



# Kurty-Buribaytal Road Project

## Kurty-Buribaytal Road Project Extension

### State Sector Project Assessment

Prepared in line with the EBRD's Access to Information Policy<sup>1</sup>

<b>Country</b>	Kazakhstan
<b>Sector</b>	Transport
<b>Op IDs</b>	47229 and 48820
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## Operation Description

The original operation and its extension were the Bank's first financings to JSC National Company Kazavtozhol ("KAZh", the "Company"), the National Road Agency responsible for design, construction, repair and maintenance of republican roads in Kazakhstan.

This OPA covers the following two operations:

- 1) A loan signed 18 February 2016 for USD 103 million (the "Original Loan").

On 9 December 2015, the Board approved the Kurty-Buribaytal Road Project, which included rehabilitation of a 228 kilometre long road section between the villages of Kurty and Buribaytal to be financed from three sources: (i) an EBRD loan (81 kilometre road section), (ii) a World Bank loan (85 kilometre section) and (iii) a budget contribution (62 kilometre section and VAT associated with all road sections).

- 2) An additional loan for USD 86 million signed 26 October 2016 with the Company and approved as an extension of the Kurty-Burybaital project ("Extension Loan").

Both loans have an 18-year tenor.

The loans were provided to finance the reconstruction of two adjacent sections (81km and 62km long) of the Kurty-Burybaital road ("the Project"), a part of the Centre-South road corridor connecting the country's two major cities: Almaty and Nur-Sultan. The total length of the Kurty-Burybaital road is 228 km and reconstruction of the remaining section (85 km) is financed by the World Bank. As of the date of this report, the Project is under implementation with around 40 per cent of civil works completed.

<sup>1</sup> As required by Section IV paragraph 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose information (excluding Confidential information) contained in Operational Performance Assessment (OPA) reports for State Sector Projects selected for extended review, within 60 calendar days after completion of the relevant OPA report.

The Original Loan included a loan-funded TI component for the following consultancy services:

Title	Description
Study and Action Plan of new ways of road sector funding.	Review international examples of road sector funding and identify options that would contribute to make road sector funding in Kazakhstan more sustainable. Some options that will be considered are: expansion of toll roads, introducing heavy vehicle charges, earmarking some of road transport related taxes, improved annual vehicle registration charges and other measures.
KazAvtoZhol capacity building	Transform KazAvtoZhol into a modern road agency, which would be semi-independent from the government and have a good governance structure.

Both loans cover consultancy services for engineering supervision of civil works. The Original Loan also includes consultancy services for project implementation support. Considering the Company's adequate capacity to carry out project implementation/management functions, it was later decided not to involve external consultants for project implementation support.

The Bank has been involved in the road sector of Kazakhstan since 2000 through the following sovereign loans:

- Road Sector Development Project, Almaty – Bishkek (signed in 2000),
- Kazakhstan Road Sector Restructuring Project, Atyrau – Aktau (2003),
- South-West Corridor Road Project (2009), and
- Shymkent-Tashkent Road (2012).

In 2019 the Bank signed additional two sovereign-guaranteed loan agreements with Kazavtozhol to finance reconstruction of the Atyrau-Astrakhan (OpID 50382) and Kurty-Kapshagay (OpID 50006) roads.

The Project's primary objectives are to: promote development of regional trade by facilitating the transit of goods and passengers from south to centre/north of Kazakhstan; and reinforce the Bank's transition agenda in the road sector by supporting measures to the road sector by helping the Government of Kazakhstan in making road sector funding more sustainable and strengthening the road agency.

The Kurty-Buribaytal road is part of the road corridor connecting the country's Southern and Central regions. In addition, the road is part of the CAREC transport corridor and its implementation will improve the region's transport infrastructure and contribute to reducing the cost of trade across regions.

**Relevance** The objectives of the Project corresponded to the Bank's then Transport Strategy, which envisaged that the Bank would continue to support rehabilitation, upgrading and construction of roads resulting in greater regional integration. The Project was also consistent with the Bank's then Strategy for Kazakhstan, which highlighted that "the Bank would continue to engage selectively with the state sector".

The Kurty-Burilbaytal road section is a part of the Central-South transit corridor "Astana-Karaganda-Balkhash-Kapshagai-Almaty" and is the main highway in Almaty, Zhambyl and Karaganda regions, and is of great importance in providing international, inter-regional and local road transportation of goods and passengers.

The Project was designed to prepare the ground for key road sector reforms following the creation of the road agency (Kazavtozhol) and the Government's

decision to privatise the state-owned road maintenance monopoly (Kazakhavtodor). The Project resumed the dialogue with the Government in the key areas of the sector reforms i.e. road sector financing and institutional changes, for which the client demonstrated significant interest and agreed to cover the costs of TCs.

The Project was structured as a sovereign-guaranteed loan to the Company with 18-year tenor (the longest tenor EBRD could offer for road projects in Kazakhstan).

Each road section envisaged a loan-funded construction supervision consultant to assist the Company with monitoring and implementation of civil works. The Project also included loan-funded TC components to achieve the TI objectives and engage in the policy dialogue on road sector reforms. The follow-on loan was structured as a project extension, and included additional TI benchmarks aligned with the original TI objectives.

To streamline implementation of the Project, the Bank contracted a Lender Technical Adviser (SSF funded). The consultant is required to conduct regular site visits, review the periodic implementation reports, comment on proposed amendments/modifications to contracts, and provide opinions on various technical matters. The focus is on ongoing policy dialogue aimed at further commercialisation of the road sector and transformation of KAZh into an operationally and financially independent road agency with sustainable revenue sources and robust corporate governance practices. TI benchmarks have been defined to monitor and assess implementation of the TI objectives.

At approval, the following sources of EBRD additionality had been identified (both for the Original Loan and Extension):

Additionality dimension	Verification and/or counterfactual results	Current status
<b>Terms</b>	EBRD provides a loan with an 18-year tenor. Such terms are not currently available from commercial banks.	Achieved. The tenor of the EBRD loan (18 years) substantially exceeds average loan tenors offered by commercial banks for investment projects in Kazakhstan.
<b>EBRD Attributes</b>	The Bank has a well-established relationship with the Borrower as well as the Ministry of Investments and Development and maintains continuous policy dialogue on transport issues. The Bank has implemented significant number of similar projects across the region.	Achieved. The EBRD is requested by the Government to participate in financing of road projects in parallel with other IFIs due to the Bank's ability to promote appropriate sector reforms and efficiently execute this type of projects.
<b>Conditionalities</b>	<ul style="list-style-type: none"> <li>• Abide by transition covenants.</li> <li>• Implement Environmental &amp; Social Action Plan as well as the</li> </ul>	Achieved. The Bank's PP&Rs applied for all contracts (works and services). ESAP has been developed, and its implementation is covenanted. The loan

	Road Safety Audit recommendations. • Apply the Bank's Public Procurement Policies and Rules.	agreement includes TI covenants (based on the key benchmarks) and loan-funded TC was agreed to facilitate implementation of these covenants.
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The listed additionality factors have substantially materialised. All non-PPP road construction / rehabilitation projects in Kazakhstan are financed either using IFI loans or direct allocations from the state budget. The procurement process for this Project was conducted in accordance with EBRD's PP&Rs.

Had EBRD not participated, the project would have been financed directly from the state budget. In that case, the EBRD-specific conditionalities and TI objectives would not have been part of the project.

### Effectiveness

The Project's transition impact potential derive from:

- i. Framework for Markets - *New ways of road sector funding* (Competitive). The Company was expected to achieve the following:
  - a. Adoption of an action plan for the introduction of heavy vehicles charges.
  - b. Approval of an action plan for new ways of road sector funding
  - c. Implementation of the tolling system on 2,000 km of roads in Kazakhstan
  - d. KazAvtoZhol retains all toll revenue.
- ii. Demonstration of successful restructuring - KazAvtoZhol restructuring (Well-Governed):
  - a. Developing of the hedging policy
  - b. Capacity assessment and completion of the training programme on procurement
  - c. Updating of the MIS
  - d. Adoption of the Strategic Development Plan
  - e. Formal adoption of the KazAvtoZhol Restructuring Plan.

To date, some good progress has been achieved with the road sector reforms and commercialisation of the sector. In 2019 a 15-year concession agreement was signed with a consortium of companies to develop and roll-out a tolling system on 11,000 km of the republican roads by 2025.

There is strong buy-in from the Government to implement the network contract mechanism and this was included as one of key initiatives in Kazakhstan's Infrastructure Development Program 2020-2025, recently approved by the Government. The Program also reflects the need for clear separation of functions between KAZh and the line ministry with further commercialisation of KAZh to achieve a high degree of financial independence. These initiatives have also been reflected in the Company's amended Corporate Development Strategy.

The Project's main TI objectives have been achieved:

TI Objective	Status
<b>For the Original Loan:</b>	
Adoption of an action plan for the introduction of heavy vehicles charges.	Achieved.
Approval of an action plan for new ways of road sector funding	Substantially achieved.
Implementation of the tolling system on 2,000 km of roads in Kazakhstan. KazAvtoZhol retains all toll revenue.	Achieved.
Adoption of the Strategic Development Plan.	Achieved.
Formal adoption of the KazavtoZhol Restructuring Plan.	Achieved.
<b>For the Extension Loan:</b>	
Developing of the hedging policy	Under implementation.
Capacity assessment and completion of the training programme on procurement	Achieved.
Updating of the Management Information System (MIS)	Under implementation.

The Project's operational objectives and their implementation status are listed below.

The following Project outcomes have been defined at approval:

Physical project completion according to the timeline and within the budget.

As of the date of this report, the construction works are ongoing.

Delays arose out of unforeseen legislative issues that prevented timely commencement of construction works. Additional delays were caused by the travel/movement restrictions imposed by the Government in the first half of 2020 in response to Covid-19 pandemic.

It is expected that the Project will be completed well within the budget.

Successful and timely implementation of the ESAP and Road Safety Audit recommendations.

The Bank monitors implementation of ESAP and RSA measures on an annual basis, as well as compliance with the Bank's E&S Policy. The Road Safety Audit was commissioned by the Bank during the project preparation stage. A number of road safety concerns have been raised by the road safety consultant that include control of vehicle speeds, the issue on cattle and livestock crossings, intersection and U-turn layouts, cross sections, roadside hazard management, matching back into a two way highway and safety of pedestrians. Key findings and recommendations of the audit have been discussed with the Company and relevant measures were incorporated in ESAP. A follow on road safety audit will be conducted upon completion of the construction works.

Reconstruction of the road, when completed, will accelerate the development of regional trade by facilitating the transit of goods and passengers between the two main cities of Kazakhstan, and beyond (Russia in the north, China in the south). It is expected that the annual average daily traffic (AADT) will grow.

As part of project due diligence, the cost-benefit analysis was carried out over a 30 year period to take account of preparation and construction activities taking place between 2014 and 2018, followed by a 25 year operating period starting from the assumed opening year in 2019.

The Bank will be able to assess the Project's results after the road section becomes fully operational.

One of the Project's primary objectives is to resume the policy dialogue in the road sector and promote international best practices in management of road assets through KAZh. For that purpose, the Project included a loan-funded TC to support implementation of key TI objectives: explore new sources of road sector financing and propose a suitable institutional model with appropriate strategic development objectives.

The consultant involved under the loan-funded TC completed the assignment in June 2018 and key findings were presented to the Government of Kazakhstan including the First Deputy Prime Minister.

In line with the consultant's recommendations, further separation of functions between the Company and the line Ministry, and implementation of the network contracts is stipulated in Kazakhstan's Infrastructure Development Program 2020-2025 approved in December 2019. This has been also included in the Company's updated Development Strategy.

## Efficiency

### Due diligence:

The Bank performed all the appropriate due diligence activities, internally and with assistance of external consultants. This included: road safety audit, environmental and social impact assessment (ESIA), and technical and economic review. Key findings of the due diligence have been presented in the project approval documents. As the Project was assigned Category A, independent environmental and social consultants have been engaged as part of environmental due diligence. The ESIA findings have been disclosed to the public in accordance with the Bank's Environmental and Social Policy.

### Procurement:

For procurement purposes, the Project was classified as a "Public Sector" operation. The contracts for works and consultancy services were procured through 'Open' tendering procedures, in accordance with the Bank's Procurement Policies and Rules.

This was EBRD's first project with the Company, who at the time was a recently established road agency with limited project implementation capacity, which has been developed and demonstrated during procurement processes undertaken in subsequent road projects with the Company.

Following the procurement procedures the project cost was reduced by 16 per cent compared to the original budget.

### Implementation

As of the date of this report, around 40 per cent of construction works have been completed. Implementation of the construction works is monitored by the loan-funded Construction Supervision Consultant (CSC). In addition, the Bank has engaged a lender's monitoring consultant to monitor and assess physical implementation of road projects in Kazakhstan (including regular site visits and meetings with contractors).

Civil works for both sections have been delayed due to unforeseen legislative issues that prevented the contractors to obtain the required earthwork permits on time and delayed commencement of construction works. Additional delays were caused by the travel / movement restrictions imposed by the Government in the first half of 2020 in response to Covid-19 pandemic. The works contracts have been extended by 17 and 12 months for the first and second sections respectively.

### Technical Cooperation and Policy Dialogue

A portion of the loan was allocated to finance TI-related consultancy services. The terms of reference for this assignment have been developed by the Bank in cooperation with the Company with the purpose to implement the Project's TI objectives and help the Company to achieve its strategic goals. The assignment was completed on time and the consultant's key recommendations were used to define strategic priorities for the road sector development, including supporting further separation of functions between the Company and Roads Committee and implementation of the network contracts.

The Bank's environmental and social due diligence by an independent consultant included gap analysis review of the Project documentation and Road Safety Audit against EBRD's Performance Requirements, EU standards and international best practice to ensure sustainability of the Project. An Environmental and Social Action Plan ("ESAP") has been developed and agreed with the Company to address the identified gaps and structure the Project to meet the Banks Performance Requirements. The Bank monitors implementation of the ESAP on an annual basis.

The Road Safety Audit has resulted in a number of proposals to improve design of the road in terms of road layout and siting of warning signage. All road safety recommendations have been included into road safety action plan and mitigation measures to be part of the Project. Implementation of the proposed measures will have long-term impact on safety of road users and can be replicated by the Company on other road projects.

The TI objectives defined at approval have been partially achieved and most of them will have long-term impact on the overall road sector in Kazakhstan. This includes expansion of the tolling system, introduction of heavy vehicles charges, and transformation of KAZh into an independent road operator.

### **Implementation Summary**

Following approval of the project by the EBRD's Board of Directors in December 2015, the loan agreement was signed in February 2016 to finance reconstruction of 81 km section (km 2214 to km 2295). In October 2016, at the Borrower's request the scope of the Project was extended to include reconstruction of an adjacent 62 km section (km 2152 to km 2214) of the Kurty-Burylbaital road. Accordingly, the EBRD financing was increased by USD 86 million, totalling USD 189 million for both sections. The two sections had separate procurement processes and two different

contractors have been selected in accordance with EBRD's Procurement Policy and Rules. After the works contracts have been awarded, the project cost was revised downward by some USD 15 million for each section. As a result, the combined EBRD financing for both sections was reduced by USD 30.8 million (i.e. by 16.3 per cent) to USD 158 million.

The road reconstruction works started in Q4 2017 and currently ongoing. Civil works for both sections have been delayed due to unforeseen legislative issues that prevented the contractors to obtain the required earthwork permits on time and delayed commencement of construction works. Additional delays were caused by the travel/movement restrictions imposed by the government in the first half of 2020 in response to Covid-19 pandemic.

Implementation of the Project's TI objectives is on track. The tolling system has been successfully rolled out on additional 5,800 km of republican roads in first quarter of 2021. The Borrower plans to cover additional 11,000 km by 2025. The toll revenues will be collected and used by Kazautozhol for road maintenance purposes. In June 2019, the Borrower approved an action plan for the introduction of heavy vehicle charges.

An external consultant had been engaged to assist the Borrower to achieve its strategic objectives through implementation of new methods of road sector financing and corporate governance improvements. Key recommendations developed under this assignment have been presented to the Company and Government and are currently in the process of implementation.

The Company is committed to comply with the Bank's E&S Performance Requirements. The Bank regularly monitors the Project's compliance with the Bank's Environmental and Social Policy as well as implementation of the Environmental and Social Action Plan and confirms satisfactory implementation and performance.