

# PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC22400

<b>Project Name</b>	Center West Regional Development Corridor (P153497)
<b>Region</b>	EUROPE AND CENTRAL ASIA
<b>Country</b>	Kazakhstan
<b>Sector(s)</b>	Rural and Inter-Urban Roads and Highways (100%)
<b>Theme(s)</b>	Infrastructure services for private sector development (25%), Rural services and infrastructure (25%), Export development and competitiveness (25%), Regional integration (25%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P153497
<b>Borrower(s)</b>	Ministry of Finance
<b>Implementing Agency</b>	Committee for Roads, JSC KazAvtoZhol
<b>Environmental Category</b>	A-Full Assessment
<b>Date PID Prepared/ Updated</b>	16-Apr-2015
<b>Date PID Approved/ Disclosed</b>	17-Apr-2015
<b>Estimated Date of Appraisal Completion</b>	23-Sep-2015
<b>Estimated Date of Board Approval</b>	28-Jan-2016
<b>Concept Review Decision</b>	Track II - The review did authorize the preparation to continue

## I. Introduction and Context

### Country Context

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

2. Over the past decade, Kazakhstan has maintained strong macroeconomic management through a rules-driven fiscal framework. The country has enjoyed robust GDP growth since 2000, averaging 8 percent, which has contributed to a sharp rise in per capita income. Between 2001 and 2013, Kazakhstan more than doubled its GDP per capita, while economic growth was largely pro-

poor. The share of the Kazakhstan population living in poverty went down from 47 percent in 2001 to about 3 percent in 2013, as measured by the national poverty line.

3. However, poverty is high by standards of other higher income countries, and regional and rural-urban disparities are large. Against a benchmark of a poverty line at the PPP-corrected US\$5 per capita per day, about 35 percent of Kazakhstan's population were living in poverty in 2010, although down from almost 80 percent in 2001. The share of people with income below the national poverty line varies widely across regions, from 1.7 percent in Astana to over 10 percent in South Kazakhstan. Ethnic migrants often choose to live in southern and western regions, where Kazakh is more widely spoken and the culture is more familiar. However, these regions suffer from an over-supply of labor, while the population of the northern regions is shrinking.

4. Over the past decade, Kazakhstan has introduced strong policy reforms, and absorbed large natural resource-based earnings responsibly. To sustain growth, improve social services and critical infrastructure, it is improving public management, reforming its business environment, and increasing resource allocations. Diversification remains a challenge, with minerals, oil, and natural gas accounting for 80 percent of exports and 37 percent of GDP.

5. A currency devaluation in February 2014 and the current oil price shock, is affecting economic growth and the labor market. GDP grew at 4.2 percent in Q3-2014 and the unemployment rate rose slightly from 5 percent to 5.1 percent. To mitigate negative implications of the 2014 devaluation, the GOK announced a US\$5.5 billion economic support program in February 2014 and in the wake of the oil price fall, announced a second support package of about US\$18 billion in November 2014. Both packages aim to support domestic demand and employment through reform of the banking sector, and a large, medium-term investment program, to which the present project contributes.

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

### **Sectoral and Institutional Context**

7. Kazakhstan's economic and geographic features pose significant transport challenges. Owing to Kazakhstan's size (ninth largest country in the world with a land area equal to that of Western Europe), its low population density (6 people per sq. km) and natural resources, transport investments need to be smart since maintaining an integrated national transport infrastructure remains costly. In addition, Kazakhstan's harsh continental climate with extreme weather conditions account for high susceptibility of the transport network to weather shocks (heavy snows, floods) requiring particular design treatments that lead to relatively high construction and maintenance costs. Travel distances within the country are substantial, e.g. from Center to West (Astana to Aktau) is about 2,730 km, from Center to South (Astana to Almaty) is about 1,215 km. Both rail and road network is historically north-south oriented (built to serve Moscow at the core of the transport complex of the Former Soviet Union without consideration for administrative borders and within-the-country connectivity) and still misses important east to west links. Such distances and

legacy result in significant travel times and costs for accessing markets within the region and beyond. 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 .

8. Although strategically Kazakhstan has a potential to connect growing markets of Southeast Asia and China to Russia and Europe, Kazakhstan ranks only 88th among the 160 economies in 2014 included in the trade logistics survey presented in the Bank's report "Connecting to Compete 2014: Trade Logistics in the Global Economy". Routes to and from dynamic growth poles such as Turkey, Russia, India and China (accounting for more than half of world economic and trade growth) cross the country. Improving internal road transit links is crucial for Kazakhstan's development, in order to interact with and benefit from the economic growth adjacent to its borders. There are also non-physical barriers to trade, including inefficiencies at border crossings, unofficial payments, and deficiencies in harmonization of basic transit documents and regulations.

9. Kazakhstan's current transport system includes 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 network account for the transportation of nearly 90% of total cargo volume while the majority of goods in transit are transported via the rail network (16.3 million tons), the rest by road (1.46 million tons) and by water transport (0.16 million tons). Most of the items in transit originate in Russia, whose share was 50% in 2012. China accounts for 15% of the total goods in transit, with Georgia and Uzbekistan about 9% each.

10. Roads are a key element of the Kazakhstan transport system, playing an important role in the provision of basic access to rural areas, and providing essential transit corridors for trade. Much of the road network was constructed during the Soviet era and has significantly deteriorated due to lack of adequate maintenance. Financing for the road sector has significantly increased over the past decade including the development of the Western China-Western Europe Corridor (2,840 km) which has mobilized substantial amounts of IFI and own financing [US\$8 billion and over 2,000 km completed since 2009]. Still the overall performance of the road network could be significantly enhanced with improved planning, better institutional capacity, and improved network conditions to address rapid growth in motorization.

11. The value of Kazakhstan's roads assets is significant (US\$ 45.3 billion) . However, currently 21% of republican (managed centrally) and 47% of local road network (managed by Akimats, or subnational units of administrations, comprising 168 rural rayons and 15 cities) is in unsatisfactory condition. Annually about 1,500km of roads are reported to be ending their lives, many roads without appropriate maintenance cannot sustain even two winter seasons. This also relates to the artificial structures - some 20% of 1,842 bridges on local road network need replacement. About 2,000 rural villages do not have hard surface road connectivity with rayon and oblast centers that makes access to schools and hospitals difficult. Extreme weather conditions in spring, autumn, and winter literally cut some villages from outer world. Institutional inefficiency is one of the key factors that contribute to the inefficient management of road network, which results into underinvestment and/or wrong priority of investments. Road assets could be managed more efficiently as the network grows and maintenance needs are more pressing. The World Bank and the CR are developing a Road Asset Management System financed under ongoing South West Roads Project for that purpose.

12. Poor condition of roads is a contributory factor in road accidents. Road safety is a serious

problem in Kazakhstan. The annual economic cost of road crashes in Kazakhstan is enormous—estimated at around US\$7 billion per annum—and the social impacts are devastating. During the last decade (2003-2012), 32,400 persons have been killed and over 140,000 persons have been injured in Kazakhstan - many of which will have resulted in permanent disability to victims. The fatality rate for Kazakhstan is about 25.0 per 100,000 population and this rate is 4 times higher than the average fatality rates in Europe.

13. To respond to these challenges, the Government has adopted the State Program for Development and Integration of Transport Infrastructure to 2020 (SPDITI). Developed with assistance from the World Bank, SPDITI's objectives are to formulate and implement a modern transport system in Kazakhstan that:

- increases the flow of freight through the country by properly integrating and linking the land, sea and air transport systems;
- provides connectivity between regional cities and towns, and
- allows for the creation of infrastructure centers within regions.

14. The SPDITI also builds on the Kazakhstan Program for Regional Development (PRD), a mechanism for predictive 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”, and allows for state funding to be directed to those areas where it will have the greatest development impact. An identified challenge for the PRD is the development of critical engineering infrastructure, including not only that required within regions (i.e. gas, heat, electricity, water and sanitation systems), but that required for connectivity between the regions, i.e. transport systems.

15. As weaker global growth depressed oil prices and external demand for Kazakhstan, the President announced a new economic anti-crisis program “Nurly Zhol” (NEP), which charges the Government to implement road and rail transport projects connecting Astana at the core (Center) with East, West, North, and South via rail, air, and road networks. It emphasizes that priority physical infrastructure and improved connectivity creates a favourable environment for business-driven regional economic integration through enhanced factor and goods mobility that allows the setup of distributed production and delivery systems. The NEP is expected to generate a significant number of additional jobs and incomes generated by investments such as the proposed project.

16. The proposed Center West Regional Development Corridor project is assigned the highest priority by NEP as a development and an anti-crisis operation to provide jobs and stimulate SME development through physical infrastructure - a missing road link between Center and West (from Astana to Aktau) - between and within the urban agglomerations and the second tier cities. The Center West Corridor project (both rail and road) will be 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. It is noted that significant volumes of freight are currently being transported through Kazakhstan via the rail network (8% of total freight flows), so further development of the east-west rail link for transit freight will have a relatively higher impact on transit trade compared to the east-west road link. However, road corridors carry well over three fourths of total freight flows. In this context, it is postulated that the viability of the development of a northern road route for the Center-West corridor, is closely linked to Government objective to improve connectivity of regional agglomerations and to promote regional development through infrastructure interventions, further developing domestic freight flows and complementing transit freight development with further development of the rail infrastructure.

## Relationship to CAS

17. The proposed project is fully consistent with and of direct relevance to the strategic pillar of the Country Partnership Strategy (CPS) for 2012-2017, namely improving competitiveness and fostering job creation. It is aligned with Country Development Goal of development of infrastructure connectivity to reduce economic distance (Outcome 7: Building transport connectivity, lowering costs) and can help maximize impact of the Government and Bank's resources through timely implementation.

18. The project is included in the Partnership Framework Arrangement (PFA) signed between the Government and participating IFIs (the World Bank Group, ADB, EBRD, IsDB) in September 2014. The PFA supports the Government's efforts towards sustainable development, economic diversification, and inclusive growth. The Center West Regional Development Corridor project falls within the umbrella objectives for "Attracting Investment into the Economy and Development of Public-Private Partnerships", and specifically includes the reconstruction of Center West corridor, between Astana and Beineu. The PFA also envisages the participation of other IFIs (ADB, EBRD, IsDB) under the scheme similar to the one implemented along the Western China Western Europe International Transit Corridor. The ADB has already allocated financing for the Center West Corridor, namely for reconstruction of 470 km Aktau-Beineu section through its Multitranche Financing Facility totalling USD800million. Today, under the first tranche, 240km of a 300 km of Beineu-Shetpe section has been completed, commissioned and are open to public. Under the second tranche, works on a 170 km Shetpe-Jetybay-Aktau section started in 2014 and are ongoing. This ADB project is regarded as part of a anti-crisis program of the Government. EBRD and IsDB are also expected to contribute to the financing of the Center West program.

19. The proposed project is a continuation of the ongoing cooperation with the Government on the ongoing Western Europe-Western China (WE-WC) International Transit Corridor Project, an ambitious and to date successfully implemented roads development program, which the Government embarked on in 2010 to stimulate economic growth and reduce poverty in the poorest parts of the country by improving access to the regions and providing employment in the construction sector and related services. A part of the Government's plan to upgrade the 2,840 km WE-WC international transit corridor linking Europe and Russia to China through Kazakhstan is the South-West Roads Project (SWRP) and East-West Roads Project (EWRP) financed by the Bank. Overall, about 85 percent of the total amount of the WE-WC project is co-financed by the World Bank, ADB, EBRD IsDB and JICA.

20. Implementation of the EWRP and SWRP has provided valuable experience to Government and participating IFIs regarding design and implementation considerations that are needed to take into account in Kazakhstan. Cooperation between the Government and the various IFIs has been fruitful in terms of preparation of the various projects (e.g., a common set of safeguards documentation and similar procurement methods) and implementation arrangements (e.g. common Project management CAS consultants). This corridor as a sum of highway tranches, which connect agglomerations and second-tier cities and rural towns with each other, had a great impact on the living standards of the population by enhancing access to basic services and providing labor and commercial opportunities (more than 30,000 jobs created). In this sense, the proposed Center West project, viewed from a local perspective, can be a key mechanism for regional convergence, and an important mean for diminishing inequalities among rayons and oblasts within Kazakhstan.

21. The proposed project complements efforts of the Central Asian countries described in the on-going Transport and Trade Facilitation Strategy and Action Plan for 2008-2017 endorsed by the Central Asia Regional Economic Cooperation (CAREC). This strategy foresees the rehabilitation of six strategic transport corridors in the Central Asia region based on their impact on economic growth and poverty reduction as highlighted by the CAREC program 2011-2020. The program has the aim to expand trade and improve competitiveness by developing “economic corridors” as well as improve trade facilitation. The CAREC countries have designated six major transport corridors, four of which transit through Kazakhstan. The proposed project is part of CAREC corridors 1, 2, and 6.

## **II. Proposed Development Objective(s)**

### **Proposed Development Objective(s) (From PCN)**

22. The Project Development Objective is to increase transport connectivity and efficiency within the regions along the Center-West corridor and to stimulate provision of access to basic services in less developed, remote, and sparsely populated regions.

### **Key Results (From PCN)**

23. The main outcome indicators of the project include:

- Improved connectivity measured by a staged completion of the Center West Regional Development Corridor (about 650km);
- Improved efficiency measured by reduction of travel time by 30 percent, reduction of road users costs by 10 percent, and accident rates along the road section;
- Increased users' (especially B40 and women) perception of improved access to markets and services;
- Increased opportunities for SME, investment at community level and employment opportunities for residents;
- Creation of \_\_\_ number of jobs;
- Further separation of the “production” and “administration” roles of the Roads Committee and JSC KazAutoZhol;
- Improved performance of staff at the Roads Committee and JSC KazAutoZhol to manage the road network.

## **III. Preliminary Description**

### **Concept Description**

#### **A. Concept**

##### **1. Description**

23. The proposed Center West Regional Development Corridor project is part of transit corridor “Baku-Astrakhan-Atyrau-Aktobe-Aktau-Turkmenistan border”, which connects Kazakhstan with Azerbaijan and Europe in the west, with Russia in the north, through Iran with countries of the Persian Gulf, and Uzbekistan and Turkmenistan in the south. Estimated 2,000 km Center West project will start in Astana and pass through Akmola, Kostanai, Aktobe, Atyrau, and Mangistau oblasts, thus linking two of four identified “urban agglomerations”, and two of the identified “second-tier” towns. The project is expected to contribute to the local development of the regions through which it passes and promote pro-poor growth by overcoming the spatial mismatch between the location of jobs and settlements for low-income residents. A pre-feasibility study completed by the World Bank in 2014 identified several possible routes for the corridor. The selection of the

preferred alternative, based on public consultations and citizen engagement, is expected to be part of the preparation of the project.

24. The construction will be mainly a two lane standard (which indicates a well-grounded consideration of standards and costs), and expand to four lanes only for some limited urban locations. Tolling may also be considered along some sections with sufficient traffic close to Astana and consistent with a broader tolling plan currently envisaged by the Government. The Government is aiming for completion of all the corridors by 2020.

25. The various route options have been prepared with the support of the World Bank in 2014. The Government is undertaking a detailed feasibility of three preferred options. Each option uses a mix of existing alignment and new construction. The sections of roads that exist and that will be reused are either Magistal road M36 (120km), local roads or, in the western end, and around lake Tengiz tracks in the desert.

- Route 1 traverses Astana, Zhanteke, Egyndykol, Arkalyk, Turgay, Akshiganak, Yrgyz, Shalkar, Kandyagash, Dossor, Beyneu to Aktau (total of 1,997km).
- Route 2 traverses Astana, Zhanteke, Egindykol, Arkalyk, Turgay, Akshiganak, Yrgyz, Aktobe, Dossor, Beyneu to Aktau (total of 2,097 km).
- Route 3, proposed by CR, traverses Astana, Zhanteke, Egindykol, Arkalyk, Turgay, Karabutak, Aktobe, Dossor, Beyneu to Aktau (total of 1,936 km).

26. The section currently proposed for the Bank to finance is the 650km section on the Eastern end of any of the routes. The Bank is also suggesting to study an option “0” that maximizes the use of existing roads and serves a larger share of the population. This “Route 0” goes further North (Astana, Zhaksy, Kostanay, Karabutal, Aktobe, Dossor Beyneu to Aktau). After reconstruction the new road will become part of the main (republican roads) network. The new road will be a Class II (2-lane) highway. The project will be prepared based on three different road sections selected by the Government plus the “Route 0” mentioned above.

#### Project Components

27. Component 1 (US\$1,208 million): Civil works and Supervision. The component will finance the construction of road sections between Astana and Turgay (or some sections along Astana / Kostanay / Aktobe if “Route 0” becomes considered), estimated at a total cost of US\$ 1.2 billion equivalent. This component will allow the construction of about 750 km of road sections between Astana and Turgay (and/or along Astana / Kostanay / Aktobe) based on arrangements identical to the ones already in place under the ongoing SWRP financed by the World Bank. The component includes consulting services for supervision of civil works. Land acquisition and road design costs will be financed through the Borrower’s own funds.

28. Component 2 (US\$ 8 million): Regional Development. The component will finance the preparation of a regional development framework focused on transport and connectivity interventions to address lagging areas along the Center West corridor in Akmola, Kostanay, Aktobe, Atyrau, and Mangistau oblasts that are economically disadvantaged. The aim of the framework will be (a) to make basic services accessible to as much of the population as possible along the corridor, thus moderating the exodus to the cities; and (b) to provide infrastructure to increase density and reduce distances, thus increase what is known as the economic mass of the growth centers. A contribution of transport will be to ensure that sparsely-populated and remote areas are provided with reasonable access to basic services, such as education and health. The framework will identify

a range of basic services, including access to health, education, and water/sanitation. In terms of transport there could be a criteria developed based on the size and distance of a community from defined services centers (e.g.: all communities over x thousand will be provided with a paved road; all communities over y thousand will be provided with an unpaved road; all communities over z hundred and >300 kms from service center will be provided with a weekly transport service.).

29. The component will help Astana, Aktobe and Aktau, and their surrounding regions to develop their regional road networks to facilitate easy access between them and their hinterlands, particularly nearby urban centers. This will facilitate the realization of agglomeration benefits. As well as intra-regional links, growth centers, which by definition are expected to create new jobs, also need good links with the areas from which they expect to attract their new workforces. Many of these links have been covered in the individual modal discussions but one objective could be to ensure that each lagging area is connected to at least one, and preferably two, growth centers by transport links of reasonable standard. These networks are currently the responsibility of municipal, oblast, and national authorities, but the component will look into the planning and investment in a coordinated way.

30. Component 3 (US\$ 2 million): Road Safety. The component will finance the implementation of high priority road safety measures studied and agreed upon under the South West Road Project. The activities will mainly focus on (i) presentation of the road safety strategy during public consultations; (ii) review of designs; (iii) supervision of safety for users and workers on the construction sites; and (iv) infrastructure safety inspection prior to the opening of the new infrastructure.

31. Component 4 (US\$2 million): Project Management. The component will finance Project Management Consultants (PMC) which will assist the CR on management of all activities associated with the project, including supervision of all safeguards and fiduciary aspects. This component also covers TA to support project management capacity of the CR, including training for financial management, procurement, project supervision, and project financial audits. Those arrangements are identical to the ones in place under the ongoing SWRP and EWRP.

#### IV. Safeguard Policies that might apply

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

#### V. Financing (in USD Million)

Total Project Cost:	1220.00	Total Bank Financing:	1000.00
Financing Gap:	0.00		
<b>Financing Source</b>			<b>Amount</b>
Borrower			220.00
International Bank for Reconstruction and Development			1000.00
Total			1220.00

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