



Report and Recommendation of the President to the Board of Directors

Project Number: 52286-001
September 2019

Proposed Loan KazAvtoZhol National Joint Stock Company Central Asia Regional Economic Cooperation Corridors 1 and 6 Connector Road (Aktobe– Kandyagash) Reconstruction Project (Guaranteed by the Republic of Kazakhstan)

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 22 August 2019)

Currency unit	–	tenge (T)
T1.00	=	0.002589
\$1.00	=	T386.18

ABBREVIATIONS

ADB	–	Asian Development Bank
CAREC	–	Central Asia Regional Economic Cooperation
EMP	–	environmental management plan
GDP	–	gross domestic product
IEE	–	initial environmental examination
km	–	kilometer
MIID	–	Ministry of Industry and Infrastructure Development
PAM	–	project administration manual
PRC	–	People's Republic of China

NOTE

In this report, "\$" refers to United States dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 52286-001	
Project Name	Central Asia Regional Economic Cooperation Corridors 1 and 6 Connector Road (Aktobe–Kandyagash) Reconstruction Project	Department /Division	CWRD/CWTC
Country Borrower	Kazakhstan JSC "NC "KazAvtoZhol"	Executing Agency	JSC "NC "KazAvtoZhol"
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=52286-001-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=52286-001-PortAtaGlance		
2. Sector		ADB Financing (\$ million)	
✓ Transport	Road transport (non-urban)		167.02
		Total	167.02
3. Operational Priorities		Climate Change Information	
<ul style="list-style-type: none"> ✓ Addressing remaining poverty and reducing inequalities ✓ Accelerating progress in gender equality ✓ Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability ✓ Strengthening governance and institutional capacity ✓ Fostering regional cooperation and integration 		Climate Change impact on the Project	Medium
		ADB Financing	
		Adaptation (\$ million)	11.60
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 9.1 SDG 13.a		Effective gender mainstreaming (EGM)	✓
		Poverty Targeting	
		General Intervention on Poverty	✓
4. Risk Categorization:	Complex		
5. Safeguard Categorization	Environment: B Involuntary Resettlement: C Indigenous Peoples: C		
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		167.02	
Sovereign Project (Regular Loan): Ordinary capital resources		167.02	
Cofinancing		0.00	
None		0.00	
Counterpart		62.33	
Project Sponsor		62.33	
Total		229.35	
Currency of ADB Financing: Tenge			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to KazAvtoZhol National Joint Stock Company (KazAvtoZhol), to be guaranteed by the Republic of Kazakhstan, for the Central Asia Regional Economic Cooperation Corridors 1 and 6 Connector Road (Aktobe–Kandyagash) Reconstruction Project.¹

2. The proposed project will (i) reconstruct the 89-kilometer (km) highway connecting Aktobe and Kandyagash,² and (ii) strengthen the institutional capacity of KazAvtoZhol.

II. THE PROJECT

A. Rationale

3. **Country context.** Situated in the heart of Eurasia, Kazakhstan is the world's largest landlocked country and the ninth largest in the world, with a 2.7-million-square-kilometer land area that is equal to that of Western Europe. It is adjacent to the inland Caspian and Aral seas and bordered on the north and west by the Russian Federation; on the east by the People's Republic of China (PRC); and on the south by the Kyrgyz Republic, Uzbekistan, and Turkmenistan. Strategically, Kazakhstan has huge potential to link the fast-growing markets of the PRC and East Asia to the Russian Federation and Western Europe by road and rail, and through ports on the Caspian Sea. The socioeconomic and geographic features of Kazakhstan pose significant transport challenges. With an estimated population of 18.2 million in 2018, it has one of the lowest population densities (seven per square kilometer) in the world. Kazakhstan has abundant but unevenly distributed natural resources. The uneven and dispersed spatial distribution of the population and natural resources makes the provision of road transport infrastructure critical and costly. Kazakhstan's economy and development potential are hampered by high transport costs, which constitute a significant component of the logistics value chain. A study in 2016 estimated that the share of logistics cost in Kazakhstan was up to 25% of the cost of the final product, while the world average figure stands at 11%, PRC 14%, the EU 10–13%, the USA and Canada 10%, and Japan 14% of gross domestic product (GDP).³

4. Kazakhstan's economy has a narrow base; in 2018, mining and manufacturing's share of GDP was about 26.8%, compared with 4.2% for agriculture. Given the concentration of economic activity and investments in the hydrocarbon and mining industry (see exports in 2017),⁴ economic diversification is a high government priority. To accelerate economic diversification, the government's strategic objectives include (i) fostering economic growth by ensuring the sustainability of the transport sector; and (ii) increasing the economy's competitiveness through improved transport and trade logistics, especially in West and Central Kazakhstan, the country's least market-accessible regions because of dispersed spatial development and very low population density.

5. Although it is the largest economy in Central Asia, Kazakhstan is relatively small in terms of population and domestic demand, and the country needs to integrate into the regional and

¹ KazAvtoZhol is a national joint stock company, established in March 2013, whose mandate comprises rehabilitation, operation, and maintenance of the *republican* (national) road network as a single operator.

² The project will form a connector road to link Central Asia Regional Economic Cooperation (CAREC) corridors 1 and 6.

³ Z. Raimbekov, B. Syzdykbayeva, D. Zhenshkan. 2016. [Study of the State of Logistics in Kazakhstan: Prospects for Development and Deployment of Transport and Logistics Centers](#). Astana.

⁴ I. Sarsenov and A. Aldiyarov. 2018. [Kazakhstan—The Quest for a New Growth Model: The Urgency of Economic Transformation](#). *Country Economic Update*. Spring 2018. Washington, DC: World Bank.

global economy to expand its markets and increase its growth prospects. Its main international trading partners are Central Asian neighbors, the European Union, the PRC, the Russian Federation, Switzerland, Turkey, and Ukraine. Kazakhstan is an active Central Asia Regional Economic Cooperation (CAREC) member, and several CAREC corridors traverse Kazakhstan, including corridors 1 and 6, which connect Kazakhstan to the PRC, Russian Federation, and Europe. The share of international trade totaled 60.6% of GDP in 2017. The country's potential remains largely untapped because of infrastructure constraints that impede Kazakhstan's trade competitiveness. Within this context, transport infrastructure development and sector efficiency improvements are enabling factors for the sustainable social and economic development of the country.

6. **Road network.** Kazakhstan has a total road length of about 97,000 km, of which about 63% is nominally classified as paved. About 24,000 km of the road network are classified as *republican* (national) roads, of which 92% is paved; these are managed centrally by the Committee of Roads under the Ministry of Industry and Infrastructure Development (MIID). *Akimats* (regional administrations) manage the rest, which consist of *oblast* (provincial) roads (33,000 km) and district (40,000 km) roads. *Republican* roads are further classified as international, national, and regional highways. Much of the road network was constructed during the Soviet era with obsolete technical standards and has deteriorated because of inadequate maintenance and harsh weather conditions. As of January 2014, about 32% of *republican* roads, 18% of *oblast* roads, and 10% of district roads were estimated to be in good condition, partly because of institutional inefficiency and underinvestment. In 2014, MIID set targets of 38% of *republican* roads to be in good condition by 2016 and 48% by 2020.⁵

7. Many *republican* roads form part of transcontinental transport and trade corridors that span the vast territory of Kazakhstan to and from dynamic growth centers in neighboring countries and beyond. Improving these corridors to access markets in neighboring countries and in Europe, the Middle East, and South Asia is critical for Kazakhstan's economic diversification and growth. Owing to the country's size and low population density, maintaining an integrated national transport infrastructure is costly. Travel distances within the country are long; for example, the Center–West (Nur-Sultan–Aktau) corridor is about 2,730 km, while the Center–South (Nur-Sultan–Almaty) corridor is about 1,215 km. Besides increasing vulnerability to climate change, Kazakhstan's harsh continental climate makes transport infrastructure highly susceptible to extreme weather events and associated disasters (e.g., heavy snowfall, high winds, floods, and extreme temperatures). This requires special planning and design considerations in infrastructure provision, resulting in a substantial increase in construction and maintenance costs.

8. Poor road condition is also a contributing factor in road crashes. The cost of road crashes in Kazakhstan is estimated at \$2 billion–\$4 billion per year (about 4% of GDP in 2013). The traffic-related fatality rate for Kazakhstan is about 21.9 per 100,000 population, which is double the rate in Uzbekistan and more than four times higher than the average for Western Europe. Despite a rapidly growing fleet (4.2 million vehicles in 2013 and increasing at an annual average rate of more than 5%), the number of reported fatalities in Kazakhstan fell from a peak of 4,365 in 2007 to 2,086 in 2017. However, the number of injuries rose by 17% and the number of crashes rose by 7% over the same period. The government is committed to improving road safety and endorsed

⁵ Good condition can be equated to an International Roughness Index of less than 4.0 (the actual threshold depends on traffic and road class and ranges from 3.0 to 6.0). Official figures indicated that as of January 2014, 30% of republican roads were in good condition, 49% were in satisfactory condition, and 21% were in unsatisfactory condition.

the CAREC regional road safety strategy for 2017–2030⁶ at the 15th CAREC ministerial conference in Islamabad in October 2016.

9. **Government strategy.** Kazakhstan has strategic policies and plans that influence transport sector development. These strategy documents define the objectives to be achieved in the road subsector and in other sectors. Foremost is the state program of infrastructure development “*Nurly Zhol*” (bright path) for 2015–2019 announced by the Kazakh President in November 2014. To be implemented from 2016 to 2020, *Nurly Zhol* prioritizes domestic transport links of strategic importance and regional impact, and aims to connect the national capital, Nur-Sultan, with other urban agglomerations and/or second-tier cities in the country through integrated rail, air, and road networks. *Nurly Zhol* expected priority physical infrastructure and improved connectivity to foster business-driven regional economic integration through enhanced mobility, allowing the establishment of distributed production and delivery systems. *Nurly Zhol* is expected to generate a significant number of new jobs and incomes through investments and is currently being updated to extend to 2025. At the operational level, the most relevant strategy is KazAvtoZhol’s 2013–2022 strategy, most recently updated in February 2018 with targets to (i) improve 5,100 km of *republican* roads; (ii) conduct routine, midterm, and capital repair on 10,100 km of *republican* roads; (iii) ensure 88% of the *republican* road network in good or fair condition; (iv) toll about 15,917 km *republican* roads (72% of *republican* road network); and (v) build 260 roadside facilities. The ambitious tolling target is linked to a proposal for KazAvtoZhol to greatly increase its self-financing through toll revenues.

10. **Current road condition.** The project is part of the 460 km Aktobe–Kandyagash–Makat road project, which connects the oil- and mineral-rich provinces of Aktobe and Atyrau, serving a population of 1.7 million. The Asian Development Bank (ADB) approved to finance the 299 km Kandyagash–Makat section in 2016.⁷ In 2018, the government requested ADB to finance an additional section of 89 km connecting Aktobe and Kandyagash, while the government will be financing the remaining 72 km under the state budget with a target completion date by 2020. The Aktobe–Makat link is a connector road that links CAREC corridors 1b and 6a, two major trade routes, to the Russian Federation and the European Union, Kazakhstan’s major trade partners. It will integrate these two international corridors to greatly reduce transport cost and increase travel speed along the corridors and contribute to Kazakh trade facilitation.⁸

11. The Aktobe–Makat road is a two-lane, category II and III *republican* road built in 1970s.⁹ Because of deterioration, the road pavement, bridges, and culverts (which were designed for a lower axle load) are barely able to cope with the rapidly increasing and heavy traffic loads from the oil wells and refineries in the region. Traffic between Aktobe and Atyrau is increasingly being diverted to the northern Aktobe–Oral–Atyrau route, as the travel time is nearly the same despite an additional 500 km detour. Poor road connectivity has also become a key social issue as it has contributed to the growing rural–urban income and wealth disparity in West Kazakhstan.

12. **ADB’s assistance.** ADB assistance in the Kazakh transport sector has been largely successful. ADB started its transport operations in Kazakhstan in 2000. It approved the first

⁶ ADB. 2016. [A Regional Road Safety Strategy for CAREC Countries, 2017–2030](#). Islamabad.

⁷ ADB. 2016. [Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Kazakhstan for the CAREC Corridors 1 and 6 Connector Road \(Aktobe–Makat\) Reconstruction Project](#). Manila.

⁸ ADB. 2019. [CAREC Corridor Performance Measurement and Monitoring Annual Report 2017](#). Manila.

⁹ Per Kazakh technical standard SNIP RK 3.03-09-2006, category I roads require a dual carriageway of two 3.75-meter lanes, category II roads require a carriageway of two 3.75-meter lanes, category III roads two 3.50-meter lanes, and category IV roads two 3.00-meter lanes.

multitranche financing facility for the CAREC Transport Corridor 1 (Zhambyl Oblast Section) Investment Program in 2008 with an aggregate amount not exceeding \$700 million and completed it in 2015 with a rating of *successful*.¹⁰ ADB approved a second road subsector multitranche financing facility in 2010 for the CAREC Corridor 2 (Mangystau Oblast Sections) Investment Program with an amount not exceeding \$800 million. Tranche 1 with a loan amount of \$283.0 million was completed in 2015 and rated *successful*.¹¹ Tranche 2 with a loan amount of \$371.3 million was approved in 2012 and will be completed by the end 2019. ADB also approved project loans of (i) \$95.0 million to finance the CAREC Corridor 1 (Taraz Bypass) Project in 2011, completed in 2015 with a *successful* rating,¹² and (ii) \$240.0 million in 2016 to reconstruct the 299 km Aktobe–Makat road in 2016 and the project is ongoing (footnote 7).

13. ADB, in collaboration with other development partners, has jointly supported institutional restructuring and capacity development in the Kazakh transport sector. Support has focused on (i) separating policy making and planning from implementation of road works; (ii) developing a road asset management system; (iii) introducing results-based planning and monitoring, and modern transport information technologies; (iv) institutionalizing road safety audits; (v) enforcing control of traffic overloading; and (vi) expanding toll road operations. These interventions have been largely effective because of close and effective coordination and collaboration among the development partners and good government ownership. Such coordination will remain critical as the government continues its efforts related to road system modernization, efficient use of road assets, and further reduction in transport and logistic costs.

14. **Strategic fit.** The project is aligned with ADB's Strategy 2030 (operational cluster 3 on infrastructure and economic connectivity) and supports four of its seven operational priorities: (i) addressing remaining poverty and reducing inequalities; (ii) accelerating progress in gender equality; (iii) tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability; and (iv) fostering regional cooperation and integration.¹³ Improving the project road is the government's top priority to improve connectivity in West Kazakhstan. The project is fully in line with ADB's country partnership strategy for Kazakhstan, 2017–2021, especially the strategy's objective to facilitate smooth trade across borders and establish regional and global value chains through exchanges of best practice and private sector development.¹⁴ The project also supports the CAREC Transport and Trade Facilitation Strategy 2020.¹⁵

15. **Lessons learned.** The World Bank, the European Bank for Reconstruction and Development, and the Islamic Development Bank financed five road projects between 2009 and 2019. The design of the subject project incorporates the lessons from these projects and from ADB's experience, including (i) proposing realistic cost estimates and contract durations; (ii) streamlining the role of the Committee of Roads and KazAvtoZhol, and strengthening their safeguards implementation and monitoring capacity; (iii) developing synergy with other development partners; and (iv) including a measure to deal with abnormally low bids in the bidding documents. ADB will provide additional support for procurement, social safeguards, and financial

¹⁰ ADB. 2017. [Completion Report: CAREC Transport Corridor 1 \(Zhambyl Oblast Section\) \[Western Europe–Western People's Republic of China International Transit Corridor\] Investment Program in Kazakhstan](#). Manila.

¹¹ ADB. 2017. [Completion Report: Central Asia Regional Economic Corridor 2 \(Mangystau Oblast Sections\) Investment Program, Project 1 in Kazakhstan](#). Manila.

¹² ADB. [Kazakhstan: CAREC Corridor 1 \(Taraz Bypass\) Project](#).

¹³ ADB. 2018. [Strategy 2030. Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila.

¹⁴ ADB. 2017. [Country Partnership Strategy: Kazakhstan, 2017–2021—Promoting Economic Diversification, Inclusive Development, and Sustainable Growth](#). Manila.

¹⁵ ADB. 2014. [CAREC Transport and Trade Facilitation Strategy 2020](#). Manila.

management during project preparation and implementation, given that KazAvtoZhol is a new executing agency for an ADB project.

B. Project Description

16. The project is aligned with the following impact: more jobs created, and Kazakhstan integrated into the regional and global economic system.¹⁶ The project will have the following outcome: efficient, reliable, and safe movement of people and goods in West Kazakhstan increased.¹⁷

17. **Output 1: Aktobe–Kandyagash highway reconstructed to category I standard.** The project will upgrade the 89-km two-lane category II and III road to a four-lane category I road that will connect Aktobe to Kandyagash. The project will widen the road to the category I standard with climate-resilient features, construct roadside service areas with sanitary facilities especially for women, reconstruct all bridges, build two new bypasses of villages, and improve road safety.

18. **Output 2: Institutional capacity of KazAvtoZhol strengthened.** This output will strengthen KazAvtoZhol's institutional capacity by providing equipment; staffing; and training on financial management, procurement, project management, gender, and social safeguards management. The training sessions will include a minimum of 30% participation by women.

C. Value Added by ADB

19. KazAvtoZhol was established in March 2013 as a joint stock company. The company is a national road operator whose shareholder is the Government of Kazakhstan, represented by the Committee for State Property and Privatization of the Ministry of Finance. KazAvtoZhol's main activities are planning, constructing, operating, and maintaining national highways within the framework of state programs and trust management agreements with the MIID. The Ministry of Finance reimburses the company monthly and annually for operations cost and debt services based on state programs and trust management agreements with the MIID.

20. KazAvtoZhol's capacity will be strengthened by the subject project. In addition to the capacity strengthening component, ADB will support KazAvtoZhol's efforts to further improve its financial sustainability, including expanding tolling to about 7,000 km of *republican* roads, collecting toll revenue on behalf of the state, and retaining tolling revenue within KazAvtoZhol. Under the project, KazAvtoZhol will become a direct borrower of an ADB loan for the first time, given its improved financial position and financial management performance. ADB-supported initiatives will help KazAvtoZhol to become a stronger institution that can effectively manage the country's important road assets. The project will provide tenge lending to KazAvtoZhol with a sovereign guarantee, which is part of ADB's efforts to promote domestic financial markets as an alternative to foreign currency lending that will help develop domestic capital markets and mitigate currency risk.

¹⁶ Kazakhstan 2050 Strategy. [Address by the President of Kazakhstan, Leader of the Nation, N. Nazarbayev "Strategy Kazakhstan–2050: New Political Course of the Established State." December 14, 2012.](#)

¹⁷ The design and monitoring framework is in Appendix 1.

D. Summary Cost Estimates and Financing Plan

21. The project is estimated to cost T88.57 billion (Table 1). Detailed cost estimates by expenditure category and by financier are included in the project administration manual (PAM).¹⁸ Major expenditure items include civil works, equipment, consulting, and project administration.

Table 1: Summary Cost Estimates

Item	Amount ^a	
	(T billion)	(\$ million)
A. Base Cost^b		
1. Output 1	65.11	168.61
2. Output 2	1.03	2.66
Subtotal (A)	66.14	171.27
B. Contingencies^c	7.00	18.11
C. Financial Charges During Implementation^d	15.44	39.96
Total (A+B+C)	88.57	229.35

Note: Numbers may not sum precisely because of rounding.

^a Includes taxes and duties of T24.21 billion to be financed by KazAvtoZhol National Joint Stock Company.

^b In June 2019 prices.

^c Physical contingencies computed at 4% for civil works, goods, and services. Price contingencies computed at average of 6% on local currency cost.

^d Includes interest charges and commitment charges. Interest during construction for the tenge loan from ordinary capital resources has been computed at 9.5% per year (based on prevailing yield of comparable government-issued fixed-rate securities, plus an effective contractual spread of 0.5% and maturity premium, as applicable). Commitment charge for the tenge loan is 0.15% per year to be charged on the undisbursed loan amount.

Source: Asian Development Bank estimates.

22. KazAvtoZhol has requested a regular loan of up to T64.50 billion from ADB's ordinary capital resources to help finance the project. The loan, to be guaranteed by the Republic of Kazakhstan, in tenge will have a term of up to 20 years, including a grace period of 5 years; an interest rate equal to the sum of ADB's cost of funding, plus an effective contractual spread for sovereign-guaranteed loans of 0.50% per year; and a commitment charge of 0.15% per year on the undisbursed loan amount. The loan is expected to be disbursed in seven tranches, each with a \$10 million minimum in tenge equivalent. Subject to market conditions, ADB will provide tenge financing to fund the loan by amortized bonds with maturities of up to 10 years. ADB may also provide financing in currencies where it can effectively intermediate, such as United States dollar. Based on straight-line repayment method, the average loan maturity is estimated at 12.75 years, and there is no maturity premium payable to ADB.

23. The summary financing plan is in Table 2. ADB will finance the expenditures related to civil works, goods, consulting services, and project management, including recurrent project management costs, exclusive of taxes and duties. KazAvtoZhol will contribute TZ24.21 billion to cover taxes and duties, financial charges, and partial construction and consultancy costs.

Table 2: Summary Financing Plan

Source	Amount		Share of Total (%)
	(T billion)	(\$ million)	
Asian Development Bank			
Ordinary capital resources (local currency loan)	64.50	167.02	72.82
KazAvtoZhol National Joint Stock Company	24.07	62.33	27.18
Total	88.57	229.35	100.00

Source: Asian Development Bank estimates.

¹⁸ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

24. Climate change adaptation is estimated to cost \$11.6 million and comprises (i) a new pavement structure to reduce risks of increased diurnal temperature range, (ii) new bridges to address the expected increase in flood risks, and (iii) drainage structures to avoid erosion and protect the embankment. ADB will finance 100% of adaptation costs.¹⁹

E. Implementation Arrangements

25. The implementation arrangements are summarized in the Table 3 and described in detail in the PAM (footnote 18).

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	November 2019–December 2024		
Estimated completion date	31 December 2024		
Estimated loan closing date	30 June 2025		
Management			
(i) Oversight body	Project steering committee Chair, Committee of Roads (chair) Ministry of National Economy, Ministry of Finance, Committee of Roads, and KazAvtoZhol (members)		
(ii) Executing agency	KazAvtoZhol		
(iii) Key implementing agency	KazAvtoZhol		
(iv) Implementation unit	KazAvtoZhol branch office in Aktobe		
Procurement	Open competitive bidding (internationally advertised)	2 contracts	\$142.0 million
	Request for quotations	1 contract	\$0.3 million
Consulting services	Quality- and cost-based selection (90:10)	596 person-months	\$5.1 million
	Individual consultants	150 person-months	\$0.7 million
Advance contracting	Advance contracting will be used for (i) civil works, consulting services, and goods; and (ii) project management office staff recruitment and training.		
Disbursement	Loan proceeds will be disbursed following ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB. Since it is a local currency loan, a special arrangement of advance fund procedure in tenge with a minimum \$20 million equivalent for each withdrawal will be used for the project. ADB agreed on a comprehensive action plan with KazAvtoZhol to ensure the advance fund is used for the project's intended purpose.		

ADB = Asian Development Bank, KazAvtoZhol = KazAvtoZhol National Joint Stock Company.
Source: Asian Development Bank.

III. DUE DILIGENCE

A. Technical

26. The project has no major technical challenge. The detailed design followed the national standards. The project starts 11 km south of Aktobe, and it will reconstruct and upgrade about 89 km of the deteriorated section between Aktobe and Kandyagash from category II or III to category I (from two-lane to four-lane). The existing road has badly deteriorated and has a high safety risk. Most of the pavement has various distresses and defects. The pavement was designed for a 6-ton axle load but has been redesigned for a 12-ton axle load to respond to increasing traffic volume and the high percentage of heavy trucks. The project is in a flat area with category I geometric design standards for horizontal and vertical design parameters at a design speed of 120 km per hour.

¹⁹ Climate Change Assessment (accessible from the list of linked documents in Appendix 2).

27. The project will largely follow the alignment within the right-of-way, with two sections of new alignment to bypass two villages. The design also includes (i) rebuilt bridges that cross rivers and railway lines, interchanges, culverts, and underpasses for pedestrians, cattle, and agriculture machines; (ii) road safety facilities, such as barriers and guardrails; and (iii) sidewalks, lighting, and intersections in villages and towns, especially noise barriers and low-noise asphalt pavements in Bestamak, a village that the road traverses. Service areas will be included in the design, with various facilities. The design of the pavements, bridges, and drainage considered climate-adaptation measures.

B. Economic and Financial Viability

28. Built originally in the 1960s, the road has extremely poor pavement conditions and had a weighted average traffic of 6,100 vehicles per day in 2017. The road is in such poor condition that it will continue to deteriorate without the project, even if customary maintenance interventions are continued. Under the with-project scenario, additional capacity will be provided, and safety features will be improved. Considering various influences on traffic growth, the following annual growth rates are assumed from 2018 to 2026: 3.4% for buses, 4.6% for cars and small passenger vehicles, and 4.9% for goods vehicles. The economic costs are (i) capital, including physical contingencies but excluding taxes; and (ii) operation and maintenance. The economic benefits are (i) vehicle operating cost savings from the improved project road, (ii) journey time savings, and (iii) reduced vehicle emissions. The economic analysis confirmed the project is economically feasible with an estimated economic internal rate of return of 11.1%. Sensitivity tests confirmed the project would remain feasible if envisaged project costs increase or benefits are reduced.²⁰

29. KazAvtoZhol plans to toll the project road after its completion. Applying the current toll with consumer price index, the annual cost required for operation and maintenance would be about 30% of the toll revenue. The project is considered sustainable.

C. Sustainability

30. KazAvtoZhol's financial sustainability has been reviewed and is found adequate. The analysis of KazAvtoZhol's financial performance from 2014 to 2018 showed that the company received service fees, and the government reimbursed KazAvtoZhol for the operations cost and debt services under the state programs.²¹ From 2016 to 2018, the company progressively invested in the road network, borrowing \$189 million from the European Bank for Reconstruction and Development in 2016 and \$1.7 billion from the Export-Import Bank of China in 2017. In 2018, the company signed a \$2.4 billion credit agreement with the Export-Import Bank of China. These loans are under the government's guarantee, and the roads funded under these loans will be tolled.

31. Based on the unaudited financial statements for 2018, the company incurred about \$118 million in unrealized loss because of the accounting treatment of the revaluation of its foreign currency long-term loan obligations, which are primarily denominated in United States dollars. While this impacts on the company's equity, the situation will improve when the company starts to receive funds from the government to repay the loans when they are due. Since the company's operations cost and debt services under trust management agreements and state programs are reimbursed, its financial position is considered sustainable.

²⁰ Economic and Financial Analysis (accessible from the list of linked documents in Appendix 2).

²¹ Using the unaudited financial statement for 2018.

D. Governance

32. KazAvtoZhol's financial management, procurement, integrity, and legal governance have been assessed. The financial management assessment concluded that the pre-mitigation risk is *substantial*. Although KazAvtoZhol's staff have experience with development partners and large foreign investment projects, they lack experience with ADB-funded projects, ADB's disbursement and advance fund procedures, and ADB's financial management requirements. The project will engage experts to review and strengthen KazAvtoZhol's institutional capacity on governance and financial management, in line with Strategy 2030 (footnote 13). ADB agreed that a detailed action plan of KazAvtoZhol to enhance the company's financial management will be prepared under the project.

33. According to the procurement risk assessment, KazAvtoZhol has weak procurement capacity and the project procurement risk was rated *high* as KazAvtoZhol lacks experience in ADB's procurement policy and regulations. The project will strengthen its procurement capacity by (i) providing comprehensive training on procurement and project management, (ii) engaging procurement consultants to support KazAvtoZhol during project preparation, and (iii) mobilizing project management experts to support project management during implementation.

34. Integrity due diligence conducted in May 2019 identified no significant risks.²² ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and KazAvtoZhol. The specific policy requirements and supplementary measures are described in the PAM (footnote 18).

E. Poverty, Social, and Gender

35. The project is expected to improve people's mobility, thereby improving their access to services, job opportunities, education, and training. With the expected increase in the number of vehicles traversing the project road, local people have the opportunity to form small businesses at the service areas. Access roads from communities in the project area will be linked to the project road. Road safety features that conform to international standards will be installed, especially in Bestamak, a village the road will directly traverse, thereby improving local people's ease of travel while improving their safety. Furthermore, communities will be oriented on gender issues relevant to construction and transportation, such as sexual harassment, exploitation, and abuse of women.

36. The project is categorized *effective gender mainstreaming* and is expected to deliver direct gender benefits. Targets for the meaningful participation of women in the community in project consultations and in road safety campaigns were set and agreed with KazAvtoZhol. Road facilities and features that are friendly to women, children, the elderly, and people with disabilities, such as raised sidewalks with ramp access for prams and wheelchairs, will be installed along the road segment in Bestamak. Covered bus stops accessible to each of the communities along the project road will be set up. The project will also provide livelihood opportunities to local women and men in the project area. Efforts to improve KazAvtoZhol's gender balance will be strengthened through training activities to increase the proportion of women in technical positions, and the setting of targets to increase female staff in the project implementation unit. Gender training will be institutionalized, gender indicators will be included in the project monitoring and information system, and sex-disaggregated data will be regularly collected.

²² ADB. 2003. [Enhancing the Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism](#). Manila.

F. Safeguards

37. In compliance with ADB's Safeguard Policy Statement (2009), the project's safeguard categories are as follows.²³

38. **Environment (category B).** KazAvtoZhol prepared an initial environmental examination (IEE)²⁴ and environmental management plan (EMP) following the ADB's Safeguard Policy Statement. The project is not in an environmentally sensitive area. The IEE has established that there are no significant environmental impacts that cannot be totally prevented or adequately mitigated to levels acceptable to national and international standards. During construction the project is expected to have site-specific impacts, such as air, water, and noise pollution; soil erosion; traffic disruptions; and community health and safety. Among the likely impacts during operations are noise and air quality deterioration in semi-urban areas. The project road will largely follow the alignment except for Alga and Kandyagash villages, which will be bypassed with a new alignment through areas of low ecological value. Therefore, potential issues caused by growing transit traffic related to noise, air pollution, and road safety in those villages will be avoided. The project will pass through Bestamak village, where it is anticipated that there will be some noise and vibration impacts during construction, and noise and community severance impacts during operations. Adequate mitigation measures were incorporated into the project design and will be implemented through the EMP by contractors. Bidding documents will include the EMP and the mitigation and monitoring measures. KazAvtoZhol will engage a construction supervision consultant to ensure the contractor's environmental performance is satisfactory and complies fully with all applicable standards and specifications, and KazAvtoZhol staff and contractors will receive environment management training at preconstruction. Public consultations were held in 2015; and in July, September, and October 2018 during IEE preparation. The project's grievance redress mechanism was developed. KazAvtoZhol disclosed the IEE and the EMP on ADB's website in July 2019.

39. **Involuntary resettlement (category C).** KazAvtoZhol conducted social safeguards due diligence on the project, and prepared and disclosed a due diligence report on the ADB website. The due diligence report concluded that the project right-of-way is fully under state ownership and possession with no present or future land acquisition and resettlement impact. KazAvtoZhol will implement the following standard good practices during project implementation: (i) continuous meaningful consultations with the communities will be conducted; (ii) a full-time social safeguards specialist will be engaged; (iii) social safeguards training for KazAvtoZhol staff and contractors will be conducted; (iv) a strong grievance redress mechanism will be in place and in effect all stages of the project; and (v) regular and close monitoring of project activities will be ensured, with semiannual reporting to ADB.

40. **Indigenous peoples (category C).** The project does not involve any distinct ethnic minority community in the project areas, so it does not trigger requirements on indigenous peoples under the Safeguard Policy Statement.

G. Summary of Risk Assessment and Risk Management Plan

41. Significant risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.²⁵

²³ ADB. [Safeguard Categories](#).

²⁴ Initial Environmental Examination (accessible from the list of linked documents in Appendix 2).

²⁵ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
The project's advance fund may be used for unintended purposes.	KazAvtoZhol will open a project account in a bank with a good credit rating, ADB will train KazAvtoZhol staff on ADB's disbursement and advance fund procedures, and financial management requirements prior to the project commencement. ADB will also review project financial expenditures as part of the project review, and KazAvtoZhol will liquidate the advance account monthly. KazAvtoZhol will engage two financial management consultants, financed by the loan, within 6 months after loan effectiveness.
KazAvtoZhol lacks experience in ADB's procurement policy and regulations and has insufficient qualified staff to efficiently undertake the procurement activity.	Procurement is centralized at the KazAvtoZhol headquarters, and some experienced staff are being trained by ADB. ADB will (i) provide comprehensive training on procurement and project management, (ii) engage procurement consultants to support KazAvtoZhol, and (iii) mobilize project management experts to support project management during implementation.
Abnormally low bids may cause disputes.	New bidding document templates, which will include an abnormally low bids clause, will be applied.

ADB = Asian Development Bank, KazAvtoZhol = KazAvtoZhol National Joint Stock Company.

Source: Asian Development Bank.

IV. ASSURANCES

42. The government and KazAvtoZhol have assured ADB that implementation of the project shall conform to all applicable ADB requirements, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, financial management, and disbursement as described in detail in the PAM and loan documents.

43. The government and KazAvtoZhol have agreed with ADB on certain covenants for the project, which are set forth in the draft guarantee and loan agreements.

V. RECOMMENDATION

44. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of up to T64,500,000,000 to the KazAvtoZhol National Joint Stock Company, to be guaranteed by the Republic of Kazakhstan, for the Central Asia Regional Economic Cooperation Corridors 1 and 6 Connector Road (Aktobe–Kandyagash) Reconstruction Project, from ADB's ordinary capital resources, in regular terms, with interest equal to the sum of ADB's cost of raising tenge funding and the contractual spread for sovereign guaranteed loans; for a term of up to 20 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and guarantee agreements presented to the Board.

Takehiko Nakao
President

6 September 2019

DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with More jobs created and Kazakhstan integrated into the regional and global economic system (Kazakhstan 2050 Strategy) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>Outcome Efficient, reliable, and safe movement of people and goods in West Kazakhstan increased</p>	<p>By 2025:</p> <p>a. Average daily vehicle-km for the Aktobe–Makat–Atyrau road increased to 1,600,000 (2017 baseline: estimated 800,000 vehicle-km) (RFI A)</p> <p>b. Average travel time between Aktobe and Atyrau reduced to 7.0 hours (2019 baseline: 12.0 hours)</p> <p>c. Casualty crash rate per 100 million vehicle-km traveled reduced by 10% of the national road casualty crash rate (2018 baseline: estimated 18.6)</p>	<p>a–c. MIID reports on annual traffic statistics, and project performance monitoring system prepared by KazAvtoZhol</p>	<p>The government changes its priority, resulting in insufficient funds to sustain road development.</p>
<p>Outputs 1. Aktobe–Kandyagash highway reconstructed to category I standard</p> <p>2. Institutional capacity of KazAvtoZhol strengthened</p>	<p>By 2024</p> <p>1. 89 km dual carriageway road section constructed with gender design features^b at 120 km per hour design standard (2019 baseline: single carriageway road at 40 km per hour design standard) (RFI B)</p> <p>2a. At least 100 KazAvtoZhol staff (50% of whom are women) applied their increased knowledge and skills on project management (2019 baseline: not applicable)</p> <p>2b. Environment and social safeguards unit (with 30% female staff) established (2019 baseline: not applicable)</p> <p>2c. Equipment to strengthen KazAvtoZhol branch offices delivered (2019 baseline: not applicable)</p> <p>2d. Implementation plan to improve KazAvtoZhol’s financial position developed (2019 baseline: not applicable)</p>	<p>1. Supervision consultant’s annual reports</p> <p>2a. Participants’ feedback survey conducted by KazAvtoZhol</p> <p>2b–d. Supervision consultant’s annual reports, and project completion report from KazAvtoZhol</p>	<p>Extreme climate conditions and disasters adversely affect construction.</p>

Key Activities with Milestones**1. Aktobe–Kandyagash highway reconstructed to category I standard**

- 1.1 Issued RFP for construction supervision consultants on 20 June 2019 and award the contract by 31 December 2019
- 1.2 Issued IFB for civil works on 13 August 2019 and award the contracts by December 2019
- 1.3 Complete civil works by 31 December 2022

2. Institutional capacity of KazAvtoZhol strengthened

- 2.1 Award contract for training consultants by 30 September 2020 and complete training by December 2024
- 2.2 Procure equipment by 30 June 2021
- 2.3 Develop implementation plan for KazAvtoZhol financial position improvement by December 2021

Inputs

ADB: T64.50 billion (regular OCR loan)

KazAvtoZhol: T24.07 billion

Assumptions for Partner Financing

Not Applicable

ADB = Asian Development Bank, IFB = invitation for bid, KazAvtoZhol = KazAvtoZhol National Joint Stock Company, km = kilometer, MIID = Ministry of Industry and Infrastructure Development, OCR = ordinary capital resources, RFP = request for proposal.

^a Kazakhstan 2050 Strategy. [Address by the President of Kazakhstan, Leader of the Nation, N. Nazarbayev "Strategy Kazakhstan–2050: New Political Course of the Established State."](#) December 14, 2012.

^b Examples of road facilities that are friendly to women, children, the elderly, and people with disabilities include raised sidewalks with ramp access for prams and wheelchairs; covered bus stops that are accessible to the communities along the project road and with benches for pregnant women, the elderly, and persons with disabilities; road safety signs; streetlights and pedestrian crossings, especially on the road section passing through Bestamak; and service areas with separate toilets for males and females.

Contribution to the ADB Results Framework:

RFI A: Use of roads built or upgraded (average daily vehicle-km). Target: 1,600,000 average daily vehicle-km.

RFI B: Roads built or upgraded (km). Target: 89 km.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=52286-001-3>

1. Loan Agreement
2. Guarantee Agreement
3. Sector Assessment (Summary): Transport
4. Project Administration Manual
5. Economic and Financial Analysis
6. Summary Poverty Reduction and Social Strategy
7. Risk Assessment and Risk Management Plan
8. Climate Change Assessment
9. Gender Action Plan
10. Initial Environmental Examination

Supplementary Documents

11. Social Safeguards Due Diligence Report
12. Kazakhstan Road Subsector Stakeholder Assessment
13. Financial Management and Institutional Assessment
14. Project Procurement Risk Assessment and Management Plan
15. Strategic Procurement Planning Report