

Document of
The World Bank

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Report No: 64935-KZ

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US\$1,068 MILLION

TO THE

REPUBLIC OF KAZAKHSTAN

FOR THE

EAST-WEST ROADS PROJECT

(ALMATY – KHORGOS SECTION):

WESTERN EUROPE-WESTERN CHINA
INTERNATIONAL TRANSIT CORRIDOR (CAREC 1b)

March 30, 2012

Sustainable Development Department
Central Asia Country Unit
Europe and Central Asia Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective March 2, 2012)

Currency Unit = Kazakhstan Tenge (KZT)

KZT 148.67 = US\$1.00

US\$1 = 0.77 Euro

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AADT	Average Annual Daily Traffic	IP	Inspection Panel
ADB	Asian Development Bank	IRI	International Roughness Index
CAREC	Central Asia Regional Economic Cooperation	IS	Implementation Support
CIS	Commonwealth of Independent States	ISA	International Standards on Auditing
CMP	Customs Modernization Project	IsDB	Islamic Development Bank
COFP	Committee for Finance Control Procurement	JERP	Joint Economic Research Program
CPAR	Country Procurement Assessment Reviews	JICA	Japan International Corporation Agency
CPS	Country Partnership Strategy	KVD	Kazakhavtodor
CR	Committee for Roads	KZT	Kazakh Tenge
CSO	Civil Society Organization	LCS	Least Cost Selection
CU	Customs Union	MoEP	Ministry for Environmental Protection
DEU	Local Road Maintenance Center	MoF	Ministry of Finance
DFID	Department for International Development	MoTC	Ministry of Transport and Communications
DPO	Development Policy Operation	MMG	Motorway Management Group
EBRD	European Bank for Reconstruction and Development	NCB	National Competitive Bidding
EDB	Eurasian Development Bank	NGO	Non-governmental Organization
EIA	Environmental Impact Assessment	NPV	Net Present Value
EIRR	Economic Internal Rate of Return	OPRC	Operations Policy Review Committee
EMP	Environment Management Plan	ORDs	Oblast Road Departments
EOI	Expression of Interest	PAS	Procurement Accredited Staff
ESIA	Environmental and Social Impact Assessment	PAT	Performance Assessment Tool
EU	European Union	PDO	Project Development Objective
ESAL	Equivalent Single Axle Load	PFM	Public Finance Management
EWRP	East-West Roads Project	PFS	Project Financial Statements
FBS	Fixed Budget Selection	PIC	Project Institutional Consultant
FL	Flexible Loan	PMC	Project Management Consultants
FM	Financial Management	POM	Project Operations Manual
FMS	Financial Management Specialists	PPL	Public Procurement Law
FSU	Former Soviet Union	PPP	Public-Private-Partnership

GAC	Governance and Anti-Corruption	QBS	Quality-Based Selection
GDP	Gross Domestic Product	QCBS	Quality and Cost-Based Selections
GIS	Geographic Information Systems	RAMS	Road Asset Management System
GNI	Gross National Income	RAP	Resettlement Action Plan
GoK	Govt. of the Republic of Kazakhstan	RFP	Resettlement Policy Framework
GPN	General Procurement Notice	RIR	Resettlement Implementation Report
HDM-4	Highway Development and Management Model	RPM	Regional Procurement Manager
HR	Human Resources	RRA	Roads Reforms Advisor
IAB	Internal Audit Board	SBDs	Standard Bidding Documents
IBRD	International Bank for Reconstruction and Development	SIL	Specific Investment Loan
IC	Individual Consultants	SNIP	Standards for construction and maintenance
ICB	International Competitive Bidding	SOE	Statement of Expenditure
ICBC	International Centre for Cross Border Cooperation	SPNs	Specific Procurement Notices
IDF	Institutional Development Fund	SWRP	South-West Roads Project
ICT	Information and Communications Technologies	TSD	Transport Sector Development
IFIs	International Financial Institutions	UNDB	United Nation Development Business
IFR	Interim Financial Report	USAID	United States Agency International Development
INT	Integrity Department	WE-WC	Western Europe-Western China
IFR	Interim Financial Report	WTO	World Trade Organization

Regional Vice President:	Philippe H. Le Houérou
Country Director:	Saroj Kumar Jha
Country Manager:	Sebnem Akkaya
Sector Director:	Laszlo Lovei
Sector Manager:	Henry G. R. Kerali
Task Team Leader:	Jacques Buré

KAZAKHSTAN
East-West Roads Project
(Almaty – Khorgos Section): Western Europe-Western China International Transit Corridor
(CAREC 1b)
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PAD DATA SHEET

Kazakhstan

East-West Roads Project

(Almaty – Khorgos Section): Western Europe - Western China International Transit Corridor
(CAREC-1b) (P128050)

PROJECT APPRAISAL DOCUMENT

EUROPE AND CENTRAL ASIA

ECSS5

Basic Information			
Date:	30-March-2012	Sectors:	Rural and Inter-Urban Roads and Highways (90%), General transportation sector (10%)
Country Director:	Saroj Kumar Jha	Themes:	Trade facilitation and market access (80%), Regional integration (10%), Infrastructure services for private sector development (10%)
Sector Manager/Director:	Henry G. R. Kerali/Laszlo Lovei	EA Category:	A - Full Assessment
Project ID:	P128050		
Lending Instrument:	Specific Investment Loan		
Team Leader(s):	Jacques Bure		
Joint IFC: No			
Borrower: Republic of Kazakhstan			
Responsible Agency: Committee for Roads			
Contact:		Title:	
Telephone No.:	7172241312	Email:	mtc@mtc.gov.kz
Project Implementation Period:	Start Date: 01-Aug-2012	End Date:	31-Dec-2016
Expected Effectiveness Date:	31-Jul-2012		
Expected Closing Date:	30-Jun-2017		
Project Financing Data(US\$M)			
<input checked="" type="checkbox"/> Loan	<input type="checkbox"/> Grant	<input type="checkbox"/> Other	
<input type="checkbox"/> Credit	<input type="checkbox"/> Guarantee		
Proposed term: The IBRD flexible loan is denominated in US Dollars, commitment linked, level repayment, with final maturity of 19 years including a grace period of 5 years.			
For Loans/Credits/Others			
Total Project Cost (US\$M):	1,256.00		
Total Bank Financing (US\$M):	1,068.00		
Financing Source	Amount(US\$M)		
Borrower	188.00		
International Bank for Reconstruction and Development	1068.00		
Financing Gap	0.00		
Total	1256.00		
Expected Disbursements (in USD Million)			

Fiscal Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Annual	0.00	180.00	340.00	340.00	140.00	68.00	0.00	0.00	0.00
Cumulative	0.00	180.00	520.00	860.00	1000.00	1068.00	1068.00	1068.00	1068.00

Project Development Objective(s)

The project development objectives (PDOs) are to increase transport efficiency along the section of the Western Europe-Western China Road Corridor within Almaty Oblast and to modernize highway management on sections of the Western Europe-Western China Road Corridor.

Components

Component Name	Cost (USD Millions)
Component 1: Upgrade and construction of the road section of the Western Europe-Western China Road Corridor within Almaty Oblast	1,252.00
Component 2: Modernize highway management on sections along the Western Europe-Western China Road Corridor	4.00

Compliance

Policy

Does the project depart from the CAS in content or in other significant respects?	Yes []	No [X]
Does the project require any waivers of Bank policies?	Yes []	No [X]
Have these been approved by Bank management?	Yes []	No [X]
Is approval for any policy waiver sought from the Board?	Yes []	No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No []

Safeguard Policies Triggered by the Project

	Yes	No
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

Legal Covenants

Name	Recurrent	Due Date	Frequency
Additional Condition of Effectiveness		31-Jul-2012	

Description of Covenant

- (a) The MoTC shall have selected a financial management specialist and a procurement specialist under TORs satisfactory to the Bank.
(b) The Project accounting system satisfactory to the Bank is in place, with in-built controls capable of tracking Project resources and expenditures and generating financial reports.
(c) The Borrower has adopted the Project Operation Manual acceptable to the Bank.

Name	Recurrent	Due Date	Frequency
Institutional Arrangements: Road Reform Advisor (RRA) Team and Motorway Management Group (MMG) Operational		30-Jun-2013	
Description of Covenant			
The Borrower, through the MoTC shall maintain (i) the RRA and the RRA Team with a composition, resources, and terms of reference satisfactory to the Bank, and (ii) the Motorway Management Group with a composition, resources and terms of reference satisfactory to the Bank.			
Name	Recurrent	Due Date	Frequency
Institutional Arrangements: Quality Charter Developed		30-Jun-2013	
Description of Covenant			
The Borrower shall cause the MoTC to develop and endorse the Form Quality Charter for the pilot operation and maintenance scheme under Part 2 (a) of the Project no later than June 30, 2013.			
Name	Recurrent	Due Date	Frequency
Institutional Arrangement: Operation and Maintenance Operational	X		Quarterly
Description of Covenant			
No later than three months after the opening to traffic of each sub-section of the Road Corridor section under the SWRP, the Borrower shall cause MoTC to commence operation and maintenance of said sub-section, as determined under the pilot operation in Part 2(a) of the Project, and in accordance with the respective Quality Charter.			
Name	Recurrent	Due Date	Frequency
Project Reports: Annual Review	X		Yearly
Description of Covenant			
No later than December 31, 2012, and annually thereafter, the Borrower, through the MoTC, shall carry out jointly with the Bank, annual reviews of the progress made in carrying out the Project. The Borrower, through the MoTC, shall prepare at least four (4) weeks prior to the annual reviews, and furnish to the Bank, a separate report.			
Name	Recurrent	Due Date	Frequency
Institutional arrangement: Assessment of Operation and Maintenance needs.		30-Jan-2015	
Description of Covenant			
No later than January 30, 2015, the Borrower, through the MoTC shall submit to the Bank an assessment, satisfactory to the Bank, of the operation and maintenance needs for the Road Corridor covering a period of at least 15 years from the date of the assessment which shall address the potential for financing gaps of the necessary activities to reach a satisfactory level of service along the Road Corridor.			
Name	Recurrent	Due Date	Frequency
Institutional arrangement: Counterpart funds for Project activities	X		Quarterly
Description of Covenant			
Throughout the implementation period of the Project, the Borrower shall provide the necessary budgetary resources in a manner and frequency satisfactory to the Bank, but at least on a quarterly basis, to sufficiently fund the expected cash expenditures required for financing the Project activities for that quarter.			
Name	Recurrent	Due Date	Frequency
Safeguards	X		
Description of Covenant			
The Borrower, through the MoTC:			
(a) shall not commence any works in sections of the Project Area where land acquisition has been carried out by the Borrower prior to the date of this Agreement for the purposes of carrying out the Project activities <u>unless</u> , the Borrower and the Bank shall agree that all the measures identified in the RIR for cases that have not been fully resolved within such sections shall have been implemented in a way satisfactory to the Bank, in conformity with the RIR			
(b) shall not commence any works under the Project in sections of the Project Area where land acquisition that is not anticipated as of the date of this Agreement becomes required, without first preparing Resettlement Action Plans, satisfactory to the Bank, in accordance with the Resettlement Policy Framework; and then, ensuring that such land acquisition has been carried out in accordance with the respective RAPs.			

Team Composition					
Bank Staff					
Name	Title	Specialization	Unit		
Jacques Bure	Sr Highway Engineer (TTL)	Team Leader	ECSS5		
Cordula Rastogi	Senior Transport Economist	Transport Economist	ECSS5		
Rodrigo Archondo-Callao	Sr Highway Engineer	Road Management	ECSS5		
Joseph Paul Formoso	Senior Finance Officer	Loan Disbursements	CTRLA		
Daniel R. Gibson	Lead Social Development Specialist	Social Safeguards	ECSSOQ		
Elizabeth C. Wang	Senior Financial Officer	Project Design and Finance	ECSS5		
John Otieno Ogallo	Sr Financial Management Specialist	Financial Management	ECSSO3		
Aliya Kim	Financial Management Analyst	Financial Management	ECSSO3		
Anara Akhmetova	Procurement Assistant	Procurement and Disbursement	ECCKZ		
Elena Y. Chesheva	Operations Officer	Project Design	SASDT		
Nurbek Kurmanaliev	Procurement Specialist	Procurement	ECSSO2		
Serdar Jepbarov	Operations Officer	Transport Infrastructure	ECCTM		
Wolfhart Pohl	Senior Environmental Specialist	Safeguards and Environmental Impact Mitigation	ECSS3		
Aliya Mukay	Operations Officer	Transport Infrastructure	ECSS5		
Jung Eun Oh	Transport. Economist	Transport Economy	ECSS5		
Aksulu Kushanova	Team Assistant	Administrative Client Support	ECCKZ		
Irina Trukhan	Junior Professional Associate	Transport Infrastructure	ECSS5		
Margarita Grigoryeva	Communications Officer	External Affairs	ECCKA		
Ramiro Ignacio Jauregui-Zabalaga	Counsel	Legal	LEGEM		
Michael Butler	Junior Professional Associate	Transport Infrastructure	ECSS5		
Shynar Jetpissova	E T Consultant	External Affairs	ECCKZ		
Non Bank Staff					
Name	Title	Office Phone	City		
Bakyt Arystanov	Consultant	Engineering	ECSS5		
Jesus Renzoli	Consultant	Procurement	ECSSO2		
Lorraine McCann Kosinski	Temporary	Administrative Client Support	ECSS5		
Graham Smith	Consultant	Transport Economist	ECSS5		
Michel Zarnowiecki	Consultant	Customs Expert	ECSS5		
Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments

I. STRATEGIC CONTEXT

A. Country Context

1. ***Kazakhstan is the ninth largest country in the world—with a land area which equals that of Western Europe.*** The economy has almost doubled¹ since the country emerged from the break-up of the Soviet Union more than two decades ago. Kazakhstan experienced a strong economic performance through efficiency gains from increasing its market orientation, and from expansion of hydrocarbon output amidst rising prices during 2000-2007. The non-oil fiscal deficit was maintained at 3 percent of GDP—with savings being transferred to a stabilization fund. However, economic diversification proved elusive in the face of booming oil prices. The role of the State in industrial policy and in management of large enterprises remains dominant—with an annual investment program by State investment holding company Samruk-Kazyna of about 7-10 percent (versus Government fixed capital investment of 5-6 percent of GDP).
2. ***Kazakhstan withstood the effects of the global financial crisis of 2008-2009, through a rapid response combining fiscal stimulus with bank stabilization measures amounting to US\$17 billion.***² The authorities implemented a fiscal stimulus package directed to agriculture, small business, infrastructure and construction. Key financial sector stabilization measures included a recapitalization of three major banks and reduction of the external debt of banks by more than US\$10 billion. The decisive approach to macroeconomic and financial sector management contributed to a quick recovery in output: 7.3 percent in 2010, and 7.5 percent in 2011, which also benefited from high oil prices. A gradual fiscal adjustment is expected to be achieved mainly through a declining share of total capital spending from about 8.0 percent of GDP in 2010 to below 6.0 percent of GDP by 2015—partly by elimination of crisis-spending programs with fixed capital spending remaining at its pre-crisis level. It is assumed that non-oil revenue will remain approximately flat as a share of GDP (at about 14.3 percent), while oil-related Government revenue will decline as a share of GDP from 13.8 percent in 2011 to about 10.0 percent by 2015.
3. ***Real annual growth is projected at around 5.5-6.0 percent in the medium-term.*** The oil sector is estimated to grow in the range of 2.5-6.0 percent, and other sectors at 6.0 percent (below pre-crisis highs of 9.0-11.0 percent). The external current account is expected to remain comfortably in surplus. Gross international monetary and fiscal reserves stood at US\$75 billion (over 40 percent of GDP). Inflationary pressures have emerged from commodity price shocks and an accommodating fiscal stance. The authorities intend to reduce the non-oil fiscal deficit over the medium-term. Based on Kazakhstan's recovery record and stable outlook, Standard & Poor's raised its long- and short-term foreign currency sovereign credit ratings for Kazakhstan from 'BBB/A-3' to 'BBB+/A-2' on November 8, 2011.
4. ***The Government of Kazakhstan established a customs union (CU) with Belarus and Russia, which came into effect in January 2010—signaling a major change in the path of regional integration, with significant implications for Kazakhstan.*** The customs union should allow Kazakhstan to benefit from greater access to the larger Russian and Belarusian markets,

¹ In 2011 Kazakhstan's real GDP was estimated at about 196% of its 1992 level.

² This does not include the bond swaps between Samruk-Kazyna and BTA bank (\$4.3B) and Alliance bank (\$0.7B).

with a total population of about 150 million, and the eventual free movement of labor and capital through the abolishment of border crossing points between the countries. Issues related to non-tariff measures need to be addressed to maximize the benefits of Kazakhstan's participation in the CU. Trade diversion and related long-term productivity losses due to increase in Kazakhstan's external tariffs on most goods from outside the CU raise some concerns (weighted average tariff rose from 5.3 percent to 10.4 percent). Kazakhstan's accession to the World Trade Organization (expected in 2012-2013) would therefore deliver significant benefits.³

5. ***Economic linkages with China have grown in recent years.*** China is now Kazakhstan's biggest trading partner (24 percent of total trade or US\$14 billion in 2010) and the fourth largest foreign investor (nearly 10 percent of total foreign investment). There is no formal agreement in place between the two countries targeting the reduction of tariffs and the elimination of non-tariff barriers. Nonetheless, trade volumes are expected to reach US\$17.5 billion in 2011, surpassing the pre-financial crisis record. In June 2011, the Governments of China and Kazakhstan signed an agreement to increase the trade volume to US\$40 billion by 2015. Most commodities exported from Kazakhstan to China are either oil products or raw materials (mainly transported by rail over long-distances) while imports remain mainly consumer products manufactured in China. The share of non-oil exports (such as construction materials, chemicals, machinery and equipment, and other manufactured and consumer goods) is rapidly increasing (see Annex 8). Non-oil products are mainly transported by short-distance road haulage.

6. ***The Government's stabilization efforts have placed the economy on a recovery path as growth has resumed.*** The post-crisis development vision of the Government (detailed in the *Strategic Plan for Development 2020*)⁴ is to anchor sustained growth on improved competitiveness, increased productivity, and increased diversification of output in the non-oil sectors. Successful implementation of this vision would require the relieving of infrastructure constraints to growth in the medium-term. Diversified growth would require reduction in economic distances and greatly improved connectivity between cities. A shift towards more efficiently managing infrastructure assets would reduce the costs of business and trade. If the country is to realize its potential as a major transit country between Western Europe and Western China, there is a need to focus on improvements in infrastructure, trade facilitation and reductions in non-tariff barriers.

B. Sectoral and Institutional Context

7. ***The economic and geographic features of Kazakhstan pose significant transport challenges.*** The country is vast, land-locked, with uneven spatial distribution of the population and natural resources. These characteristics result in a high dependence on the efficient movement of people and goods. At the same time, Kazakhstan is strategically located between Western China and Western Europe—as well as within Eurasia—and is thus a key transit country. Travel distances within the region are substantial (e.g. 2,000 km from the Kyrgyz

³ Expected conclusion of negotiations with WTO Working Party members by the end of 2012 is a work-in-progress. According to Kazakh authorities, most of the bilateral negotiations have been completed and bilateral market access agreements signed with the Working Party members (including the US, in September 2011). Russia's WTO accession in December 2011 should have a positive impact on Kazakhstan's WTO accession process.

⁴ The Strategic Plan is complemented by two other major policy initiatives: *The program of accelerated industrial development* and *a program to raise productivity* that runs until 2020.

Republic to Russia), which results in increased travel times and costs for accessing wider markets of the region or beyond. Transport costs account for 8-11 percent of the final cost of goods, which is about double the cost in most industrialized countries. Within this context, the development of transport infrastructure combined with efforts to increase the efficiency of the sector itself are seen as enabling factors for the development of the country—in particular, for the Government’s drive towards economic competitiveness, increased productivity and diversification.

8. ***The Government’s Strategy for Transport Sector Development (TSD) from 2010-2014—which was approved in September 2010⁵—identifies the short- to medium-term objectives for the transport sector in Kazakhstan.*** This Strategy envisages the development of an efficient transport system (including infrastructure, services and administration) that is integrated into the international transport system. The TSD recognizes rail transport’s dominant role for heavy bulk goods, and calls for the road network to be developed to serve higher-value goods and support better connections with neighboring countries. The TSD also aims to transform the transport sector to meet the country’s development objectives by: (i) improving managerial and strategic planning capacity; (ii) enhancing safety and maintenance standards; and (iii) promoting market reforms and private sector participation, with a view to fully realize the country’s transit potential.⁶

9. ***Kazakhstan has a developed land transport network of about 84,000 km of roads and 14,000 km of rail tracks.*** The road network consists of about 21,000 km of republican roads, and 63,000 km of local roads. The former are managed by the Committee for Roads (CR) of the Ministry of Transport and Communications (MoTC). Four of the six major transport corridors designated by countries of the Central Asia Regional Economic Cooperation (CAREC) traverse Kazakhstan. This includes the CAREC corridor 1b, also called the Western Europe-Western China Road Corridor (WE-WC Road Corridor), and which is the main corridor in Kazakhstan. Although current trade movements are relatively low, the trade directions indicate significant potential for trade with Europe, China and South Asia, in addition to the current thriving trade with Russia. This perceived trade potential is the main reason for the establishment of the six CAREC corridors. Between January and July 2011, the total freight turnover in Kazakhstan was 231,557 billion ton-km—with a rail freight turnover of 121.30 billion ton-km, and a road transport turnover of 50.339 billion ton-km.⁷ Rail transport accounted for 71 percent of all freight transportation in 2010 (total freight turnover, excluding pipeline), with road transport accounting for the remaining 29 percent. Nevertheless, trends show a substantial increase in road freight per

⁵ The program formerly known as the *Road Sector Development Program 2006-2012*, was fully integrated into the Transport Sector Program 2010-2014.

⁶ The TSD presents a comprehensive reform program and specifies the underlying investments for each transport sub-sector through the year 2014. In the railway sector, the TSD envisages: (i) the upgrade of rail infrastructure to meet international safety standards and speed requirements; and (ii) the introduction of competition in the railway market. In road transport, the TSD emphasizes an investment program that includes the rehabilitation/upgrading of the national roads network. This includes: (i) the rehabilitation/upgrading of about 4,400 km of national roads on the six international corridors passing through Kazakhstan; and (ii) the repair and improvement of about 12,500 km of local roads. Priority investment projects include the reconstruction of the WE-WC Corridor targeted for completion in 2012. Kazakhstan plans to construct or reconstruct 16,000 km of national roads by 2020—and the volume of traffic in the country will be more than doubled as compared to the 2010 level.

⁷ The remainder includes oil and gas pipelines (58.2 billion ton-km) and a limited freight turnover from sea, air and river transportation.

annum since 2002 (e.g. a 45 percent increase for the period of January to July 2011 as compared to the same period in 2010).

10. ***The main road corridor in Kazakhstan is the WE-WC Road Corridor,⁸ which functions as the major link to 7.9 million people, about half of Kazakhstan's population.*** It crosses the entire country from Khorgos on the border with China in the south east, through Almaty, Taraz, Shymkent, Kyzyl-Orda, and Aktobe, to the border with Russia (a total of 2,787 km). The upgrade of the Road Corridor is a major objective of the Government, with construction started in 2009. The Road Corridor promotes internal and external trade by providing more efficient transport and logistics services.⁹ Overall, about 63 percent of the total financing needed to complete the WE-WC program is co-financed by the following organizations: (i) the Asian Development Bank (ADB); (ii) the European Bank for Reconstruction and Development (EBRD); (iii) the Islamic Development Bank (IsDB); (iv) the Japan International Cooperation Agency (JICA); and (v) the International Bank for Reconstruction and Development (IBRD or 'the World Bank').

11. ***Funding for the road sector has substantially increased since 2001, but budget allocations for maintenance are still inadequate.*** Kazakhstan's rapid growth over the past decade was accompanied by a substantial increase in total road sector expenditures. Despite the budgetary constraints posed by the crisis, the planned budget for 2011 shows total expenditures of KZT223 billion (US\$1.5 billion equivalent)—which is about ten times the 2001 level. However, an insufficient portion of those funds are allocated to maintenance. It is estimated that road maintenance allocations from the Republican budget¹⁰ amounted to only about 50 percent of the amount deemed necessary according to Kazakh norms. The Government has started to focus on network programming and planning so that it will be able to allocate resources more efficiently to the road network. The Bank is supporting this effort through the implementation of the on-going South-West Roads Project (SWRP).¹¹ In addition to inadequate funding for maintenance, the MoTC is constrained by: (i) a lack of modern skills and absence of an incentive system for staff; (ii) the need for major maintenance or full rehabilitation for 40 percent of roads; (iii) outdated road maintenance practices and management (reactive rather than preventive); (iv) a poor road safety record; and (v) a lack of modern highway services along road corridors.

12. ***The World Bank is providing a US\$2.125 billion loan under the on-going SWRP to upgrade 1,065 km of the WE-WC Road Corridor within the South Kazakhstan and Kyzylorda Oblasts¹² and to improve the management of the road transport sector.*** In addition to capital investment, the SWRP finances the preparation of action plans to improve road safety and

⁸ Also called CAREC corridors 1b and 6b.

⁹ Cargo transportation along the Corridor can be divided into domestic shipping, import/export of Kazakh goods, and transit through Kazakhstan—including transit from Central Asia and transit along intercontinental routes from China to Europe.

¹⁰ 2007-KZT6.7 billion; 2008- KZT 7.2 billion; 2009 - KZT 7.7 billion; 2010 KZT 9.1 billion; 2011- KZT 7.5 billion.

¹¹ The SWRP objectives are: (i) upgrading and reconstructing 1,065 km of road sections within the South Kazakhstan and Kyzylorda Oblasts; (ii) strengthening the institutional capacity of the MoTC and the CR; and (iii) improving road safety and road services. Loan IBRD-7681-KZ.

¹² An additional 80km in the South Kazakhstan Oblast, would be financed out of the savings from ongoing civil works under the SWRP through the first restructuring.

roadside services, and institutional changes aiming at: (i) strengthening the CR, and enhancing the capacity of its staff in project management; and (ii) implementing a Road Management System. A Framework of Actions was signed in December 2010 by the MoTC, which provides details of the strategy for implementing the institutional reforms financed out of the SWRP. The Framework of Actions focuses on the areas of human resources, organizational effectiveness and management systems. Current efforts include: (i) preparation of a Road Asset Management System (RAMS); (ii) assessment of CR staffing and skills and of the need to recruit more people and to design incentives; (iii) consultancy to implement roadside services and road safety strategies; (iv) implementation of technical audits and procurement audits; (v) communication with the public; and (v) initial strategy to reform Kazakhavtodor (KVD), the State-owned enterprise in charge of maintenance of the main roads network. Achievements to date include the appointment of a Road Reform Advisor (RRA) to lead institutional change,¹³ the establishment of a unit within CR responsible for road management, and initiation of amendments to legislation and normative acts to transfer functions from the CR at the central level to its oblast departments. Additional activities are also ongoing, mainly the preparation of a RAMS, and studies on improving road safety and road side services. The implementation of the Framework of Actions has been supported by international consultant teams, which also provided on-the-job training to CR staff. The salary of CR staff and Oblast Department staff has also increased by 30 percent in 2011.

C. Higher Level Objectives to which the Project Contributes

13. *The Project is essential for the Government's strategy to stimulate sustained growth and improve competitiveness by investing in key infrastructure network links.* The Project would provide an efficient transport link from Almaty to Khorgos, thereby completing the upgrade of the WE-WC Road Corridor. Khorgos is the primary road border crossing point between Kazakhstan and China—it is located 670 km west of Urumqi, which is the administrative center of Xinjiang province in China. Almaty is one of the major economic centers of Central Asia. The upgrading of this 305 km long section of the WE-WC Road Corridor in Almaty Oblast would facilitate more efficient movements of goods and people, and would improve road safety. It would also facilitate industrial, agricultural, and commercial activities—with improved trade and services along the road and in adjacent towns and cities. A study funded by the ADB¹⁴ estimated that all direct and indirect impacts of the investment in the WE-WC Road Corridor ('all-inclusive trade scenario') would lead to 68 percent higher real GDP for Kazakhstan by 2020 compared to 2010 baseline.

14. *The Project would increase the efficiency and effectiveness of modern highway operation and maintenance by scaling-up road transport sector reform efforts initiated under the on-going Bank-financed SWRP.* The TSD includes planned budget allocations of US\$8 billion for the rehabilitation/upgrade of the 6 main road corridors, which would require an increased allocation of funds from the Republican budget for the operation and maintenance of these newly constructed sections of the road network. The activities proposed to be financed under the Project would also focus on increasing the quality of services provided to road-users,

¹³ This appointment was suggested by the Bank Project Team during the ongoing preparation of the proposed Project, and endorsed by the Minister of Transport on January 19, 2012, ahead of appraisal.

¹⁴ ADB, Report and Recommendation of the President to the Board of Directors, 2008, Proposed CAREC Transport Corridor I (Zhambyl Oblast Section), <http://www.adb.org/Documents/RRPs/KAZ/41121-KAZ-RRP.pdf>.

including the reduction of road-user costs and improved road safety and services by undertaking pilot operation and maintenance activities along the WE-WC Road Corridor. Additionally, a study would be launched to review different user-pay mechanisms such as tolling options to assist the Government to recover costs for the operation and maintenance of parts of the Corridor. Based on the experience of the pilot activities, the study would also develop realistic cost estimates for the operation and maintenance of the other road corridors in Kazakhstan.

15. ***The Project is consistent with the new Country Partnership Strategy (CPS) 2012-2016 for Kazakhstan.*** The CPS is built around three broad areas of engagement: (i) improving competitiveness and fostering job creation; (ii) strengthening public finance and public sector institutions for efficient service delivery; and (iii) ensuring that development is sustainable. The CPS would build on the Bank's experience and dialogue with the Government under the previous CPS. The Bank activities would support the Government's objective of substantially increasing the competitiveness of the economy, with an emphasis on areas where the country lags with respect to the advanced economies. Kazakhstan targets climbing up from 72nd place (its current position out of 139 economies) to 50th place in the Global Competitiveness Report.¹⁵ The proposed Project is one of the selected lending operations requested by the Government to support expansion of key infrastructure networks and institutions. This investment will contribute to the reduction of costs of production, supporting productivity and output growth, and promoting the country's international competitiveness.

16. ***Involvement of the World Bank in the WE-WC Road Corridor is expected to promote effective systems of transparency and enhance fiduciary safeguards.*** Transparency relates not only to the procurement processes by ensuring competition, equal access, probity and accountability in the Project, but also to enhanced disclosure of project-related information on external websites, such as UNDB and World Bank websites in addition to the SWRP website already managed by the CR. With the fiscal surplus accumulated over the past decade, the Government could have financed on its own the development of the entire WE-WC Corridor—which is estimated to cost about US\$6.7 billion.¹⁶ However, the Government is seeking the involvement of the World Bank because it ensures efficiency and transparency in use of resources, introduces internationally compliant fiduciary and safeguards standards, and introduces modern technical standards for road design and construction that may not be available in Kazakhstan at present.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

17. ***The project development objectives (PDOs) are to increase transport efficiency along the section of the Western Europe-Western China Road Corridor within Almaty Oblast and to***

¹⁵ Global Competitiveness Report 2011-2012 at www.weforum.org/reports/global-competitiveness-report-2011-2012.

¹⁶ Funding for this project was originally sought from three sources: borrowings, the national budget and private investments. To date, US\$3.4 billion have been taken in loans from international financial institutions, including the Asian Development Bank (US\$700 million), the European Bank for Reconstruction and Development (US\$180 million), the Islamic Development Bank (US\$398 million) and the World Bank (US\$2.125 billion).

modernize highway management on sections of the Western Europe-Western China Road Corridor. This would be achieved through:

- (a) Upgrading and constructing about 305 km – road section within Almaty Oblast along the WE-WC Road Corridor from Almaty to Khorgos;
- (b) Modernizing highway management through the implementation of improved maintenance and operations based on agreed levels of service (safety features, riding comfort, travel speeds, etc.) as a pilot, and the review of options to introduce ‘user-pay’ mechanisms—such as tolling—on the SWRP section of the WE-WC Road Corridor;
- (c) Strengthening the capacity of the MoTC and its CR to scale-up road sector reform efforts, with a view to improving the management of the Republican road network.

18. *The Project would lead to more efficient transport, lower road-user costs and improved levels of services along sections of the WE-WC Road Corridor.* In order to fully achieve the Project objectives, it would be necessary to strengthen the planning and management capacity of the CR. The recently appointed RRA will focus on the implementation of institutional reforms within the road sector partly financed by the World Bank and other IFIs. The Project would also assist in implementing improved highway operations and maintenance based on agreed levels of service. This would lead to lower social costs, stemming from reduced road traffic injuries, and increased travel speed and riding comfort.

B. Project Beneficiaries

19. *The primary Project beneficiaries would be road-users—in particular the owners, operators and occupants of motor vehicles.* Road-users would benefit on two levels:

- (a) *Along the section of the WE-WC Road Corridor in Almaty Oblast,* road-users would benefit from the improved condition and road capacity as well as improved maintenance and operations. This would result in reduced vehicle operating costs, better riding comfort, and reduced risk of injury and death due to traffic accidents. Road-user costs would be reduced at least by 13 percent for the different types of vehicles.
- (b) *At the national level,* road-users would benefit from increased capacity of the MoTC and its CR to manage the Republican road network more efficiently throughout Kazakhstan. Related benefits would accrue in the medium-term, only after the completion of the Project.

20. *In addition, the Project would benefit trade and transit in Kazakhstan and in other countries of Central Asia.* By focusing on improving the efficiency of a major international transport corridor, the proposed Project is expected to have a significant impact on the economy of Kazakhstan. Today, the Central and South Asia regions have a total potential transit capacity of about 220 million tons. According to a 2009 report from the Eurasian Development Bank,¹⁷ this capacity is expected to increase to 400 million tons by 2020. Central Asian Governments are increasingly aware that improving transport corridor performance is essential to accelerating

¹⁷ EU-Central Asia Monitoring, *Optimisation of Central Asian and Eurasian Trans-Continental Land Transport Corridors*, Michael Emerson and Evgeny Vinokurov, Working Paper 07, December 2009.

trade flows and economic prospects. It is in this context that the Government of Kazakhstan has declared trade and transport facilitation a national priority.

C. PDO Level Results Indicators

21. *The achievement of the PDOs would be measured by the following key results indicators:*

(a) Transport efficiency:	Reduced Vehicle operating costs (US\$/km)
(b) Transport efficiency:	Reduced Travel time (hours)
(c) Modernization of highway management:	Introduction of sound operation and maintenance practices along the WE-WC Road Corridor (number of km where such practices are implemented)
(d) Modernization of highway management:	Reduced financing gap for operations and maintenance activities along the WE-WC Road Corridor (percentage of the needs covered).

22. *Output/Intermediary outcome indicators would include the following:* kilometers of roads built, kilometers of roads where pilot operation and maintenance activities are implemented, number of staff trained, number of road users interviewed, and length of roads where new user-pay principles are agreed upon. The Results Framework is presented in Annex 1.

III. PROJECT DESCRIPTION

A. Project Components

23. *The Project could be viewed as a continuation of the on-going SWRP*, which became effective on December 9, 2009. The proposed Project includes the components described in the following paragraphs.

24. **Component 1: Upgrade and construction of the road section within Almaty Oblast** (estimated US\$1,252 million, including contingencies). The component would finance: (a) civil works to support the upgrade and construction of the Almaty – Khorgos road section of the Western Europe – Western China Road Corridor within Almaty Oblast, including associated bypasses, bridges, interchanges, and ancillary facilities; and (b) the provision of consulting services for management and supervision of civil works under the Project. Land acquisition and road design costs would be financed through the Borrower’s own funds. The detailed design would accommodate the growth of average annual daily traffic on the section from the current 6,900 vehicles per day (vpd) in 2011 to about 17,000 vpd estimated for 2025 - of which 16 percent represents trucks and buses. An upgrade from 2 to 4 lanes would be built, with a pavement structure able to accommodate 13 ton per axle bearing capacity, 5 meter median and 3.5 meter wide emergency lanes. The upgrade and construction of the road would lead to significant increases in road capacity and safety. Measures regarding road safety implemented under the SWRP will also be enforced under this component (review of designs by supervision consultants, road safety audits, etc.)

25. **Component 2: Modernize Highway Management along the Western Europe – Western China Road Corridor** (estimated US\$4 million, including contingencies). The new Minister of Transport appointed in January 2012, is preparing with his staff a reform program to: (i) transform the State-owned enterprise in charge of maintenance of the main road network, Kazakhavtodor (KVD), into a commercially-oriented entity; (ii) introduce tolling mechanisms and the contracting-out of operation and maintenance using performance based methods; and (iii) assign responsibility to and maintain a motorway management group (MMG) within the CR to be in charge of all management, monitoring and planning of the investment along the six CAREC corridors (international roads). The component would finance related consultants' services for the following sub-components that would complement each other in assisting the reform:

- (a) **Support a pilot operation and maintenance scheme on the section of the Road Corridor covered under the SWRP, based on Quality Charters** (estimated at a cost of US\$2 million). This activity would finance a pilot road operation and maintenance scheme to include aspects of highway operations based on modern management features and the notion of “levels of service”, including safety, riding comfort, travel speed, etc. This activity would also finance the supply of road roughness measurement equipment—one set of equipment for each Regional/Oblast Roads Laboratories of the CR—and the improvement of standards for monitoring the riding quality of the highway network, and the quality of construction works. The technical assistance will review progress and assess the results during the pilot implementation. The activity will support CR to develop a template “Quality Charter”¹⁸ that will help KVD improve professionalism and increase the skills needed to plan operation and maintenance activities, and engage with road users and civil society. The technical assistance provided also will help the CR and KVD define the set of principles that will guide the drafting of a standard agreement between the CR and KVD. This activity will benefit from the ADB and EBRD financed studies regarding road maintenance.¹⁹

- (b) **Development of a comprehensive strategy on tolling on the section of the WE-WC Road Corridor between Almaty and Khorgos** (estimated at a cost of US\$1.5 million). This activity would provide technical assistance to the MoTC and the CR to develop a comprehensive strategy on tolling and thereby decide on the best mechanisms by which to introduce user-pay principles along the WE-WC Road Corridor. The TSD indicates the intention of the Government to introduce user-pay principles, such as tolling, to recover the costs of capital investments, and for the operation and maintenance of the Republican road network.

¹⁸ One charter for each homogenous section along the SWRP.

¹⁹ ADB Road Maintenance System Improvement report was finalized in July 2011. The Report focuses on routine maintenance system for the Republican Roads through the development of performance standards, an outsourcing system and improvements in the efficiency of KVD. EBRD study, still to be commissioned, is designed to complement the ADB effort by focusing on the performance of the current maintenance activities and trying to improve it using pilot sections of roads and training.

(c) **Support the RRA’s institutional reform activities** (estimated at a cost of US\$0.5 million). Based on a proposal from the Bank, the MoTC appointed a Road Reform Advisor to work with a team comprising an international consultant expert on institutional reform, and senior officials of the MoTC (the RRA team). The RRA responsibility is to advise the MoTC and the CR on institutional reform activities. The RRA team would directly report to the Minister of Transport and Communications, and would be supported by internationally-hired experts financed under the Project—with a view to bringing international good practice and experience relevant for Kazakhstan.²⁰

B. Project Financing

Lending Instrument

26. *The project cost would be financed through a US\$1,068 million Specific Investment Loan (SIL) from the IBRD and US\$188 million co-financing provided by the Government.* The Borrower would be the Republic of Kazakhstan, and the representative of the Borrower would be the Ministry of Finance (MoF). The Project implementation entity would be the MoTC through the CR. The Borrower has selected a Flexible Loan (FL) in US Dollars, commitment linked, level repayment, and 19 years to maturity, including 5-year grace period. This choice was made by the Borrower, taking into account the loan amount and the structure of the accumulated national debt, as well as the capability to use Loan conversion options in order to manage the risk of external borrowing and debt.

Project Cost and Financing

27. *The total cost of the proposed Project would be US\$1,256 million (including value-added taxes and contingencies).* The proposed Project would be financed through a US\$1,068 million Specific Investment Loan (SIL) from the IBRD. The Borrower would provide US\$188 million as counterpart financing.

Project Finance Summary Table

Project Components	Project cost (US\$ million)	IBRD Financing (US\$ million)	Borrower Financing (US\$ million)	IBRD Financing as % of Project cost
Component 1. Upgrade and Construction of the Sections of the WE-WC Road Corridor within the Almaty Oblast	1,252	1,064.6	187.4	85.0%
Component 2. Modernize Highway Management of Sections along the WE-WC Road Corridor	4	3.4	0.6	85.0%
Total Baseline Costs	1,256.0	1,068.0	188.0	
Contingencies ^(*)	0.00	0.00		
Total Project Costs	1,256.0	1,068.0	188.0	
Total Financing Required				

(*) Contingencies are included in the project components cost

²⁰ The Project will not finance civil servants at the MoTC; only consultants.

C. Program Objective and Phases

28. *The Project would be part of the same WE-WC Corridor Development Program already supported by the Bank (through the on-going SWRP) and other IFIs.* The SWRP is being implemented satisfactorily. Two years after effectiveness, total disbursement of the US\$2.125 billion loan amounts was US\$801 million (as of December 31, 2011) with a disbursement rate of 24 percent by the end of December 2011. Total disbursement is expected to exceed 50 percent by end June 2012. Despite these results, the implementation progress was rated “moderately satisfactory” in November 2011 because a more sustained effort needs to be deployed toward institutional strengthening at the CR.²¹ The proposed Project would finance the upgrade of an additional section of 305 km of the corridor, and scale-up institutional development activities identified under the SWRP. Other development partners on the WE-WC corridor development program are:

- (a) The ADB financing road sections in the Zhambyl Oblast (495 km), at an estimated total cost of US\$823 million;
- (b) The IsDB financing a 58 km road section between the South Kazakhstan Oblast border and Taraz, at an estimated total cost of US\$193 million;
- (c) The JICA financing a 20 km Kulan road section in the Zhambyl Oblast, at an estimated total cost of US\$80 million;
- (d) The EBRD financing road sections between the Russian Federation border to Martuk in the Aktobe Oblast (102 km), at an estimated total cost of US\$202 million equivalent.

29. *The Government was initially seeking private financing for the Project through a toll concession,* because the road section between Almaty and Khorgos has the highest traffic volumes (annual average daily traffic of about 6,900 vpd in 2011). However, the Government decided not to proceed with this option and to secure public financing instead because of: (i) the uncertainties of the financial markets; (ii) the level of financial guarantees required by the private sector; and (iii) the time needed to update legal and institutional frameworks.²²

30. *The Project is expected to contribute to the facilitation of trade and transport along the Corridor.* This is linked to the Government’s ambitious program to enhance the country’s transit capacity, with particular focus on the CAREC corridors. It is being complemented by efforts and financing from the World Bank and development partners to establish institutional and legislative changes to improve the trade and transport facilitation environment. The World Bank is supporting the implementation of an on-going Customs Development Project. Other IFIs—including the ADB, the DFID, USAID, and the EU—are financing technical assistance projects with a focus on trade facilitation and customs reform.²³ Close coordination within the Bank and the development other partners is planned to ensure that the implementation of the Project aligns with the pace of these other programs. Kazakhstan’s Customs Control Committee is preparing a detailed plan of actions for the border crossing point at Khorgos, in order to align the Project implementation progress with these initiatives.

²¹ Significant progress is currently being made and the rating is expected to return to “satisfactory” in Spring 2012.

²² The Government is still planning on tolling the Almaty to Khorgos road once the construction is completed. The design of the tolling strategy is part of the proposed Project.

²³ Some of the activities include: (i) the introduction of a ‘single window’; (ii) trade logistics development; (iii) modernization of key border crossing points; and (iv) capacity-building for customs personnel.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

31. *The MoTC will have responsibility for implementation of the Project, with the CR directly responsible for day-to-day management.* The MoTC is experienced in implementing World Bank transport projects. The proposed Project would partly replicate the implementation arrangements of the ongoing SWRP. The MoTC would implement the Project through the CR. The Project Management Consultant (PMC) who is currently supporting the CR in the implementation of civil works under the SWRP²⁴ has achieved some knowledge transfer to the CR (e.g., procurement, financial management, overall supervision of civil works). The responsibilities given to the PMC under the SWRP will be transferred to the CR for the implementation of the Project. Staffing at the CR will be reinforced by the hiring of at least two international consultants and 5 local consultants to work from time to time over a period of 36 months to be financed out of the proceeds under Component 1. The increase in staffing would allow the CR to supervise works contracts as well as the work of the supervision consultants, the “Engineers”. The Governance and Anti-Corruption (GAC) Action Plan under the SWRP has been updated based on experience from the implementation of the SWRP. The updated GAC will now institutionalize and advance the activities piloted, tested and implemented during the first two years of implementation of the SWRP, including use of the Performance Assessment Tool (PAT) to assess the performance of both contractors and supervision consultants.

32. *The RRA team would support the MoTC in the road sector reform process.* The RRA team would focus MoTC attention on institutional strengthening activities and reform efforts including the pilot operation and maintenance activities financed under the Project. Through the RRA team, the proposed Project would also coordinate reform arrangements with other Government Ministries and agencies—such as the Ministry of Economic Development and Trade, the Agency for Civil Service, Prime Minister’s Office, the Ministry of Finance, and the Ministry of Justice.

B. Results Monitoring and Evaluation

33. *The MoTC has experience in monitoring and evaluation of Bank-financed projects.* It would play the same role for the proposed Project. As has been the case under the SWRP, regular monitoring reports will be prepared by CR staff with contributions from the RRA team. Those reports would be sent to the Bank, and interested Government agencies, such as the Ministry of Finance and the Ministry of Economic Development.

34. *Cooperation between the Bank and the MoTC would continue—and evaluation tools developed under the SWRP would be expanded to the Project.* For civil works, this would include the existing Performance Assessment Tool (PAT)—which would continue to be used extensively—together with supervision reports. As the baselines for the evaluation of project progress are set (e.g., Vehicle Operation Costs), the continued monitoring of results under component 1 is not expected to be difficult. For institutional development activities, the existing Framework of Actions would be updated by the RRA team and further expanded to include

²⁴ The PMC role includes review of detailed design, procurement and financial management support, construction management, information dissemination, and environment and social safeguards monitoring.

timeframes and responsibilities, in order to establish a system for better monitoring and evaluation of implementation progress.

C. Sustainability

35. *The Project outcomes could be sustained only if the management of the main road network is modernized.* The TSD includes indications of long-term financing for the roads sector, with the objective of attaining acceptable levels of service along the WE-WC Road Corridor and throughout the Republican road network. The budget foreseen for this purpose is forecasted until 2013. It incorporates an increase of 23 percent starting in 2010—with the maintenance of the six CAREC corridors assigned the highest priority. In addition, it is expected that based on the experience gained working alongside the PMC—although they will progressively be phased out once the SWRP is close to completion in 2013—the RRA team would add local capacity to the road sector.

36. *However, modernizing the management of roads can still take a decade.* The institutional reform under the proposed Project is designed to match Kazakhstan’s absorption capacity. It is designed to be implemented progressively, building upon the initiatives under the SWRP. Modern management of the international road network would require the operator to shift from a pure “engineering” orientation—taking care of the infrastructure only—to a more service-oriented, road-user friendly approach. Many State-owned enterprises in Kazakhstan still bear an outlook that is prevalent in a managed economy. Overnight transformation of the State-owned maintenance entity Kazakhavtodor would not be possible. Kazakhavtodor needs to feel entrusted with a societal task of properly operating a modern infrastructure. It needs to start creating a new self-image based on teamwork, service to users, respect for the environment, and other corporate ethos. The proposed Project Component 2 would provide support to that end.

V. KEY RISKS AND MITIGATION MEASURES

37. *Overall implementation risks are assessed to be ‘substantial’, due to the following reasons:*

- (a) The institutional capacity to plan and manage the road network remains weak, mainly because the CR has few adequately trained personnel. Although the PMC has a good track record under the SWRP with the implementation and supervision of civil works, there have been few improvements in the management of the road network. The RRA would be responsible for moving the reforms forward. The reform efforts cannot fully be implemented without continuous commitment and availability of staff from the MoTC and the CR (mainly stipulated by an incentive system that focuses on progress of works rather than reforms). The MoTC is working on a reform program that would transform KVD into a commercially-oriented entity, and allow the introduction of tolling mechanisms and the contracting-out of performance-based operation and maintenance as well as assigning responsibility to and maintaining a motorway management group to be in charge of all management, monitoring and planning of the investment along the six CAREC corridors.

(b) There may be a delay in the facilitation of trade and removal of non-tariff barriers, and in the establishment of an efficient border-crossing point at Khorgos. The outcome of the Project would be impacted if the processing time at Khorgos does not improve by the time the road is completed and opened to traffic.

38. *The implementation agency risk is rated as ‘substantial’, mainly because major civil works highlight governance and capacity constraints.* The proposed Project is a high priority project, and the commitment to the completion of the civil works is high. However, institutional reform might prove challenging for the Government to implement fully. The satisfactory track record under the SWRP and the experience gained by both the Bank and the Client mitigate the implementation risks. In addition, the project design is not complicated, environmental exposure is limited, and all land has either already been acquired or is in the final stages of acquisition.

Risk Ratings Summary Table

	Rating
Stakeholder Risk	Moderate
Implementing Agency Risk	
- Capacity	Substantial
- Governance	Substantial
Project Risk	
- Design	Moderate
- Social and Environmental	Moderate
- Program and Donor	Moderate
- Delivery Monitoring and Sustainability	Moderate
Overall Implementation Risk	Substantial

VI. APPRAISAL SUMMARY

A. Economic and Financial Analyses

39. *The Project would reduce overall travel distance by 13 percent, and is economically justifiable under various scenarios.* For the economic analysis, the road was divided into three sub-sections based on traffic, unit costs of road works, and distance savings. The existing road connecting Almaty to the border with China has a length of 352 km, of which around 63 km are 4-lane and the rest 2-lane. The new alignment under the proposed Project would have a length of 305 km. Thus, an overall distance savings of 13 percent would significantly reduce road-user costs. The existing asphalt road is in poor condition—with an average roughness of 7.4 IRI, m/km. The Without Project scenario considers maintaining the existing road with proper routine maintenance, and rehabilitating the road when the condition becomes very poor (12 IRI, m/km).

40. *Traffic along the section (with or without project scenarios) is expected to grow at 6 percent per annum from 2012 onwards,* based on the average GDP growth rate from 2006-2010 (assuming elasticity of traffic growth to GDP growth equal to one). The Average Annual Daily Traffic (AADT) for 2011 is based on 2007 traffic counts (see Table below). A conservative assumption of generated traffic (10 percent of the normal traffic) was adopted, with the consideration that such a major investment in a road corridor would likely promote economic development in the project area. The 2011 average annual daily traffic on the entire corridor is 6,900 vpd—with 16 percent composed of trucks and buses.

Daily Traffic on the WE-WC Road Corridor between Almaty and Khorgos

Section	2011 Traffic (vpd)	Trucks and Buses (%)
Almaty-Shilik (km 126)	11,706	8
Shilik (km 126)-Tashkarasu (km 268)	3,164	24
Tashkarasu (km 268)-China Border	5,198	16
Total	6,901	16

41. *According to the economic evaluation, about 80 percent of the existing road traffic would remain once the newly constructed section opened in 2015.* However, less than 80 percent of the existing road traffic is expected to use the newly constructed section near Almaty and the Chinese border, due to the fact that there is a higher percentage of local traffic.

42. *The financial construction cost was estimated to be US\$1,252 million, which corresponds to US\$ 4.10 million per km.* The economic costs—net of taxes—were estimated to be 80 percent of the financial costs. The table below summarizes the results of the economic evaluation. The overall project Economic Internal Rate of Return (EIRR) is 21.3 percent, with a Net Present Value (NPV) - at a 12 percent discount rate—of US\$572 million. The Almaty-Shilik section has the highest EIRR, due to a high level of traffic. The Shilik-Tashkarasu section has an acceptable EIRR, due to high distance savings. The Tashkarasu-China Border section has a marginal economic justification, due to low distance savings. The sensitivity analysis shows that the Project is economically justified even under the scenarios of increasing costs by 15 percent or decreasing benefits by 15 percent. The switching-values analysis shows that, in order to yield an EIRR equal to 12 percent, costs would have to increase by 67 percent or benefits would have to decrease by 40 percent.

Summary Results of the Economic Evaluation

Section	NPV (US\$ million)	EIRR (%)	NPV/ Investment Ratio
Almaty-Shilik (km 126)	231	21.5%	0.47
Shilik (km 126)-Tashkarasu (km 268)	273	25.3%	0.68
Tashkarasu (km 268)-China Border	68	16.1%	0.19
Total	572	21.3%	0.46

B. Technical

43. *The proposed Project will upgrade and construct the Almaty-Khorgos section of the WE-WC Road Corridor.* The construction is not expected to be challenging. The MoTC and its CR have a good track record of implementing civil works as soon as a project becomes effective. The detailed designs, procurement plan and the strategy for bidding have been prepared, based on known procedures successfully tested under the SWRP. The procurement activities have already started. The CR is now launching the prequalification for 8 lots (6 sections of road of about 50km each, and 2 lots for bridges). The Bank Project Team has completed the review of the detailed designs to ensure that the proposed Project complies with principles of modern engineering, sound economics, and adequate safeguard requirements. The main areas that were discussed with the CR related to the structure of the new pavement²⁵ and the utilization of new

²⁵ The CR is proposing the construction of a concrete pavement instead of a more traditional asphalt pavement. Concrete pavement is considered synonymous with long life. Concrete pavements are strong and durable, provide

technology in the design for two main bridges to be constructed. Overall, the procurement for works is progressing in parallel to the Bank Project appraising and approval process—with the target of commencement of works in 2012, as soon as the Project becomes effective.

C. Financial Management

44. ***The CR is familiar with the Bank's FM requirements.*** An assessment of the financial management arrangements established by the CR was conducted in May and October 2011, and in February 2012 as part of the financial management supervision of the SWRP and preparation of the proposed Project. The assessment focused on arrangements for budgeting, accounting, internal control, financial reporting, and auditing. The aim of the assessment was to determine the capacity of the Finance Department of the CR to provide satisfactory financial management support for the Project. The CR is responsible for implementing a number of investment projects in the roads sector, financed by a number of IFIs—including the ADB, IBRD, EBRD, and IsDB—and the Government. The Finance Department handles financial management and disbursement functions for investment projects.

45. ***FM arrangements under the SWRP have been rated as 'moderately satisfactory'.*** Overall, the established financial management arrangements under the SWRP—including accounting, internal controls, reporting and staffing—have been rated as 'moderately satisfactory', mainly due to deficiencies in the accounting system and staffing capacity. The fiduciary risks remain high, due to country and sector circumstances. However, appropriate risk mitigation measures to reduce the overall risk have been designed. These include pre-review of all contracts prior to their being processed for payment by the CR. For the proposed Project, the accounting and reporting systems of the CR is being automated in order to support the full spectrum of project financial management and disbursement functions. This is being accompanied by training to ensure that staff can proficiently use the system for accounting and reporting.

46. ***The proposed Project would rely on the existing financial management arrangements established under the SWRP.*** Under the current arrangement, the PMC provides financial management support to the CR. This arrangement will be reviewed, because there is a need for the CR to build its own capacity to fully manage the project financial management functions—including accounting and reporting—with only a small amount of consultant support. The existing accounting software is being replaced by one that is easily adaptable to project accounting—with built-in controls, and the ability to track all expenditures and receipts and generate Interim Financial Reports (IFRs). In addition, the Financial Management Manual is being updated to incorporate the new activities under the proposed Project. Implementation of the Action Plan in Annex 3 would ensure fully satisfactory financial management arrangements by effectiveness.

service lives of 25-30, or more years before rehabilitation or replacement, and require little maintenance intervention over the service life. It is generally more expensive than asphalt pavement that is considered a more traditional solution that can be easily rehabilitated. In the case of the section between Almaty and Khorgos, the cost per km is comparable with the cost of asphalt pavement. In addition, the CR has a good track record of implementing concrete pavement technology. It is also worth noticing that under PPP schemes when the operator is offered the possibility to choose the pavement design, he often chooses concrete pavement because of its longer life and lower maintenance requirements reducing future risks.

D. Procurement

47. ***Procurement for the proposed Project would be carried out in accordance with World Bank Guidelines.*** This would include: (i) “Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers, dated January 2011; and (ii) the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers”, dated January 2011 as stipulated in the Loan Agreement. The Project would use the latest versions of the World Bank Standard Bidding Documents and Standard Requests for Proposals, as they appear on the World Bank website. The Committee for Roads and its consultants would follow the Bank’s Anti-Corruption Guidelines²⁶ and measures, and would not engage the services of firms or individuals debarred by the Bank.²⁷

48. ***The Bank started the assessment of the procurement capacity of the CR in November 2011 as part of the preparation of the Project.*** The assessment was completed during the Project appraisal, taking into account proposed changes in Project implementation arrangements, namely the use of individual consultants to support the CR instead of a PMC. The Country Procurement Assessment Reviews dated June 2000 and January 2005 reported that fraud and corruption are regarded as real impediments to the activities of the private sector in Kazakhstan. As a result, the Public Procurement Law (effective on January 13, 2012) sets out a number of provisions to address fraud and corruption—notably, fraudulent practices, misrepresentation, conflicts of interest and bid-rigging. With the Public Procurement Law in place—and with a competent regulatory agency to oversee its implementation—the main weakness that remains in the procurement system appears to be a lack of capacity and resources. Procurement based on market economy principles is a relatively new concept in Kazakhstan and few civil servants have sufficient skills—although in almost every ministry there is a purchasing and supply department.

49. ***The overall country environment for conducting procurement under the proposed Project was assessed as ‘high risk’,²⁸ and the procurement risk for the project was assessed as ‘high’.*** For the proposed Project, the assessment reviewed: (i) the procurement process being carried out by the CR; and (ii) the interaction between the staff responsible for procurement, financial management, and project management. That assessment was based on the following factors: (i) the procurement unit had successfully procured large road contracts under the SWRP; (ii) the proposed Project would be a continuation of the SWRP; (iii) the proposed Project would be implemented by the CR, under the oversight of the MoTC; and (iv) individual consultants would assist the CR with procurement under the proposed Project. It was recommended that the CR improve its technical basis and coordination of processing of procurement communications, in order to avoid iterations and delays in communicating with the Bank.

²⁶ “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011.

²⁷ The listing of debarred firms and individuals is located at:

<http://www.worldbank.org/html/opr/procure/debarr.html>.

²⁸ This is based on an analysis of Kazakhstan’s legislative framework, the effectiveness of its regulatory institutions, the strength of its enforcement regime, the capacity of the Committee for Finance Control and Procurement (COFP) and its human resources and the risk of corruption. The key issues and risks concerning procurement have been identified, and the proposed mitigation measures are detailed in Annex 3.

50. ***The Bank Project Team intends to maintain close oversight over procurement activities especially over civil works contracts.*** The CR plans to have substantially advanced in the procurement of all civil works contracts by Project effectiveness. The Bank team would carry out prior review of all major contracts according to thresholds that would be regularly reviewed and adjusted as needed in the Procurement Plan. A first version of the procurement plan is ready and was updated and endorsed by MoTC during negotiations. The prequalification documents and bidding documents are expected to be finalized before effectiveness. Based on the experience gained under the SWRP (21 contracts signed on time, for a total amount above US\$2 billion), it is expected that the advance payments (about 10 percent of the Loan amount) will be disbursed by October 2012 once the works contracts have been signed. Requests for EOI for supervision consultants are ready for publication and the GPN has been released. For details on measures for mitigating corruption risk, see Annex 9.

E. Social (including Safeguards)

51. ***Involuntary Resettlement OP4.12 has been triggered—however, the social impact was assessed as ‘moderate’.*** No significant social risks or impacts are expected to be associated with the Project other than land acquisition and mitigation of associated impacts. The amount of land required and the associated impacts on affected persons was considered to be moderate for a road project of this scale and complexity. In all, an estimated 3,003 hectares would be required—for the widening of existing roadways (about 40 percent of the project alignment), and for new road construction (the remaining 60 percent of the alignment). Of the total hectares required, an estimated 1,866 are already State-owned (including open access range land periodically used for livestock grazing). The remaining land is privately owned or leased. Only one hectare is zoned for commercial use, and four hectares are zoned for residential use. An estimated 22 small enterprises may be affected, but no residential relocation is required. All compensations for land in an affected area will need to be completed according to the relevant Bank policies prior to the implementation of civil works in that area. The Project Team is comfortable with the national land acquisition procedures and the actual valuation of the assets involved.

52. ***Because the land acquisitions had already taken place, a Resettlement Implementation Report (RIR) was prepared in lieu of a Resettlement Action Plan (RAP).*** The Project presents unusual circumstances regarding resettlement planning and Project preparation. Because highway planning began years before Bank financing was sought, all of the land required for the Project has already been acquired. In lieu of a RAP that would normally be used to guide future land acquisition, the Project required preparation of a RIR that: (i) reviewed standards and methods used in accomplishing past land acquisitions; (ii) ensures the means for disposition of remaining unresolved cases; and (iii) identifies any retroactive measures necessary to bring the acquisition process into conformity with OP 4.12 requirements. A draft RIR of good quality was reviewed and cleared as an advance draft by the Bank in February 2012, and was disclosed locally and through the Bank’s Infoshop. The RIR states that out of 713 landowners or leaseholders losing land, 632 have already been fully compensated, and 7 are contesting the compensation that has been offered to them. Another 74 cases related to leaseholders remain outstanding because the leaseholders cannot be identified or located.

53. ***Completion of the resettlement activities for the proposed Project requires additional information regarding these pending land acquisition cases.*** The Committee for Roads has

confirmed their commitment to implement retroactive measures to ensure that all land acquisition cases will be resolved in a manner consistent with OP 4.12. Based on a review of documentation, site visits, and consultations with affected persons, the RIR has established that most land acquisition has been completed in a manner consistent with the Resettlement Policy Framework (RPF) applicable throughout the WE-WC Road Corridor Program. Nonetheless, it also identifies outstanding cases in need of final resolution, and identifies specific shortcomings (e.g., payment of transitional assistance to businesses required to relocate, and payment of supplemental assistance to affected persons losing more than 10 percent of their productive land) that may require retroactive measures to meet agreed RPF standards. The updated RIR, incorporating provisions for retroactive measures that may be necessary as described in the RPF, was finalized and adopted by the CR on behalf of the Borrower prior to the completion of negotiations. The Loan Agreement for the Project requires the CR to implement the retroactive measures if deemed necessary by the Bank. The Bank team will pay particular attention to these cases during implementation support field visits to assess compliance with the RIR and RPF requirements. Civil works under the proposed Project will not start where these would affect land/property and their usage, until all required compensation has been paid to all affected parties. The final RIR, approved by the Bank and adopted by the CR on behalf of the MOTC on March 29, 2012, will be disclosed in the local languages (Kazakh and Russian) in the Project area, and in English through the Bank's Infoshop prior to the approval of the Project. Re-disclosure of the Resettlement Policy Framework—confirming applicability to the Project—also would occur in country and through the Infoshop.

54. ***Though the primary purpose of the Project would be to increase transport efficiency between Almaty to Khorgos and beyond, local residents are also expected to benefit from improved road access.*** The project does not include direct investment in ancillary community infrastructure or improved social services. However, improved access and reduced travel times to markets, schools, clinics and other services benefits local communities generally, especially women, to the extent that they are the primary caregivers within the family. The improved travel times to Almaty and the more developed areas in the west of the alignment would provide improved access to employment opportunities for women in the area and improved business opportunities, particularly for farmers. In many cases it is likely that women would have more responsibilities and interest in selling produce from the family farms: the men in the family would normally be more involved in the production side of farming. This is a generalization and may not apply to all families. Transporting and selling farm produce in the rapidly growing communities around Almaty may provide improved income and other opportunities for female members of the family.

55. ***New highway alignments would alter traffic patterns in many areas.*** This might create commercial opportunities for local residents in some areas—and the CR has agreed to assess the extent to which local residents could be given priority regarding the provision of services at highway rest-stops. Inversely, existing commercial enterprises might experience a decline in business in areas from which much of the existing traffic would be diverted. The CR has agreed to consider the feasibility of introducing measures to diminish this impact, including the provision of signage informing highway-users about the availability of restaurants, shops, petrol stations, or other services in adjacent areas. Those measures and their implementation will be

reviewed by the Bank Project Team during regular field trips (3 site visits a year are planned—see annex 5).

56. ***The proposed Project would pose manageable health and safety risks to local communities.*** Construction-related potential impacts—including dust, noise, and exposure to HIV/AIDS—would be covered by management measures incorporated into the Environmental Management Plan, or contractor requirements. Highway safety risks—including risks to local pedestrians and livestock—would be covered by road safety measures incorporated into Project design and management.

F. Environment (including Safeguards)

57. ***The proposed Project is classified as environmental category ‘A’, mainly due to the construction of new road sections.*** In compliance with this safeguards category, a full environmental and social impact assessment (ESIA) was prepared. The ESIA contains comprehensive, general environmental management plans (EMP) for the three sections²⁹ that make up the Project. The ESIA was disclosed in country on December 13, 2011. One set of consultations took place in October 2011, allowing a debate on the preparation of the ESIA. A second set of meetings took place in January 2012 to debate the draft ESIA that was disclosed on December 13, 2011.

58. ***The Almaty-Khorgos road section traverses a variety of environments, landscapes and land use types.*** The Project has all the physical characteristics of a large linear infrastructure project—with significant spatial extension, visible impact on landscape, biosphere and land use patterns, and significant potential impacts on topography, climate, natural conditions and anthropogenic activity. The alignment crosses a variety of land forms, land use types, and micro-climatic zones. It does not traverse through pristine natural areas of significant ecological value. It falls within an existing infrastructure corridor defined by a railway line and a gas pipeline (running parallel between 100 meters to 1-2 km). In over 90 percent of the sections considered to be new construction, the road sections would follow existing tracks or dirt roads that were constructed a number of decades ago when this infrastructure corridor was established. A road upgrading and re-routing was already planned.

59. ***The section of the road with the most significant potential environmental impacts in terms of natural habitats is from the Shelek River to the Ili River (Section 2 in the ESIA).*** This section passes through open semi-desert terrain, and crosses the Charyn River to the north of an important natural monument: the Charyn Canyon. The Charyn National Park extends for 30 km south of the alignment—albeit in a distance of more than 10 km. The ESIA does not foresee significant impact either on the national park or the surrounding landscape, because the road

²⁹ For environmental and social review purposes, the Project road is divided into three sections; each section has its individual ESIA. For detailed descriptions of the sections, see Annex 2. The EIA process in Kazakhstan has all of the main elements required by international good practice. The EIA process in Kazakhstan is described in the Environmental code (2007) and contains a set of detailed implementation instructions. It foresees 4 stages, which correlate with the respective design activities, and range from: (i) a desk study for pre-feasibility level; (ii) a preliminary EIA; (iii) a detailed (‘full’) EIA for the detailed design stage; and (iv) an EMP as a separate section of the design documentation. In this respect, the EIA process is both logical and deemed compatible with international good practice.

alignment would follow closely the infrastructure corridor at a distance from the park's boundary.³⁰

60. ***The Physical Cultural Resources OP/BP 4.11 is triggered because several PCR sites have been identified close to the alignment and one on the alignment itself.*** The ESIA and EMP contain analysis of the sites and provisions for their salvage before the commencement of road construction. The KZ Ministry of Culture is managing this process with the help of experienced academic institutions. Before the start of construction the sites will be excavated, documented and all relevant objects and artifacts removed from the site and stored in archives and museums.

61. ***The development at Khorgos of an International Center for Cross-Border Cooperation (ICBC) has been reviewed in terms of its potential reputational risk to the Bank.*** The Khorgos ICBC consists of extensive transport and logistics infrastructure, including warehouses and dry port facilities covering an area of several square kilometers. It could be perceived as an associated project. The last 5 km of the road section crosses a wide flood-plain of the Khorgos River that forms the border between Kazakhstan and China. A new road border-crossing is planned on this flood-plain. The road section is not a part of the ICBC development. The two projects are not functionally linked in Bank policy terms. The border facilities were started well ahead of the road project, and are associated mainly with the railroad link to China. However, the final kilometers of the road investment would run in close physical proximity to the border-crossing, and could be perceived to be linked. Therefore, the Bank team included a screening analysis of the environmental and social due diligence processes undertaken by the investor of the Khorgos Border-Crossing. The team was satisfied that the due diligence required under Kazakh legislation had been carried out.

62. ***An ESIA was prepared for all three sections to be financed under the proposed Project, as required under Kazakh legislation.*** In addition, the ESIA was revised and updated by independent, specialized Consultants commissioned by the CR, according to the World Bank's OP4.01. Consultations were carried out on the key features of the proposed Project—with a particular focus on the affected local population, in order to reflect their specific concerns in the design via the final version of the ESIA and related Environmental Management Plans (EMPs). Consultations were carried out by the local branches of the CR, which have considerable experience in organizing, conducting and following up on public hearings. Furthermore, consultations according to domestic Kazakh regulations were carried out during the design activities preceding Bank involvement.

63. ***The implementing agency for environmental oversight would be the CR, which has been working with the World Bank since 2006 on a number of projects, including the ongoing SWRP.*** The Bank team has been providing implementation support for the SWRP for two years, using a performance assessment tool specifically developed for such large infrastructure projects.

³⁰ The alignment in this section was chosen after discussions with local Governments and Kazakh environmental NGOs. In particular, the Almaty-based "Green Salvation" NGO strongly advocated the present alignment in favor of upgrading the existing road, which crosses the Charyn NP. The dialogue with environmental NGOs would continue through further Project preparation and implementation in the areas of environmental health and safety, habitat protection, traffic safety, and the road's interaction with animal husbandry and farming activities.

The results so far show generally acceptable environmental performance across much of the 1,065 km alignment of the SWRP. Improvement is needed to manage some of the borrow pits properly. Also, the Project team managed to highlight the correlation between proper environmental management and timely delivery of the civil works. Given the extensive experience of the CR in the context of the SWRP, the readiness for implementation of environmental mitigation and management measures is assessed as 'high'.

Annex 1: Results Framework and Monitoring

Country: Kazakhstan

Project Name: East-West Roads (Almaty-Khorgos Section): Western Europe - Western China International Transit Corridor (CAREC-1b) (P128050)

Results Framework

Project Development Objectives

PDO Statement

The project development objectives (PDOs) are to increase transport efficiency along the section of the Western Europe-Western China Road Corridor within Almaty Oblast, and to modernize highway management on sections of the Western Europe-Western China Road Corridor.

Project Development Objective Indicators

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection
				YR1	YR2	YR3	YR4	End Target			
Transport Efficiency: Vehicle Operating Costs	<input type="checkbox"/>	Amount(USD)	0.26					0.23	Measured by the end of the Project.	HDM4 software (economic analysis of road investments/maint enance)	CR
Transport Efficiency: Travel time	<input type="checkbox"/>	Hours	5.00					3.00	Once the road is opened to traffic (end of project)	Quarterly Reports	CR
Modernization of highway management: Introduction of sound operation and maintenance practices along the WE-WC Corridor.	<input type="checkbox"/>	Kilometers	0.00	30.00	200.00	600.00	600.00	600.00	Each time a new Quality Charter is signed.	Client Quarterly Report.	CR
Modernization of highway management: Financing gap for operations and maintenance activities along the WE-WC Corridor.	<input type="checkbox"/>	Percentage	50.00	50.00	40.00	30.00	20.00	20.00	Annually	Annual Implementation Reports	CR / WB
Roads in good and fair condition as a share of total classified roads	<input checked="" type="checkbox"/>	Percentage	70.00	70.00	70.00	75.00	95.00	95.00	Annually	Road Data Base available at the CR	MoTC / CR

Size of the total classified network	<input checked="" type="checkbox"/>	Kilometers	2660.00	2660.00	2660.00	2660.00	2660.00	2660.00	Annual	Road Data base available at the CR	MoTC
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Intermediate Results Indicators

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection
				YR1	YR2	YR3	YR4	End Target			
Roads constructed, non-rural	<input checked="" type="checkbox"/>	Kilometers	0.00	0.00	0.00	50.00	305.00	305.00	Annual	Contract completion	CR
Kazakhavtodor gradually operates and maintains portions of the SWRP section of the WE-WC Road Corridor	<input type="checkbox"/>	Kilometers	0.00	30.00	80.00	350.00	600.00	600.00	Each time a Quality Charter is signed with Kazakhavtodor	Quarterly Reports	CR
CR and Kazakhavtodor Staff familiar with new operation and maintenance methods	<input type="checkbox"/>	Number	0.00	0.00	30.00	200.00	300.00	300.00	Annual	Annual Report	RRA/CR/ Kazakhavtodor
User survey --the number of users the Motorway Management Group has interviewed	<input type="checkbox"/>	Number	0.00	100.00	250.00	400.00	500.00	500.00	Annual	Annual report	Motorway Management Group at the CR
Length of the road network for which new user-pay principles (e.g., tolling) are agreed upon.	<input type="checkbox"/>	Kilometers	0.00	0.00	0.00	300.00	300.00	300.00		CR annual Report. Consultant final report	MoTC / CR

Annex 1: Results Framework and Monitoring

Country: Kazakhstan

Project Name: East-West Roads (Almaty-Khorgos Section): Western Europe - Western China International Transit Corridor (CAREC-1b) (P128050)

Results Framework

Project Development Objective Indicators

Indicator Name	Description (indicator definition etc.)
Transport Efficiency: Vehicle Operating Costs	Once the road is upgraded, the cost associated with the use of cars, buses, mini-buses and trucks (e.g., fuel consumption, spare parts, tires) is reduced. The baseline is known. The expected decrease is about 10%. The measurement will be made via HDM4 software that can correlate the cost of operating vehicle with the improvement of the geometrical parameter of the road. The performance is measured in US\$/km for a car traveling along the road
Transport Efficiency: Travel time	The indicator measures the travel time for a car from Khorgos to Almaty.
Modernization of highway management: Introduction of sound operation and maintenance practices along the WE-WC Corridor.	Out of the 2,100km of 4-lane road that will be opened to traffic during the implementation of the Project, how many are covered by a Quality Charter, ensuring that the strategy for proper Operation and Maintenance by Kazakhavtodor has been designed and agreed upon and that the road users are provided proper level of service.
Modernization of highway management: Financing gap for operations and maintenance activities along the WE-WC Corridor.	The indicator measures each year how much funding is missing (in percent) to reach internationally recognized standards for Operation and Maintenance. This assessment is conducted every year, during the annual review, through a joint effort by the CR and the Bank Project Team.
Roads in good and fair condition as a share of total classified roads	Percentage of the total classified road network in the project area that is in good and fair condition depending on the road surface and the level of roughness. Classified roads are the roads that have been included in the roads legislation as public roads. Please note that this indicator requires supplemental information. Supplemental Value: Total classified network in the project area (KM). The Supplemental value is the total classified network in the project area. Classified roads are the roads that have been included in the roads legislation as public roads.
Size of the total classified network	Classified roads are the roads that have been included in the roads legislation as public roads.

Intermediate Results Indicators

Indicator Name	Description (indicator definition etc.)
Roads constructed, non-rural	Kilometers of non-rural roads constructed under the project. Non-rural roads are roads functionally classified in various countries as Trunk or Primary, Secondary or Link roads, or sometimes Tertiary roads. Typically, non-rural roads connect urban centers/towns/settlements of more than 5,000 inhabitants to each other or to higher classes of road, market towns and urban centers. Urban roads are included in non-rural roads.
Kazakhavtodor gradually operates and maintains portions of the SWRP section of the WE-WC Road Corridor	The target is set to 60 percent of the section of the WE-WC Road Corridor financed under the SWRP.
CR and Kazakhavtodor Staff familiar with new operation and maintenance	The indicator measure the cumulative number of staff familiar with the methods --mostly Kazakhavtodor regional staff

methods	with a focus on operation, service to the users and performance-based activities
User survey --the number of users the Motorway Management Group has interviewed	Enough road users are interviewed to develop a more client oriented culture. The survey questions may be different from year to year but the result should be incorporated into the road management operations along the Corridor. This measure the level of commitment from the Motorway Management Group, Kazakhavtodor and the MoTC at large to focus on the needs and requests expressed by the users of the road.
Length of the road network for which new user-pay principles (e.g., tolling) are agreed upon.	The strategy to define new user-pay principles has been agreed upon and sections of the WE-WC corridor where those principles will apply are defined.

Annex 2: Detailed Project Description

KAZAKHSTAN: East-West Roads Project

(Almaty – Khorgos Section): Western Europe-Western China International Transit Corridor
(CAREC 1b)

SECTOR BACKGROUND

1. ***The main responsibility of the MoTC is to develop and implement the national policy for transport and communication in a safe and affordable way.*** The MoTC administers the public road network of the Republic of Kazakhstan. It also coordinates activities in the different transport subsectors, and is responsible for international cooperation in transport and communication. The Republican road network connects major administrative, cultural and economic centers of Kazakhstan—as well as neighboring states. The administration and maintenance of the Republican road network—which totals 23,495 km—takes place at three levels: (i) the MoTC; (ii) the CR; and (iii) fourteen Oblast (CR) Roads Departments. The MoTC provides resource transfers and technical guidance on the construction and maintenance of Republican roads. The development and maintenance of city, rayon /village and other local roads within Oblasts—which total 60,116 km—is managed by Oblast Akimats, which are the local administrations.

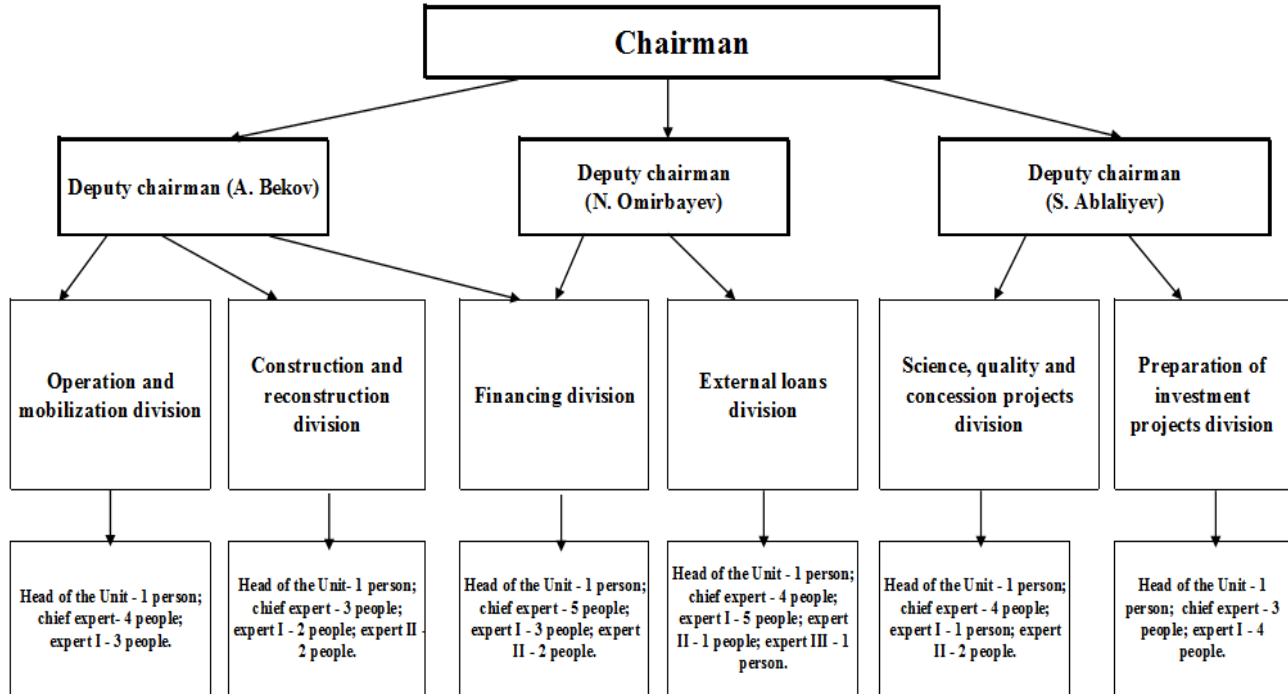
2. ***The MoTC delegates to the CR the management of the Republican road network.*** The CR's main objectives are: (i) to implement State policy on the development of the road network; (ii) to maintain the network and its structures in order to provide uninterrupted and safe transport; and (iii) to oversee the road sector. The CR is managed by a chairman and three deputy chairmen, each of whom is responsible for different boards/divisions. There are five divisions within the CR. There is a total of 61 staff, which is comprised of the Chairman and three Deputy Chairmen, as well as 57 regular staff.³¹

3. ***The CR needs to increase numbers of trained staff, broaden current skills and create incentives for its staff.*** The CR's approach to staffing is not aligned with the activities that need to be performed, mainly due to lack of incentive to retain and motivate staff. In addition, there is a strong emphasis towards promotion from within the CR that has resulted in limited recruitment of needed technical expertise from outside the current structure. The CR also lost direct control over staffing and human resource management in December 2007, when these activities were transferred back to the MoTC. The ability to adapt quickly available staff at the CR to new technical requirements and changes in the work environment may be the most important aspect of the CR institutional strengthening. The effort from the current Minister to prepare a strategy to reform the sector acknowledges those difficulties and suggests adding flexibility to the system by implementing a gradual reform of the sector, commercialization of supplier functions, and finding new resources for the sector (e.g. tolling a significant portion of the international/Republican road network). This proposal, once implemented would change the responsibilities of the CR towards regulating the sector and monitoring activities carried out by KVD. The reform proposal envisages increasing CR staff from the current 61 staff to about 100.

³¹Staffing has been reduced over time as the CR had 81 staff in 2002.

Figure 1 – Organizational Chart of the CR

Structure of the Committee for Roads



4. *The CR is responsible for a large investment program, and its capacity needs to increase.* The current staffing issue is even more acute because of the large investment program sought under the current Government initiative to rehabilitate and upgrade all highways of national importance, as described in the TSD. The technical and institutional changes needed to accompany this program have not yet been implemented. Meanwhile, projects supported by the Bank and other IFIs have deployed external consultants (such as the PMC under the SWRP) to provide support to the CR, and to develop skills within the CR through on-the-job training.

5. *The CR is also represented in each Oblast.* The 14 CR Oblast Road Departments (ORDs) represent a total of 224 employees. The ORDs contract out capital repairs and midterm/periodic maintenance, as well as supervision services to oversee reconstruction and capital repair under contracts with a 2-3 year warranty period. KVD, the state-owned enterprise under the MOTC, specializing in routine maintenance carries out routine/winter/emergency maintenance and repairs under the supervision of the ORDs. Staffing and financing of operating costs at the ORDs are also challenged by the large investment program in the TSD. For example, the CR’s department in Almaty Oblast—where the proposed Project will be implemented—has 18 employees located in Almaty to manage 2,664 km of Republican roads. Under the ongoing SWRP which is being implemented in the South Kazakhstan and Kyzylorda Oblasts, the CR has to arrange for additional technical staff by transferring staff from other ORDs to those ORDs participating in the WE-WC Road Corridor. The reform prepared by the new Minister will allow

the transfer of a large portion of ORDs staff to KVD, providing them new opportunities, better salaries and more flexible management of human resources.

6. ***The MoTC owns the State-Owned Enterprise KVD, which is responsible for routine maintenance and repair.*** KVD has approximately 3,600 staff—with seasonal increase to about 4000—and 1,270 pieces of equipment. KVD’s resources are equivalent to approximately 9 percent of the total resources for the roads sector. Routine maintenance and repair works by KVD are more labor intensive than the works normally carried out by the private sector. In addition, about half of KVD’s equipment—which comes to over 490 pieces—is for winter maintenance (snow plows, snow blowers, and graders). A further 200 items are also key support equipment during winter operations (loaders, dozers, excavators, and fuel trucks). Winter maintenance is an important part of KVD’s functions. Like the set-up that the CR has with its ORDs, KVD has territorial branches in each Oblast. Each KVD Oblast branch has several road-operation centers (DEUs). The number of DEUs on any given road section depends on the characteristics of that particular section (length, type of pavement, etc.). For example, the Project road section is covered by the Almaty branch of KVD—with its 342 staff. This branch is responsible for 2,519 km of main roads; it has 8 DEUs, 1 tree-planting workshop, and 1 road sign manufacturing workshop. The annual budget requirements for routine repair and maintenance are estimated at KZT 1,500 million. However, in 2010, the Almaty branch only received KZT 890 million for performing routine and maintenance repair works.

7. ***Maintenance planning and practices need to be modernized.*** Work needs are identified during inspections that take place annually in October. The inspection is conducted by a Committee that includes representatives from KVD, the ORD, traffic police, and sometimes the Oblast Administration. The inspection documents road defects and divides needed road works into the following categories: routine maintenance, routine repair,³² periodic maintenance, and rehabilitation. A second inspection takes place in the spring to make adjustments based on the effects of winter/spring damage to the network. The estimated cost is then submitted to the CR, which reviews the proposals. Estimates for the works are based on SNIP norms. Significant road upgrading is identified by a number of organizations. It is normally listed in strategies such as the STD and/or 5-year plans as developed by the CR to reflect the directives of the Government. All procurement works for mid-term maintenance, capital repair and reconstruction are handled by the MoTC Procurement Department. KVD is contracted on a single-source basis by the ORDs for routine repairs, winter maintenance, and emergency maintenance. KVD terms of contract are largely made of references to SNIP norms and standards, without references to performances or even outputs. KVD also conducts routine repair, maintenance and landscaping of the Republican roads.

8. ***Funding for maintenance is insufficient.*** The actual yearly budgets for routine repair and maintenance of the Republican network generally wind up being about half the amounts that were estimated based on the 2003 decrees on road maintenance expenditures.

³² Routine maintenance and routine repair are often referred to as routine maintenance internationally.

Roads Network Condition

9. **The roads network is divided according to the entities in charge of their control and operations.** The Republican roads network, as managed by the CR, comprises a total length of 23,495 km (2010). Local roads—which are managed by the Oblasts—comprise a further 60,116 km of public roads (2010). About 30,324 km of the local roads network are of regional importance, under the direct control of the Oblast Akimats. The remaining 39,792 km are under the direct responsibility of the Rayon Akimats. The CR advises or assists the regions with the management of their local roads networks on a case-by-case basis. The following table provides a description of the roads network conditions, as of the end of 2008:

Roads network Condition (2008)

	Length (km)	Good	Fair	Unsatisfactory
Republican Roads	23,495	21%	44%	35%
Local Roads	70,116	8.5%	45%	46.5%

Source: EGIS/BCEOM 'Enhancement of Institutional Framework in the Road Sector in the Republic of Kazakhstan' May 2010

10. **Based on the existing road network condition and assuming typical costs of new road construction, rehabilitation and mid-term repairs, it is estimated that the current value of the Republican road network is KZT 5,864 billion (US\$ 39.8 billion).** By comparison, if the entire Republican road network was in new or good condition (requiring routine maintenance only), the total asset value of the Republican road network would be KZT 6,680 billion (US\$ 45.3 billion). Some of this loss is inevitable due to natural aging of road pavements, but a significant proportion is due to delayed or poor maintenance, often related to insufficient funding. In this context, it is fair to mention that the institutional strengthening of the road sector and of the CR in particular, could have a significant impact on reducing the current deficit due to poor management.

Issues Impacting the Management of the Republican Roads

11. **Institutional Capacity and Staffing:** The CR—with 61 staff at HQ (Astana), and 224 in the ORDs—cannot meet the current challenge of managing the upgrade and maintenance of the roads network as per the activities detailed in the STD. It is estimated that the CR needs to add about 45 key staff (a suggestion endorsed by the draft reform being prepared by the MoTC). In addition, the current salary scale at the CR is about half the market price, and incentive mechanisms (with the exception of internal promotion) are insufficient despite the fact that salaries of CR staff have been increased by 30 percent in 2011. The 50 technical and support staff at HQ are responsible for planning, managing and supervising road assets. This staff is ill-equipped for the task of managing a road asset of such magnitude.³³

³³ Staffing at the CR can be compared to road agencies with similar characteristics such as the UK Highways Agency. The latter employs about 1,700 full time staff for a total highway network of about 10,000 km (i.e. less than half of the Republican road in Kazakhstan), but valued at about US\$120 billion (five times the asset value of the Republican roads network in Kazakhstan). The UK Highways Agency procures about 95 percent of its work from

12. *Modernization of KVD:* KVD would need to make some important adjustments in order to address the current inefficiency in road maintenance practice. The reform of the sector envisaged by the Minister is addressing this issue by gradually transforming KVD into a commercialized entity. But this reform will take time to be implemented. This is the reason why the project is helping KVD upgrading its skills for operation and maintenance of the international roads network (component 2 pilot project for operation and maintenance). The activities financed under the Project would help KVD's culture to evolve towards a stronger focus on the provision of road services and the needs of the road-users. KVD has been slow to move away from a purely force-account arrangement to a client-supplier relationship. The RRA team supported under the Project should help promote KVD's modernization through: (i) the development of maintenance standards; and (ii) the provision of services governed by performance agreements in the form of multi-year contracts. KVD Oblast branches may eventually be corporatized and privatized once they have become viable in a competitive environment.

13. *Improving Road Management:* The CR lacks a sound management system and comprehensive information about the state of the roads network. Under those conditions, it is difficult for the CR to set appropriate maintenance strategies when preparing annual work programs. Currently, funding for maintenance is insufficient and the state of a large portion of the roads network is quite deteriorated. Therefore, the current maintenance strategy gives priority to the repair of 'dangerous' defects that are considered to be safety hazards for road-users. About half of all maintenance funds are spent on pavement repairs—e.g., pothole patching—and too little preventive maintenance is carried out. The current strategy makes no distinction between those assets that could be maintained, and those that would instead require significant repair. Roads in poor condition receive priority only after they have exhibited dangerous defects. As a result, the network is deteriorating faster than it should. The road investments funded under the SWRP and the proposed Project should not require significant maintenance during the coming decade. However, proper and timely operation and maintenance would ensure that these investments reach their intended useful life and that road-users are provided with the level of service that they expect. A key objective of both Projects is to strengthen the capacity at the CR to ensure proper operation and maintenance of the international roads network in Kazakhstan.

The World Bank-financed Road Program

14. *The World Bank is the leading IFI supporting the development of the WE-WC Road Corridor.* In support of the Government's agenda, the Bank approved in April 2009 as US\$2.125 billion project to upgrade and reconstruct 1,065 km of road sections along the WE-WC Road Corridor from the Aktobe/Kyzylorda Oblast Border to Shymkent. As of December 31, 2011—two years after project effectiveness – the SWRP has a total disbursement of US\$801 million, with a disbursement rate of 24 percent. Implementation is progressing as planned and the SWRP is likely to meet its development objective although the implementation progress rating was still

private sector contractors—it is mainly responsible for managing several thousand contracts implemented by civil works contractors and consultants.

set to “moderately satisfactory” in November 2011 because a more sustained effort is to be deployed toward institutional strengthening at the CR.³⁴

15. *The MoTC has started the institutional strengthening process initiated under the SWRP.* In addition to the physical investments that the SWRP is making in order to improve the quality of the roads in the South-West region, the SWRP is also in the process of incrementally strengthening the institutional framework of the road sector. In particular, the SWRP is strengthening the organizations that are managing the roads network, improving road safety, and improving services to road-users. Within that context, in December 2010, the MoTC and the Ministry of Finance agreed to a Framework of Actions designed to achieve the following short- and medium-term objectives:

Short-term Objectives

- Designing an incentive system for the staff of the CR and its ORDs;
- Increasing the quality of composition of staff capacity through selection and training of qualified staff;
- Decentralizing the CR by transferring more parts of its functions to the ORDs;
- Strengthening the role of the Design Institute ‘Oblzhollaboratory’ in order to improve the quality control of executed works and used materials;
- Enhancing the terms and conditions of the contracts for civil works, design and supervision in order to increase the quality of the final product;
- Undertaking a detailed review of activities carried out by the State-owned Enterprise ‘Kazakhavtodor’, with a view towards partially transferring routine repair of roads and landscaping to the private sector.

Medium-term Objectives

- Analyzing and reviewing the international experience in managing the road sector by autonomous road agencies—and further submission of reform proposals to the Republic of Kazakhstan;
- Studying international experience on ensuring stable sources of financing for the roads network development and further submission of reform proposals to the Republic of Kazakhstan.

16. *The implementation of the Framework of Action has been behind schedule due to the early focus on civil works along the 1,065 km financed by the SWRP.* Nonetheless, the Government and the Bank have agreed to focus the efforts in the next 12 months on the following high priority actions: (i) initiating an incentive mechanism for the staff at the CR; (ii) implementing a Road Management System; (iv) implementing the Road Services and Road Safety studies. The commitment from the CR has significantly increased over the last months and especially with the preparation of a draft reform plan for the sector which is being designed by advisors to the Minister of Transport and Communication, including the management of the CR. Significant progress has been made also in the implementation of the December 2010 Framework of Actions. For example, the CR has prepared a plan to provide incentives to its staff for the next 2 years. The CR and the World Bank have also agreed on a 6-step action plan for the preparation of the Road Management System. The Bank and the MoTC are also discussing the

³⁴ Significant progress is currently being made and the rating is expected to return to “satisfactory” in Spring 2012

draft reform prepared by MoTC to improve the efficiency of operation and maintenance activities (commercialization of KVD), adjust the revenue schemes (e.g., tolling of about 1,800 km of the international roads network) and the financing of the sector with a reduced participation of the Budget.

DETAILED PROJECT DESCRIPTION

17. ***The Project design is similar to the one in place for the SWRP.*** The Project is part of the WE-WC Road Corridor development program already supported by the Bank through the ongoing SWRP. The WE-WC Road Corridor crosses the entire country from the border with Russia through Aktobe, Kyzyl Orda, Shymkent, Taraz, Almaty to Khorgos at the border with the People's Republic of China. The Corridor comprises a total length of 2,787 km; it is the major link for 7.9 million people, or half of Kazakhstan's population. The Project would finance a large economically justified investment—a priority for the Government—and complement this investment with a technical assistance program focusing on the operation and maintenance of the international roads network that constitutes the core roads network of Kazakhstan. The Project is comprised of two components. Component 1 covers the capital investment—305 km of 4-lane road between Almaty and Khorgos. Component 2 covers the institutional aspect—the operation and maintenance pilots, the review of users-pay options, and the scaling-up of sector reform efforts at the MoTC. The description of each component and the context for its design is as follows:

Component 1: Upgrade and construction of the section of the WE-WC Road Corridor within Almaty Oblast

18. ***The estimated cost for Component 1 is US\$1,252 million, including contingencies.*** The component would finance: (a) civil works to support the upgrade and construction of the Almaty – Khorgos road section of the Western Europe – Western China Road Corridor within Almaty Oblast, including associated bypasses, bridges, interchanges, and ancillary facilities; and (b) the provision of consulting services for management and supervision of civil works activities under the Project. Land acquisition and road design costs would be financed through the Borrower's own funds. The detailed design prepared by the CR would accommodate the growth of average annual daily traffic on the section from 6,900 vehicles per day (vpd) in 2011, to about 17,000 vpd in 2025—of which 16 percent represents trucks and buses. The upgrade from a 2-lane to a 4-lane road is designed to accommodate a 13 ton per axle bearing capacity with a 5 meter median and 3.50 meter wide emergency lanes. The update and construction of the road would lead to significant increases in road capacity and safety.

19. ***The road section between Almaty and Khorgos is located in the Almaty Oblast, a region with diverse environmental conditions, from dry hot deserts to an alpine climate with perpetual snow.*** The existing road runs parallel to the Tien Shan Mountain Range, which is located about 100 km to the north. The road links Almaty to Western China—Khorgos is a Kazak-Chinese border-crossing point. There are three other important roads in the Almaty Oblast (Almaty-Bishkek, Almaty-Astana and Almaty-Ust-Kamenogorsk). However, the Almaty-Khorgos Corridor is the road with the most impact on the economy of the region because it is the transit link for goods imported from China to Kazakhstan and other Central Asian countries. The new road would be 13 percent shorter than the existing one (305 km instead of 351 km)—and 65

percent of its construction would be new alignment.³⁵ The Project would require the construction of 12 bypasses.

20. *The detailed design divides the road into 6 homogeneous sections for civil works purposes:*

	Section	Km	US\$ (mln)/km	US\$ Costs (mln)(*)	Main Features
1.	Almaty km 0-50	50.0	5.03	251.7	29 bridges; 1 junction; 2 interchanges
2.	Kairat village km 50-111.7	61.7	4.2	259.6	14 new bridges; 1 full interchanges; 3 junctions
3.	Shelek km 111.7 – 166.7	55.0	2.4	134.0	1 bridge; 1 interchange
4.	Tashkarasu km 166.7- 214.3	47.6	2.74	130.5	5 bridges; 1 maintenance warehouse
5.	Km 214.3 – 259.3	45.0	5.2	235.5	8 bridges; 1 large bridge across Ili River at km 229.9; 1 maintenance warehouse
6.	Khorgos Km 259.3 – 304.33	45.0	4.4	196.3	14 bridges; 3 overpasses; 2 interchanges
	Total	304.3		1,207.6	

(*) Costs are based on a 2011 update of the feasibility study carried by consultants hired by CR to prepare the project, taking into consideration unit costs from recent bidding for similar works financed by ADB and the World Bank.

21. *For the purposes of procurement and implementation the bidding of large bridge and number of small and medium size bridges will be prepared separately.* The procurement of civil will comprise therefore six packages for road works and two packages for bridges.

22. *In 2011, the traffic volume was estimated at 11,700 vpd near Almaty, and 5,200 vpd near Khorgos.* The design of the pavement takes into account the number of ESAL³⁶ over a period of 20 years based on traffic forecasts and an axle load limit of 13 tons (i.e., the new standard for axle load limit in Kazakhstan).

23. *The new alignment bypasses all existing settlements.* The new road would function as a transit route. It would ensure proper connectivity with the existing road, which would become a parallel lifeline road for the local communities. The characteristics of the road would be based on ‘category 1b’ standards—i.e., 4 lanes at 3.75 meters each, with shoulders of 3.75 meters and a median strip of 5 meters. The total width of the platform would be 27.5 meters. The other

³⁵ Construction materials for embankment and for the lower layer of the pavement will be readily available, contrary to what is the case for the on-going SWRP. There are many borrow pits available within a 5-10 km radius of the alignment. There are also enough operational quarries that could be used for the construction of the upper layer of the pavement. The existence of these quarries would be mentioned in the bidding documents, so that the bidders would be aware of their existence (e.g., Shilik, Tas-Kum, and Alexis Quarries).

³⁶ Equivalent Single Axle Load

characteristics of the road (minimum radius, highest gradient etc.) are based on a design speed of 120 km per hour. The pavement would be made of concrete—the current design describes a 25 cm-thick structure, which is appropriate. The Project would include a large number of culverts on the western section to allow for the passage of machinery and cattle (53 such structures between Almaty and Shilik). It would also include financing for ancillary facilities, such as bus stops, rest areas, operation and maintenance warehouses, and winter maintenance facilities. The current design might be revised to incorporate new standards that support updated highway operation and maintenance practices as introduced by the Project. The design of some of the bridges might also be revised—the bidding process would allow bidders to suggest technical alternatives. The road would be equipped with fiber optic cable to allow data transmission. Also, the characteristics of the new road would allow the future installation of infrastructure for the collection of tolls.

24. ***Civil works would be completed in 2015.*** The designers initially estimated the duration of the civil works to be 44 months.³⁷ However, the CR has asked for a shorter period of 36 months in order to ensure that the Almaty-Khorgos road completion date matches the WE-WC Road Corridor opening schedule announced by the Government. The bidders would be asked to find technical solutions in order to ensure a 36-month schedule for the civil works.³⁸ This would probably result in the selected contractors organizing shifts and being creative with technical solutions (e.g., bridge technology and organization of the paving operations).

25. ***A new border-crossing facility would need to be constructed, because the new road is to the south of the existing road and the current border-crossing point.*** Without a new border-crossing facility, international traffic would need to use the existing road for the last 40 km in order to access the existing border-crossing facility. In 2010, the Almaty Oblast local government and the Xinjing provincial government in China signed a protocol to open the new border-crossing facility at Khorgos. The design of this new border-crossing facility is expected to be ready in early 2012, and the construction is expected to be completed in 2013. The new border-crossing would be financed from the State Budget. In order to improve transit processing at the new facility, the Kazakh Government is studying experiences successfully implemented in other countries with streamlined processing of a high volume of transit traffic through border-crossing points.³⁹ The design of the border-crossing would need to have state of the art processing, and might also be juxtaposed with the facilities in China. The aim would be to benefit from the economies of scale to obtain: (i) reduced delays (trucks should not be required to move during the processing of all formalities); (ii) improved control (through data exchange and better observation of traffic); (iii) cross-border coordination and collaboration; and (iv) a highly visible diplomatic accomplishment. Nonetheless, technical and legal difficulties in establishing such a joint border-crossing point should not be underestimated.

³⁷ The disbursement forecast is: 17 percent in year 1; 31 percent in year 2; 31 percent in year 3; 18 percent in year 4; and 3 percent in year 5.

³⁸ Based on the experience gained under the SWRP, the 17 percent disbursement in year 1 would be on the high side. Therefore, even if the construction period was reduced to 3 years, the disbursement for year 1 would be kept at 15 percent. The remaining expenditures would be equally divided between year 2 and year 3—at 42.5 percent disbursement each.

³⁹ One of the examples that the Government will be exploring is the experience of the Kozlevich border-crossing station in Belarus, which handles more than 4000 heavy transit trucks per day.

26. ***There are three main risks associated with the setting up of the new border-crossing at Khorgos, regardless of its design.*** First, the preparation of the border-crossing might delay the completion of the Project. Therefore, a strong commitment from the Government is needed to reach an agreement on a rapid timeline for the construction and completion of the new border-crossing facility, including procedural options. It is suggested that the Ministry of Finance issue a resolution on the border-crossing agreement at Khorgos. Second, there might be overlap with the ongoing Customs Project financed by the World Bank, which could generate confusion. Third, the new road might be completed before the new border-crossing is operational.

27. ***The last 40 km of the road toward China would be open to traffic only once the new border-crossing becomes operational.*** In addition, the CR would not sign the civil work contract for the section of the road reaching the border-crossing before an action plan regarding the financing and modus operandi at the new border-crossing is agreed upon between the Ministry of Finance and MoTC. This would avoid having the new 4-lane road being completed without the new border-crossing facility being in place.

28. ***The alignment of the new 4-lane road would pass 2 km south of the International Centre for Cross-Border Cooperation (ICBC) at Khorgos.*** This trade-free zone is being built on the border between Kazakhstan and China, with extra-territorial status. The ICBC is being piloted by Kazakh Railways; it covers 185 hectares on the Kazakh side, and about twice that much on the Chinese side. Construction is to be completed in 2018. Under current plans, the new 4-lane road financed by the Project would also be adjacent to the Altyn Kol Railway Station, which connects with the Chinese rail network approximately 7km south of the existing border-crossing. To ensure connectivity, the Borrower would finance the construction of connecting roads from the railway station and the Khorgos ICBC to the Project road.

Component 2: Modernizing highway management along the WE-WC Road Corridor

29. The cost of Component 2 is estimated at US\$4 million, which would finance three sets of discrete activities that complement each other:

A. Support a pilot Operation and Maintenance scheme on the section of the WE-WC Road Corridor covered under SWRP, based on Quality Charters (estimated at a cost of US\$2 million)

30. ***This activity involves the financing of a pilot scheme to implement a modern road operation and maintenance practices***—including aspects of highway operations, such as road safety, riding comfort, travel speed, information to users, and user surveys. It will also finance the supply of road roughness measurement equipment—one set of equipment for each Regional/Oblast Roads Laboratory of the CR—and the improvement of standards for monitoring the performance of the highway network, and the quality of construction works. The aim is to ensure that the recent large investment made along the WE-WC Road Corridor can be operated in a modern way, focusing on the needs of road users. For that purpose KVD, which is for now chosen by the Government to operate and maintain the road, needs help to endorse, implement, monitor and expand a new business model. The CR has chosen as the pilot the road sections financed under the SWRP, which would be progressively opened to traffic during 2012 and 2013 (and will require 24 hours and 7 days a week interventions) to test this new business model with

KVD. The MoTC has decided to use the services of KVD initially to operate and maintain the SWRP section of the WE-WC Road Corridor, but may outsource some of the activities later depending on the outcome of the pilot operation. The activity will benefit from the ADB and EBRD financed studies regarding road maintenance.⁴⁰ The World Bank loan would finance 85 percent of the US\$2 million estimated cost of consultants' services to support the pilot.

31. ***The activity will include the drafting of “Quality Charters” to help MoTC improve KVD quality of service and KVD’s capacity to plan and conduct operation and maintenance activities*** and engage with road users and civil society, such as NGOs and road users associations. The concept of Quality Charter defines a set of performance that KVD as the operator should meet, and also the quality of service that should be provided to the road users. KVD, with the help of a consulting firm financed by the Project, would then translate those concepts into a Quality Charter through which they will commit to provide road users with services such as: (i) unrestricted access to the road at all times; (ii) facilitation of economic and social development through the provision of the road; (iii) a defined level of road safety; (iv) the provision of a road that offers the maximum efficiency in terms of traffic fluidity, service areas, emergency services, etc.; (v) the provision of information on the status of the road network; and (vi) better environmental conditions along the road. Quality Charters could also analyze processes such as the various ways to reduce risks for work-zone staff while providing services on the road, identifying training needs, etc. It should become the modus operandi of the units (KVD or other operators) in charge of operation and maintenance on a given section of the WE-WC Corridor. Quality Charters, once adopted, would represent a commitment from the operator (KVD) toward the road users so that those users and civil society at large can monitor the performance of the operator.

32. ***KVD is responsible for the maintenance of Republican roads. Its role will remain the same, but its commitment toward the provision of services to road users will improve.*** The MoTC owns and controls the State enterprise KVD. The latter is the only organization authorized to conduct routine maintenance, winter maintenance and landscaping activities for Republican roads. The CR—through its various regional offices—acts as a client for such activities. Each year KVD’s budget is calculated based on formulas set by SNIP norms.⁴¹ For the proper maintenance and operation of the SWRP section of the WE-WC Road Corridor, the MoTC and the CR would need to ensure that the required funding is budgeted for and provided to KVD through the careful review of actual annual costs for routine maintenance, winter maintenance and landscaping activities.⁴² The pilot operation where KVD will commit to a new level of service for operation and maintenance of about 600km of the SWRP will provide KVD with the opportunity to improve its effectiveness in providing better services to the road users.

⁴⁰ ADB Road Maintenance System Improvement report was finalized in July 2011. The Report focuses on routine maintenance system for the Republican Roads through the development of performance standards, an outsourcing system and improvements in the efficiency of KVD. EBRD study, still to be commissioned, is designed to complement the ADB effort by focusing on the performance of the current maintenance activities and trying to improve it using pilot sections of roads and training.

⁴¹ Standards for construction and maintenance.

⁴² In 2010, such an exercise resulted in a budget set at 14 billion KZT. Initially, only 7 billion KZT were actually transferred to KVD—and an additional 2 billion KZT were transferred later during the year. For 2011, the budget is estimated at 31 billion KZT—with an actual transfer to KVD of 25 billion KZT.

33. ***KVD is a large employer with 3,600 staff (with seasonal increase to about 4,000), and about 1,300 pieces of equipment***—almost half of which is specialized for winter maintenance (snow plows, snow blowers, and graders). This represents about 9 percent of the available capacity of the road sector industry in Kazakhstan. KVD has territorial (Oblast) branches. Each branch has several road-operation centers (DEUs). The number of DEUs depends on the characteristics of road sections in a given Oblast (length, type of pavement, etc.). For example, Almaty branch is responsible for 2,519 km of roads, including the Almaty-Khorgos section that would be upgraded under the Project. It has 8 DEUs, 1 tree-planting workshop, and 1 workshop for road sign manufacturing. It has 342 employees. Oblast branches of KVD also have licenses for midterm repair, and compete with the private sector for those activities. Further north, the ongoing experience of the Astana to Baravoi road maintenance shows that the requirements to keep a 6-lane road open and safe for traffic are considerably higher than the US\$2,100 per km that KVD received on average in 2011 for routine and winter maintenance of the main network. The maintenance of the 250 km Astana to Baravoi road consumes approximately 60 percent of the annual maintenance budget for the Oblast—leaving very little for maintenance of the remaining 2,000 km, much of which remains in poor condition. This situation would need to be avoided on the WE-WC Road Corridor.

34. ***KVD's maintenance practice needs to be modernized.*** At present, a committee that includes representatives from the CR regional office, KVD, traffic police, and sometimes the Oblast Administration, inspects the State roads in autumn in order: (i) to view the works carried out during the construction season; and (ii) to identify road work needs for the upcoming year. The committee agrees on the program of works for the year (routine, midterm repairs, and capital investments), the cost of which is then appraised by the CR. Once approved, the maintenance budget is transferred to KVD, which adjusts its plans for routine/winter works programs based on the available budget. Other works—such as periodic maintenance and capital investments—are dealt with separately. The MoTC Procurement Department handles procurement works for periodic maintenance, capital repair and reconstruction—and then, the CR regional offices prepare and sign the contracts that are implemented under their supervision.

35. ***KVD needs to become a service-oriented organization that focuses on the needs of its clients—the road-users.*** A significant cultural shift is needed in order for KVD to meet the expectations of road users. Good practices in this field are based on Quality Charters. This subcomponent would support MoTCs work with KVD on its transformation into an ‘operator’, at first through piloting the operation and maintenance scheme along the SWRP section of the WE-WC Road Corridor, based on quality charters that would serve as a guide for KVD’s day-to-day activities. The Project would finance the preparation of a Form Quality Charter, and subsequent sub-section-specific quality charters. The Government would finance equipment, facilities, and general operating and maintenance costs to support the new policy—i.e., to provide the users with a safe road that is more user-friendly and respectful of the environment. The needs of various categories of users will be analyzed and addressed—e.g., the specific needs of truckers who travel along corridors with very low population densities and services. KVD would be asked by MoTC to take initiatives to promote road safety campaigns (as a follow-up to the road safety activities ongoing under the SWRP). Awareness campaigns—such as those that focus on wearing seat belts, staying alert while driving, and exercising prudence while driving through sections of roads being repaired—would be designed and implemented. Certain other activities—

such as winter maintenance, rest area maintenance, daily patrolling along the itinerary, and enforcement of the axle load limit—would also be financed.

36. ***Evaluation of results would be paramount to ensure the success of the pilot operation.*** All of the financed activities would be accompanied by monitoring of performance. Questions related to staffing and staff incentive would be addressed. Certain parallels could be drawn with other operators in charge of modern roads networks. For example, one of the main operators of the French motorway network—which has an average traffic of 15,000 vpd—has a staff of 8,200 to deal with 4,300 km, and 30 percent of the payment made to staff is linked to performance. The level of service provided to the road-users in Kazakhstan does not yet need to be as high as in Western Europe, because some of those services would only be appropriate for a dense roads network with heavy traffic. However, significant progress needs to be made at KVD to train the staff, and to establish an incentive mechanism.

37. ***Within the first six months of the pilot operation implementation, the MoTC would need to draft and endorse a ‘KVD Quality Charter’ that incorporates the concepts discussed above.*** The principles detailed in the Form Quality Charter would be progressively tested after sections of the new SWRP road are opened to traffic. By the end of Project implementation—and based on KVD’s experience with the Zhambyl-Kyzylorda section—the MoTC would assess the unit costs for operation and maintenance activities, and it would be able to budget operation and maintenance activities for the WE-WC Road Corridor and other such road corridors accurately.

B. Development of a Comprehensive Strategy on Tolling for the Almaty - Khorgos section of the Road Corridor (estimated US\$1.5 million)

38. ***The Project would finance the review of user-pay options, including development of a comprehensive strategy on tolling for the section between Almaty and Khorgos*** (estimated at US\$1.5 million). Technical assistance would be provided to the MoTC and the CR to decide on the best mechanisms by which to introduce user-pay principles, such as tolling international roads. The STD indicates the intention to introduce such user-pays principles as tolling to recover costs for capital investment and operation and maintenance along the Republican roads network. A comprehensive strategy on tolling of the section between Almaty and Khorgos would be developed so that tolling can be implemented as soon as the road is open to traffic. In the event of savings under the Project, financing of the infrastructure for tolling could be considered because it has been confirmed that the road design for the section would be compatible with tolling. The strategy would need to include: (i) a review of road-users’ willingness to pay; (ii) an analysis of the appropriate setting of tolling rates to recoup costs for operation and maintenance; (iii) a review of the experience of already planned tolling schemes (such as for Astana-Borovoi); and (iv) the creation of standard bidding documents for the company that would be the main contractor for the operation and maintenance under such a scheme.⁴³ Performance standards appropriate for a modern highway network would need to be designed and included in the bidding documents.

⁴³ KVD would be able to participate in the bidding, depending on their performance on the road sections financed under the SWRP.

C. Support the RRA's institutional reform activities (estimated at US\$0.5 million)

39. ***Based on a proposal from the Bank, the MoTC has appointed a Road Reform Advisor (RRA) who works with heads of departments at MoTC and the CR (the RRA team) with the responsibility of advising the MoTC and the CR on institutional reform activities launched under the on-going SWRP and the proposed Project.*** The RRA team reports directly to the Minister and will be supported by internationally-hired expertise financed under this subcomponent—with a view to bring international good practice and experience relevant for Kazakhstan. The RRA team would initially focus its activities on: (i) implementation of the Framework of Actions (December 2010) agreed upon under the on-going SWRP (the proposed Project and the SWRP will be implemented in parallel until the SWRP is closed); (ii) reform of road maintenance management and the role of KVD; and (iii) oversight on the Motorway Management Group (MMG) within the CR that would be responsible for the management of the international roads network. For details, see Annex3.

Annex 3: Implementation Arrangements

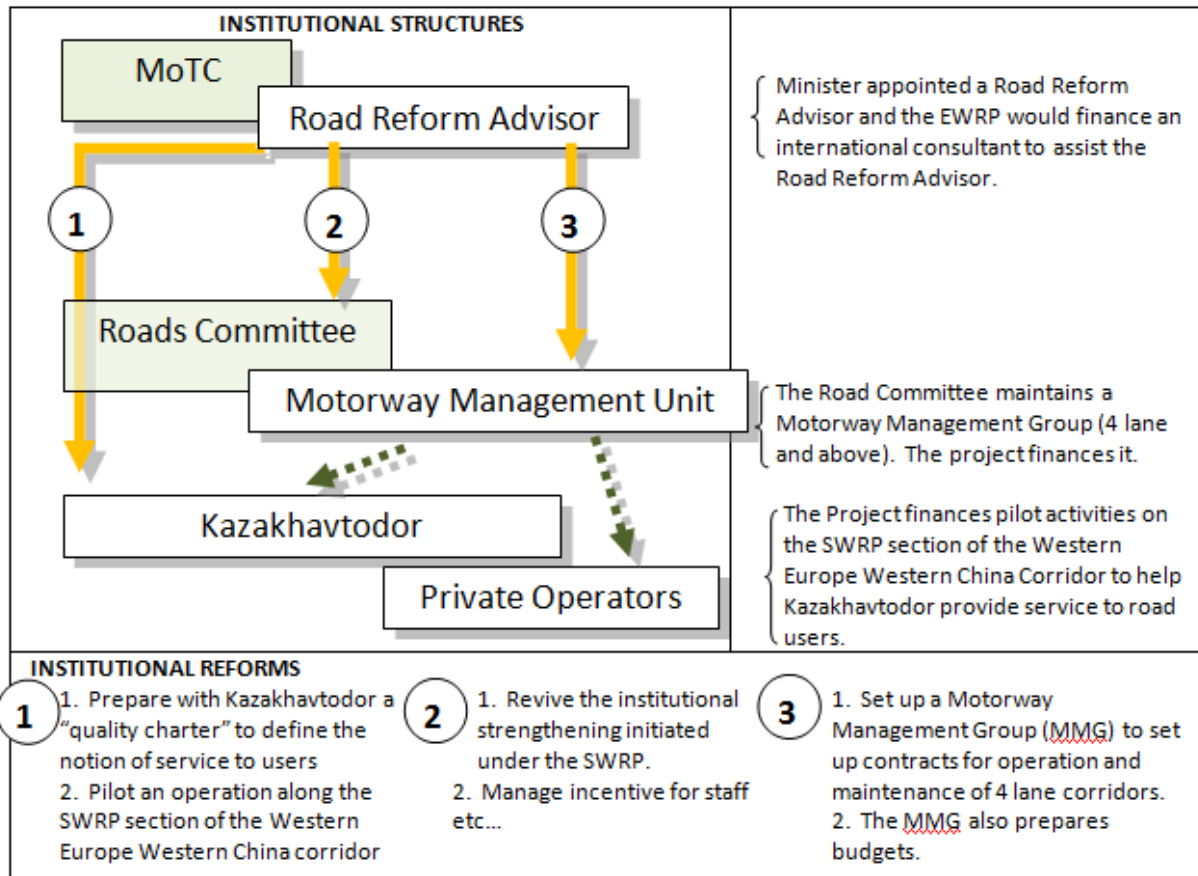
KAZAKHSTAN: East-West Roads Project

(Almaty – Khorgos Section): Western Europe-Western China International Transit Corridor
(CAREC 1b)

A. Project Institutional and Implementation Arrangements

1. ***The Project’s implementation arrangements are based on the ongoing SWRP but with an increased role for CR on day-to-day implementation.*** The Borrower will carry out the implementation of the Project’s through the MoTC, with the CR being responsible for the day-to-day implementation activities. However, the CR’s capacity to manage day-to-day workload would be challenged if the current configuration is not adjusted. It was therefore agreed that CR will hire individual consultants (2 international and 5 national) to work on procurement, financial management, environment and social activities related to the Project. To supplement CR’s capacity, ongoing projects supported by IFIs have deployed external consultants (such as the PMC under the SWRP) to support the CR in the implementation of the existing projects. The proposed Project would benefit from this arrangement, which has in general proved to be satisfactory and has allowed the CR to gain sufficient experience to be able now to fully implement the construction of the Almaty-Khorgos section of the WE-WC Road Corridor (component 1). As for the implementation of the institutional strengthening activities, MoTC has appointed a Road Reforms Advisor, who is an official of the MoTC with a mandate to oversee the implementation of the institutional strengthening activities for both SWRP and the proposed Project.

2. ***The Role of the Road Reforms Advisor (RRA).*** The RRA, and the RRA team would lead the reform and transfer skills to MoTC, the CR and KVD. The RRA team appointed by the MoTC, would be in charge of advising the MoTC on the road reform process, and coordinating the implementation of the road reforms. The team would be composed of the already appointed RRA, an international consultant specialized on road reform activities, and senior officials of MoTC. The international consultant would be hired to assist the RRA team and bring international best practices (the Project Institutional Consultant—PIC—see below). The role of the RRA team would not be limited to the activities under the SWRP and the proposed Project. Nonetheless, regarding those two projects, the RRA team would: (i) oversee the modernization of KVD and the operations and maintenance pilot (under component 2 (a) of the Project); (ii) assist CR in the implementation of the Framework of Actions as agreed to under SWRP; and (iii) oversee the motorway management group within CR to ensure modern management of the WE-WC Road Corridor once built.



3. **The Role of the Project Institutional Consultant (PIC).** Component 2 (iii) of the Project would fund the hiring of an individual consultant experienced with change management and policy reform to be part of the RRA Team. The PIC would support the RRA and the RRA team, and would advise on transport economics, organizational knowledge, road operations and maintenance, and road asset management practices. The bifurcation of the project implementation support into civil works management and institutional strengthening would provide sharper focus and clearer responsibilities for results delivery. The PIC would bring international road sector knowledge and road sector modernization experience so that MoTC through RRA could better control institutional reform implementation schedule and streamline transfer of knowledge to the CR and KVD staff. The PIC will also support the RRA to prepare progress reports related to institutional strengthening, monitor implementation of relevant activities, coordinate and oversee quality control and manage a communication strategy and information campaign to promote understanding and support for road sector reforms.

4. **The Role of the Project Management Consultants (PMC).** The PMC is currently contracted to support CR in the implementation of SWRP. The PMC's track record in supporting CR has been satisfactory: loan disbursements reached US\$801 million at the end of 2011, financial management, procurement, social and environment compliance for SWRP are generally satisfactory. But the role of the PMC was also to transfer knowledge to the CR in order to increase their capacity to implement large infrastructure projects like the ones financed by IFIs along the WE-WC Road Corridor. As this objective is being met, the PMC can be phased out

progressively from the SWRP. Their role will be diminishing at the end of calendar year 2013 when most of the activities under the SWRP will have been implemented. Until then, the PMC will continue assisting MoTC and CR on day-to-day management of activities associated with the execution of the SWRP. The lessons learned by CR will guide the implementation of civil works under Component 1 of the Project.

5. ***The Bank would support MoTC to strengthen partnership arrangements among key policy making institutions.*** Though preparation and implementation of the Project will be carried out under the leadership of the MoTC and CR, coordination with a broader spectrum of Ministries and Agencies including the Ministry of Economic Development and Trade, the Ministry of Finance, the Ministry of Justice, the Agency for Civil Service and others will be needed. The Bank will support this coordination during Project implementation through the exchange of views, regular meetings during supervision missions, application of results of the studies and taking joint actions in the context of institutional reform in the road sector. During project preparation, the Project Team met with EBRD and ADB to coordinate institutional reform activities under respective projects to promote synergy and avoid overlaps.

B. Monitoring and Evaluation

6. Monitoring and evaluation will be conducted through a continuous process (see Results Framework Annex1). Most of the progressive status data on the indicators including traffic volume, speeds will be collected through the asset management/ road information system being developed under the SWRP. This data collection effort will be supplemented by real-time inputs from various engineering/institutional strengthening studies funded by the World Bank and other IFIs. Moreover, the impact of institutional development will be measured through periodic assessments, stakeholder meetings, and user satisfaction survey. Also, following the pattern under the SWRP, the Project will not be subject to mid-term review, but instead annual reviews. The reports associated with those reviews are expected to provide all necessary information.

7. ***Third Party Monitoring.*** Based on the experience of the Extractive Industries Transparency Initiative (EITI) with Civil Society Organization (CSO) engagement, the Bank team initiated the establishment of a multi stakeholders group (MSG) to monitor the Project as well as those financed by other IFIs along the WE-WC corridor. The MSG involves the CR under the MoTC, CSOs, and the operating companies (contractors/consultants), with the IFIs as observers. The MSG is preparing a conceptual framework aiming at ensuring proper public monitoring of the project by CSOs. Large investment programs like the ongoing 1,065 km civil works financed by the World Bank calls for a dialogue with CSOs and the public at large. However, CSOs remain weak and there have been disagreements between Government representatives and the CSO leaders. To remedy this situation, the IFIs will be positioned as facilitators in the dialogue between the MoTC and the CSOs. In addition, the Bank team advised the CSO representatives to seek financial support for these activities. The experience gained by the CR in implementing Bank safeguard requirements has helped MoTC with communicating more systematically. For example, the Bank team noted that the MoTC organizes frequent public consultations in venues accessible to all. It manages daily updates of the Project web site and has agreed on road re-alignment following the suggestions made by CSOs (e.g., in Turkestan, Temirnalovka, and Yntymak). Compensation for land acquisition has also improved as MoTC

follows the World Bank recommendation to address severely affected and vulnerable people's needs.

8. **Road User Satisfaction Survey.**⁴⁴ Every year the Motorway Management Group at the CR will organize road-user surveys. The aim will be broadly to assess the perception by the road-users of the quality of operation and maintenance activities and the provision of service along the WE-WC Road Corridor. These surveys would also capture the project-specific impacts. Baseline, yearly and end-term impact evaluation on social, environmental and other operational issues directly related to the Project will also be carried out by other Ministries (e.g., Ministry of Environment).

9. **Annual Review and Quarterly Progress Reports.** The Project will undertake Annual Reviews (in lieu of a Project Mid-Term Review) as is the case with the SWRP. Starting December 2012 and annually thereafter, MoTC and the Bank will jointly conduct annual reviews of the progress made during project implementation. The Annual Reviews would cover amongst other things: (a) progress made in meeting the Project's objectives; and (b) overall Project performance against Project performance indicators. The CR would be responsible for the preparation of the reports associated with the Annual Reviews. In addition, the physical and financial progress for various project components will be carried out as part of regular quarterly progress reporting and project financial management system. The Performance Assessment Tool designed to monitor the ongoing road construction under the SWRP will also apply to the new Project. This tool is appreciated by the MoTC, MoF and the Bank as it has strengthened the monitoring of the project by decision makers who always have access to a detailed set of indicators related to the progress of the works, quality issues, and environment and social compliance.

C. Financial Management

10. Financial management support currently provided by the PMC contracted under the ongoing SWRP will gradually be phased out to eliminate duplication and redundancy, and with the CR taking on more direct responsibility for project financial management and disbursement functions. The finance and planning unit within the CR will need to be strengthened to enhance its capacity in project budgeting, accounting, disbursements and reporting. The unit will be supported by a financial management consultant to manage project funds, maintain accounts and have the accounts audited. The CR will ensure that Project resources are managed with due attention to economy, efficiency and effectiveness, and that Project funds are used only towards the realization of Project objectives.

11. The overall project financial management arrangements established by the CR for the ongoing SWRP are assessed to be moderately satisfactory. The inherent risk of the proposed Project is rated as high due to country and sector circumstances, while the control risk is rated substantial, with the overall FM risk being substantial. The Table below lists the actions required to ensure satisfactory financial management system by effectiveness.

⁴⁴ Road User Survey is an Intermediate Results Indicator for the Project.

	Action	Responsibility	Deadline
1	The Project accounting system satisfactory to the Bank is in place, with adequate in-built controls and capable of tracking Project resources and expenditures and generating financial reports, including interim financial reports (IFRs)	CR	By effectiveness
2	A financial management consultant has been selected under terms of reference satisfactory to the Bank	CR	By effectiveness

12. **Planning and Budgeting.** Current arrangements for budgeting and planning are considered to be adequate. The CR has implemented previous recommendations of the Bank with respect to budgeting under SWRP and now prepares financing plans by months, by source of financing, and the counterpart share to each loan (from various IFIs) can be easily traced. The CR will be responsible for preparing annual budgets for the Project based on procurement plans and in line with the Financial Manual. These budgets will form the basis for allocating funds to Project activities, both from the loan and the national budget. The budgets may be prepared in accordance with the IFR format (disbursement categories, components and activities, account codes, and broken down by quarter). Annual budgets should be agreed with the Bank before being submitted to the Ministry of Finance for final approval. Approved annual budgets should then be entered into the accounting system and used for periodic comparison with actual results as part of the interim financial reporting. The risk associated with planning and budgeting is assessed as *Moderate*.

13. **Accounts and Records:** Project accounting and reporting under the SWRP are still manual because the accounting software that was installed to support SWRP financial management function does not operate as intended. Accounts and records are maintained in the software by the PMC, but there is no linkage with the CR. Updating the records in the software by the PMC requires copying of documents at the CR which are then used by the PMC to update accounting records and preparation of reports on a quarterly basis, a process that does not add any value and is an unnecessary duplication. The CR processes all financial transactions manually, and maintains all accounting records in Excel spreadsheet, which is susceptible to errors and inaccuracies. To remedy the situation, new software has been installed for project accounting and reporting with capacity to produce reliable financial reports in a timely manner. The software is being tested and is expected to be fully operational by the end of March 2012. The accounting system will be able to properly track resources and expenditures; and generate quarterly financial reports in formats acceptable to the Bank. A financial management consultant would work with the CR to oversee the installation of the accounting system and ensure that it fully meets project accounting and reporting requirements by effectiveness. The risk associated with accounting and records is *substantial* before mitigation and will be reduced to *moderate* after risk mitigation measures are implemented.

14. **Financial Reporting:** Starting from the third quarter of 2010 and throughout 2011 the CR has been submitting IFRs in a timely manner and these IFRs were found to be generally acceptable to the Bank. However, IFRs for the fourth quarter of 2011 were found to contain inaccurate balances that the CR had to rectify. It was agreed that CR would submit interim un-audited financial reports (IFR) for the proposed Project to be generated by the Project accounting system based on formats agreed with the Bank at Negotiations. The un-audited IFRs will be submitted to the Bank within 45 days of the end of each quarter, with the first reports being

submitted after the end of the first full quarter following initial disbursement. The risk associated with financial reporting is *substantial* before mitigation and *moderate* after mitigation.

15. **Internal Control Systems and Internal Audit:** The CR follows the manual of accounting and reporting for state organizations (No. 30). However, the manual does not specifically describe the internal control mechanisms to be followed in the application and use of Project funds and project implementation. A project-specific Financial Manual has been developed under the SWRP that describes key internal control mechanisms to be followed by staff in the application and use of Project funds, with specific focus on ensuring completeness of accounting transactions, reliability of accounting data, safeguarding of Project assets, including safe custody of cash and other assets, proper monitoring of contracts, proper authorization and documentation of all Project expenditures, and full accountability of Project funds. The manual reflects the project structure that allows for adequate segregation of functions, defined job descriptions for staff with different authority levels, as well as the flow of funds to support Project activities, including proper management of the disbursement function, contracts management and documentation flow. The manual also describes procedures for regular financial reporting to ensure close monitoring of Project activities. However, the FM section of the current manual is being updated to reflect changes that have since taken place. The updated manual will reflect the specific aspects of the proposed Project. The risk associated with internal control and audit is considered to be *Moderate*. Adoption of the financial management manual, within the Project Operations Manual, is a condition for effectiveness.

16. **External Audit:** The audit report for the year ended December 31, 2010, under the SWRP was submitted to the Bank on June 30, 2011. This is a significant improvement over the past few years when audit reports under the World Bank portfolio were submitted to the Bank with considerable delay. The audit report contained unqualified audit opinion, with no major issues raised in the Management Letter, which is an indication that there were no major issues on internal control. The proposed Project loan agreement will also require annual audits of the Project financial statements, to be performed by independent auditors acceptable to the Bank and in accordance with International Standards on Auditing (ISA). The auditors' TOR will be prepared by the Borrower and cleared by the Bank before being provided to the MoF that contracts auditors for all Bank-financed projects in Kazakhstan. The TOR will include both the audit of financial transactions and an assessment of the operation of the Project accounting system as well as a review of the internal control mechanisms. The annual audit reports will be in a format in accordance with ISA, and they will include an opinion on the Project financial statements, incorporating the Statement of Expenditure (SOE) Withdrawal Schedule, if used, as well as a management letter. The audit reports will be submitted to the Bank no later than 6 months after the end of the fiscal year. The Table identifies the audit reports that will be required to be submitted by the CR, together with the due date of submission.

<u>Audit Report</u>	<u>Due Date</u>
<u>Continuing Entity financial statements</u>	N/A
<u>Project financial statements (PFS).</u> The PFS include Project Balance Sheet, Sources and Uses of Funds, Uses of Funds by Project Activity, SOE Withdrawal Schedule, and Notes to the financial statements, and Reconciliation Statement.	Within six months of the end of each fiscal year and also at the closing of the project

17. The audited project financial statements shall be made available to the public in accordance with the Bank’s Access to Information Policy. Upon receipt of the audited financial managements the Bank will also make them available to the public. The risk associated with external audit is considered *moderate*.

18. **Disbursements:** The proceeds of the loan will be disbursed over a period of four years, or for such longer period as will be agreed with the Bank. The Project will follow transaction-based disbursement procedures (Reimbursements based on full documentation, Direct Payments and Special Commitments). Withdrawals from the Loan Account will be requested in accordance with the guidance to be given in the Disbursement Letter. The Minimum Application size for Direct Payment, Reimbursement or Special Commitment will be communicated in the Disbursement Letter. Withdrawal applications will be signed by two persons: (i) an authorized representative of the Borrower and another designated person as authorized by written delegated authority from the MoF. The CR will be responsible for keeping the supporting documentation for all Project expenses, especially those reported through Statement of Expenditures (SOEs), and for making them available to World Bank implementation support missions as well as to the auditors. The risk associated with funds flow and disbursement is *substantial* before mitigation and will be reduced to *moderate* after risk mitigation measures are implemented.

Procurement Management

19. Procurement for the proposed Project will be carried out in accordance with the World Bank “Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers”, dated January 2011, and the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers”, dated January 2011 as detailed in the provisions stipulated in the Loan Agreement. The latest versions of the World Bank Standard Bidding Documents and Standard Requests for Proposals as they appear on the World Bank website will be used under the Project. The CR will follow the Bank’s Anti-Corruption Guidelines⁴⁵ and measures and will not engage services of firms and individuals debarred by the Bank.⁴⁶

20. The various items under different expenditure categories are described in broad terms below. For each contract to be financed by the Loan, the different procurement methods or

⁴⁵ “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011.

⁴⁶ The listing of debarred firms and individuals is located at:
<http://www.worldbank.org/html/opr/procure/debarr.html>.

consultant selection methods need for pre-qualification, estimated costs, prior review requirements, and time frame have been agreed between the Borrower and the Bank. These are reflected in the Procurement Plan, which covers the first 18 months of implementation of the Project. Thereafter, a rolling procurement plan will be updated at least annually to specify activities planned for the following 12 months (or as required) to reflect the actual project implementation needs and the improvements in institutional capacity.

21. **Procurement Notices:** A General Procurement Notice (GPN) was published on March 20, 2012 in the United Nations Development Business (UNDB) and in the Bank's external website. As bidding documents will become available, invitations to pre-qualify or to bid will be advertised as Specific Procurement Notices (SPNs) for ICB procurement packages, and Expressions of Interest (EOI) for consulting assignments estimated to cost more than US\$300,000 equivalent per contract, will be published in UNDB (on-line), and in at least one national newspaper of broad circulation. In addition, the Procurement Plan (including all formal updates), SPNs and EOIs for all contracts as well as results of contract awards will be published on the external websites of the MoTC of Kazakhstan Republic and of the World Bank.

22. **Procurement of Works:** Works contracts will include upgrade and reconstruction of road sections between Almaty and Khorgos. Contracts above US\$5 million equivalent will follow ICB procedures. The majority of large civil works contracts will require pre-qualification of contractors. Contracts below US\$5 million equivalent will be procured under National Competitive Bidding (NCB) procedures detailed in the POM, which also includes sample bidding documents for NCB. All bidding documents and contracts will include measures to minimize or mitigate environmental impact and will take into account recommendations in the EMPs. Direct contracting may be authorized subject to compliance with Paragraph 3.7 of the Procurement Guidelines.

23. **Procurement of Goods:** Procurement of goods, if any, under this Project for Contracts above US\$500,000 equivalent will be procured under ICB procedures using the Bank's Standard Bidding Documents (SBDs) for Goods. Contracts above US\$100,000 equivalent and below US\$500,000 equivalent may follow the NCB procedure specified in the Loan Agreement and detailed in the POM. All goods costing less than US\$100,000 equivalent may be procured using Shopping procedures on the basis of at least three written price quotations obtained from qualified suppliers. The list of suppliers to be invited to submit quotations should be defined by a committee or commission. Direct contracting may be authorized subject to compliance with Paragraph 3.7 of the Procurement Guidelines.

24. **Selection of Consultants:** Consultant services required under this Project will include inter alia: (i) technical assistance; and (ii) supervision of construction contracts, as well as individual consultants. The methods for selection of consultants will include Quality and Cost Based Selections (QCBS), Quality Based Selection (QBS), Fixed Budget Selection (FBS), Least Cost Selection (LCS), Selection based on Consultants Qualifications (up to US\$200,000), Single Source Selection in compliance with Paragraph 3.8 of the Consultant Guidelines, and Individual Consultants (IC). Contracts estimated to cost above US\$300,000 equivalent will be advertised on-through UNDB, on the World Bank website and in local media (one newspaper of national circulation or the official gazette, and the website of the MoTC). Shortlists for consultants for

services estimated to cost less than US\$100,000 equivalent per contract may be composed entirely of national consultants in accordance with provisions of paragraph 2.7 of the Consultant Guidelines.

25. ***Operating Costs:*** The loan will not finance incremental operating costs.

26. ***Assessment of the Procurement Capacity at the Committee for Roads:*** An update of the assessment of the capacity of the Road Committee to implement procurement actions for the Project was started by the Bank in November 2011 and completed before the appraisal. The assessment was entered in the P-RAM system by end of appraisal. The Country Procurement Assessment Reviews dated June 2000 and January 2005, reported that fraud and corruption are regarded as real impediments to the activities of the private sector in Kazakhstan. As a result, the Public Procurement Law (effective on January 13, 2012) sets out a number of provisions to address fraud and corruption, notably fraudulent practices, misrepresentation, conflicts of interest and bid-rigging. With the Public Procurement Law in place and with a competent regulatory agency to oversee its implementation, the main weakness in the procurement system appears to be lack of capacity and resources. Procurement based on market economy principles is a relatively new concept in Kazakhstan and there are only a few trained procurement officers available, although in almost each ministry there is a purchasing and supply department.

27. The overall country environment for conducting procurement under the proposed Project is assessed as high risk. As to the proposed Project, the November 2011 assessment reviewed the procurement process being carried out by the CR and the interaction between the staff responsible for procurement, financial management and project management. It was noted that the procurement unit has successfully procured large road contracts, including under the KZ SWRP. It has been taken into account the satisfactory performance of the CR during implementation of the SWRP, but given the overall procurement environment in the country and the change in modality of implementation support to the CR, based mainly on individual consultants, the procurement risk for the project is rated as “High”. It was noticed that the CR should improve its technical basis and coordination of processing of procurement communications in order to avoid iterations and delays in responses. This rating could be reassessed at the time of annual reviews of the proposed Project.

28. Based on the analysis of its legislative framework, the effectiveness of its regulatory institutions, the strength of its enforcement regime, the capacity of the Committee for Finance Control and Procurement (COFP) and its human resources and the risk of corruption, the key issues and risks concerning procurement have been identified and mitigation measures discussed. The main risk and mitigation are summarized in Table 8.1.

29. ***Governance and Anti-Corruption (GAC) Action Plan:*** The Bank team intends to maintain close oversight and will carry out prior review of all major contracts according to the thresholds that will be regularly reviewed and adjusted as needed in the Procurement Plan. Based on the experience of SWRP, the GAC Action Plan has been updated (see also Annex 9). The following measures will be carried out to mitigate corruption risk:

- *Training of fiduciary staff* starting from the project launch and periodically thereafter, training will be customized to the procedures and methods that would be required in the

next 12 months period. On-the-job training will also be provided during supervision missions and, if possible, regional training will be provided by the Bank on procurement;

- *Prior review:* There will be close supervision by procurement accredited staff of the Bank. In addition, all contract amendments will be subject to prior approval by the Bank;
- *Publication of Advertisements and Contracts:* All publications for advertisements and contract awards, including the results of the awards, will be done in accordance with the Procurement Guidelines and published in the World Bank client connection system and on external websites, i.e., UNDB and World Bank websites;
- *Debarred Firms:* Appropriate attention will be given to ensuring that debarred firms or individuals are not given opportunities to compete for Bank-financed contracts;
- *Complaints:* All complaints by bidders will be diligently addressed and monitored in consultation with the Bank;
- *Evaluation Committee:* If required, the Bank will review qualifications and experience of proposed members of the Evaluation committee(s) with a view to avoiding nomination of unqualified or biased candidates. All members will be required to sign a disclosure form (sample included in the POM);
- *Civil Works supervision:* Contractors carrying out construction of road works will be supervised by technically qualified engineering firms, selected by the Committee to ensure that quality specified in the contract is delivered in a timely manner. Highly qualified consultants will assist the CR to monitor the quality and performance of supervision consultants;
- *Monitoring of contract awards:* All contracts are required to be signed within the validity of the bids/proposals and, in case of prior review contracts, promptly after the no objection is issued. Procurement Plan format shall include information on actual dates (of no objections and award) and will be monitored for cases of delay which will be looked at on a case-by-case basis to identify the reasons. The CR will maintain up-to-date procurement records available to the Bank staff and auditors.
- *Monitoring of payment vs. physical progress:* Monitoring reports prepared for the Bank will be customized to include a form to monitor physical progress compared to payment installments to avoid upfront loaded payments;
- *Timeliness of payments:* Payment to contractors, suppliers and consultants will be monitored through semi-annual interim un-audited financial reports (IFR) to ensure timely payments. The CR will maintain a system/database to ensure payments to the suppliers and contractors are paid without delay according to the conditions of the contract.

Table 8.1 – Summary of Procurement Risk Assessment

Risk	Rating Before	Mitigation	Rating After
The CR staff lack capacity to undertake the proposed procurement work under the Project, particularly regarding international procurement or World Bank procurement guidelines.	High	Qualified procurement consultants will provide on-the-job training to the MoTC, the CR staff and to bid evaluation committee members. Consultants will provide assistance in the preparation of bidding documents, requests for proposal, bid evaluation reports and contract agreements. Training in procurement under World Bank guidelines will also be provided by Bank staff during the Project launch workshop	High
Limited technical equipment of CR (low internet speed, lack of appropriate ITC equipment and their operators) as well as insufficient coordination of information flows in communicating with the Bank.	High	The CR will procure the services of fast internet providers and operators as well the required ITC equipment, and will establish internal regulation to organize the communication with the Bank.	Substantial
Bid evaluation committee members are not familiar with international procurement procedures, and may obstruct or delay the procurement process, especially the evaluation of bids and proposals	High	The POM will include: (a) sample TOR and qualification requirements for procurement staff and for evaluation committee members; (b) conflict of interest disclosure forms which should be signed by all evaluation committee members; and (c) a detailed Procurement Manual	High
Lack of awareness of procurement opportunities available in the Project for civil works, goods and services	Medium	Carry out public awareness programs using various media, such as newspapers, brochures, radio, TV, project website, etc	Low
Poor quality of bidding documents, including ambiguous technical specifications; unclear and unrealistic requirements, such as delivery, completion time which bidders would be unable to meet, and frequently no qualifications and experience	High	Prepare and make widely available clear, easy to understand standard bidding documents containing all bidding requirements. Train MoTC staff in preparing unambiguous technical specifications and set up mechanisms for obtaining technical experts in relevant areas for the preparation of specifications. Create and maintain a database of sample specifications and prepare standard technical specifications for items procured frequently	Substantial
Faulty technical design may cause excessive variation orders. Poor quality construction may require remedial works.	Medium	The supervising engineers will review technical specifications while preparing the bidding documents. Local oblast roads laboratories of the Committee will carry out independent technical inspections to verify construction quality. The CR will monitor the quality of the results.	Low
Corruption or collusion may lead to the award of high price contracts	High	Experienced procurement consultants will be hired. The Bank will carry out prior review of practically all contracts under the project.	Substantial
Use of national procurement procedures such as NCB, especially small contract sizes, for most or all of the contracts as a means to award contracts to domestic contractors/ suppliers	Moderate	Ensure proper packaging of contracts so that most of the contracts fall under ICB to allow for international competition and more participation by more internationally reputed firms. Monitor growth of domestic private sector in the road construction industry	Low

30. ***Frequency of Procurement Supervision:*** Initially, procurement supervision will include prior review of contracts and procurement supervision missions (part of project supervision missions) once every six months. Phone and video consultations will also be used for discussion of particular cases to speed up preparation of the tenders. Once the capacity of the implementing agency is strengthened, frequency of procurement supervision missions and prior review thresholds may be revised.

31. ***Post Review:*** All contracts under the Project will be subject to prior review with the exception of some shopping or minor works contracts.

32. ***Prior Review Thresholds:*** Prior review thresholds will be set up in the Procurement Plan and will be generally based on the following requirements:

- All contracts awarded through ICB Works (>US\$5 million);
- First two Minor Works and all NCB contracts less than US\$5 million equivalent;
- All contract awarded through ICB Goods (>US\$500,000);
- First two shopping and all NCB contracts above US\$3 million;
- All consulting contracts for firms >\$200,000 and contracts with individual consultants estimated to cost US\$50,000 equivalent or more each and TOR for consulting firms selected through Consultants Qualifications; and
- All single source, sole source, amendments and direct contracts.

33. A procurement plan was prepared by the CR and finalized at negotiations. The summary of the procurement plan is as follows:

- Eight civil works packages for the construction/reconstruction of the Almaty-Khorgos road:
 - (i) Section km 0 to 50;
 - (ii) Section km 50 to 112;
 - (iii) Section km 112 to 167;
 - (iv) Section km 167 to 214;
 - (v) Section km 214 to 259;
 - (vi) Section km 259 to 304;
 - (vii) Bridge at km 229.9; and
 - (viii) Other bridges, interchanges and overpasses.
- Procurement of Goods:
 - (i) Equipment for road measurement
- Major Consultancy Services:
 - (i) Three packages of construction supervision;
 - (ii) Maintenance monitoring and roughness measurement; and
 - (iii) Road Tolling Strategy.

34. Environmental and Social (including safeguards)

35. The proposed Project covers a road section of about 305 km with about 60 percent of the alignment requiring new road construction, with the remainder being the upgrade of an existing

two-lane highway to four lanes. The Project will be a Class I (4-lane) highway between Almaty and Khorgos with alignment entirely within Almaty oblast. The Project has all the physical characteristics of a large linear infrastructure project, with significant spatial extension, visible impact on landscape, biosphere and land use patterns, and significant impacts on topography, climate, natural conditions and human activity. The alignment crosses of a variety of land forms, land use types, and micro-climatic zones. It should be noted that in over 90 percent of the 'greenfield' sections the new road will follow existing tracks or earth/dirt roads, and existing infrastructure corridors (railway or gas pipeline) which were constructed some years to decades ago when this infrastructure corridor was established and a road upgrading and re-routing was already planned. Thus the road will not open up a hitherto untouched area.

36. The Project will be implemented on three different road sections of roughly equal length (procurement wise these sections would be divided into six road works contracts and two contracts for bridges):

- **Section 1 (024-126 km)** starts from about 20 km north, north-east from the centre Almaty city in suburban Almaty, and runs in a north-easterly direction parallel to the foothill of the Tien Shan mountain range towards the Shelek river, which lies just east of a major settlement of the same name. This section consists primarily of new construction to bypass towns and villages and impacts agricultural areas, including some highly-productive irrigated land. This green field section, close to the largest city in Kazakhstan, would have an expected traffic above 10,000 vehicles per day. The plan is to toll the new road once constructed so the toll revenues would cover all or part of the operation and maintenance of the new road section.
- **Section 2 (126-268 km)** continues north-east from the Shelek river, passes north of the Charyn National Park and continues through arid steppe or semi-desert rangeland ending to the south of River Illi.
- **Section 3 (268-360 km)** crosses the River Illi and turns off from the existing route A351 towards the flood plain of the Khorgos River to the border with China. The bulk of this section runs through dunes, marshes, rangeland and small, seasonal watercourses.

37. The implementing agency will be the CR under the MoTC of Kazakhstan, which has been working with the World Bank since 2006 on a number of projects, including the ongoing South West Roads Project (SWRP), an investment in over 1,000 km of road reconstruction and new construction. The SWRP project team has been supporting project implementation for 2 years using a performance assessment tool (PAT) specifically developed for such large infrastructure projects. The results so far show generally acceptable environmental performance across much of the 1,065 km alignment of the SWRP. However, improvement is needed to manage properly some of the borrow pits. Also, the CR has acknowledged the correlation between proper environmental management and timely delivery of the civil works.

Regulatory and Institutional Framework:

38. The current institutional capacity of the Borrower to implement mitigation measures relies on four main departments currently in charge of country based environmental and social safeguards. These are the departments responsible for: (a) environment; (b) water resources; (c) forestry and hunting; and (d) land management. Construction works are supervised by the Ministry for Environmental Protection (MoEP) and its subordinate agencies. Local units of the MoEP, Environmental Expertise and Nature Use Regulation Department are structured into thematic groups, which at Oblast level include among others (i) environmental expertise, (ii) permitting, (iii) supervision and monitoring, (iv) environmental laboratories. At the Rayon level each of these thematic units is represented by one inspector.

39. Projects and operations where negative impacts may occur are usually inspected 3 times a year. The Project team also reports the findings of their field visits (about 3 times a year). In addition, the MoEP staff visit the sites once a year with Oblast and Rayon representatives. Those visits are announced by MoEP regional staff who usually contacts the project developers, the Contractor's environmental staff and the unit on site and prepare this annual mandatory visit (called "production control" under the Kazakh legislation). As for the day to day supervision of construction works, Oblast and Rayon level staff monitor the sites and play a key role in commissioning the finalized project, thereby checking environmental compliance with design and final implementation of all required environmental restoration and re-cultivation measures.

40. The EIA process in Kazakhstan is compatible with international good practice. The EIA process in Kazakhstan is described in the Environmental code (2007) and contains a set of detailed implementation instructions. It foresees 4 stages, which correlate with the respective design activities and range from (i) a desk study for pre-feasibility level, (ii) a preliminary EIA and (iii) a detailed ('full') EIA for the detailed design stage and (iv) an EMP as separate section of the design documentation. In this respect the EIA process is both logical and deemed compatible with international good practice. For the project ESIA's were prepared both under Kazakh legislation and according to the World Bank's OP4.01.

Safeguards Category

41. The project was classified as category "A". Environmental Assessment OP/BP 4.01 is triggered. The main envisaged negative impacts during construction are the operation of borrow areas, generation of waste, excessive land use, topsoil destruction and erosion. There is also a potential impact on groundwater and surface water from excessive turbidity and siltation, washing equipment in rivers (e.g. cement trucks) and accidental spills involving fuels and lubricants. During operation of the road storm drainage management, soils, ground and surface water contamination by heavy metals, soot and organic compounds, noise, dust, air pollution will be the main issues. Moreover, there is a potential risk of destruction or disruption of natural habitats and ecosystems by poor construction management.

Environmental Assessment and Management

42. The Borrower prepared one ESIA report for every alignment section (i.e. a total of 3 reports) which, after upgrading and updating, were deemed acceptable to the Bank. They were

found to contain an adequate project description and collection of baseline data, all major elements of impact analysis and useful basis for the planning of mitigation measures. EMPs were elaborated to a level of detail commensurate with the design stage and integrated into bidding and contract documents to provide clear guidance and contractual obligations for environmental due diligence in further project design and implementation. The ESIA was disclosed in country on December 13, 2011. Public consultations in accordance to Bank safeguards standards were completed by January 2012.

43. One ESIA was produced with crosscutting sections, and detailed baseline descriptions, impact analysis and mitigation measures and EMPs for every one of the 3 road sections. It is envisaged to convert each section into 1-2 construction lots for tendering purposes. The EMPs currently are at a level of detail commensurate with the preliminary design. They are comprehensive and descriptive in terms of listing environmental issues and sensitivities. Also a list of specific management plans (e.g. waste, material sourcing and borrow pits, dust and emissions, camp sites, workplace health and safety) to be prepared by the Contractors was compiled. Due to the outstanding finalization of the road design the EMPs still lack geographic specificity for some of the aspects, as the location of some project-related works, notably borrow pits, lay-down areas or camp sites, have not yet been finalized.

44. Consultations according to domestic Kazakh regulations had been carried out during the design activities preceding Bank involvement. As required per OP4.01 for category A projects, two additional sets of consultations with affected stakeholders were carried out. The first set of consultations (October 2011) related to the general project features and the planned upgrading activities for the environmental studies, during the second set of consultations (January 2012) the draft ESIA was presented to the stakeholders, especially the affected local population. NGOs were consulted by the Borrower's implementing agency already before Bank involvement, as well as during the ESIA updating phase. They were also significantly contributing to the optimization of the project alignment and the selection of alternative routes for the road corridor.

Involuntary Resettlement

45. Land acquisition and associated impacts on affected persons is moderate in the context of a project involving major works along a 305-km alignment. In all, about 3,003 hectares are required for project use—for the widening of existing roadways (about 60 percent of the project alignment), and for new road construction (the remaining 40 percent of the alignment). Of the total hectares required, an estimated 1,866 are already State-owned (including open access range land periodically used for livestock grazing). The remaining land is privately owned or leased. One hectare is zoned for commercial use, and four hectares are zoned for residential use. An estimated 22 small enterprises may be affected to varying degrees, but no residential relocation is required. In all, there are 713 owners or leaseholders losing some proportion of their land area. In total, an estimated 4,476 people will be directly affected by the Project.

46. Planning for the road improvements was initiated a number of years before financing for the Almaty-Khorgos road was identified as a possible World Bank project. Hence, land acquisition had already been initiated and is largely complete. Of the 713 landowners or leaseholders losing land, 632 have already been fully compensated and 7 are contesting the compensation that has been offered to them. Another 74 cases related to leaseholders remained

outstanding at the time of negotiations because the leaseholders have not been identified or located.

47. Because land acquisition was already well-advanced at project identification, the Bank concluded that a Resettlement Implementation Report (RIR) should be prepared in lieu of a Resettlement Action Plan, which normally guides future land acquisition in Bank-supported projects. The RIR reviews standards and methods used in land acquisition, describes means for disposition of unresolved cases, and identifies retroactive measures necessary to bring the acquisition process into conformity with World Bank OP 4.12 requirements.

48. A draft RIR of good quality was prepared and submitted to the Bank for review, and was cleared as an advance draft by the Bank in February 2012, and published locally and through the Infoshop. The final RIR presented to the Bank during negotiations states that 74 cases remain outstanding for various reasons (i.e., missing leaseholders). Based on a review of documentation, site visits, and consultations with affected persons, the RIR has established that most land acquisition has been processed in a manner consistent with the Resettlement Policy Framework applicable throughout the Kazakhstan WE-WC Road Corridor Program. The RIR provides significant detail regarding the nature of outstanding cases, and established the need for two specific retroactive measures. It established that transitional allowances in addition to asset compensation should be paid to 14 businesses that would require relocation prior to the beginning of road works. It also established that supplemental assistance in addition to land compensation may need to be paid to 25 landowners deemed “significantly affected” because they were losing more than 10 percent of their productive land area. The RIR indicated a third shortcoming in principle, which required supplemental assistance to be paid to affected persons who were deemed especially vulnerable due to hardship. No such persons were identified among affected persons in rayon-level surveys, but the RIR establishes that anyone subsequently identified as meeting Government of Kazakhstan vulnerability criteria would be eligible to receive supplemental support. The RIR also established that any persons enjoying sporadic use of state land for livestock grazing purposes may continue “open access” use to adjacent areas following initiation of road works. Livestock crossings are provided periodically along the alignment in grazing areas. The final RIR incorporates the provisions for the necessary retroactive measures to implement the above shortcomings. The Bank team will pay particular attention to these cases during implementation support field visits to assess compliance with the RIR and RPF requirements.

49. Completion of the resettlement activities for the project requires additional information regarding the pending land acquisition cases. The implementing entity (Committee for Roads) has confirmed that they will implement required retroactive measures detailed in the RIR as necessary. Civil works under the proposed Project will not be allowed to start until all required compensation has been paid to all affected parties for those civil works which would affect land or property based on the principles set in the Resettlement Policy Framework applicable throughout the Kazakhstan WE-WC Road Corridor Program. The final RIR approved by the Bank and adopted by the CR on behalf of the Borrower, would be disclosed in Kazakh and Russian languages in the project area, and in English through the Bank’s Infoshop. Re-disclosure of the Resettlement Policy Framework—confirming applicability to the Project—also would occur in country and through the Infoshop.

Role of Partners

50. *Coordination on maintenance activities.* The Project would deepen the institutional reform already initiated under the SWRP by focusing on modernizing operations and maintenance on the WE-WC Road Corridor. In coordination with the ADB and the EBRD, and to the extent not funded by the latter IFIs, the Project will finance the WE-WC Road Corridor highway management modernizing activities under the Component 2. In particular, Component 2 will complement consultancy services already delivered and financed under the loan agreement between the Government and the ADB of 2009 for the section of the WE-WC Road Corridor in Zhambyl oblast. The objective of ADB financed consultancy was to recommend a suitable routine maintenance system for the republican roads network in Kazakhstan. Design of the Component 2 under the Project builds on recommendations developed by the ADB consultants with respect to the development of performance standards, an outsourcing system and improvements in the efficiency of Kazakhavtodor. The ADB loan agreement includes plans for training on performance based road maintenance to be organized in 2012 in collaboration with the CAREC Institute. There is also an agreement that the Project Component 2 activities will be coordinated with the EBRD road maintenance consultancy services planned as part of the loan agreement between the Government and EBRD of 2008 for the section of the WE-WC Road Corridor in Aktobe oblast. The EBRD loan agreement also includes a commitment by the Government to conduct a pilot implementation of performance based maintenance contracts.

51. *Coordination on the trade facilitation and customs activities.* The Government's ambitious program to enhance the country's transit capacity especially along the Central Asia Regional Economic Cooperation (CAREC) corridors is being complemented by IFI efforts to institute institutional and legislative changes to improve trade and transport facilitation environment. In particular, the Bank through its Customs Development Project and ongoing technical assistance program is coordinating with ADB, DFID, USAID, GIZ and EU to ensure that the ongoing activities are contributing to trade and transport facilitation agenda and responding to the changing trade dynamics. Some of the IFI supported activities include introduction of the "single window" concept, trade logistics development, modernization of key border crossing points as well as capacity building for customs personnel. The proposed Project will enhance the outcomes of the trade and transport facilitation efforts by promoting development along one of Kazakhstan's main strategic road transport corridors. In this regard, close coordination with the development partners will be required to ensure that the implementation of the project is aligned with the pace of these programs and improvements at Khorgos border crossing point.

Annex 4 Operational Risk Assessment Framework (ORAF)

Kazakhstan: East-West Roads (Almaty-Khorgos Section): Western Europe - Western China International Transit Corridor (CAREC-1b) (P128050)

Project Stakeholder Risks				
Stakeholder Risk	Rating	Moderate		
<p>Description:</p> <p>There is a possibility of diminished Government commitment to the Western Europe - Western China International Transit corridor development agenda. There is also a risk of possible opposition of some NGOs to Project activities and limited ability of the Government to engage with NGOs.</p> <p>The Government is anticipating negative financial impact from the current economic situation in Europe. This could affect the fulfillment of its co-financing obligations under the Project.</p>	Risk Management:			
	Government is strongly committed to the transport efficiency agenda and investment in basic infrastructure under the CPS 2012-2015 and National Program on transport infrastructure development 2010 - 2014. CAREC Forum provides a good venue to discuss all relevant issues.			
	There is a clear understanding among stakeholders (Government entities, civil society, donors, population at large) of the importance of the project, the Government and stakeholders are likely to remain committed.			
	Resp: Client	Stage: Preparation	Due Date: 31-May-2012	Status: In Progress
	Risk Management:			
	The Bank has good relationships with stakeholders given its long time support to the sector, and will continue policy dialog with the Government and continue engagement with the NGOs. The Bank is seeking third party funding to support NGOs active in monitoring the implementation of the WE-WC corridor activities			
	Resp: Bank	Stage: Implementation	Due Date: 31-Dec-2012	Status: Not Yet Due
	Risk Management:			
	The Government is committed to a policy dialog with Civil society through existing grievance redress mechanism at WE-WC Corridor sections and through an interactive forum on the CR silk road project website. Project will continue consultation with local interest groups on various aspects of communications strategy. The CR silk road project website has already been updated with information on the proposed project. The Project will fund surveys for stakeholders' input.			
	Resp: Client	Stage: Implementation	Due Date: 30-Jun-2013	Status: Not Yet Due
Risk Management:				
To facilitate communication among stakeholders multi-stakeholder group workshops will be held with Government, Civil Society, Contractors and other stakeholders.				
Resp: Bank	Stage: Preparation	Due Date: 22-Jun-2012	Status: In Progress	
Risk Management:				
Moody's has just rated the country's sovereign ratings at Baa2 - investment grade - because of the country's moderate economic resilience and financial robustness. Kazakhstan should have the financial resources to meet its obligations for this high priority project (at the time of effectiveness).				
Resp: Client	Stage: Implementation	Due Date: 31-Jul-2012	Status: Not Yet Due	

		Risk Management:			
		Local communities are endorsing the new alignment. Rounds of consultation with the public took place over a number of the last years and the alignment. The Bank Project Team will monitor the acceptance by local communities during supervision.			
	Resp: Bank	Stage: Implementation	Due Date: 31-Dec-2012	Status: Not Yet Due	
Resp: Client	Stage: Implementation	Due Date: 31-Dec-2012	Status: In Progress		
Implementing Agency (IA) Risks (including Fiduciary Risks)					
Capacity		Rating	Substantial		
Description:		Risk Management:			
Not enough staff and expertise at the CR and oblast level to address issues and workload during implementation, such as financial management, procurement and management of safeguards. Capacity of the CR and its regional branches is quite limited and presents a challenge during implementation of the ongoing SWRP, and under new project it will be further stretched. Institutional strengthening activities under the SWRP would need more attention and progress in the next couple of years.		During project implementation add workforce at the CR for the proposed Project (2 international consultants and 5 local consultants).			
	Resp: Client	Stage: Implementation	Due Date: 31-Jul-2012	Status: Not Yet Due	
		Risk Management:			
		The Government has endorsed in December 2010 an Institutional Development Action Plan under SWRP. The implementation of the Action Plan is delayed. The current Project has provided technical assistance for institutional reform activities for both SWRP and the current Project and the Ministry of Transport and Communications has taken concrete steps to implement the reform activities under SWRP. The new reform being designed by the new Minister is proposing to go beyond the agreed framework, working on the commercialization of Kazakhavtodor and increasing staffing at the CR by 40 staff (61 currently) in the medium term.			
	Resp: Bank	Stage: Preparation	Due Date: 31-Jul-2012	Status: In Progress	
		Risk Management:			
		MoTC wants to address the challenge related to institutional reforms. It has appointed a Road Reform Adviser. This Adviser will be supported by a small team and a Project Institutional Consultant. The focus will be on institutional reform and capacity building. During the course of implementation of the Project, a Motorway Management Group will be created at the CR. This will add capacity to manage the international road network in Kazakhstan.			
	Resp: Client	Stage: Implementation	Due Date: 31-Dec-2012	Status: In Progress	
Governance		Rating	Substantial		
Description:		Risk Management:			
Risk that framework of actions regarding governance and anti-corruption agreed will not be fully implemented. While the SWRP is implemented satisfactorily, there are significant challenges on the governance side (which are also indicative of weak governance in the country overall), and there is a risk such challenges could be encountered under the proposed project. Also, for the Project to be implemented timely, all the various actors need to coordinate and proper procedures need to be in place.		Based on the lessons learned during the supervision of the SWRP the Project Team and CR has agreed on and updated GAC action plan for the proposed Project.			
	Resp: Bank	Stage: Preparation	Due Date: 22-Feb-2012	Status: Completed	
		Risk Management:			
		The rating of efficiency of the GAC action plan will be a part of the annual performance review conducted through a joint effort of the Bank project team and the CR.			
	Resp: Client	Stage: Implementation	Due Date: 31-Dec-2015	Status: Not Yet Due	
		Risk Management:			
		The website at the CR will be maintained to provide timely and transparent information about the project. Information on the Project is already updated on the CR website.			

	Resp: Client	Stage: Preparation	Due Date: 02-Mar-2012	Status: Completed
	Risk Management: The Bank team will actively monitor the implementation progress such that untoward delays in decision making, bid evaluation and award and other procurement and project issues will be noted as red flag. Regular VCs, skype communications are planned as well as supervision missions with three extensive field trips per year			
	Resp: Bank	Stage: Implementation	Due Date: 31-Dec-2015	Status: In Progress
	Risk Management: Current implementation of the SWRP does not show sign of delay or undue decision process. The Project Operation Manual for the SWRP will be updated and used for the processing of the activities under the proposed Project.			
	Resp:	Stage: Implementation	Due Date: 31-Jul-2012	Status: In Progress
	Risk Management: The Government will endorse a GAC action plan.			
	Resp: Client	Stage: Preparation	Due Date: 24-Feb-2012	Status: Completed
	Risk Management: An international firm will be hired under the IDF Grant to audit project implementation and procurement activities. The project will apply a clear set of procurement rules based on the Bank guidelines, combined with supervision and management support provided by the PMC and independent oversight by civil society.			
	Resp: Client	Stage: Implementation	Due Date: 30-Jun-2013	Status: Not Yet Due
	Risk Management: All civil works contracts will be reviewed by OPRC.			
	Resp: Bank	Stage: Implementation	Due Date: 31-Dec-2015	Status: Not Yet Due
	Risk Management: The Bank project team will continue implementing due diligence activities (e.g., random review of land transactions, focus on the Performance Assessment Tool during construction). The team's experience under SWRP mitigate the risk under this Project.			
	Resp: Bank	Stage: Implementation	Due Date: 31-Dec-2015	Status: Not Yet Due
	Risk Management: IDF - financed Technical Audit will be covering the civil works under the proposed Project			
	Resp:	Stage: Implementation	Due Date: 28-Jun-2013	Status: Not Yet Due
Project Risks				
Design	Rating	Moderate		
Description:	Risk Management: The Bank project team will assess the appropriateness of detailed designs and will suggest adjustments in order to avoid the over-design			

<p>Potential risk of poor quality civil works due to inappropriate design.</p> <p>The feasibility of the Project was completed in 2007 with design document drafted in 2009-2010. Project costs including contingency amount need updating; the Project team will be discussed with the Government during appraisal.</p> <p>The local industry might not be prepared to participate in such a large civil work program.</p> <p>The Government need to construct a new border crossing point at Khorgos as the new road will end to the south of the current border crossing point.</p> <p>The institutional reform component while straightforward has inherent risk as established ways of doing business have to be changed and existing organizational structure would have to be modernized.</p> <p>A new border crossing will have to be constructed as the new road reaches the border to the south of the existing road and the current border crossing point</p>	<p>of infrastructure (e.g., interchanges). The consulting services for supervision include review and update of technical designs prior to the start of construction. In addition, based on the experience of SWRP, there are existing bidding documents, design standards and various templates that could be applied to this Project to mitigate design risk.</p> <table border="1"> <tr> <td>Resp: Bank</td> <td>Stage: Implementation</td> <td>Due Date: 31-Dec-2013</td> <td>Status: Not Yet Due</td> </tr> </table> <p>Risk Management:</p> <p>Due to a well structured tendering process for civil works, the competition resulted in a 20 percent cost reduction for the SWRP. A similar tendering process would be applied for the proposed Project. The fluctuation of commodity prices, however, is a risk that is difficult to quantify as global economic outlook is murky.</p> <table border="1"> <tr> <td>Resp: Bank</td> <td>Stage: Implementation</td> <td>Due Date: 31-Dec-2015</td> <td>Status: In Progress</td> </tr> </table> <p>Risk Management:</p> <p>There should be international contractors interested in the works. Local contractors will benefit from working with international firms under sub-contracting arrangements that will bring them new expertise and technology. There have been adequate competition for works financed under SWRP.</p> <table border="1"> <tr> <td>Resp: Client</td> <td>Stage: Implementation</td> <td>Due Date: 31-Dec-2015</td> <td>Status: Not Yet Due</td> </tr> </table> <p>Risk Management:</p> <p>The Government will only sign the civil work contract dealing with the section of the road reaching the border when an action plan for the new border crossing has been agreed upon between MoF and MoTC. In addition, the road users will not be directed to the new road for the last 40 km before the Kazakh/Chinese border unless the new border facility is in place. The road users can still use the existing road and the current border crossing point.</p> <table border="1"> <tr> <td>Resp: Client</td> <td>Stage: Implementation</td> <td>Due Date: 31-Dec-2015</td> <td>Status: In Progress</td> </tr> </table> <p>Risk Management:</p> <p>To avoid the possibility of the road being completed without the new border crossing facility in place, the civil work contract for the last road segment will only be signed when the parameters for the new facility are known. International traffic will not be directed to the last 40 km of the project road until the facility is built so the current border crossing could be accessed via the existing road. The design of the new border crossing is expected from the Government in early 2012.</p> <table border="1"> <tr> <td>Resp: Client</td> <td>Stage: Implementation</td> <td>Due Date: 31-Jul-2012</td> <td>Status: In Progress</td> </tr> </table> <p>Risk Management:</p> <p>The design risk for the institutional reform activities is mitigated as the Project now has a Road Reform Adviser and a small unit that can focus exclusively on reform initiatives. In addition, there is general support for these initiatives which are recognized to be needed, especially since the new Minister is promoting a new reform including efficiency, new revenues for the sector and search for new financing schemes.</p> <table border="1"> <tr> <td>Resp: Client</td> <td>Stage: Implementation</td> <td>Due Date: 31-Dec-2015</td> <td>Status: In Progress</td> </tr> </table>	Resp: Bank	Stage: Implementation	Due Date: 31-Dec-2013	Status: Not Yet Due	Resp: Bank	Stage: Implementation	Due Date: 31-Dec-2015	Status: In Progress	Resp: Client	Stage: Implementation	Due Date: 31-Dec-2015	Status: Not Yet Due	Resp: Client	Stage: Implementation	Due Date: 31-Dec-2015	Status: In Progress	Resp: Client	Stage: Implementation	Due Date: 31-Jul-2012	Status: In Progress	Resp: Client	Stage: Implementation	Due Date: 31-Dec-2015	Status: In Progress
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<p>Social and Environmental</p>	<table border="1"> <tr> <td>Rating</td> <td>Moderate</td> </tr> </table>	Rating	Moderate																						
Rating	Moderate																								
<p>Description:</p> <p>Risk of a low degree of safeguards integration into Project structures and budgeting. The priority given to a demanding construction schedule may result in poor handling of environment matters.</p> <p>Local akimats may lack commitment to providing retroactive support measures, because</p>	<p>Risk Management:</p> <p>Experienced safeguards consultants will assist the CR with the implementation of safeguards requirements. Provisions specified in the Environment Management Plans (EMPs) will be integrated in all civil works contracts as quotable Bill of Quantities positions with penalty clauses for noncompliance with environmental requirements.</p> <table border="1"> <tr> <td>Resp: Client</td> <td>Stage: Implementation</td> <td>Due Date: 30-Jun-2014</td> <td>Status: Not Yet Due</td> </tr> </table>	Resp: Client	Stage: Implementation	Due Date: 30-Jun-2014	Status: Not Yet Due																				
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<p>of the additional work entailed and because of the precedent such actions may represent. As land acquisition for the Project is already virtually completed, an ex-post review may demonstrate a need for provision of additional compensation or other supplemental measures to bring existing practice into consistency with Bank requirements. The ESIA's for the three sections of the Project have not identified any major issues and have been disclosed. Consultations have been completed.</p>	<p>Risk Management: The Bank project team will expedite due diligence (frequent and detailed field visits) to assess the performance by the Contractors of the EMP-implementation. Also a similar model of technical and environmental / social oversight will be used as in the South West Roads project (SWRP) where a project management consultant (PMC) supervises all aspects of contract implementation, including environmental and social due diligence, and specifically the production of and adherence to the safeguards documents required from the Contractors. This system is functioning largely satisfactorily and will be transposed to the proposed Project.</p>			
	<p>Resp: Bank</p>	<p>Stage: Implementation</p>	<p>Due Date: 31-Dec-2015</p>	<p>Status: Not Yet Due</p>
	<p>Risk Management: The Bank will undertake an ex-post resettlement implementation review, to determine whether supplemental assistance to affected persons is needed. A draft RIR (in lieu of approval of a RAP covering future land acquisition) has been approved prior to project appraisal. The project team has collaborated with CR and presented a workshop to inform Oblast department of roads personnel and local akimat officials about required retroactive measures, and will seek confirmation from local akimats that any required supplemental assistance measures will be implemented.</p>			
	<p>Resp: Bank</p>	<p>Stage: Preparation</p>	<p>Due Date: 01-Mar-2012</p>	<p>Status: Completed</p>
	<p>Risk Management: While land acquisition is largely complete, a number of outstanding cases require resolution. NGOs are expected to monitor the resolution process closely. Although this may lead to numerous requests (with copy to INT and IP), this is seen as a positive development.</p>			
	<p>Resp: Client</p>	<p>Stage: Implementation</p>	<p>Due Date: 30-Jun-2014</p>	<p>Status: Not Yet Due</p>
	<p>Risk Management: The grievance redress mechanism will be used to make sure that affected people can voice concerns.</p>			
	<p>Resp: Client</p>	<p>Stage: Implementation</p>	<p>Due Date: 30-Jun-2014</p>	<p>Status: Not Yet Due</p>
	<p>Risk Management: The Bank and CR has jointly hosted a workshop for rayon akimat officials, to inform them of safeguards-related agreements and enlist their support in timely and effective implementation.</p>			
	<p>Resp: Bank</p>	<p>Stage: Preparation</p>	<p>Due Date: 05-Dec-2011</p>	<p>Status: Completed</p>
<p>Program and Donor</p>	<p>Rating</p>	<p>Moderate</p>		
<p>Description: The road rehabilitated under the Project ends at the Khorgos border crossing point where processing procedures were observed to have improved, although inefficiencies are still evident. There is no trade facilitation and custom reform component in the Project as ADB is preparing an ambitious TTF: Border Crossing Point Improvement and Single Window Development Project for Central Asia. There are also other donors' efforts to institute institutional and legislative changes to improve trade and transport facilitation environment in Kazakhstan and other central Asian countries.</p>	<p>Risk Management: Communication between the Bank and ADB on TTF has initiated and CAREC is a good forum to discuss trade facilitation and custom reform issues. There will not be any project indicators on custom processing, however, the team will monitor the progress of reform at the Khorgos border crossing.</p>			
	<p>Resp: Bank</p>	<p>Stage: Implementation</p>	<p>Due Date: 31-Dec-2015</p>	<p>Status: Not Yet Due</p>
<p>Delivery Monitoring and Sustainability</p>	<p>Rating</p>	<p>Moderate</p>		
<p>Description:</p>	<p>Risk Management:</p>			

<p>Because of deficiencies in skills, knowledge, technical experience as well as a heavy on going civil works program, CR may not have the ability to manage and supervise the Project activities. The capacity constraints should be identified and addressed in the field of contract management, Monitoring and Evaluation, and the sustainability of maintenance activities.</p>	<p>Regarding contract management: (i) Under component 1, the CR will continue being supported by international consultants for overall management and supervision of the civil works. The World Bank team will also join the CR to review the works periodically, using the already tested Performance Assessment Tool designed and operational under the SWRP; (ii) Under component 2, an Project Institutional Consultant will support the newly established RRA team.</p>			
	Resp: Client	Stage: Implementation	Due Date: 31-Dec-2015	Status: Not Yet Due
	Risk Management:			
	<p>Regarding Monitoring and Evaluation: The Bank project team has already intensified its implementation support• i.e., monitoring the quality of the works under the SWRP and intends to continue the same under the proposed Project. Technical auditing is also planned (IDF financed activities being procured). The monitoring process under the proposed Project is a simple one, with the impact of capital investment being monitored through saving (time and vehicle operating costs), while the monitoring of the institutional development will focus solely on the progress made on operation and maintenance of the international road network.</p>			
	Resp: Bank	Stage: Implementation	Due Date: 31-Dec-2015	Status: Not Yet Due
	Risk Management:			
	<p>Regarding sustainability: The Project will have a specific sub-component focusing on modernizing maintenance practices, supporting existing Kazakhavtodor and also tendering operation and maintenance of the project road once construction is completed. Through these two options, the project would institute appropriate maintenance practices. The Project will also fund a study on road users charge and help the Government to develop options for funding maintenance activities.</p>			
	Resp: Client	Stage: Implementation	Due Date: 31-Dec-2015	Status: Not Yet Due
Other (Optional)	Rating			
Description:	Risk Management:			
	Resp:	Stage:	Due Date:	Status:
Overall Risk				
Preparation Risk Rating:		Moderate	Implementation Risk Rating:	
			Substantial	
<p>Description: Arrangements in place for procurement are adequate. Financial management arrangements are still not fully satisfactory, but the accounting and reporting systems of the CR is being automated in order to support the full spectrum of project financial management and disbursement functions. This is being accompanied by training to ensure that staff can proficiently use the system for accounting and reporting. Mitigation measures to address financial management risks are appropriate.</p>				

Annex 5: Implementation Support Plan

KAZAKHSTAN: East-West Roads Project

(Almaty – Khorgos Section): Western Europe-Western China International Transit Corridor
(CAREC 1b)

Strategy and Approach for Implementation Support

1. The strategy for implementation support would be straightforward because it would build on the experience gained during preparation and implementation of the ongoing SWRP. The magnitude of the investment and the difficulties to implement institutional strengthening activities in the past call for significant support by the Bank (the Project Team) and effective and robust management at the MoTC and CR. To support the MoTC and the RRA team, the Project would finance an international consultant to help with the implementation of the institutional reforms. The Project would also finance recruitment of foreign and national individual consultants to help the CR with implementation of component 1 on a daily basis.
2. **Civil Works:** The Project Team will conduct field trips at least 3 times a year to review the quality of the civil works. The Bank team will comprise an engineer, an environment specialist and a social development specialist. The review will be based on the Performance Assessment Tool developed by the Bank project team and already tested under the SWRP.
3. **Procurement:** Implementation support led by the senior procurement staff based in the field will include: (a) review of procurement documents and provision of feedback to the CR; (b) provision of guidance on the Bank's Procurement Guidelines; and (c) monitoring procurement progress against the procurement plan. Two supervision missions will take place every year, during which ex-post reviews will be conducted for the contracts that are not subject to Bank prior review.
4. **Financial Management:** As part of its implementation support missions, the Project Team will conduct risk-based financial management supervisions, initially every six months during the first year and thereafter at appropriate intervals, depending on the level of assessed risk. The focus will be on: (i) project accounting and internal control systems; (ii) budgeting and financial planning arrangements; (iii) review of unaudited Interim Financial Reports; (iv) review of audit reports, including financial statements and remedial actions recommended in the auditor's Management Letters; and (v) disbursement management and financial flows and counterpart funds. Specific support will be provided during the first year implementation of the project to assist the CR to modernize its accounting and reporting systems to address the full spectrum of project financial management and disbursement functions with ability to generate Interim Financial Reports.
5. **Safeguards:** Based on the experience of the SWRP and because the Project is an environment category 'A' project, senior level safeguard staff will join the field visits on a regular basis. The current effort under the SWRP (dialogue with NGOs, participation at public consultations, conducting civil works inspections) will be extended to the new Project.

6. ***Monitoring and Evaluation:*** The CR will retain the responsibility of data collection for the monitoring and evaluation activities of the proposed Project using the pattern already in place under the SWRP and that is functioning properly.

Implementation Support Plan

7. About 45 percent of the staff in the Project Team is based in Kazakhstan's Country Office. This will ensure timely, efficient and effective implementation support to the CR and MoTC. There will be about 4 implementation support missions per year (combined with the missions for the SWRP) of which 3 will include site visits. Operational and technical staff located in the Country Office will provide the daily interaction with the CR, the MoTC, and the RRA. In addition, the current practice under the SWRP to organize frequent (weekly) audios with MoTC and CR will be also used for the new Project. This simple mechanism proved to be very efficient under the SWRP.

8. ***Technical inputs:*** The team's engineer located in Astana will conduct site visits on demand when necessary—in addition to the 4 missions every year. Engineering inputs will also be required to review bid documents, technical specifications etc. During construction and commissioning, technical supervision will be warranted to ensure technical contractual obligations are met.

9. ***Institutional Strengthening Activities:*** Implementation of the institutional strengthening actions will be paramount. Road Sector Institutional Development Expert will, therefore, be retained by the Project Team to provide support to the CR and the MoTC to ensure efficient implementation of the agreed actions.

10. ***Fiduciary requirements and inputs:*** Regular advice and on-the-job mentoring by the Bank's financial management specialist and procurement specialists will be available as per the practice established during implementation of the SWRP. The CR will be provided with the opportunity to build the capacity of its staff to strengthen its financial management capacity and to improve procurement management efficiency. Both the financial management and the procurement specialists are based in the country office. Additional support from the Headquarters and Almaty will be available in the areas of financial management and procurement respectively. Formal support for financial management and procurement will be carried out semi-annually.

11. ***Safeguards:*** Inputs from a senior environmental specialist and a senior social specialist (both based in the Headquarters) will be available throughout the implementation. They will provide regular support to the CR and the MoTC through monitoring of social and environmental issues and during implementation support mission.

12. The Bank's implementation support is summarized as follows:

Time	Focus	Skills Needed	Resource Estimate
First twelve months	Task leadership	Task Team Leader	10 wks
	Procurement Support for Component 1, Construction supervision	Procurement Specialist	3 wks
		Highway Engineer	4 wks
	Technical Review of Procurement Support for Component 2	Procurement Specialist	1 wks
		Transport Economist	2 wks
	Safeguard review and supervision	Senior environmental specialist	4 wks
		Senior social development specialist	4 wks
FM capacity building and supervision	FM Specialist	2 wks	
	FM Analyst	4 wks	
Implementation support	Operations Officer	15 wks	
12-48 months	Task leadership	Task Team Leader	20 wks
	Oversight of construction Supervision	Highway Engineer	16 wks
	Procurement support, supervision and training	Procurement Specialist	4 wks
	Technical Review of Procurement Support for Component 2	Transport Economist	4 wks
		Institutional Development Specialist (Road Sector)	4 wks
		Highway Engineer (Operations and maintenance)	4 wks
	Safeguard review and supervision	Transport Specialist (Toll roads)	3 wks
Senior environmental specialist		8 wks	
FM capacity building and supervision	Senior social development specialist	8 wks	
	FM Specialist	4 wks	
Implementation support	FM Analyst	10 wks	
	Operations Officer	40 wks	

13. The Borrower's entities responsible for the Project are:

Name	Institution/Country	Role
MoTC	Ministry/Republic of Kazakhstan	Coordinating Agency
CR	Government agency/Republic of Kazakhstan	Implementing Agency

Annex 6: Team Composition

KAZAKHSTAN: East-West Roads Project

(Almaty – Khorgos Section): Western Europe-Western China International Transit Corridor
(CAREC 1b)

Aksulu Kushanova	Team Assistant	ECCKZ
Aliya Kim	Finance Assistant	ECCKA
Aliya Mukay	Operations Officer	ECSS5
Anara Akhmetova	Procurement Assistant	ECCKZ
Bakyt Arystanov	Consultant	ECSS3
Cordula Rastogi	Senior Transport Economist	ECSS5
Daniel R. Gibson	Lead Social Development Specialist	ECSSQ
Elena Chesheva	Operations Officer	ECSS5
Elizabeth Wang	Senior Financial Officer	ECSS5
Graham Smith	Consultant	SASDT
Ignacio Jauregui	Legal Counsel	LEGEM
Irina Trukhan	Junior Professional Associate	ECSS5
Jacques Buré	Senior Highway Engineer	ECSS5
Jesus Renzoli	Senior Procurement Specialist, Consultant	ECS02
John Otieno Ogallo	Senior Financial Management Specialist	ECS03
Joseph Paul Formoso	Senior Finance Officer	CTRFC
Jung Eun Oh	Transport Economist	ECSS5
Lorraine McCann Kosinski	Program Assistant	ECSSD
Margarita Grigoryeva	Communications Officer	ECCKA
Michael Butler	Junior Professional Associate	ECSS5
Michel Zarnowiecki	Consultant	MNSF1
Nurbek Kurmanaliev	Procurement Specialist	ECS02
Rodrigo Archondo-Callao	Senior Highway Engineer/Economic Analysis	ECSS5
Serdar Jepbarov	Operations Officer	ECCTM
Shynar Jetpissova	Communications Associate	ECCKZ
Wolfhart Pohl	Senior Environmental Specialist	ECSS3

Annex 7: Economic and Financial Analyses

KAZAKHSTAN: East-West Roads Project

(Almaty – Khorgos Section): Western Europe-Western China International Transit Corridor
(CAREC 1b)

1. The economic evaluation of the construction of the road section financed by the Project (Almaty-Khorgos) was carried out using the Highway Development and Management Model (HDM-4) Version 1.3. The HDM-4 computed annual road agency and user’s costs for each Project alternative over the evaluation period. The quantities of resources consumed and vehicle speeds were calculated first and then multiplied by unit costs to obtain total vehicle operating costs and travel time costs. The resources consumed and vehicle speeds are related to traffic volume and composition, road surface type, geometric characteristics, and roughness. The inputs to the HDM-4 model have been adapted and calibrated to enable vehicle speeds and operating costs to be estimated as accurately as possible in the context of the Kazakh road network. The evaluation was done assuming construction would be carried out over the course of three years, and benefits were calculated over a 20-year evaluation period at a 12 percent discount rate.

2. For the purpose of the economic evaluation, the Corridor was divided into three sections based on traffic, road works unit costs and distance savings—as shown in the following table. The existing road connecting Almaty to the China border has a length of 352 km, of which around 63 km are 4-lane and the rest 2-lane. In comparison, the project highway will have a length of 305 km. Therefore, an overall distance savings of 13 percent will significantly reduce travel times and road-user costs with the project.

Project Road Sections Length

Section	Existing Length (km)	Project Length (km)	Distance Savings (km)	Distance Savings (%)
Almaty-Shilik (km 126)	118	112	6	5%
Shilik (km 126)-Tashkarasu (km 268)	142	103	39	27%
Tashkarasu (km 268)-China Border	92	90	2	2%
Total	352	305	47	13%

3. The existing road is a bituminous road in poor condition, with an average roughness of 7.4 IRI, m/km. The Without Project scenario considers maintaining the existing road with proper routine maintenance, and rehabilitating the road when its condition becomes very poor (12 IRI, m/km). The project alternative consists of constructing a new cement concrete 4-lane highway, mostly going through a new alignment. The table below shows the average condition of the existing road.

Existing Road Current Condition

Section	Roughness (IRI)	Cracking (%)
Almaty-Shilik (km 126)	7.6	32.0
Shilik (km 126)-Tashkarasu (km 268)	7.1	32.0
Tashkarasu (km 268)-China Border	7.5	20.0
Total	7.4	28.9

4. The table below shows the average traffic (Average Annual Daily Traffic, in vehicles per day) on the Project Corridor estimated for 2011, based on 2007 traffic counts. Normal traffic—i.e., traffic that is expected to materialize in the With and Without Project scenarios—is expected to grow at 6 percent per year from 2012 onwards. This estimate takes into account that the average GDP growth rate in Kazakhstan from 2006-2010 was around 6 percent per year, and assumes an adopted elasticity of traffic growth to GDP growth equal to one. A conservative assumption of generated traffic—10 percent of the normal traffic—was adopted, taking into account that a major road investment will surely promote economic development in the Project area. The 2011 average annual daily traffic on the entire Corridor is 6,901 vehicles per day—with 16 percent composed of heavy vehicles (trucks and medium and large buses). The average Corridor traffic is expected to reach 23,703 vehicles per day by 2031.

Existing Road Average Annual Daily Traffic (AADT)

Section	2011 Traffic (vpd)	Heavy Vehicles (%)
Almaty-Shilik (km 126)	11,706	8%
Shilik (km 126)-Tashkarasu (km 268)	3,164	24%
Tashkarasu (km 268)-China Border	5,198	16%
Total	6,901	16%

5. The economic evaluation considered that a percentage of the existing road traffic would divert to the new highway when it opened in 2015, because the road would have an open toll system. A lower percentage of diverted traffic (60 percent) is expected near Almaty, due to the higher percentage of local traffic on this section that goes through many towns. Overall, the expected diversion rate is 79 percent. The adopted traffic projections are presented in the table below. The average traffic on the Project road is expected to reach 17,280 vehicles per day by 2031.

Project Diverted Traffic in 2015 (AADT)

Section	Corridor Traffic in 2015 (vpd)	Diversion Rate (%)	Diverted Traffic to Project (vpd)
Almaty-Shilik (km 126)	14,779	60%	8,868
Shilik (km 126)-Tashkarasu (km 268)	3,994	95%	3,795
Tashkarasu (km 268)-China Border	6,562	85%	5,578
Total	8,712	79%	6,184

6. The table below presents the representative vehicle fleet economic unit costs and basic characteristics. On the existing road from Almaty to the China Border, there were 205 fatalities in 2010, which corresponds to around 23 fatalities per 100 million vehicle-km. Road safety benefits were included in the economic evaluation, assuming a 20 percent decrease in the fatality rate with the Project and a cost of US\$600,000 per fatality. Those assumptions were based on the GDP per capita of Kazakhstan according to the International Road Assessment Program (iRAP) methodology that relates the value of life to the GDP per capita of the country.

Vehicle Fleet Economic Unit Costs and Basic Characteristics

	Car	Pickup	Small Bus	Medium Bus	Large Bus	2 Axle Truck	3 Axle Truck	Articulated Truck
Economic Unit Costs								
New Vehicle Cost (US\$/vehicle)	14,803	12,656	14,012	22,374	59,664	21,470	45,200	62,150
New Tire Cost (US\$/tire)	47	52	66	132	226	150	226	226
Fuel Cost (US\$/liter)	0.76	0.76	0.76	0.76	0.47	0.76	0.47	0.47
Lubricant Cost (US\$/liter)	7.54	7.54	7.54	7.54	7.54	7.54	7.54	7.54
Maintenance Labor Cost (US\$/hour)	5.80	5.80	5.80	6.37	6.37	6.37	6.37	6.37
Crew Cost (US\$/hour)	0.00	4.27	3.36	3.36	4.40	4.88	4.70	5.15
Overhead (US\$/year)	452	452	452	452	904	339	678	904
Interest Rate (%)	12	12	12	12	12	12	12	12
Working Passenger Time (US\$/hour)	4.42	0.00	1.53	1.53	1.53	0.00	0.00	0.00
Non-working Passenger Time (US\$/hour)	1.32	0.00	0.45	0.45	0.45	0.00	0.00	0.00
Cargo Delay (US\$/hour)	0.00	0.10	0.00	0.00	0.00	0.21	0.28	0.36
Basic Characteristics								
Kilometers Driven per Year (km)	15,000	60,000	60,000	110,000	140,000	75,000	120,000	195,000
Hours Driven per Year (hr)	500	1600	1600	3200	3500	1500	3000	5000
Service Life (years)	7	10	8	8	12	8	10	10
Percent Private Use (%)	100	0	0	0	0	0	0	0
Number of Passengers (#)	3	0	8	23	45	0	0	0
Work Related Passenger-Trips (%)	60	0	50	80	80	0	0	0
Gross Vehicle Weight (tons)	1.3	1.5	2.5	7.8	14.9	7.4	18.4	33.1
Equivalent Standard Axels (ESA)	0.00	0.01	0.04	0.18	1.87	0.22	1.15	5.69

7. The table below presents the unit road-user costs—in US\$ per vehicle-km—under each project-alternative.

Unit Road-User Costs (US\$/vehicle-km)

	Car	Pickup	Small Bus	Medium Bus	Large Bus	2 Axle Truck	3 Axle Truck	Articulated Truck
Existing Road	0.40	0.25	0.41	0.86	1.50	0.44	0.67	0.93
New Four Lane Highway	0.33	0.22	0.34	0.62	1.03	0.41	0.58	0.79

8. The total financial construction cost is estimated to be US\$1,256 million that corresponds to US\$ 4.12 million per km. The economic costs—net of taxes—were estimated to be 80 percent of the total financial costs. The table below summarizes the financial construction unit costs per km per section. The section near Almaty has a slightly higher construction cost per km, due to the higher number of interchanges located in this section.

Road Sections Construction Unit Costs

Section	Total Cost (US\$ Million)	Unit Cost (US\$ Million/km)
Almaty - Shilik (km 126)	487	4.35
Shilik (km 126) - Tashkarasu (km 268)	403	3.91
Tashkarasu (km 268) - China Border	366	4.07
Total	1,256	4.12

9. Constructing the four lane highway from Almaty to the China Border is economically justified, with a Net Present Value (NPV) of net benefits of US\$572 million, at 12% discount rate, and an Economic Internal Rate of Return (EIRR) of 21.3%. The Shilik to Tashkarasu section has the highest EIRR (25.3%) due to the high distance savings (27%). The Almaty to Shilik section has an acceptable EIRR (21.5%) because despite the low distance savings (2%), the section has high traffic; while the Tashkarasu to the China Border section has a lower economic justification (16.1%) due to the low distance savings (2%) and lower traffic. The table below summarizes the results of the economic evaluation.

Economic Evaluation Results

Section	NPV (US\$ million)	EIRR (%)	NPV/ Investment Ratio
Almaty-Shilik (km 126)	231	21.5%	0.47
Shilik (km 126)-Tashkarasu (km 268)	273	25.3%	0.68
Tashkarasu (km 268)-China Border	68	16.1%	0.19
Total	572	21.3%	0.46

10. The table below shows the results of a sensitivity analysis that considers: (i) increasing costs by 15 percent; (ii) decreasing benefits by 15 percent; (iii) increasing costs by 15 percent and decreasing benefits by 15 percent; (iv) decreasing the annual traffic growth rate to 4 percent, (v) no generated traffic benefits; (vi) no road safety benefits; and (vii) increasing traffic diversion by 10 percent, to reflect a case of the highway operating without tolls. The sensitivity results show that even under the scenarios of increasing costs by 15 percent or decreasing benefits by 15 percent, the Project is economically justified, with an EIRR higher than 12.0 percent. The annual traffic growth rate has the highest impact on the economic justification of the Project—and without tolls, the EIRR increases to 23.3%. The switching values analysis shows that costs would have to increase by 67 percent or benefits would have to decrease by 40 percent to yield an EIRR equal to 12 percent.

Sensitivity Analysis Results

	EIRR (%)
Base Case	21.3
Costs + 15%	18.5
Benefits -15	18.5
Costs + 15% and Benefits – 15%	15.9
Annual Traffic Growth Rate 4%	18.7
No Generated Traffic	20.4
No Road Safety Benefits	19.7
Traffic Diversion +10%	23.3

Annex 8: Other Trade Facilitation Programs and the Khorgos Border Crossing Point

KAZAKHSTAN: East-West Roads Project

(Almaty – Khorgos Section): Western Europe-Western China International Transit Corridor
(CAREC 1b)

1. This Annex describes related trade and transport facilitation programs led by the Government of the Republic of Kazakhstan with links to the proposed Project. These programs aim at enhancing Kazakhstan's competitiveness by reducing time and cost for trade and transport. These programs are embedded within the Government's own strategies and programs as well as CAREC's Transport and Trade Facilitation Strategy 2008-2017.⁴⁷ Specifically, the programs include: (i) upgrades of the other road sections along the Road Corridor (CAREC 1b and 6); (ii) construction of the railway link Khorgos-Zhetigen; (iii) the International Center for Cross-Border Cooperation (ICBC) at Khorgos; and (iv) other initiatives to facilitate trade and improve border operations along the WE-WC Road corridor. The upgrade of other road sections along the WE-WC Road Corridor has been described earlier.

Construction of the Railway Link Khorgos – Zhetigen (296 kms)

2. While Khorgos remains the primary road border-crossing point on the Kazakhstan/China border, the main traffic flow uses rail via Dostyk—a border crossing point located about 210km north-east of Khorgos. The railway line via Dostyk was planned for decades before it became operational in the 1990s. Cargo loads at Dostyk consist mainly of machinery and bulky commodities (high volume and low value). As Kazakhstan's trade with China is expected to grow rapidly (from the current to 12-13 million tons annual volume), the Government has started the construction of a 296 km long rail link between Khorgos and Zhetigen (near Almaty), providing a direct link to Almaty, and cutting 550 km from the route between China and southern Kazakhstan. The underlying feasibility study estimates that the construction will lead to an increase in transit traffic with an initial 5.5 million tons of freight to reach 25 million tons in 2020.⁴⁸ The line is expected to be completed in 2012. China Railways is building at the same time a second link from Urumqi to the Kazakh border that will reach Khorgos. Khorgos is the site of a planned large bi-national Special Economic Zone straddling the border. The new railway facility at Khorgos is expected to be operational by 2013 and the Special Economic Zone by 2018.

The International Center for Cross-Border Cooperation at Khorgos

3. Based on an agreement signed by the Heads of State of Kazakhstan and China in July 2005, an International Centre for Cross-Border Cooperation (ICBC) at the Khorgos border crossing point is currently under development. The ICBC, which is currently piloted by the Kazakh Railways, covers 185 hectares on the Kazakh side, and about twice that surface on the Chinese side. Works have started on both sides, and the roads network within the ICBC is close to completion. The ICBC is expected to be operational in 2018. According to the feasibility

⁴⁷ <http://www.adb.org/documents/reports/CAREC-Transpo-Trade-Facilitation/CAREC-Transpo-Trade-Facilitation.pdf>.

⁴⁸ <http://en.government.kz/site/news/052007/03>.

study, the ICBC would employ, when fully operational, 22,000 people, and may offer housing to their families, thus reaching a population of up to 70,000 persons. Although the overall purpose of the ICBC is fairly well defined (to provide trade opportunities to both countries in a special economic zone environment), certain details have yet to be explicated. In general terms, the ICBC will (i) be based on the concept of a free zone with duty-free shopping, (ii) offer general warehousing facilities with some specialized facilities (agricultural produce, refrigerated storage), (iii) include trans-loading facilities for Chinese and Kazakh lorries, (iv) inward processing (under inward processing, goods such as raw material are brought into a country without payment of duty and are used to manufacture end products which in principle must be re-exported), (v) logistics value-added activities, and (vi) cross-border traffic.

Other initiatives to facilitate trade and improve border operations

4. Overall, release times at Khorgos border crossing point do not exceed – and are often much below – times observed in other transition countries. It can be noted that the Customs Control Committee of Kazakhstan has made commendable efforts to keep times down, to the extent of setting limits in the law. Another success was the simplified process for clearance, from the initial five steps to a one or two step approach. These results should be better advertised, as there is a difference between times shown by some methodologies.⁴⁹ Figures using the “Talon” tracking system would provide an irrefutable data base of border delays, should the system be automated. Overall, a measurement technique such as used in South East Europe (TTFSE) and subsequently on Central Asian corridors would provide a regular indicator of border and clearance performance, and could be supplemented by e-seal tracking data.

5. However, trans-loading at the Khorgos border may be an issue as few or no Chinese lorries go beyond the border, they have to be reloaded on Chinese territory onto Kazakh vehicles. Under present operations, this means that the cargo may have to be unloaded and reloaded up to three times.⁵⁰

6. The Bank-financed Customs Development Project (CDP) and other trade facilitation programs within the framework of CAREC address many of the above mentioned issues. The CDP aims at strengthening interaction and collaboration within customs, and between customs and other border control agencies in Kazakhstan and neighboring countries. The CDP finances a large ICT component, business process re-engineering and HR modernization features. Once completed, these elements will have an effect on field operations. A notion of pilot sites could be envisaged as a test-bed for modernization.

7. Other trade facilitation and customs related programs focus on themes such as: (i) integrated border management (European Union’s Border Management Program in Central Asia—BOMCA); and (ii) initiatives to improve customs procedures supported (ADB / the

⁴⁹ The UN-ESCAP time cost study performed by CAREC states an average time at Khorgos of 15 hours, with a median of 2.3 hours; the assertion by field Customs officers is that the maximum waiting and processing time is under 8 hours; the estimate by the Ministry of Finance is 110 minutes.

⁵⁰ : A first time if Chinese Customs want to inspect an export shipment, a second time during trans-loading, and a third time should Kazakh Customs wish to inspect the consignment.

German Technische Zusammenarbeit (GTZ) / the United States Agency for International Development—USAID).

Annex 9: Governance and Anti Corruption Action Plan

KAZAKHSTAN: East-West Roads Project

(Almaty – Khorgos Section): Western Europe-Western China International Transit Corridor
(CAREC 1b)

Country Context

1. Two decades ago, emerging from the collapse of the Soviet Union, the Kazakh economy was half of its size today. Isolated from the world economy it faced the immense challenge of economic transformation. Over the past decade, the country has made impressive policy strides, responsibly absorbed large resource-based earnings, progressed towards developing a rules-driven fiscal framework, strengthened public management and the business climate, and allocated resources for improved social services and critical infrastructure to sustain growth. Now the country is poised to attain high-income status by end-decade, provided the role of the state is redefined to permit a vigorous private sector to develop, governance is strengthened to allow greater accountability to civil society, tough second generation structural reforms are embedded, and public investments made in high pay-off areas: human capital and infrastructure.
2. Reforming governance is one of the key factors that will contribute to the improvement of the economy's growth prospects to achieve the development goals set by the Government of Kazakhstan. The pace of improvement in governance, therefore, will need to be stepped up. However, despite steady improvements, Kazakhstan's rating in international lists of corruption is still low.⁵¹ Measures to contain petty corruption have been effective such as through the reductions in number of licenses required or inspections conducted, and improvements in tax administration, but there remains an unfinished agenda in these areas. The latest edition of Doing Business (2012) ranks Kazakhstan 47th out of 183 economies (compared to fifty eight in 2011) showing tangible improvements. However, there are shortcomings in the pillars of competitiveness which are consistent with the views of enterprises in the country regarding the most significant obstacles for doing business and corruption is widely recognized as the most significant constraint to firms' development. A continuation of modernizing public financial management institutions and practices will help strengthen governance, which figures high in government's development priorities.
3. The government's Strategic Plan for Development 2020 outlines a set of priorities intended to achieve a competitive, diversified economy with macro-stability placing special focus on the governance issues to develop a reliable legal environment to anchor in the rule of law with measures for enhancing the transparency and independence of courts and raising the legal culture of the population. Other governance reforms centre on the business climate and on improvements in the regulatory framework.
4. The Government of Kazakhstan intends to build on steady progress made with public financial management reforms and in customs and tax administrations. The country has a high quality Treasury system, links between the budget and policy priorities have been established

⁵¹ The Transparency International's latest (2010) Corruption Perceptions Index (CPI) placed Kazakhstan at 105 rank (out of 178 countries).

and financial reporting is to high standards. Public expenditure efficiency reviews are being conducted to inform sector strategies and budget management reforms. These reforms will be deepened and extended to other areas in line with the ongoing work towards improving result orientation of the budget. A civil service reform is ongoing, aiming at raising professional standards, improving pay and grade system, and increasing transparency in public sector operations. Among high priorities are also restructuring of the judiciary and introduction of modern international practices with the aim of not only raising standards in judicial services, but also advancing the governance agenda.

5. The ongoing SWRP featured many aspects of the strong focus of the Government of Kazakhstan on governance. This focus was already reflected in the Governance and Anti-Corruption Action Plan (GAC) prepared for the SWRP in late 2009. The SWRP GAC was designed around the following concepts: (i) the PMC involvement; (ii) a focus on institutional reforms and capacity development; (iii) the introduction of internal controls and audits; (iv) the implementation of Bank procurement procedures, (v) an emphasis on the oversight of the civil society; (vi) the set up of a complaint handling mechanism; (vii) independent technical and procurement audit; and (viii) enhanced Bank supervision. The implementation of this GAC sustained the pace of activities under the SWRP without significant delays and facilitated involvement of the local NGOs and CSOs to express concerns of the civil society. The Bank's supervision over civil works has drastically improved by using a Performance Assessment Tool (PAT), first on a pilot basis, and as a standard since 2011.

Updated Project Governance and Anti-Corruption Action Plan for the proposed Project

6. Given the positive experience with the use of the GAC Action Plan developed for the SWRP as a tool to address and mitigate the governance risks, its governing principles will be extended to the proposed Project in the format of an updated GAC. The GAC for the proposed Project will be built around the same pillars as the SWRP GAC but will also institutionalize the activities piloted, successfully tested and implemented during the first two years of implementation of the SWRP.

7. To mitigate fiduciary risks, the Project will continue strengthening fiduciary standards by enforcing Bank procurement rules for all contracts, by supporting the CR through reputable and experienced consultants, by instituting capacity building measures, and enhanced supervision by the Bank of both the fiduciary and technical aspects of the Project. The GAC action plan to be implemented under the proposed Project is built on the same framework used under the SWRP GAC:

- (i) The fiduciary responsibility for all contracts will remain with the CR. The activity of the CR will be reinforced with individual consultants as needed. The CR will process all technical aspects of procurement transactions to guarantee transparency and integrity of the procurement processes. The CR will focus on ensuring the reliability of contract cost estimates, detect over-pricing and under-pricing through bid analysis, and will enhance supervision control over contract variations and review of complaints mechanism.

- (ii) Project implementation will utilize the latest Bank Guidelines for Procurement, which includes enhanced provisions for combating fraud and corruption. The Loan Agreement for the Project requires the CR to ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines embodied in this Annex.
- (iii) Internal controls will be further strengthened and internal audit capacity will be provided by consultants to address any deficiencies revealed by procurement and technical audits. The Bank will also provide support to the CR to set up the framework and build the capacity of the CR staff to undertake procurement and technical audits of the civil works in the roads sector. The CR financial management specialist will monitor internal audit mechanisms and internal control systems and will identify deficiencies in the Quarterly Reports issued by the CR.
- (iv) The CR and the MoTC will revise and adopt enhanced business processes based on increased use of computerized systems and enhanced processes for procurement and financial management which will be supported by the upgraded automated accounting software.
- (v) The proposed Project will focus on building better opportunities for enhanced oversight by civil society building on the channels already provided and established under the SWRP. For example, the SWRP website will expand to include information about the proposed Project. It will also provide tools through the internet for local communities to provide feedback and comments on the activities under the Projects. The website will continue publishing costs, deadlines and the main characteristic of each contract for works and major deviations from the original terms of contracts will also be disclosed. Procurement and supervision reports will also be published or made available to the public. User satisfaction surveys will be encouraged and their frequency will be taken into account when assessing the performance of the CR.
- (vi) The CR will implement and maintain a system of effective complaint handling, with records kept of each complaint and the actions taken to investigate the circumstances.

8. In the context of the proposed Project, specific governance and anticorruption measures will focus on improving government capacity to effectively use its own resources and Bank resource transfers moving to the use of modern technologies (e-signatures, e-disbursements), thereby ensuring compliance with Bank fiduciary requirements. The Bank re-assessed the CR procurement capacity in February 2012 during the Project appraisal as part of the preparation of the proposed Project assessing the procurement risk as ‘High’ given the overall procurement environment and changes in the modality of implementation support to the RC, effect of which are to be tested in practice. Based on the outcomes of the assessment, the following mitigation measures were identified as the most appropriate to ensure full compliance with the World Bank fiduciary policies and strengthen the governance of the road sector:

- (i) Project Consultants: The implementation support under the Project will be provided by highly qualified individual consultants. This will include preparation of procurement notices, bidding documents, bid evaluation reports, oversight of quality control of works,

preparation of progress reports, etc. Past experience showed that this led to better control of the implementation schedule and provided quality assurance for the executed civil works. The consultants will transfer the knowledge to the CR staff through training and day-to-day operations.

- (ii) Procurement Evaluation Process. The Bank will have the right to review the composition of the Evaluation Committees and suggest changes if needed, the procurement processes will be reviewed in detail during project supervision by the Bank and will be the subject of detailed reporting. The reports will include clear recommendations to government authorities.
- (iii) Supervision of Civil Works. Contractors carrying out construction of road works will be supervised by technically qualified engineering firms, selected by the Committee to ensure that quality specified in the contract is delivered in a timely manner. The RC will monitor the quality and performance of supervision consultants.
- (iv) Performance Assessment Tool. The Performance Assessment Tool (PAT) was developed by the Project Team under the SWRP to assess the performance of both contractors and supervision consultants under civil works contracts.⁵² Active use of the PAT led to a common understanding and impartial view of the performance and challenges related to the civil works, shared between the Bank, the CR, the supervision teams and the other IFIs also financing investment along the corridor. The PAT is now a standard tool used for monitoring civil works under the SWRP and will also be extended to the proposed Project.
- (v) Involvement of NGOs and civil society. The innovative ways to better involve local NGOs and CSOs in monitoring activities under the SWRP and the proposed Project are being explored. There is an on-going effort by the Bank to help access external funds to finance monitoring and evaluation by civil society, represented by NGOs and CSOs active in the sector.

9. *Transparency of procurement processes.* To ensure competition, equal access, probity and accountability in the Project, the following measures will be implemented:

- (i) Enhanced disclosure;
- (ii) Improved procurement and implementation oversight;
- (iii) Independence of the evaluation committee;
- (iv) Mitigation of collusion risks;
- (v) Mitigation of forgery and fraud risks;
- (vi) Financial and Technical Audits
- (vii) Enhanced Bank Supervision

⁵² Nine criteria were used for contractors, namely: (i) topography, (ii) mobilization, (iii) deployment of equipment, (iv) laboratory, (v) cash flow forecast, (vi) submission of payments, (vii) preparation of EMPs, (viii) monitoring of environment on site, and (ix) traffic management and road safety during construction. Five different criteria were used for supervision teams, namely: (i) acceptance of the work program, (ii) grievance mechanism, (iii) review of the detailed design, (iv) reporting, and (v) interaction with the contractors.

(viii) Complaint Handling Mechanism.

10. *Enhanced disclosure.* All publications for advertisements and contract awards, including the results of the awards, will be done in accordance with the Procurement Guidelines and published in the World Bank client connection system and on external websites, i.e., UNDB and World Bank websites including the project website. This will include publication of contract award details to all bidders with a summary of the evaluation result. Key documentation related to the project procurement will be made available to the public electronically as well as on paper, including, but not limited to: (i) calls for expression of interest; (ii) requests for proposals; (iii) minutes of bid-opening meetings; (iv) decision of contract award; (v) process of evaluations; and (vi) decisions taken post award, e.g. time extension, price revision, etc. A manual system for obtaining bid documents will run in parallel for those who wish to use it. Prequalification documents, bidding documents and requests for proposals will be available through the internet.

11. *Improved procurement and implementation oversight:* The CR and MoTC will inform the public through their website that representatives of civil society groups are permitted to attend public bid openings and contract signings as observers. In addition, technical observers will be invited from local universities or other independent institutions. Observers will be authorized to sign the attendance list for the procurement and selection processes. This mechanism will include regular press releases concerning implementation of the entire WE-WC Corridor.

12. *Independence of Evaluation Committees:* Evaluation Committee will be established by the decision of MoTC composed of the number of staff of its divisional units and other state agencies and ministries if required. The members will be required to declare actual or potential conflict of interest to the Committee prior to serving on the evaluation committee. Independent evaluators will be included, for example from design institutes, technical universities, etc. Each person serving as a member of a selection committee, or who is otherwise involved in a procurement process, shall disclose to the head of the MoTC if they, or any of their immediate family members, are related or otherwise connected to any of the members of the boards of directors or commissioners of the bidders and/or consultants participating in any of the procurement packages (“Interested Member”). Any Interested Member shall not participate in the evaluation process; and any Interested Member who is an Official shall not participate in decisions relating to the evaluation process or contract award. The MoTC and the CR will adopt an institutional code of professional ethics, with clear guidelines and consequences for non-compliance, acceptable to the World Bank. The code will establish the remedial actions and sanctions for cases of fraud and corruption that are reported and for which evidence is found. This will include sanctions for staff proven to be involved in such cases.

13. *Mitigation of collusion risk.* Among the CR tasks will be to monitor and support the CR staff to undertake the procurement of all contracts for the Project. The CR, will, among other responsibilities:

- (i) Ensure that the documents are on-line prior to the issuance of the Invitation to Bid/Request for Proposals and remain available throughout the procurement process;

- (ii) Monitor the bidding process and be an observer of bid opening;
 - (iii) Check the financial bids/proposals for any signs of collusion (using tracking software or other means).
14. The results of this analysis will be included in the bid evaluation report.
15. In all contracts, evidence of fraud, corruption, collusion and coercive practices will result in the termination of the relevant contract, possibly with additional penalties imposed (such as fines, blacklisting, etc.), in accordance with Bank and/or Government regulations.
16. The following standard procurement monitoring will take place:
- (i) All procurement above the thresholds determined in the Loan Agreement will be subject to prior review by the World Bank.
 - (ii) As a general rule, no pre-bid meetings shall be conducted. All specifications shall be defined clearly in the bidding documents or Requests for Proposals. Clarifications can be sought by bidders through written correspondence and replies will be sent to all bidders. Appropriate guidelines providing for this will be prepared in the Program Operations Manual.
 - (iii) All contracts must be awarded within the original bid validity period. Any extension of bid validity period shall require the no objection of the World Bank.
 - (iv) Works contracts are to be supervised by independent supervision consultants.
 - (v) In the case of consulting services, the Committee and the MoTC will ensure that the technical evaluation report is completed within four weeks of proposal submission, and the proposal for the award of contract made available, along with the draft contract, within four weeks after completion of the technical evaluation report or following the Bank's no-objection on the technical evaluation report, whichever occurs later.
17. *Mitigation of forgery and fraud risks.* The CR and MoTC will maintain proper project and procurement records including filing of advertisements, bidding documents, evaluation reports, contract award and final contract documents. The CR will be required to keep electronic copies of all important documents through an appropriate e-filing system. Timelines for procurement decisions will be agreed between the MoTC and the Bank to establish service standards, avoid procurement delays, and reduce opportunities for corruption. These will be clearly stated and defined in the Project Operation Manual. Timelines for disbursements for interim payment certificates and invoices will be agreed between the MoTC and the World Bank to establish service standards.
18. *Financial and Technical Audits.* The MoTC will be required to facilitate:

- (i) Annual financial audits by independent auditors, following accepted international standards.
- (ii) An independent international consultant will be hired by the Bank to conduct a review of procurement processes and procurement results, verification of payments, comparison between contract prices and market price, etc., for randomly selected contracts. The procurement audit will examine if there are any evidences of collusion, fraud, or other corrupt behavior in those contracts.
- (iii) The CR will review the results of technical inspections carried out by the oblast roads laboratories who are normally responsible for verifying compliance of physical samples with technical specifications. The annual procurement review will verify the efficacy of the technical audits.
- (iv) Specific forensic audits will be required if major allegations of corruption surface during project implementation.

19. *Enhanced Bank Supervision.* The Project Team will be maintaining close oversight. The team would carry out prior review of all major contracts according to thresholds that would be regularly reviewed and adjusted as needed in the Procurement Plan. In addition to monitoring overall progress, the supervision will include reviews of all procurement processes and financial transactions in order to identify any possible risks of fraud or corruption at an early stage, and to alert the Bank and Government institutions for further action if necessary. Given the planned size of the procurement packages, additional internal Bank review through its Regional Procurement Manager (RPM) and Operations Policy Review Committee (OPRC) will be required. Technical supervision by the Bank will include physical site visits on both a periodic and random basis as an additional check. It is acknowledged that the main risk of corruption occurs during implementation, particularly if there is collusion between the contractor and supervising engineers. Particular attention will be given to shortcomings in quality of work during implementation that would trigger detailed review by the Bank on an ex-post basis. The role of the World Bank staff based in Kazakhstan will be critical to ensure adequate quality control procedures are implemented during and between regular Bank supervision missions.

20. *Complaint Handling Mechanism.* A complaint-handling mechanism, which will include a project complaint log and filing system, will be put in place to record and monitor the follow up of each complaint. All complaints shall be responded to by the Committee within seven days of receipt, and all correspondence copied to the World Bank. Relevant information will be made public on the MoTC website and updated monthly. Strict procedures to ensure anonymity of informants will be enforced. Tracking of the status of investigations and measures taken will be reported monthly to the Committee and to the World Bank.

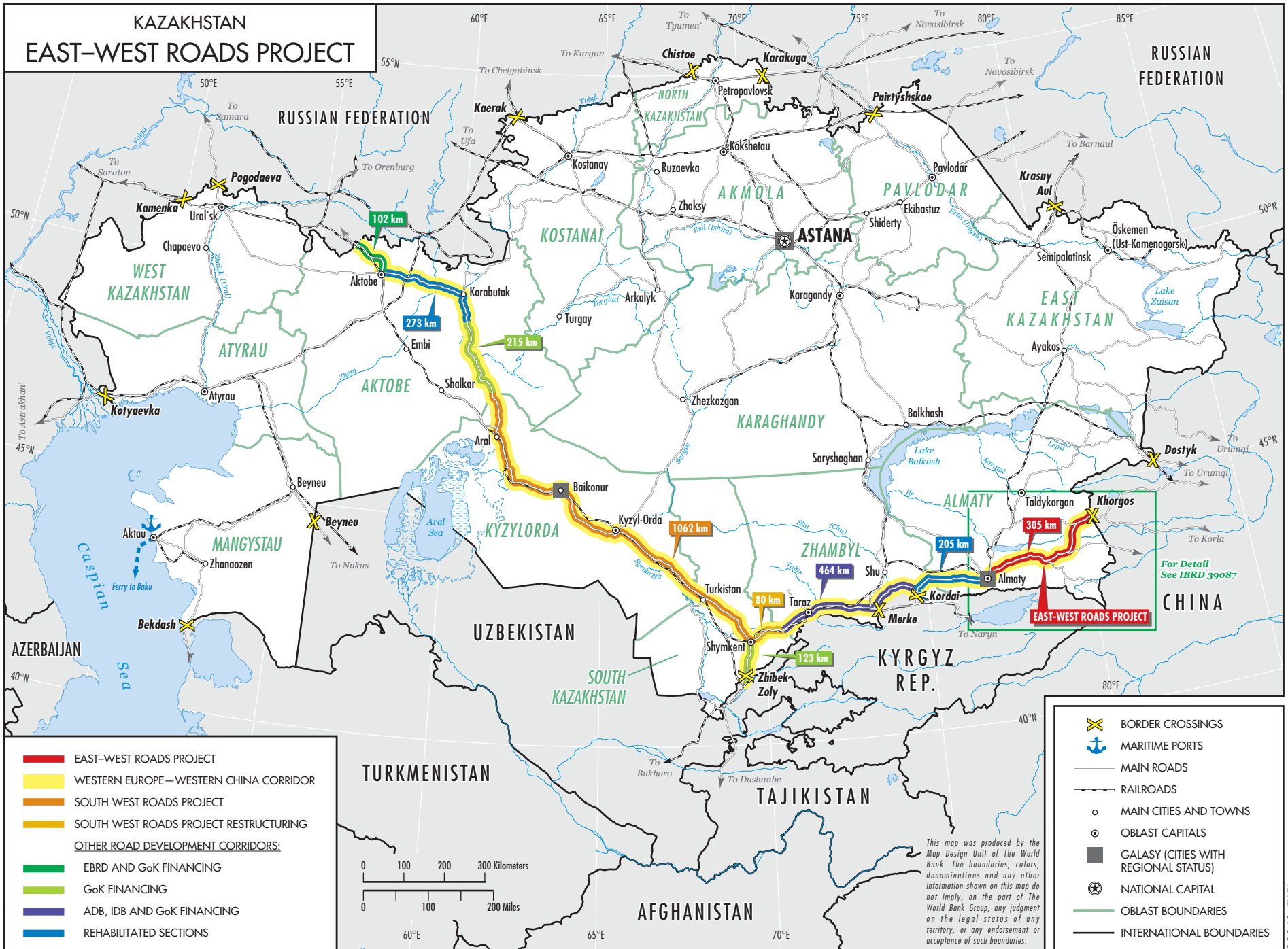
21. Contractors, suppliers, consultants or civil society organizations can lodge complaints directly to the World Bank Investigation Unit (INT) through the following channels:

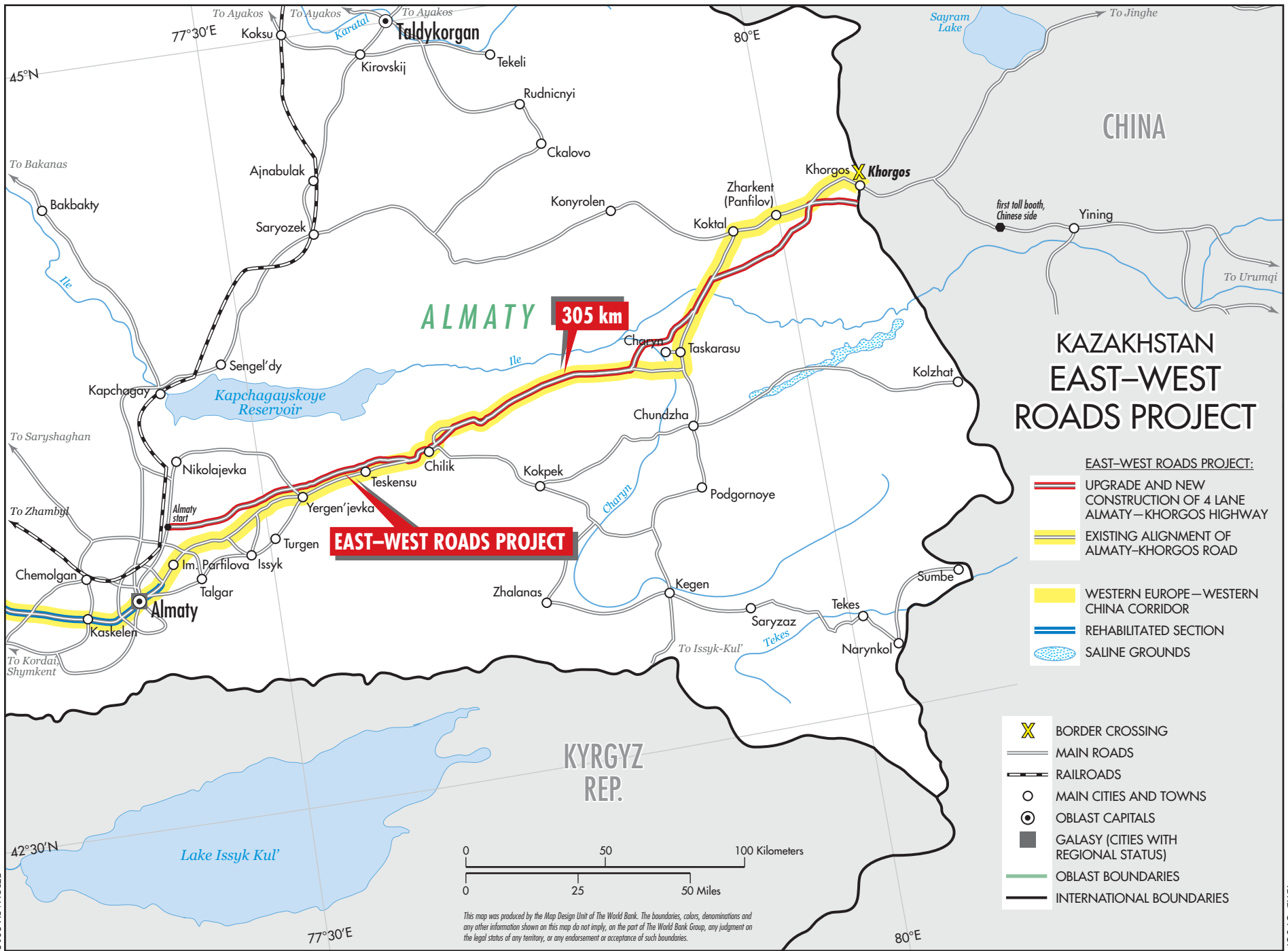
By email to investigationshotline@worldbank.org

Through the Bank website: <http://www.worldbank.org/integrity>

Through the Fraud and Corruption Hotline available at all times with translation services
Toll-free: +1-800-831-0463, or Collect Calls/Reverse charge: +1-704-556-7046.

KAZAKHSTAN EAST-WEST ROADS PROJECT





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