PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA34855

Project Name	Center West Regional Development Corridor (P153497)
Region	EUROPE AND CENTRAL ASIA
Country	Kazakhstan
Sector(s)	Rural and Inter-Urban Roads and Highways (100%)
Theme(s)	Infrastructure services for private sector development (25%), Rural services and infrastructure (25%), Export development and compet itiveness (25%), Regional integration (25%)
Lending Instrument	Investment Project Financing
Project ID	P153497
Borrower(s)	Ministry of Finance
Implementing Agency	Committee for Roads, JSC KazAvtoZhol
Environmental Category	A-Full Assessment
Date PID Prepared/Updated	06-Jan-2016
Date PID Approved/Disclosed	06-Jan-2016
Estimated Date of Appraisal Completion	04-Dec-2015
Estimated Date of Board Approval	10-Mar-2016
Appraisal Review Decision (from Decision Note)	(i) The chair authorized the team to appraise the project, but reminded that appraisal cannot be concluded before the final consultations on the safeguards documents are completed. (ii) The team will strengthen the presentation to clearly indicate that this project aims at improving the Center West Corridor as part of a regional development agenda. Project components should be defined in line with other projects (e.g., SME, skills, and regional development) and assigned reasonable and achievable objectives. In particular, the level of ambition of the Corridor Development Component should be assessed and component should either be scaled down or linked with other activities currently taking place in the country. Results Framework will be revised accordingly. (iii) During appraisal, the team will verify the sequencing of interventions, including vis-à-vis other projects and available financing. To the extent possible, the team will avoid complexity in project design, e.g. micro credit lines will not be included in project scope. The team will also review the risk ratings and will properly address substantial and high risks in the PAD. (iv) The team will continue cross-sectoral collaboration to improve

Public Disclosure Copy

	project design. In particular, economic analysis will be strengthened with assistance from GTCDR.

I. Project Context

Country Context

Kazakhstan is a transcontinental country located in Central Asia. It is ranked as the ninth largest country in the world. It is also the world's largest landlocked country with a territory of 2,727,300 km². Kazakhstan is neighbored clockwise from the north by Russia, China, Kyrgyz Republic, Uzbekistan, and Turkmenistan. It also borders on a significant part of the Caspian Sea. There are 17 million people living in Kazakhstan, which results in a density of less than six people per one km². Kazakhstan is ethnically and culturally diverse with 131 nationalities present, including Kazakh (63 percent), Russian, Uyghur, Ukrainian, Uzbek, and Tatar. Administratively, the Republic of Kazakhstan comprises 14 oblasts and two cities of republican significance– Almaty and Astana.

Kazakhstan economy has grown rapidly since the year 2000, but has slowed since 2014. The GDP growth averaged 8 percent between 2000 and 2013. The economy has slowed down since 2014, affected by a sharp devaluation and oil price shock. GDP growth slowed from 6 percent in 2013 to 4.4 percent in 2014 and an estimated 1.0 percent in the first nine months of 2015. The economic slowdown is partly due to the devaluation of February 2014 (18 percent) that affected domestic demand and the labor market. The recent fall in oil prices (from US$110 per barrel in June 2014 to US$ 45-50 in mid-November 2015) led to large terms of trade shock and affected Kazakhstan's oil export earnings and official foreign currency reserves. The National Bank of Kazakhstan let the exchange rate free float in mid-August 2015 and the Tenge lost has lost about 33 percent of its value against the US$ up to end October 2015.

Kazakhstan has successfully harnessed its oil resources to reduce poverty and boost shared prosperity, but some regional variations persist. Kazakhstan's poverty rate (defined as income under US$5 a day) has dropped from 54 percent in 2006 to 17.8 percent in 2014, while the middle class increased from 8 percent to 28 percent of the population. Wage income has been the largest single contributor to poverty reduction, with real wages doubling between 2003 and 2013. The growth process has been inclusive, and benefited low income groups, as evidenced by a 19 percent increase in household income of the poorest 40 percent of population over a five year period (2008-2012) against 15.2 percent for the top 60 percent. Income equality stood at 0.3 in 2014. However, the pace of poverty reduction has differed significantly, with Akmola, Aktobe and Kostanay oblasts having the smallest declines since 2011. Continued low oil prices and the August 2015 tenge adjustment are expected to adversely affect GDP growth, poverty and the labor markets.

Unemployment has fallen steadily, although self-employment remains high and varies significantly from region to region. Official figures indicate that unemployment has decreased from 10.4 to 5.0 percent between 2001 and 2014. Jobs growth has occurred in all sectors outside agriculture, but more concentrated in services. Still, 29% of the active labor force remains self-employed, a large share of which is delivering earnings barely above poverty level –concentrated in agriculture, which still accounts for 25% of all jobs. Self-employment varies significantly from region to region (from 5 percent in Astana to 48 percent in Zhambyl). For the regions relevant to the project, the self-employment rates are: 5 percent in Astana, 39 percent in Akmola, 35 percent in Kostanai, 21 percent in Aktobe, and 8 percent in Mangystau. This variation highlights the challenges of formal sector job creation in those regions furthest from the country's growth poles.

The country has made strong strides in policy reforms, but remains highly dependent on natural resources. Minerals, oil, and natural gas account for about 80 percent of exports and 37 percent of GDP. Economic diversification remains a challenge, although the authorities are pursuing social, economic and structural reforms to support sustainable diversified growth driven by the private sector. They have adopted a large reform agenda, including regulatory reforms, efforts to improve education and skills and investing in social services and critical infrastructure to sustain growth. Also the external environment remains uncertain. With China, Russia and Europe representing about two-thirds of Kazakhstan's total external demand, Kazakhstan is vulnerable to a prolonged slowdown in China, a more severe economic contraction in Russia, possible protracted slowdown in Western Europe, and to continuing global oil glut keeping oil prices low for several years.

The Government of Kazakhstan (GOK) is proactive in the face of current economic uncertainties. It has significantly adjusted its 2015 budget based on the price of oil at US$50 per barrel to reduce deficit. It has adopted a plan to consolidate its non-oil deficit in the medium term. The GOK has prioritized expenditure to protect the social sector and vulnerable groups. It has also postponed a number of non-priority expenditures, balancing them off with measures financed under a new economic anti-crisis program "Nurly Zhol" meant to address the country's longer term development goals.

Kazakhstan's development objective of joining the top 30 world most developed countries by 2050 depends on its ability to sustain balanced and inclusive growth. Economic prospects depend on a continuation of stability-oriented macroeconomic policies with continued adherence to the ru les-driven framework for resource earnings and sustainable financial sector development. Development prospects also depend on the country's ability to diversify its endowments—namely, creating skilled human capital, improving quality of physical capital, and strengthening institutional capital.

As part of its development agenda, the GOK has promoted trade and cooperation agreements with a number of key partners. Kazakhstan is member of the Eurasian Economic Union with Russia, Belarus, Kyrgyz Republic, and Armenia, allowing free transit of goods, services, capital, and labor. The GOK is also expanding collaboration with China and the OECD and joined the WTO on November 30, 2015. Further efforts are planned to promote linkages of domestic companies to global value chains.

Sectoral and institutional Context

Kazakhstan's economic and geographic features pose significant transport challenges. The first challenge is related to Kazakhstan's size and low population density leading to an integrated national transport infrastructure costly to upgrade and maintain. Also, harsh continental climate accounts for high susceptibility of transport infrastructures (e.g., related to heavy snows, floods), and increases construction and maintenance costs. In addition, travel distances are large, e.g., the Center West (Astana to Aktau) corridor is about 2,730 km. Kazakhstan still misses important east to west links (see Annex 6 Rural Access Map). 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 .

Despite a great potential to connect growing markets of Southeast Asia and China to Russia and Europe, Kazakhstan still ranks only 88th among 160 economies included in the World Bank's report "Connecting to Compete 2014: Trade Logistics in the Global Economy". Improving internal

road transit links is critical to Kazakhstan in order to interact with and benefit from the economic growth adjacent to its borders. There are also non-physical barriers to trade to be addressed, such as inefficiencies at border crossings, unofficial payments, and deficiencies in harmonization of basic transit documents and regulations.

Kazakhstan's transport system mainly relies on roads and rail. There are 97,427 km of roads, 14,000 km of railways, numerous logistics centers as well as free-trade zones to facilitate production, warehousing and transportation. The road and rail networks account for the transportation of 90 percent of total cargo volume. The majority of goods in transit are transported via the rail network (16.3 million tons annually). Road carries 1.46 million tons of transit goods annually. The main destination countries for transit cargo through Kazakhstan are countries in Central Asia (Uzbekistan -36 percent , Kyrgyzstan -19 percent , Tajikistan -11 percent , and Turkmenistan -8 percent).

Roads are a key element of the Kazakhstan transport system, providing access to rural areas and essential transit corridors for trade. The Ministry of Investments and Development (MoID) is responsible for the management of the republican (main) roads. The Committee for Roads (CR) reports to MoID and is responsible for policy formulation and management and implementation of national policy for the road sector and the interface with the general public. At the implementation level, the recently created Kazavtozhol JSC (KAZ) is responsible for public road sector operational implementation, including day-to-day operations on the main roads. KAZ is represented by departments in each of the fourteen Oblasts (Regions). Much of the road network was constructed during the Soviet era and has deteriorated due to lack of maintenance. Financing for the road sector has increased over the past decade including the development of the Western Europe -Western China Corridor (WE-WCh) which has mobilized substantial amounts of IFIs' and own financing, with over US$8 billion budgeted and over 2,000 km out of 2,840 km completed since 2009. Still, improved planning, better institutional capacity, and improved network conditions could significantly enhance the overall performance of the road network.

Public Disclosure Copy

The value of Kazakhstan's roads assets was about US$ 45.3 billion in 2010. However, 21 percent of republican (managed centrally) and 47 percent of local road network remains in unsatisfactory condition. Weather conditions often cut many communities from outside world. Institutional inefficiency along with underinvestment also contribute to the depreciation of the road network. A more efficient road assets management system needs to be established, as the network grows. The World Bank and the GoK are addressing this issue by developing a road asset management system, a tolling system, and quality charters (road maintenance contract) financed under the ongoing South West Roads Project (SWRP) and East West Roads Project (EWRP). The budget earmarked for road is increasing sharply under the Nurly Zhol program, doubling between 2011 and 2016, and allocations for routine maintenance have increased slightly. But the allocation to repairs does not increase which results in major repairs be carried every 20 years on average instead of the recommended 7 years. The lack of financing for repairs forces MoID to increase maintenance activities on roads in poor condition. Funding from road user charges is on the increase mainly via toll road introduced in 2013 and with 7,000 km of toll roads planned for 2020 which could generate an annual revenue of KZT 40 billion, equivalent to the current repair and maintenance budget.

Poor condition of roads is also a contributory factor in road accidents. The cost of road crashes in Kazakhstan is estimated between US$2-4 billion per annum . About 32,400 persons were killed and over 140,000 persons were injured between 2003 and 2012 in road crashes. The fatality rate for

Kazakhstan is about 25.0 per 100,000 population (Figure 1) which is 5 times higher than the average fatality rates in Western Europe.

To respond to these challenges, the GOK has adopted the State Program for Development and Integration of Transport Infrastructure to 2020 (SPDITI). Developed with the World Bank, SPDITI details the strategy to increase the flow of freight through the country by properly integrating and linking the land, sea, and air transport systems. It also plans for better connectivity between regional cities and towns and the creation of infrastructure centers within regions. The SPDITI builds on the Program for Regional Development (PRD), a mechanism that predicts spatial development of Kazakhstan up to 2020. PRD aims to develop regions through the formation of centers of economic growth -"urban agglomerations" and "second-tier cities". A challenge for the PRD is the development of infrastructure, including better connectivity between oblasts, i.e., a better transport systems.

In November 2014, Kazakhstan president announced a new economic anti-crisis program "Nurly Zhol". The program plans road and rail transport projects connecting Astana, the capital city with East, West, North, and South via rail, air, and road networks. The program expects that priority physical infrastructure and improved connectivity would foster business-driven regional economic integration through enhanced mobility allowing the setup of distributed production and delivery systems. The Nurly Zhol is expected to generate a significant number of new jobs and incomes through investments such as the proposed Project, which is designed based on those principles.

The proposed Center West Corridor development is assigned the highest priority by Nurly Zhol as a development and anti-crisis operation to provide jobs and stimulate SME. The corridor represents a missing road link between Center and West (from Astana via Aktobe to Aktau) and between and within the urban agglomerations and the second tier cities. The Center West Corridor will provide a main gateway to the west through Caspian Sea and beyond through the Caucasus to Europe, and to the east, to the port of Lianyungang on the Pacific Ocean. Kazakhstan has experienced difficulties in increasing transit freight as it primarily depends on the railway connected from Russia and China. The new corridor could strengthen multimodal transport function by enhancing accessibility to the international and main railway lines. Reinforced networks could provide opportunities to increase transit freight and also give the western region centered on Aktau and the northern region centered on Aktobe possibilities to become intermediating trade zones between Russia, Caucasus area, Middle East, and Asia. The new corridor will benefit from the railway line recently completed, connecting Kazakhstan with Iran via Turkmenistan. Because of its connection to Iran, Turkmenistan and Russia, the Aktau international port will benefit from the new railway line as well as from the proposed Project that will increase its potential as an international logistics hub and support the regional development mentioned in the various strategies of the GOK. The new corridor is also expected to contribute to symmetric and balanced development of the western and northern areas and facilitates trickle-down effect of economic wealth concentrated on Almaty and Astana.

The proposed project will also allow rural regions to develop economic activity and improve jobs and earnings prospects through increased market access. These rural regions are heavily reliant on agriculture, with little private sector, waged employment . Improved connectivity offered by the new corridor will provide opportunities for agricultural producers (livestock -beef and dairy) which in turn will create opportunities for off-farm activities. Producers will access new markets, particularly in the high-growth, oil-producing urban areas in the west, which at present have limited access to meat and dairy products from the hinterland.

Public Disclosure Copy

The investment will unlock the region and create synergies. As shown in the Figure 2, the proposed corridor passes some lest market accessible regions in the country. With the road construction and sustainable usage (in regards to road safety and proper maintenance), the road will open up the market and opportunities and unlock the potential for growth. Furthermore, the government's vision on the regional development, together with the Bank's intervention, will generate spill effect. The project will also offer a platform for synergies from regional development plans and other sector investments along the corridor.

II. Proposed Development Objectives

The Project Development Objectives are to improve the transport connectivity within the regions along the Kazakhstan Center West Corridor and strengthen the capacity of selected agencies for the effective implementation of corridor development and road asset preservation policies.

III. Project Description

Component Name

Component 2: Corridor Development

Comments (optional)

The component will support: (i) preparation of a Corridor Development Action Plan (Plan) and (ii) implementation of some key priority activities from the Plan focusing on agriculture, tourism, services, and education.

Component Name

Component 3: Operation and Maintenance

Comments (optional)

This component will allow the MoID to implement an O&M strategy designed with the assistance of the Bank during the preparation of the road sector reform in 2012-2013.

Component Name

Component 4: Road Safety

Comments (optional)

The component will finance activities as follows: (i) design of the National Road Safety Strategy for 2016-2020; (ii) institutional capacity building; (iii) comprehensive review of road design and safety standards; and (iv) road safety communication, awareness, and education.

Component Name

Component 5: Project Management

Comments (optional)

The component will be covered from the GoK budget.

Component Name

Component 1: Infrastructure Development and Supervision

Comments (optional)

It will finance civil works on about 900 km of road sections between Astana and Yrgyz (or further west to Shalkar another 100 km-to be confirmed at negotiations) and consulting services for supervision of civil works. Land acquisition and road design costs will be covered from the GOK co-financing part, and not be financed from the Loan proceeds.

IV. Financing *(in USD Million)*

Total Project Cost:	1195.00	Total Bank Financing:	1049.84
Financing Gap:	0.00		

For Loans/Credits/Others	**Amount**
Borrower	145.16
International Bank for Reconstruction and Development	1049.84
Total	1195.00

V. Implementation

GOK wants to provide better connectivity within the regions along the Center-West corridor. Because of the wide variety of impact by the Project, current institutional and implementation arrangements to implement ongoing SWRP and EWRP will need to be adjusted.

Project Implementing Agency. MoID will operate as general the administrator of budget financing for Project implementation and the ministry responsible for the project. The CR of MoID will be nominated as the Project Implementation Agency. CR will be responsible for project budgeting, project management and implementation, and for tracking, monitoring, and reporting project results and impact. The MoID will nominate Deputy Chairman of CR as Project Manager (same arrangement as for the ongoing projects).

Project Management Unit (PMU). JSC KazAvoZhol (KAZ), a national roads operator, will act as the PMU to provide support to the CR during project implementation. KAZ will be hired by the CR under a separate budget line (not out of the Loan proceeds) from the GOK budget. Loan proceeds under component 2 may be used to finance consultants to support the KAZ when necessary. The PMU will help CR with procurement, financial management, accounting, social and environmental safeguards, disbursement, logistical support, M&E, and other activities. The PMU staffing will include: (a) specialists for procurement, financial management, accounting, social and environmental safeguards (with designated staff with presence in the field/Project catchment area), and M&E; (b) a small technical team of subject-matter experts; and (c) administrative and logistical support. The Bank team finalized its legal and fiduciary assessment of the capacity of the KAZ in February 20014, stating that KAZ has adequate capacity to provide support to the CR on project implementation.

Project Steering Committee (PSC). In view of the wide range of activities that cuts across various areas under the responsibility of several agencies, a Project Steering Committee (PSC) will be created. The Minister of Investments and Development will chair the PSC composed of representatives of participating agencies at the level of deputy Akims and heads of respective agencies. The PSC is expected to meet at least twice a year to assess and report progress in project implementation, provide forum for discussion and resolution of issues, and develop proposals on improving project outcome. The PSC will provide general oversight, guidance, and strategic supervision of the Project, as well as forum for consultation with other stakeholders to address the needs of local and business community and promote regional development.

Participating agencies. The agencies participating in the Project are any or all, but not limited to the following: (a) Ministry of Investments and Development, and its Committee for Roads, Department of Tourism, Department of Transit and Logistics, Kazakhstan Institute of Industry Development

Public Disclosure Copy

(KIDI), DAMU enterprenership development fund; (b) Ministry of National Economy and its Department for Regional Development, (c) Ministry of Internal Affairs and its Committee of Administrative Police, (d) Ministry of Agriculture and its respective livestock and dairy arms, (e) Kazakhstan Temir Zholy and its respective Transport and Logistics arms, (f) Akimats of relevant oblasts, or (g) another GOK agency.

VI. Safeguard Policies (including public consultation)

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

Comments (optional)

VII. Contact point

World Bank

Contact: Jacques Bure
Title: Lead Transport Specialist
Tel: 473-7007
Email: jbure@worldbank.org

Contact: Aliya Karakulova
Title: Operations Officer
Tel: 5248+450
Email: amukay@worldbank.org

Borrower/Client/Recipient

Name: Ministry of Finance
Contact: Mr. Ruslan Beketayev
Title: Vice Minister
Tel: 7172717407
Email: r.beketayev@minfin.gov.kz

Implementing Agencies

Name: Committee for Roads
Contact: Satjan Ablaliev
Title: Vice-Chairman
Tel: 77172754688
Email: s.ablaliev@mid.gov.kz

Name: JSC KazAvtoZhol
Contact: Ermek Kizatov

Title: Chairman
Tel: 77172278800
Email: info@kazautozhol.kz

VIII. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop

Public Disclosure Copy