

Document of
The World Bank

Report No: NCO00004218

NOTE ON CANCELLED OPERATION REPORT
(IBRD-86190)

ON A

LOAN

IN THE AMOUNT OF US\$ USD 977.86 MILLION TO THE

REPUBLIC OF KAZAKHSTAN

FOR A

CENTER WEST REGIONAL DEVELOPMENT CORRIDOR PROJECT

May 11, 2017

Transport & ICT
Central and North East Asia

CURRENCY EQUIVALENTS
(Exchange Rate Effective May 11, 2017)

Currency Unit
KZT1.00 = US\$ 0.0032
US\$ 1.00 = KZT318.2

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

CR	Committee for Roads	MoID	Ministry of Investments and Development
CWRP	Center West Regional Development Corridor Project	O&M	Operations and Maintenance
GOK	Government of Kazakhstan	PDO	Project Development Objective
IFIs	International Financial Institutions comprising the World Bank Group, ADB, EBRD, IsDB	PFA	Partnership Framework Arrangement
KAZ	Kazavtozhol National Roads Operator JSC	WBG	World Bank Group
		WE-WCh	Western Europe -Western China Corridor

Regional Vice President:	Cyril E Muller
Country Director:	Lilia Burunciuc
Practice Manager:	Binyam Reja
Task Team Leader:	Jacques Bure, Aliya Karakulova
NCO Team Leader	Aliya Karakulova

COUNTRY
Project Name

CONTENTS

Data Sheet

- A. Basic Information
- B. Key Dates
- C. Ratings Summary
- D. Sector and Theme Codes
- E. Bank Staff
- F. Ratings of Program Performance in ISRs

1. Context, Project Development Objectives, and Design.....	6
2. Post-Approval Experience and Reasons for Cancellation	7
3. Assessment of Bank Performance	8
4. Assessment of Borrower Performance.....	8
5. Lessons Learned.....	8
Annex 1. Bank Lending and Implementation Support/Supervision Processes.....	9
Annex 2. List of Supporting Documents	11

A. Basic Information			
Country:	Kazakhstan	Project Name:	Center West Regional Development Corridor
Project ID:	P153497	L/C/TF Number(s):	IBRD-86190
NCO Date:	05/11/2017		
Lending Instrument:	IPF	Borrower:	MINISTRY OF INFRASTRUCTURE DEVELOPMENT
Original Total Commitment:	USD 977.86M	Disbursed Amount:	USD 0.00M
Revised Amount:	USD 977.86M		
Environmental Category: A			
Implementing Agencies: Committee for Roads JSC KazAvtoZhol			
Cofinanciers and Other External Partners:			

B. Key Dates				
Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	03/14/2015	Effectiveness:		
Appraisal:	11/02/2015	Closing:	12/31/2021	12/31/2021
Approval:	06/09/2016			

C. Ratings Summary	
Performance Rating by NCO	
Outcomes:	Not Applicable
Risk to Development Outcome:	Not Applicable
Bank Performance:	Satisfactory
Borrower Performance:	Satisfactory

D. Sector and Theme Codes		
	Original	
Major Sector/Sector		
Transportation		
Rural and Inter-Urban Roads	100	100

Major Theme/Theme/Sub Theme		
Economic Policy		
Trade	25	25
Trade Facilitation	25	25
Private Sector Development		
Jobs	8	8
Job Creation	8	8
Regional Integration	25	25
Urban and Rural Development		
Rural Development	33	33
Rural Infrastructure and service delivery	33	33
Urban Development	8	8
Urban Infrastructure and Service Delivery	8	8

E. Bank Staff

Positions	At NCO	At Approval
Vice President:	Cyril E Muller	Cyril E Muller
Country Director:	Lilia Burunciuc	Mariam Sherman
Practice Manager/Manager:	Binyam Reja	Juan Gaviria
Project Team Leader:	Jacques Bure Aliya Karakulova	Jacques Bure Aliya Karakulova
NCO Team Leader:	Aliya Karakulova	

F. Ratings of Project Performance in ISRs

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	12/21/2016	Moderately Satisfactory	Moderately Satisfactory	0.00

1. Context, Project Development Objectives, and Design

Country and Sector Context

1. Kazakhstan has made significant development progress over the last decade, with a steady increase in per-capita income and a substantial poverty reduction. Yet, since 2014, challenging external environment has resulted in a terms-of-trade shock that halved export revenue, affected domestic demand, and led to a broad-based economic slowdown. The government fiscal revenues, especially from the oil sector, have also declined substantially during the same period. With external imbalances emerging and putting significant pressure on official international reserves, the authorities decided to move to a floating exchange rate regime in August 2015.

2. In November 2014 Kazakhstan adopted a new economic anti-crisis program “Nurly Zhol” largely based on infrastructure investments. The program plans road and rail transport projects connecting Astana, the capital city with East, West, North, and South via rail, air, and road networks. The program expects that priority physical infrastructure and improved connectivity would foster business-driven regional economic integration through enhanced mobility allowing the setup of distributed production and delivery systems. The “Nurly Zhol” is also focused on new jobs and incomes through investments such as the Center West Regional Development Corridor Project (CWRP), which was designed based on those principles.

3. The Center West Corridor development was considered one of the highest priorities by “Nurly Zhol”, and was developed as an anti-crisis operation to provide jobs and stimulate the development of small and medium enterprises in lagging areas of Kazakhstan. The corridor represents a missing road link between Center and West (from Astana via Aktobe to Aktau) and within the urban agglomerations and the second tier cities. The new corridor would contribute to a more balanced development of the western and northern areas, and contributing to bridging the gap between the north-western region and Almaty and Astana, where the current economic wealth is concentrated.

Project Development Objectives

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

5. Project components and cost included:

Component Name	Cost (USD Millions)
Component 1: Infrastructure development and Supervision. The component would have financed civil works on about 1,014 km of road sections between Astana and Shalkar and consulting services for supervision of civil works.	1,088.08

Component 2: Corridor Development. The objective of the component was to customize the corridor to local advantage and to ensure that disadvantaged sparsely populated and remote areas will be provided access to basic services and new markets.	5.78
Component 3: Operation and Maintenance. This component would have allowed the MoID to implement the operation and maintenance strategy and finance facilities and equipment.	9.09
Component 4: Road Safety. The objective of the component was to help the Kazakh authorities to develop the Road Safety Strategy (RSS), strengthen institutional capacity in relation to the RSS implementation, and increase road safety awareness.	2.88
Component 5: Project Management	5.37

Implementation arrangements

6. The Ministry of Investments and Development (MoID) was foreseen the ministry with the overall responsibility for the project. The Committee for Roads (CR) of MoID was nominated as the Project Implementation Agency. CR was set to be responsible for project budgeting, project management and implementation, and for tracking, monitoring, and reporting project results and impact.

Risks

7. The risk associated with politics, governance, and macroeconomics were rated as substantial, and overall risk was rated substantial. The external environment remained uncertain. Kazakhstan continues to be vulnerable to the slowdown in China, economic contraction in Russia, protracted slowdown in Western Europe, and continuing global oil glut keeping oil prices low for several years.

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Substantial
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Moderate
7. Environment and Social	Substantial
8. Stakeholders	Moderate
Overall	Substantial

Quality at Entry

8. The Project was fully aligned with Government of Kazakhstan (GoK) programs, responded to the GoK needs, and was complementary to other IFIs' support programs in

the road sector. Solid economic, technical, safeguards (social and environmental aspects), as well as fiduciary, financial management, procurement appraisals were conducted.

2. Post-Approval Experience and Reasons for Cancellation.

9. External economic shocks since 2014 have halved Kazakhstan's export revenues and affected domestic demand, leading to a sharp decline in economic growth. GDP growth rate slowed from 6 percent in 2013 to only 1 percent in 2015 and 2016. In August 2015, facing pressure on official international reserves, the authorities decided to move to a floating exchange rate regime. Since then, the Kazakhstan Tenge (KZT) has lost half of its value. Government fiscal revenues, especially from the oil and gas sector, also declined substantially during the same period.

10. The current economic situation has affected the Partnership Framework Arrangement (PFA) signed in September 2014 between the GoK and participating international financial institutions (the World Bank, Asian Development Bank, European Bank for Reconstruction and Development, and Islamic Development Bank) to promote sustainable development, economic diversification, and inclusive growth. However, under the current economic environment and lower fiscal revenues, GoK estimates that implementing the PFA as originally designed would lead to GoK reaching the 15 percent threshold of debt service to GDP by 2019. GoK has therefore decided to defer about US\$4 billion of new borrowing under the PFA to remain below the debt threshold.

11. Accordingly, on November 18, 2016 GoK informed the Bank of its decision to defer taking on new loans for the road sector until 2020-2022 and to: (i) delay the ratification and implementation of CWRP; and (ii) suspend preparation of the proposed Center South Roads Project (CSRP). GoK further advised that both projects remained on its priority infrastructure investment list and that the two affected projects could be revived when conditions change. Exchange of correspondences between the Bank and the GoK during May and June 2017 confirmed that GoK has stopped further implementation of the project. Consequently, the Bank will withdraw its offer for the loan IBRD-86190 by June 20, 2017. The notice of cancellation has been prepared accordingly.

12. At the same time, the GoK has asked to restructure the South-West Roads (SWRP): Western Europe – Western China International Transit Corridor Project (CAREC 1B & 6B) (Loan No. IBRD 7681-KZ) and the East-West Roads Project (EWRP): Western Europe – Western China International Transit Corridor Project (CAREC 1B) (Loan No. IBRD 8156-KZ) to continue supporting priority investments and reforms in the road sector. Restructuring packages for these projects have been prepared and will be submitted for Board consideration on June 16, 2017.

3. Assessment of Bank and Borrower Performance. Lessons Learned

13. The Bank's and Borrower's performance was satisfactory. Both the Bank and the Borrower took actions to respond to the changes in economic and fiscal situation of Kazakhstan. Accordingly, both the Bank and the Borrower agreed to rationalize the road sector portfolio, including the cancellation of CWRP, dropping CSRP, and restructuring of SWRP and EWRP.

Annex 1. Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members at the Project preparation stage

Name	Role	Title	Unit
Jacques Bure	Team Leader (ADM Responsible)	Lead Transport Specialist	GTI10
Aliya Karakulova	Team Leader	Sr. Operations Officer	GTI10
Nurbek Kurmanaliev	Procurement Specialist (ADM Responsible)	Sr. Procurement Specialist	GGO03
Aliya Kim	Financial Management Specialist	Financial Management Specialist	GGO21
Ahmed A. R. Eiweida	Peer Reviewer	Lead Urban Specialist	GSU08
Aleksandra Durova	Team Member	Transport Specialist	GTI10
Alexei Slenzak	Safeguards Specialist	Senior Environmental Specialist	GEN03
Anca Cristina Dumitrescu	Peer Reviewer	Senior Operations Officer	GTI08
Animesh Shrivastava	Peer Reviewer	Program Leader	ECCCA
Dorsati H. Madani	Team Member	Senior Economist	OPSPQ
Fiona J Collin	Team Member	Sr Transport. Spec.	GTI03
Giang Thanh Huong Le	Team Member	Program Assistant	GTI03
Ivan Rossignol	Peer Reviewer	Chief Technical Specialist	GTCD2
Jasna Mestnik	Team Member	Finance Officer	WFALN
Keiko Inoue	Team Member	Senior Education Specialist	GED03
Lisa Lui	Counsel	Lead Counsel	LEGLE
Lola Ibragimova	Safeguards Specialist	Senior Social Development Spec	GSU03
Mohammed Dalil Essakali	Peer Reviewer	Operations Adviser	SARDE
Raman V. Krishnan	Team Member	Senior ICT Policy Specialist	GTI09
Rodrigo Archondo-Callao	Team Member	Sr Highway Engineer	GTI03
Rustam Arstanov	Team Member	Environmental Specialist	GEN03
Thomas Farole	Team Member	Lead Economist	GPSJB

(b) Staff Time and Cost		
Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD (including travel and consultant costs)
Lending		
Total:	114	441,617
Supervision/NCO		
Total:	11	53,493

Annex 2. Project Map

