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Report No: RES18224

RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING
OF
SOUTH-WEST ROADS: WESTERN EUROPE-WESTERN CHINA
INTERNATIONAL TRANSIT CORRIDOR (CAREC 1B & 6B) PROJECT

IBRD 7681-KZ
(APRIL 30, 2009)

TO THE

REPUBLIC OF KAZAKHSTAN

JUNE 13, 2015

TRANSPORT AND ICT GLOBAL PRACTICE
EUROPE AND CENTRAL ASIA REGION

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ABBREVIATIONS AND ACRONYMS

CO2	Carbon-dioxide
EBRD	European Bank for Reconstruction and Development
EIRR	Economic Internal Rate of Return
EIA	Environmental Impact Assessment
EMF	Environmental Management Framework
EMP	Environmental Management Plan
HDM-4	Highway Development and Management (HDM-4) model
ICT	Information and Communication Technologies
GoK	Government of Kazakhstan
KAZ	KazAvtoZhol
MoID	Ministry of Investment and Development
NPV	Net Present Value
PDO	Project Development Objective
PMC	Project Management Consultants
RC	Roads Committee
RAP	Resettlement Action Plan
RPF	Resettlement Policy Framework
SWRP	South-West Roads Project

Regional Vice President:	Laura Tuck
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REPUBLIC OF KAZAKHSTAN

**SOUTH-WEST ROADS: WESTERN EUROPE-WESTERN CHINA
INTERNATIONAL TRANSIT CORRIDOR (CAREC 1B & 6B) PROJECT**

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DATA SHEET

Kazakhstan

*SOUTH-WEST ROADS: WESTERN EUROPE-WESTERN CHINA INTERNATIONAL TRANSIT
CORRIDOR (CAREC 1B & 6B) (P099270)*

EUROPE AND CENTRAL ASIA

Transport & ICT

Report No: RES18224

Basic Information									
Project ID:	P099270			Lending Instrument:	Specific Investment Loan				
Regional Vice President:	Laura Tuck			Original EA Category:	Full Assessment (A)				
Country Director:	Saroj Kumar Jha			Current EA Category:	Full Assessment (A)				
Senior Global Practice Director:	Pierre Guislain			Original Approval Date:	30-Apr-2009				
Practice Manager/Manager:	Juan Gaviria			Current Closing Date:	30-Jun-2015				
Team Leader(s):	Jacques Bure								
Borrower:	REPUBLIC OF KAZAKHSTAN								
Responsible Agency:									
Restructuring Type									
Form Type:	Full Restructuring Paper			Decision Authority:	Board Approval				
Restructuring Level:	Level 1								
Financing (as of 15-Jan-2015)									
Key Dates									
Project	Ln/Cr/TF	Status	Approval Date	Signing Date	Effectiveness Date	Original Closing Date	Revised Closing Date		
P099270	IBRD-76810	Effective	30-Apr-2009	13-Jun-2009	09-Dec-2009	31-Dec-2013	30-Jun-2015		
Disbursements (in Millions)									
Project	Ln/Cr/TF	Status	Currency	Original	Revised	Canceled	Disbursed	Undisbursed	% Disbursed
P099270	IBRD-76810	Effective	USD	2125.00	2125.00	0.00	1678.88	446.12	79
Policy Waivers									
Does the project depart from the CAS/CPF in content or in other significant							Yes []	No [X]	

respects?		
Does the project require any policy waiver(s)?	Yes []	No [X]
A. Summary of Proposed Changes		
<p>The South-West Roads Project (“the Project”) is providing US\$2,125 million in lending to the Republic of Kazakhstan through an IBRD loan (7681-KZ) approved on April 30, 2009. The proposed project restructuring was prepared in response to a request from the Republic of Kazakhstan dated December 30, 2014 to reallocate US\$217 million of project savings to finance an additional 85km of the road section north of Almaty, connecting Almaty with Karaganda and the capital city Astana, beyond the original project location. The restructuring entails (i) an extension of the loan closing date, (ii) creation of an additional financing category and reallocation of funds among financing categories, (iii) modification of the Project Development Objective (PDO) to reflect the location of the additional works, and revision of target values of corresponding Intermediate Outcome Indicators, (iv) modification of project description, and (v) revision of disbursement estimates. The restructuring does not modify the safeguard category nor trigger new safeguard policies.</p>		
Change in Implementing Agency	Yes []	No [X]
Change in Project's Development Objectives	Yes [X]	No []
Change in Results Framework	Yes [X]	No []
Change in Safeguard Policies Triggered	Yes []	No [X]
Change of EA category	Yes []	No [X]
Other Changes to Safeguards	Yes []	No [X]
Change in Legal Covenants	Yes []	No [X]
Change in Loan Closing Date(s)	Yes [X]	No []
Cancellations Proposed	Yes []	No [X]
Change to Financing Plan	Yes []	No [X]
Change in Disbursement Arrangements	Yes []	No [X]
Reallocation between Disbursement Categories	Yes [X]	No []
Change in Disbursement Estimates	Yes [X]	No []
Change to Components and Cost	Yes [X]	No []
Change in Institutional Arrangements	Yes []	No [X]
Change in Financial Management	Yes []	No [X]
Change in Procurement	Yes []	No [X]
Change in Implementation Schedule	Yes [X]	No []
Other Change(s)	Yes []	No [X]
Appraisal Summary Change in Economic and Financial Analysis	Yes [X]	No []
Appraisal Summary Change in Technical Analysis	Yes [X]	No []
Appraisal Summary Change in Social Analysis	Yes [X]	No []
Appraisal Summary Change in Environmental Analysis	Yes [X]	No []
Appraisal Summary Change in Risk Assessment	Yes []	No [X]

B. Project Status
<p>The Project's progress towards the achievement of the Project Development Objectives (PDO) is satisfactory. The progress has been steady for the past three years, with satisfactory ratings for DO since October 2011 and IP since June 2014. As of June 8, 2015, 79 percent of loan proceeds have been disbursed (US\$1,678 million) and more than 90 percent of the civil works are substantially completed. Environmental Management Plans and Resettlement Actions Plans are implemented by contractors and the implementing agency in compliance with Bank safeguards policies. Project is rated satisfactory on financial management and the Roads Committee submits satisfactory audit reports on a timely basis.</p> <p>The Project's institutional component supports road management enhancement and increase in road safety along the newly constructed roads. The progress on institutional development is progressively catching up with the pace of implementation of the civil works that were given priority from the start. Positive development has been recorded in 2013, notably when the Borrower created a national road operator, KazAvtoZhol. This structure is now fully operational, which improved the overall institutional set up and local technical capacity. KazAvtoZhol together with the Roads Committee is advancing implementation of the institutional strengthening component of the project. Namely, the implementation of the Road Asset Management System is ongoing and the extension of the closing date would allow the consultant to complete the assignment.</p> <p>The Borrower has requested the Bank's approval to use US\$ 217 million of accrued savings to finance additional sections along the existing corridor north of Almaty, as prioritized in the national strategic documents. The accrued savings, resulting from the lower cost and more efficient procurement of civil works, and also the devaluation of the Kazakhstan Tenge, will be used to finance road section Kurty-Burylbaital, between Kurty and Togyz in the Almaty Oblast (from km 2295 to km 2380). The construction of newly added section associated with an extension of the closing date supports the project objectives which continue to be achievable.</p>
C. Proposed Changes
Development Objectives/Results
Project Development Objectives
<p>Original PDO</p> <p>The proposed Project aims to increase transport efficiency along the road sections between Aktobe/Kyzylorda Oblast border and Shymkent and to improve road management and traffic safety in Kazakhstan.</p>
<p>Current PDO</p> <p>The objective of the Project is to improve transport efficiency along road sections from the border of Aktobe and Kyzylorda Oblasts to the border of South Kazakhstan and Zhambyl Oblasts, improve road management and increase traffic safety in Kazakhstan</p>
Change in Project's Development Objectives
<p>Explanation</p> <p>The proposed restructuring adds a new road section which extends into Almaty Oblast and which was not captured under the current PDO. The proposed revised PDO includes this addition.</p>
<p>Proposed New PDO</p> <p>The objective of the Project is to improve transport efficiency along road sections in Kyzylorda, South Kazakhstan and Almaty Oblasts, improve road management and increase traffic safety in Kazakhstan.</p>

Change in Results Framework						
Explanation:						
The PDO level results indicators and the Intermediate Outcome indicators and their target dates and values will be adjusted to reflect the proposed changes in the scope of the Project. A revised Supplemental Letter to the Loan Agreement will contain an updated Results Framework and Monitoring (attached in Annex 1) to be signed by the Republic of Kazakhstan as part of the restructuring package.						
Financing						
Change in Loan Closing Date(s)						
Explanation:						
The Loan Closing Date will be extended by 3 years, from June 30, 2015 to June 30, 2018 bringing the overall implementation period to 9 years. This would be the second restructuring and extension of the Loan Closing Date. The first restructuring of the project in 2012 extended the Project by 18 months which allowed the use of savings to finance an upgrade of additional 80 kilometers of the same highway.						
Ln/Cr/TF	Status	Original Closing Date	Current Closing Date	Proposed Closing Date	Previous Closing Date(s)	
IBRD-76810	Effective	31-Dec-2013	30-Jun-2015	30-Jun-2018	31-Dec-2013	
Reallocations						
Explanation:						
The proposed changes to Components trigger formal reallocations between categories. It is proposed to create a new category for works under part 6 of the project related to a new project component. Funds would also be reallocated among financing categories. The overall project allocation has remained unchanged.						
Ln/Cr/TF	Currency	Current Category of Expenditure	Allocation		Disbursement % (Type Total)	
			Current	Proposed	Current	Proposed
IBRD-76810	USD	WORKS UNDER PART 1 OF THE PROJECT	936,000,000.00	1,071,000,000.00	85.00	85.00
		WORKS UNDER PART 2 OF THE PROJECT	944,850,000.00	748,000,000.00	85.00	85.00
		CONSULTANTS' SERVICE UNDER PART 3	7,582,000.00	11,900,000.00	85.00	85.00
		CONSULTANTS' SERVICES UNDER PART 4	3,140,000.00	2,500,000.00	85.00	85.00
		CONSULTANTS' SERVICES UNDER PART 5	52,004,000.00	56,100,000.00	85.00	85.00
		GOODS UNDER PART 4	900,000.00	900,000.00	85.00	85.00
		UNALLOCATED	180,524,000	0.00	0.00	0.00

			.00			
		Designated Account	0.00	0.00	0.00	0.00
		WORKS UNDER PART 6 OF THE PROJECT	0.00	234,600,000.00	0.00	85.00
		Total:	2,125,000,000.00	2,125,000,000.00		

Disbursement Estimates

Change in Disbursement Estimates

Explanation:

The disbursement estimates are updated in accordance with the actual disbursement and revised project implementation schedule which provides sufficient time for completion of remaining project activities by the new Closing Date.

Fiscal Year	Current (USD)	Proposed (USD)
2009	0.00	0.00
2010	112,142,813.20	112,142,813.00
2011	260,145,243.20	260,145,243.00
2012	400,000,000.00	411,853,061.00
2013	360,000,000.00	392,234,688.00
2014	325,000,000.00	334,981,610.00
2015	638,180,000.00	200,000,000.00
2016	28,950,000.00	100,000,000.00
2017	0.00	145,000,000.00
2018	0.00	125,000,000.00
2019	0.00	43,642,585.00
Total	2,124,418,056.40	2,125,000,000.00

Components

Change to Components and Cost

Explanation:

The proposed project restructuring requires addition of a new project component (now Component/Part 6: Upgrade and reconstruction of road sections within Almaty Oblast) that refers to financing of 85km of the Kurty-Togyz road section. Changes will include the following: (i) amendment to the financing of Parts 1 and 2 of the project; (ii) expansion of the scope of activities to assist the MoID with implementation of the additional civil works and technical reviews of designs for Part 3 of the project; (iii) amendment of the financing of Part 4 of the project; (iv) revision of the amount for supervision of civil works for the additional section of road of Part 5 of the project; (v) inclusion of an additional 85km of the Kurty-Togyz section called Part 6 of the project. The modified scope of the Project activities will be reflected in the revised Project description in the Legal Agreement and the Project performance monitoring indicators.

Part 1. Upgrade and reconstruction of road sections within Kyzylorda Oblast, excluding the bypass to Kyzylorda. Due to cost increases during implementation, the financing under Part 1 is being increased by

an estimated amount of US\$159 million.

Part 2. Upgrade and reconstruction of road sections within South Kazakhstan Oblast (from Kyzylorda Oblast border to Zhambyl Oblast border, including the bypasses to Kyzylorda and Shymkent). Due to cost savings, the financing under Part 2 is being reduced by an estimated amount of US\$232 million.

Part 3. Project Management Consultants (PMC). The scope of this Part will expand to finance a broader scope of activities currently carried out by the PMC. There is a need for further support to the MoID with the overall management of additional activities related to the civil works for the additional road section financed by IBRD and EBRD and to help preparing other investments along the Western Europe-Western China transit corridor. The estimated cost of the additional activities under Part 3 is US\$5 million. The Loan Agreement will not require an amendment for this part as a result of the expansion in the scope for this activity.

Part 4. Institutional Development and Improvement of Road Safety and Road Services. Due to cost savings, the financing under Part 1 is being reduced by an estimated amount of US\$2 million.

Part 5. Supervision of Civil Works. This Part will expand to finance consulting services for supervision of the additional road section financed by IBRD, at an estimated cost of US\$10 million. It will also include the review of detailed engineering designs and supervision of the implementation of Environment Management Plans (EMPs) and Resettlement Action Plans (RAPs) for the additional road section. Due to cost savings, the financing under Part 5 is increased by US\$5 million. The Loan Agreement will be amended for this part as a result of the expansion in the scope for this activity.

Part 6. Upgrade and reconstruction of road sections within Almaty Oblast. This Part is a new project component that is proposed to finance civil works to support the upgrade and reconstruction of road sections within Almaty Oblast. It specifically refers to about 85km of Kurty-Burylbaital road section. The estimated cost of additional civil works is US\$276 million. The Loan Agreement will require an amendment to reflect changes in project components.

Unallocated Amount. The unallocated amount has been reduced to zero.

Current Component Name	Proposed Component Name	Current Cost (US\$M)	Proposed Cost (US\$M)	Action
Upgrade and reconstruction of road sections along the WE-WC Corridor within Kyzylorda oblast (excluding the bypass to Kyzylorda)		1,101.00	1,260.00	Revised
Upgrade and reconstruction of road sections within South Kazakhstan oblast, including the bypass to Kyzylorda		1,112.00	880.00	Revised
Project Management Consultants		9.00	14.00	Revised
Institutional		6.00	4.00	Revised

Development, Road Safety, Road Services and Road Asset Management System				
Supervision of civil works		61.00	66.00	Revised
	Upgrade and reconstruction of road sections within Almaty oblast		276.00	New
	Total:	2,289.00	2,500.00	

Other Change(s)

Change in Implementation Schedule

Explanation:

The Borrower has updated the project implementation schedule which provides sufficient time for completion of remaining Project activities by the new Closing Date. The revised implementation schedule envisages (i) completion of civil works for existing road sections by November, 2017, (ii) implementation of institutional development activities by June 30, 2018, and (iii) completion of designs and works along the Kurty-Burylbaital road by March, 2015 and March, 2018, respectively.

Appraisal Summary

Appraisal Summary Change in Economic and Financial Analysis

Explanation:

Project benefits have been calculated for the project over a life of 20 years from the assumed opening date. The economic evaluation of the Kurty-Burylbaital road section indicates the estimated economic internal rate of return of 24 percent for a net present value of US\$170.1 million, as per the Table 3 in the Restructuring Paper. A sensitivity analysis was conducted on results of the economic modeling to assess potential impacts of the variation in capital costs and traffic. Analysis shows that the Project would still achieve an acceptable 12 percent economic return if the construction cost turned out as much as 134 percent higher than the current estimate. If the social value of carbon is included on the economic evaluation, the EIRR of the project decreases to 23.3 percent, which is higher than the adopted discount rate. Thus, the project benefits related to the reduction of vehicle operating costs, travel time costs and accidents outweigh the increase in emission costs.

Appraisal Summary Change in Technical Analysis

Explanation:

Civil works will include the upgrade of the existing Kurty-Burylbaital road, on a section between Kurty and Togyz (from km 2295 to km 2380). The upgrade between Togyz and Burylbaital is financed through an EBRD loan. The road section will be upgraded to a 2 carriageway, 4 lane, class-1 road with asphalt surface. There will be 2 bridges, and no overpasses or interchanges. The pavement design will allow 13 tons single axle load, while the design speed will be set to 120 km per hour. Average annual daily traffic reached around 6290 vehicles in 2014.

Appraisal Summary Change in Social Analysis

Explanation:

Current safeguards agreements will continue to be applied. Given that the alignment for the Kurty – Burylbaital road is already known, the MoID has prepared a RAP in line with the provisions of Resettlement Policy Framework (RPF) for SWRP. The consultations on the draft RAP took place on March 30, 2015. The final approval and disclosure was on May 28, 2015. The works on the section Kurty-Burylbaital do not anticipate any physical resettlement and will largely involve land acquisition (pasture land and a small number of commercial businesses) for the rehabilitation and construction of two additional lanes. The total number of affected properties is 30, including state-owned commercial plots. The supervision and monitoring of the social impacts, including land acquisition process will continue to rest with MoID but will also require strong coordination with local akimat, which per Kazakh legislation, is the designated agency authorized to carry out land acquisition.

Appraisal Summary Change in Environmental Analysis

Explanation:

The generic baseline data (land use, vegetation, soils, fauna and flora, climate, surface and groundwater, etc), the impacts expected from the project, and the related mitigation measures are consistent with the existing Environment Management Framework (EMF). The Environmental Impact Assessment (EIA) was prepared by the RC for Kurty-Burylbaital road section and the EMF will be updated to include the geographic scope and project description of the new road section, but will remain unchanged in impact analysis and mitigation since the new section of road is not raising any environmental issues not already covered in the existing EMF. It will be used by the RC to prepare site specific EMPs that will be included in the bidding documents, following the pattern already used for the ongoing civil works on other road sections of the project. Environmental impacts of the additional road section appear to be standard for road widening and newly constructed alignment. The steppe vegetation is predominant with grassland and small patches of forest (low value tree species) near rivers and in a valley. Both physical-geographical situation and geotechnical conditions are expected to be very similar to conditions found under SWRP broadly. Measures to address the potential negative impacts will be comprehensively listed in the EMPs part of the contract requirements.

SOUTH-WEST ROADS: WESTERN EUROPE-WESTERN CHINA INTERNATIONAL TRANSIT CORRIDOR (CAREC 1B & 6B) PROJECT

RESTRUCTURING PAPER

A. SUMMARY

1. The South-West Roads Project (“the Project”) is providing US\$2,125 million in lending to the Republic of Kazakhstan through an IBRD loan (7681-KZ) approved on April 30, 2009. The proposed Project restructuring was prepared in response to a request from the Republic of Kazakhstan dated December 30, 2014 to reallocate project savings to finance an additional 85km of the road section north of Almaty, connecting Almaty with Karaganda and the capital city Astana, beyond the original project location. The restructuring entails (i) an extension of the loan closing date, (ii) creation of an additional category and reallocation of funds among financing categories, (iii) modification of the Project Development Objective (PDO), and revision of target values of corresponding Intermediate Outcome Indicators, (iv) modification of project description, and (v) revision of disbursement estimates. The restructuring does not modify the safeguard category or trigger new safeguard policies.

B. PROJECT STATUS

2. The Project’s progress towards the achievement of the Project Development Objectives (PDO) is satisfactory. The progress has been steady for the past three years, with satisfactory ratings for DO since October 2011 and IP since June 2014. As of June 8, 2015, 79 percent of loan proceeds have been disbursed (US\$1,678 million) and more than 90 percent of the civil works are substantially completed. Environmental Management Plans (EMPs) and Resettlement Actions Plans (RAPs) are implemented by contractors and the implementing agency in compliance with Bank safeguards policies. Project is rated satisfactory on financial management and the Roads Committee submits satisfactory audit reports on a timely basis.

3. The Project’s institutional component supports road management enhancement and increase in road safety along the newly constructed roads. The progress on institutional development is progressively catching up with the pace of implementation of the civil works that were given priority from the start. Positive development has been recorded in 2013, notably when the Borrower created a national road operator, KazAvtoZhol. This structure is now fully operational, which improved the overall institutional set up and local technical capacity. KazAvtoZhol together with the Roads Committee is advancing implementation of the institutional strengthening component of the Project. Namely, the implementation of the Road Asset Management System is ongoing and the extension of the closing date would allow the consultant to complete the assignment.

4. The Borrower has requested the Bank’s approval to use US\$ 217 million of accrued savings to finance additional sections of the existing corridors, as prioritized in

the national strategic documents. The accrued savings, resulting from the lower cost and more efficient procurement of civil works, and also the devaluation of the Kazakhstan Tenge, will be used to finance the road section Kurty-Burylbaital, between Kurty and Togyz in the Almaty Oblast (from km 2295 to km 2380). With construction of newly added sections, the project objectives continue to be achievable.

C. PROPOSED CHANGES

5. The proposed restructuring envisages revision of the loan closing date, creation of a new financing category and reallocation of funds among financing categories, modification of the PDO and target values of corresponding Intermediate Outcome Indicators, modification of project description, and revision of disbursement estimates. The restructuring does not modify the safeguard category or trigger new safeguard policies. The proposed changes are specified below in detail.

Project's Development Objective

6. The original PDO was revised during the first restructuring of the Project and is *“to improve transport efficiency along road sections from the border of Aktobe and Kyzylorda Oblasts to the border of South Kazakhstan and Zhambyl Oblasts, improve road management and increase traffic safety in Kazakhstan.”* The proposed restructuring adds a new road section which extends into Almaty Oblast and which was not captured under the current PDO. The proposed revised PDO includes this addition and will thus read: *“to improve transport efficiency along road sections in Kyzylorda, South Kazakhstan and Almaty Oblasts, improve road management and increase traffic safety in Kazakhstan.”* The Project outcome indicators and their values will be modified accordingly.

Project Components/Parts

7. The proposed project restructuring requires addition of a new project component (now Component/Part 6: Upgrade and reconstruction of road sections within Almaty Oblast) that refers to financing of 85km of the Kurty-Burylbaital road section. Changes will include amendments to the following: (i) financing of Parts 1 and 2 of the project to revise the financing; (ii) Part 3 of the project to expand the scope of activities to assist the MoID with implementation of the additional civil works and technical reviews of designs for Part 3 of the project; (iii) Part 4 of the project to revise the financing; (iv) Part 5 of the project to revise the amount for supervision of civil works for the additional section of road of Part 5 of the project; (v) and Part 6 of the project to include an additional 85km of the Kurty-Burylbaital section called Part 6 of the project. The modified scope of the Project activities will be reflected in the revised Project description in the Legal Agreement and the Project performance monitoring indicators.

8. ***Part 1. Upgrade and reconstruction of road sections within Kyzylorda Oblast, excluding the bypass to Kyzylorda.*** Due to cost increases during implementation, the financing under Part 1 is being increased by an estimated amount of US\$159 million.

9. ***Part 2. Upgrade and reconstruction of road sections within South Kazakhstan Oblast (from Kyzylorda Oblast border to Zhambyl Oblast border, including the bypasses to Kyzylorda and Shymkent).*** Due to cost savings, the financing under Part 2 is being reduced by an estimated amount of US\$232 million.

10. ***Part 3. Project Management Consultants (PMC).*** The scope of this Part will expand to finance a broader scope of activities currently carried out by the PMC. There is a need for further support to the MoID with the overall management of additional activities related to the civil works for the additional road section financed by IBRD and EBRD and to help preparing other investments along the Western Europe-Western China transit corridor. The estimated cost of the additional activities under Part 3 is US\$5 million. The Loan Agreement will not require an amendment for this part as a result of the expansion in the scope for this activity.

11. ***Part 4. Institutional Development and Improvement of Road Safety and Road Services.*** Due to cost savings, the financing under Part 4 is being reduced by an estimated amount of US\$2 million.

12. ***Part 5. Supervision of Civil Works.*** This Part will expand to finance consulting services for supervision of the additional road section, at an estimated cost of US\$10 million. It will also include the review of detailed engineering designs and supervision of the implementation of EMPs and RAPs for the additional road section. Due to cost savings, the financing under Part 5 is increased by US\$5 million. The Loan Agreement will be amended for this part as a result of the expansion in the scope for this activity.

13. ***Part 6. Upgrade and reconstruction of road sections within Almaty Oblast.*** This Part is a new project component that is proposed to finance civil works to support the upgrade and reconstruction of road sections within Almaty Oblast. It specifically refers to about 85km of the Kurty-Burylbaital road section. The estimated cost of additional civil works is US\$276 million. The Loan Agreement will require an amendment to reflect changes in project components.

14. **Unallocated Amount.** The unallocated amount has been reduced to zero.

Results Framework and Monitoring

15. The PDO level results indicators and the Intermediate Outcome indicators and their target values and dates will be adjusted to reflect the proposed changes in the scope of the Project and the new closing date. A revised Supplemental Letter to the Loan Agreement, which will include the updated Results Framework (as presented in Annex 1 to this paper) is part of the restructuring package.

FINANCING

Project Costs

16. The Government's co-financing share in the Project will be maintained at 15 percent which will be sufficient funding for implementation of the additional Project activities. Thus, total Government co-financing share in the Project will remain at US\$375 million, while the Bank financing will remain at US\$2,125 million.

Reallocations

17. The proposed changes to Components trigger formal reallocations between categories. It is proposed to create a new category for works under part 6 of the project related to a new project component. Funds would also be reallocated among financing categories. The overall project allocation has remained unchanged.

Table 1. Project Costs by Category (US\$ million including VAT)

Category	Current			Proposed		
	IBRD	GoK	Total	IBRD	GoK	Total
(1) Works under part 1 of the Project	936.00	165.18	1,101.18	1,071.00	189.00	1,260.00
(2) Works under part 2 of the Project	944.85	166.74	1,111.59	748.00	132.00	880.00
(3) Consultant services under part 3 of the Project	7.58	1.34	8.92	11.90	2.10	14.00
(4) Consultant services under part 4 of the Project	3.14	0.55	3.69	2.50	0.44	2.94
(5) Consultant services under part 5 of the Project	52.00	9.18	61.18	56.10	9.90	66.00
(6) Goods under part 4 of the Project	0.90	0.16	1.06	0.90	0.16	1.06
(7) Unallocated	180.52	31.86	212.38	0	0	0
(8) Works under part 6 of the Project	0	0	0	234.60	41.40	276.00
TOTAL Project Costs	2,125.00	375.00	2,500.00	2,125.00	375.00	2,500.00

Closing Date

18. The Loan Closing Date will be extended by 3 years, from June 30, 2015 to June 30, 2018 bringing the overall implementation period to 9 years. This would be the second restructuring and extension of the Loan Closing Date. The first restructuring of the project in 2012 extended the Project by 18 months which allowed the use of savings to finance an upgrade of additional 80 kilometers of the same highway.

Implementation Schedule

19. The Borrower has updated the project implementation schedule which provides sufficient time for completion of remaining Project activities by the new Closing Date. The revised implementation schedule envisages (i) completion of civil works for existing road sections by November, 2017, (ii) implementation of institutional development activities by June 30, 2018, and (iii) completion of designs and works for newly added sections of the Kurty-Burylbaital road by March, 2015 and March, 2018, respectively.

D. APPRAISAL SUMMARY

Economic and Financial Analyses

20. The economic analysis has been done for the road section between Kurty and Burylbaital with a total length of 85.0 km. The Bank team performed the economic analysis using the Highway Development and Management (HDM-4) model, which simulates life-cycle conditions and costs and provides economic decision criteria for road construction and maintenance. Traffic data on the existing road was collected from 2009 to 2014 by Roads Committee. The average traffic on the road section was 6,287 vehicles per day in 2014 comprised of 36 percent of commercial vehicles and 64 percent of passenger cars. From year 2009 to 2014, daily traffic grew at 2.8 percent per year. From year 2015 to 2025, daily traffic is expected to grow on average at 5.5 percent per year considering the estimated GDP annual growth from 2015 to 2019 given by the IMF (5.2 percent per year). No generated traffic was included in the analysis.

21. Road user costs without the project are high due to the traffic congestion and roads accidents. From 2009 to 2014 there were on average 7 fatalities per year on the project road (3.7 fatalities per 100 million vehicle-km). The road will be upgraded from category II standard (2 lane road) to category IB standard (4- lane road with median) with an expected reduction in annual fatalities of 20 percent. In order to estimate the benefits from reduced car accidents, a cost of US\$500,000 per fatality was adopted.

22. Project benefits have been calculated for the project over a life of 20 years from the assumed opening date. The Economic Internal Rate of Return (EIRR) of the project is 24.0 percent, the Net Present Value is US\$170.1 million, at a 12 percent discount rate, and the Benefit Cost Ratio is 2.44. The reduction in vehicle operating cost accounts for 42 percent of project benefits, while 55 percent of project benefits are due to travel time savings, and 3 percent due to a reduction in accident costs.

23. A number of tests have also been conducted by the Bank team to assess the EIRR's sensitivity to increases in the construction cost and reduction in project benefits. The table below presents the economic evaluation sensitivity results. The project can bear variations in the construction costs and assumptions about project benefits. An increase in construction costs by 20 percent would result in an EIRR of 21.1 percent. A decrease in project benefits by 20 percent would result in an EIRR of 20.5 percent. A combination of an increase in construction costs by 20 percent and a decrease in project benefits by 20 percent would result in an EIRR of 17.9 percent. The Project would still achieve an

acceptable 12 percent economic return if the construction cost turned out as much as 134 percent higher than the current estimate. Project benefit would need to decrease by 57 percent to limit project economic return to 12 percent.

Table 2: Economic Evaluation Sensitivity Analysis

	NPV (US\$ million)	EIRR (%)
Base Case	170.1	24.0
A: Construction Cost	145.0	21.1
B: Benefits -20	110.9	20.5
A & B	85.8	17.9
Including Emissions	158.3	23.3

24. The HDM-4 model estimated that the CO₂ emissions the year of the opening of the four-lane highway will be 114,710 tons without the project and 146,673 tons with the project, representing a 28 percent increase in emissions caused by the increase in vehicle speeds and the corresponding increase in fuel consumption brought about by the project. Over the 20 year evaluation period, CO₂ emission will increase by 29 percent compared with the without project scenario. If the social value of carbon is included on the economic evaluation, at US\$30 per ton in 2015 and increasing to US\$80 per ton in real terms by 2050¹, the EIRR of the project decreases to 23.3 percent, which is higher than the adopted discount rate. Thus, the project benefits related to the reduction of vehicle operating costs, travel time costs and accidents outweigh the increase in emission costs.

Technical

25. Civil works will include the upgrade of an existing Kurty-Burylbaital road, on a section between Kurty and Togyz (from km 2295 to km 2380). The upgrade between Togyz and Burylbaital is financed through an EBRD loan. The road section will be upgraded to a 2 carriageway, 4 lane, class-1 road with asphalt surface. There will be 2 bridges, and no overpasses or interchanges. The pavement design will allow 13 tons single axle load, while the design speed will be set to 120 km per hour. Average annual daily traffic reached around 6290 vehicles in 2014.

Social

26. Current safeguards agreements will continue to be applied. Given that the alignment for the Kurty-Burylbaital road is already known, the MoID has prepared a RAP in line with the provisions of Resettlement Policy Framework (RPF) for SWRP. The consultations on the draft RAP took place on March 30, 2015. The final approval and disclosure was on May 28, 2015. The works on the section Kurty-Burylbaital do not anticipate any physical resettlement and will largely involve land acquisition (pasture land and a small number of commercial businesses) for the rehabilitation and

¹ Based on SDNCE/CCGCE Guidance note on social value of carbon in project appraisal, July 14, 2014

construction of two additional lanes. The total number of affected properties is 30, including state-owned commercial plots. The supervision and monitoring of the social impacts, including land acquisition process will continue to rest with MoID but will also require strong coordination with local akimat, which per Kazakh legislation, is the designated agency authorized to carry out land acquisition.

Environment

27. The Environmental Impact Assessment (EIA) was prepared by the RC for Kurty-Burylbaital road section and the Environmental Management Framework (EMF) will be updated to include the geographic scope and project description of the new road section, but will remain unchanged in impact analysis and mitigation since the new section of road is not raising any environmental issues not already covered in the existing EMF. It will be used by the RC to prepare site specific Environment Management Plans that will be included in the bidding documents, following the pattern already used for the ongoing civil works on other road sections of the project. Environmental impacts of the additional road section appear to be standard for road widening and newly constructed alignment. The update of the Environmental Impact Assessment (referred to as the Environmental Impact Assessment 2 or EIA 2) dated March 30, 2015 was prepared and disclosed by the Borrower and is satisfactory to the Bank.

Procurement

28. Procurement of goods and works will be carried out in accordance with the World Bank's "Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants" dated January 2011 and revised July 2014 (Procurement Guidelines). Procurement of consultant services will be carried out in accordance with the World Bank's "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011 and revised July 2014 (Consultant Guidelines) and the provisions stipulated in the Loan Agreement. World Bank's "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 (Anti-Corruption Guidelines) will apply. The procurement arrangements are identical to the ones in place under the ongoing transport projects (South-West Roads and East-West Roads Projects). The procurement plan for all packages to be procured under project restructuring has been discussed and agreed with the borrower. The overall procurement risk for the project is rated as Substantial. The risk rating is based on experience from the ongoing Bank-financed projects, the general public procurement environment and the current capacity of proposed implementing agencies in administering international procurement.

Risks

29. The overall risk of the project is currently rated moderate. No additional risk has been identified that would be associated with the proposed restructuring and the overall risk ratings is kept as moderate.

ANNEX 1: Results Framework and Monitoring

Country: Kazakhstan

Project name: South-West roads: Western Europe-Western China International Transit Corridor (CAREC 1B & 6B) (P099270)

Project Name:	SOUTH-WEST ROADS: WESTERN EUROPE-WESTERN CHINA INTERNATIONAL TRANSIT CORRIDOR (CAREC 1B & 6B) (P099270)	Project Stage:	Restructuring	Status:	DRAFT
Team Leader(s):	Jacques Bure	Requesting Unit:	ECCU8	Created by:	Blanka Babic on 09-Feb-2015
Product Line:	IBRD/IDA	Responsible Unit:	GTIDR	Modified by:	Blanka Babic on 25-Mar-2015
Country:	Kazakhstan	Approval FY:	2009		
Region:	EUROPE AND CENTRAL ASIA	Lending Instrument:	Specific Investment Loan		

Project Development Objectives

Original Project Development Objective:

The proposed Project aims to increase transport efficiency along the road sections between Aktobe/Kyzylorda Oblast border and Shymkent and to improve road management and traffic safety in Kazakhstan.

Current Project Development Objective:

The objective of the Project is to improve transport efficiency along road sections from the border of Aktobe and Kyzylorda Oblasts to the border of South Kazakhstan and Zhambyl Oblasts, improve road management and increase traffic safety in Kazakhstan

Proposed Project Development Objective (from Restructuring Paper):

The objective of the Project is to improve transport efficiency along road sections in Kyzylorda, South Kazakhstan and Zhambyl Oblasts, improve

road management and increase traffic safety in Kazakhstan.

Results

Core sector indicators are considered: Yes

Results reporting level: Project Level

Project Development Objective Indicators

Status	Indicator Name	Core	Unit of Measure		Baseline	Actual(Current)	End Target
Revised	Reduce, by the end of the Project, Road User Costs from US\$0.26/veh-km to US\$0.23/veh-km on Project road sections.	<input type="checkbox"/>	Text	Value	0.26		0.23
				Date	09-Jun-2009	17-Dec-2014	30-Jun-2018
				Comment			
	Reduce, by the end of the Project, Road User Costs from US\$0.26/veh-km to US\$0.23/veh-km on Project road sections.	<input type="checkbox"/>	Text	Value	0.26		0.23
				Date	09-Jun-2009	17-Dec-2014	30-Jun-2015
				Comment			
Revised	Proportion of the Republican road network length that are in Good or Fair conditions	<input type="checkbox"/>	Text	Value	53%		86%
				Date	09-Jun-2009	17-Dec-2014	30-Jun-2018
				Comment			
	Proportion of the Republican road network length that are in Good or Fair conditions	<input type="checkbox"/>	Text	Value	53%		86%
				Date	09-Jun-2009	17-Dec-2014	30-Jun-2015
				Comment			
Revised	Reduce, by the end of the Project, the rate (per 100 million veh-km) of road crash fatalities along the Project road sections by at least 10%	<input type="checkbox"/>	Text	Value	11		9.5
				Date	01-Jun-2007	17-Dec-2014	30-Jun-2018
				Comment			

	Reduce, by the end of the Project, the rate (per 100 million veh-km) of road crash fatalities along the Project road sections by at least 10%	<input type="checkbox"/>	Text	Value	11		9.5
				Date	01-Jun-2007	17-Dec-2014	30-Jun-2015
				Comment			
Revised	Implementation and Effective use of Road Management System by the Committee	<input type="checkbox"/>	Text	Value	No system in place	RAMS activities being implemented, the system is expected to be in place in June 2015	System in place
				Date	09-Jun-2009	17-Dec-2014	30-Jun-2018
				Comment			
	Implementation and Effective use of Road Management System by the Committee	<input type="checkbox"/>	Text	Value	No system in place	RAMS activities being implemented, the system is expected to be in place in June 2015	System in place
				Date	09-Jun-2009	17-Dec-2014	30-Dec-2011
				Comment			

Intermediate Results Indicators

Status	Indicator Name	Core	Unit of Measure		Baseline	Actual(Current)	End Target
Revised	Number of kilometers of roads upgraded (cumulative km)	<input type="checkbox"/>	Text	Value	0	835	1227
				Date	09-Jun-2009	17-Dec-2014	30-Jun-2018
				Comment			
	Number of kilometers of roads	<input type="checkbox"/>	Text	Value	0	835	1142

	upgraded (cumulative km)			Date	09-Jun-2009	17-Dec-2014	30-Jun-2015
				Comment			
Revised	Works, Goods, and Consulting Services contracts processed and managed by the PMC	<input type="checkbox"/>	Text	Value	0 (W); 0 (G); 0 (CS)	24(w), (0) G, 9(CS)	26 (W); 1 (G); 9 (CS)
				Date	09-Jun-2009	17-Dec-2014	30-Jun-2018
				Comment			
	Works, Goods, and Consulting Services contracts processed and managed by the PMC	<input type="checkbox"/>	Text	Value	0 (W); 0 (G); 0 (CS)	24(w), (0) G, 9(CS)	14 (W); 3 (G); 8 (CS)
				Date	09-Jun-2009	17-Dec-2014	30-Jun-2015
				Comment			
Revised	Training received by the Committee staff from PMC (staff-hours)	<input type="checkbox"/>	Text	Value	0	3000	3000
				Date	09-Jun-2009	17-Dec-2014	30-Jun-2018
				Comment			
	Training received by the Committee staff from PMC (staff-hours)	<input type="checkbox"/>	Text	Value	0	3000	3000
				Date	09-Jun-2009	17-Dec-2014	30-Jun-2015
				Comment			
Revised	Updating of road data for Republican roads (% of total length per year)	<input type="checkbox"/>	Text	Value	0%		100%
				Date	09-Jun-2009	17-Dec-2014	30-Jun-2018
				Comment			
	Updating of road data for Republican roads (% of total length per year)	<input type="checkbox"/>	Text	Value	0%		100%
				Date	09-Jun-2009	17-Dec-2014	30-Jun-2013
				Comment			
Revised	Road asset management	<input type="checkbox"/>	Text	Value	Not	Not established	Established

	strategy, Rolling multiyear road maintenance, and rehabilitation program established				established		
				Date	09-Jun-2009	17-Dec-2014	30-Jun-2018
				Comment			
	Road asset management strategy, Rolling multiyear road maintenance, and rehabilitation program established	<input type="checkbox"/>	Text	Value	Not established	Not established	Established
				Date	09-Jun-2009	17-Dec-2014	30-Jun-2013
				Comment			
Revised	Prepare road safety strategy and action plan	<input type="checkbox"/>	Text	Value	Not established	Established	Established
				Date	09-Jun-2009	17-Dec-2014	30-Jun-2015
				Comment			
	Prepare road safety strategy and action plan	<input type="checkbox"/>	Text	Value	Not established	Established	Established
				Date	09-Jun-2009	17-Dec-2014	30-Jun-2011
				Comment			

MAP

