPACT UPDATE

1. Implementation of existing public sector road projects in Kazakhstan

To date the Bank has signed four projects with the Company. [REDACTED]

OpID	Signing year	Exposure EUR, M	ETI	Status	COVID-19 impact
47229 Kurty-Buribaytal Road	2016	[REDACTED]	Good/High 60	Under implementation	[REDACTED]
48820 Kurty-Buribaytal Road Extension	2016	[REDACTED]	Good/High 60	Under implementation	[REDACTED]
50006 Kurty-Kapshagai road	2019	[REDACTED]	Good/High 63	Under implementation	[REDACTED]
50382 Atyrau-Astrakhan Road	2019	[REDACTED]	Good/High 65	Under implementation	[REDACTED]

[REDACTED]

2. Summary of transition objectives for current projects with the Company:

The Company made considerable progress fulfilling the objectives for Kurty-Buribaytal Road Project and Kurty-Buribaytal Road Project Extension. [REDACTED]

ANNEX 5 – PROJECT IMPLEMENTATION

Procurement classification – *Public sub-sovereign*

[REDACTED] *The Client's capacity assessment related risk – Moderate Low*
JSC KazAvtoZhol will implement the project. The Company is already implementing four EBRD financed projects, demonstrating acceptable capacity for satisfactory implementation of the project. The Company's capacity was assessed for the previous projects as Moderate Low.

Contracts risk assessment - Moderate Low

Rehabilitation of the 204 km section of Kyzylorda-Zhekazgan road and construction of a new 15 km bypass around the city of Kyzylorda is relatively low-risk contract, using FIDIC Red Book contract terms and conditions. The detailed designs have been completed and approved by the state authorities. A qualified international consultant will supervise the construction works and support the Company.

Project implementation arrangements:

Given the readiness of design documentation, the project is subject to advanced procurement which is underway. JSC KazAvtoZhol supported by the Bank's approved external procurement expert will be responsible for implementation of the project. The Company has good experience in procurement of similar contracts using the Bank's PP&R. Procurement of reconstruction works and selection of the construction supervision consultant will commence in June and July 2021, respectively. To ensure that rehabilitation of 204 km section of Kyzylorda-Zhezkazgan road is fully compliant with FIDIC terms the Company will be supported by a project Implementation support and a Construction supervision consultant.

Procurement arrangements:

Goods, works and services financed by the loan will be procured following open tendering procedures, in accordance with the requirements of Part III Section 3 of the Bank's PP&R for public sector operations and using the Bank's standard tender documents.

All consultants will be procured in accordance with Part III Section 5 of the Bank's PP&R.

All loan-financed contracts will be subject to prior review by the Bank. [REDACTED].

ANNEX 6 – MACROECONOMIC ASSESSMENT

Real GDP contracted by 2.6 per cent in 2020, a relatively mild recession compared with most OECD economies and EBRD countries of operation. The state of emergency declared on 16 March until 1 June, and milder social distancing measures re-introduced from 1 July until mid-August strongly affected retail trade, transport and hospitality industries.

The budget deficit expanded to an estimated 3.2 per cent of GDP in 2020. The government launched a stimulus package of KZT 5.9 trillion (about 9 per cent of GDP) in 2020, which was one of the largest in the region. The NFRK's assets have been pivotal in offsetting the decline in oil revenue, meeting external financing obligations and funding expenditure. The government has also borrowed EUR 908.6 million from the ADB and EUR 661.8 million from the Asian Infrastructure Investment Bank (AIIB) at favourable conditions to finance the budget deficit in 2021.

A depreciation of 15 per cent in the first three months of 2020, in response to lower oil prices, prompted the central bank to raise the policy rate from 9.25 per cent to 12.0 per cent in March 2020, intervene in the foreign exchange market and instruct state-owned enterprises to sell their export earnings in the domestic foreign exchange market. After exchange rate pressures subsided, the policy rate was lowered to 9.5 per cent in April and 9.0 per cent in July 2020. The annual average KZT/USD rate is down 7 per cent in 2020.

Real GDP is expected to rebound in 2021 and grow by 3 per cent on the back of private consumption recovery and higher oil prices, although a possible resurgence of the pandemic would likely keep oil prices depressed in the short term.

In the short-term, the economy is resilient to external shocks due to significant fiscal buffers, as the combined official foreign exchange reserves of the central bank and assets held by the National Oil Fund are approximately 56 per cent of GDP (USD 94 billion), while Kazakhstan's public and publicly guaranteed debt stands at 29 per cent of GDP in December 2020.

S&P Global Ratings affirmed its 'BBB-/A-3' long- and short-term foreign and local currency sovereign credit ratings on Kazakhstan in September 2020. Kazakhstan's rating balances strong fiscal and external balance sheets underpinned by accumulated oil fiscal revenues, against a high dependence on commodities and lower, but improving, governance scores relative to 'BBB' rated peers. Government indebtedness remains low and external and fiscal buffers have been resilient to the coronavirus and oil price shocks.

ANNEX 7 – HISTORICAL FINANCIAL STATEMENTS

[REDACTED]