



USAID | **KAZAKHSTAN**
FROM THE AMERICAN PEOPLE

Kazakhstan: PPP Opportunities in a Young Country

THE CHALLENGE IS AROUND THE CORNER

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EXECUTIVE SUMMARY

Several years ago, Kazakhstan started a few public-private partnership (PPP) initiatives, particularly in the transport sector (specifically with railway projects). These initial projects were designed during two periods, one before the Law on Concessions was passed in 2006 and one after this important milestone.¹

The principal characteristics of these projects were that once the concessionaire was selected, a public company (Kazyna or Samruk) could participate in the special purpose vehicle to facilitate the financial feasibility of the concession. At the same time, the debt instruments were guaranteed by the government to encourage the participation of the pension funds in the system.

Currently, the government is working on several proposals to update the Law on Concessions with the objective of facilitating the participation of private companies and increasing competition for the projects. The principal mechanism it is considering to accomplish these goals is co-funding the project and also backing the projects with guarantees. Currently the law enables the government to provide to the concessionaire guarantees for infrastructural bonds within the limits of concession agreements, guarantees for loans attracted to finance concession projects; the transfer of exclusive rights related to running a concession object; and the provision of grants in kind in line with Republic of Kazakhstan legislation.

With the proposed changes in the law, the government can include co-financing of concession projects, compensation for certain amount of investment costs of the concessionaire, and guarantees of consumption by the Government of certain amount of goods (works, services).

Another important set of proposals would protect users from being subject to double tariffs from the concessionaire as well as the public sector.

Another important change is the formal creation of a PPP unit that will dictate guidelines for each project and will orient every institution responsible for PPP projects in each step of the PPP process.

In this report, we describe the experience with PPPs in Kazakhstan and analyze the investment climate with respect to the economic and financial situation. Next, we describe the principal amendments to the Law on Concessions that the government presented to Parliament.

Finally, based on our experience with successful PPPs in Western countries that could be applicable to the Kazakhstan context, we make recommendations in support of the PPP program Kazakhstan is currently preparing to launch. Our recommendations are divided in four important themes: investment climate, institutional organization, procedures, and business design.

We strongly recommend that the government adhere to the principles and measures necessary to achieve high levels of credibility. Proving a trustworthy partner is the most important factor in creating and maintaining a successful and sustainable PPP program in a young country with strong economic indicators.

The challenge is around the corner!!

¹ This law does not allow concessions in the mining sector, which are regulated in the Law “On Mineral Wealth and Mineral Wealth Use.”

Section I: Investment Climate

1. Attracting Foreign Investment

Of Central Asian countries, Kazakhstan has attracted sizeable foreign investment in the past 10 years. During that time, it has received around 80 percent of the total foreign investment coming to the region. In 2007 alone, foreigners have invested \$43.5 billion in the country, which is equivalent to 42 percent of its GDP. Around 75 percent of the total investment was in the oil, gas, and mining sectors and related services. Professionals interviewed were very optimistic about the country's capacity to attract more foreign investment in the near future, and they suggested that it is necessary to diversify this foreign investment in areas other than oil, gas, and mining. They also mentioned that PPPs in infrastructure could provide an opportunity for this diversification.

Nevertheless, the energy sector will remain a draw. One important project that will generate more investment is the Kashagan oilfield, which will begin operating in 2011.

The National Fund (also called National Oil Fund, since the major part of its money comes from oil revenues, remaining money being from other raw material sectors, privatization and state land sale) was established in Kazakhstan to promote economic stability in periods when oil production and/or the price of oil might be low. Parliament supervises this Fund, and it operates as a national reserve. The Fund can also help to mitigate inflation risk and to support the diversification of Kazakhstan's economy through the creation/funding of institutions promoting new business like the Kazyna Sustainable Development Fund, Kazakhstan Development Bank, National Innovation Fund, Agriculture Development Program, and others.

Kazakhstani professionals do not expect that changes in the tax code related to the export oil duty will damage foreign investment. The duty can generate around \$1 billion for the government, and this sum is in addition to the \$23 billion collected in the National Oil Fund.

2. Country Classification With Respect to Income

According to World Bank's classification,² Kazakhstan is an upper-middle-income country with a GNI per capita in 2006 of \$3,870.³ Neighboring countries like China, Turkmenistan, and Azerbaijan are lower-middle-income countries with GNI per capita between \$906 and \$3,595. On the other hand, Kyrgyzstan and Uzbekistan are lower-income countries with GNI per capita below \$906. Only one of the Kazakhstan's neighbors is upper middle income country: the Russian Federation. Kazakhstan ranks 71st out of 178 countries in the 2008 World Bank Doing Business report.

This group of indicators shows Kazakhstan as an attractive country to businesses interested in long-term contracts in Central Asia.

In addition, the country has had strong economic growth in the last eight years as well as economic and political stability. According to the World Bank, the most important risks it faces, in the short run, are to maintain macroeconomic and financial stability and, in the long run, to manage its potential "Dutch disease" problems adequately.

² World Bank Atlas method

³ Although the estimated gross national income per person is \$5,010 for 2007.

Figure 1: Kazakhstan Map



3. Economic Growth, Inflation, and International Economic Indicators

Kazakhstan's economic growth rate has been one of the highest in former Soviet countries in the last eight years, reaching an annual GDP of as high as 9.8 percent in 2000 and more than 8.5 percent in 2007. The principal resources bringing in higher revenues for Kazakhstan are oil, natural gas, copper, and zinc.

The expected annual inflation rate is around 17 percent for this year, up from 10.8 percent last year. This trend could trigger an increase in interest rates by the National Bank of Kazakhstan (the central bank). Economic growth — projected to be 6.7 percent this year — will be lower than any other time in the last 10 years. Even so, this rate is not bad for a period with many external shocks. This lower level of growth is explained by slow construction and credit expansion.

After the economic crisis of 1998, Kazakhstan introduced a free-floating exchange rate for its currency, the tenge. However, the National Bank of Kazakhstan can participate in the market as it did in 2007 when the liquidity problem of the banking system required intervention to create equilibrium in the exchange rate market. Currently, one dollar is sold for 120 tenge. Last year, the National Bank of Kazakhstan used 25 percent of its reserves to protect the value of the tenge.

Last year, the current-account deficit was US\$7.2 billion (around 6.9 percent of GDP), which is primarily explained by debt in bank, transport, and construction services, which face rapid growth.

It is expected that increasing the price of oil can reduce the deficit this year and that Kazakhstan can fulfill its obligations based on foreign investment.

In Kazakhstan, 18 percent of the population lives in poverty. It must improve and expand its infrastructure to reduce the incidence of tuberculosis, increase the quality of water, and improve infrastructure corridors.

In particular, Kazakhstan needs to improve infrastructure in five important transport corridors to ensure that economic growth can continue over the long run. In fact, in the last few years, several

economists have indicated that infrastructure problems are creating bottlenecks and constraining economic growth. The principal corridors include the following:

- Northern Corridor of Trans-Asian Railway Main (TARM): Western Europe – China, Korean Peninsula, and Japan via Russia and Kazakhstan (section Dostyk – Aktogai - Sayak – Mointy – Astana – Petropavlovsk (Presnogorkovskaya)).
- Southern Corridor of TARM: South-Eastern Europe – China and South-Eastern Asia via Turkey, Iran, Central Asian states, and Kazakhstan (section Dostyk – Aktogai – Almaty – Shu – Arys – Saryagash).
- TRACECA: Eastern Europe – Central Asia via the Black Sea, Caucasus, and the Caspian Sea (section Dostyk – Almaty – Aktau).
- North-South: Northern Europe – Gulf States via Russia and Iran, with Kazakhstan’s participation in the following sections: sea port Aktau – Ural regions of Russia and Aktau – Atyrau.
- Central Corridor of TARM (Saryagash – Arys – Kandagach – Ozinki)

4. Fiscal Policy and Budget Issues

Since 1997, Kazakhstan has followed international procedures and standards in budget classification and, in 1999, it enacted the Law “on the budgetary system.” Currently, the principal revenues come from mineral resource taxes and other taxes. The value added tax is 14 percent, and the personal income tax is 10 percent. The new taxation code has been in force since 2002. Currently the code is undergoing revision with the purpose of promoting modernization and diversification of economy and bringing businesses out of the shade.

The system has adequate fiscal discipline as well as transparency in macroeconomic statistics and accounting.

It is worth mentioning that the budget has two primary areas: the current budget and the development budget. The important difference between the two is that the first includes year-by-year expenses and the second includes investments that require more than one year to complete, such as investments in infrastructure.

The configuration of the budget is a matter of interest for the PPP program, because normally PPP projects are associated with long-term contracts and the investment is completed over more than one year. Therefore, most of the PPP investment will be included into the development budget.

5. Financial System and Institutional Investors

In this section, we will primarily describe the banking system and pension funds operating in Kazakhstan. These are the principal sources of domestic funds for PPP projects.

5.1 Banking System

Kazakhstan’s banking system has grown in tandem with the economy, although last year the system was affected by the crisis in the United States. Loans are decreasing while the domestic interest rate is increasing. The sector forecasts a recovery during 2009 that will enable it to continue investing in construction and real estate at the same rate as earlier.

The Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Operations is an independent body with the responsibility of supervising and regulating financial markets (banks, the pension system, and insurance companies).

In 1999, the country created the Kazakhstan Fund for Guaranteeing Deposits of Individuals to assure citizens participating in the banking system that they will have access to their money even if the banking system suffered a shock. This guarantee fund brings credibility and stability to the banking system. In addition, there is the Kazakhstan Fund for Guaranteeing Mortgage Credits created in the country, it is controlled by the Ministry of Finance and the National Bank.

In addition, the government enabled citizens to bring money they had kept outside the financial system during preceding times into the system in a confidential manner without paying taxes. It did so through the Law of 2001 “On the amnesty of citizens of the Republic of Kazakhstan in connection with the legalization of money by them” and the Law of 2006 “On the amnesty of citizens of the Republic of Kazakhstan in connection with the legalization of property and capital”. Under this policy, the banking system received around \$480 million, which increased the country’s financial base.

In Kazakhstan, interest rates are still high (12 percent - 15 percent) compared with Europe or the United States. However, it is expected that the price of money will decrease with the entry of more international banks into the system.

Last year, the government supported the banking system when it had trouble refinancing loans during the liquidity crisis by providing assistance in the amount of \$4 bln.

Loans from local and international banks are also a potential source of funding for PPP projects. Kazakhstan could allow several banks to participate in syndicate loans.

5.2 Pension Fund System

The Chilean pension fund system, individual capitalization, was implemented in Kazakhstan in 1998. As of September 2007, the accumulated funds are around \$9 billion and, together with the Russian Federation, offer a successful example in Central Asia countries.

Kazakhstan’s pension system is highly liquid to initiate investment in long-term infrastructure projects. The Shar-Oskemen Railway will be one of the first projects in which pension funds will participate.

In the case of Chile, it is very important that PPP projects have strong investment or a high credit rating because pension funds are not allowed to participate in projects with high-risk classifications.

Table 1: Pension Funds (Sept 2007)

Country	Pension Fund (In US\$ Million)
Chile	107,000
Mexico	74,000
Poland	53,000
Argentina	30,000
Colombia	24,000
Peru	20,000
Russia Federation	18,000

Kazakhstan	9,000
El Salvador	3,000
Uruguay	2,000
Bolivia	2,000

In the case of Chile, pension funds have also participated actively in infrastructure projects because 96 percent of the capital market transactions related to infrastructure concessions have an international credit insurance of AAA.

To qualify for coverage with international insurance companies, the project must have a preliminary international investment grade. Then, it will depend on the structure of the project and whether the concessionaire can pay the insurance companies fee.

In Chile, there are around five international credit insurance institutions working in the infrastructure sector. In order of importance, they are MBIA, XL Capital, FSA, Ambac, and the Interamerican Development Bank.

Finally, Chilean citizens recognize the importance of road concessions both to connect cities and as a place to invest their pension funds, as is made clear in the advertisement (Figure 2) placed by the pension fund alongside Chile's roads.

Figure 2



6. Kazakhstan: Investment Grade Country

Kazakhstan has been doing a great job in most public policy areas — as we demonstrated earlier for the financial sector — introducing pension funds, maintaining a healthy banking system, and bringing economic and political stability to the country. Year by year, this young country has been getting better ratings from the principal rating agencies, like Standard & Poor's, Moodys, and Fitch Ratings. At this moment, it is an investment grade country. Since October 2007, when Kazakhstan's rating was reduced by one notch due to the liquidity crisis, Kazakhstan has had an investment grade of BBB-.

In Table 2 (next page), we see that Kazakhstan surpasses many Latin American countries, with ratings just below Chile and Mexico.

For a new PPP program, it is very important that the country have investment grade rating. It is not a *sine qua non* condition, but it is highly desirable as it is an important signal for foreign investors. In addition, every project in the country will have access to lower interest rates, generating better allocation of resources.

According to most foreign economic professionals in Astana, Kazakhstan is prepared to continue growing and to continue its high investment grade in the future.

Chile has a successful PPP program with the participation of European, Asian, North American, and Latin American investors. Most of them participate because of the credibility of the PPP system, which is supported by the Chilean rule of law, protection for foreign investors, egalitarian treatment, and attractiveness of the projects.

Table 2: Investment Grade Comparison

Countries	Investment Grade (Long Term Foreign Currency)
Chile	A+
Mexico	BBB+
Kazakhstan	BBB-
Brazil	BBB-
Colombia	BB+
Peru	BB+
El Salvador	BB+

7. Kazakhstani Public Companies

During the past 15 years, Kazakhstan has followed an interesting privatization plan. In December 1995, the government passed a decree called “On privatization” and, in 1996, it passed a resolution commencing the third phase of privatization (1996-1998). The mechanisms used by the government were direct sales, tenders, and auctions.

During this period, the electric power generating stations and thermoelectric power stations of Gorinsk, Ridder, Oskemen and Semey were also privatized, and the American company AES Suntree Power won two concessions for the hydroelectric power stations of Oskemen and Shulbinsk.

However, Kazakhstan still has around 200 public enterprises. Several are national holdings of public companies. One is Kazyna, a sustainable development fund that houses the Kazakhstan Investment Fund and the Kazakhstan Development Bank. Kazyna has seven subsidiaries.

Another important public company is the joint stock company “Kazakhstan Holding for Management of State Assets “Samruk” created on January 28, 2006. Its objective is to improve the efficiency of public companies in strategic sectors like mining, railways, energy, and telecommunications. The government encourages high quality and maintains adequate price levels for the users.

Samruk Invest Limited Liability Partnership can participate with equity in the Private Special Purpose Vehicle, created to manage a concession. Kazyna and Samruk Invest both have a PPP department to

deal with concession issues. In the case of Kazyna, it can participate in a PPP through equity in the SPV (Special Purpose Vehicle) up to 49 percent in each project. Thus, in the case of Doszhan, Kazyna has a 49 percent of equity in the SPV for this concession project.

Section II: Kazakhstan Experience in PPP Projects

The Law “On Concessions” was not enacted until 2006, but Kazakhstan started some concession projects — using the civil code — before this law came into force. The projects implemented before the concession law are considered hybrids between a PPP and public investment, which means they do not have the familiar structure of Western concessions used in Europe and Latin America.

After the law was passed, several railways projects were adjudicated. The railways department of the Ministry of Transport and Communications has several others PPP projects in preparation.

1. Railway Projects

Kazakhstan has an important system of railways with around 14,400 kilometers of track. In the east, an industrial zone produces cement, copper, zinc, and timber cutting and, there are 100 kilometers of railways leading into Russian territories (Zashchita (Oskemen) – Lokot (Russia) – Semey). To avoid this route, and the high charges on the entry/exit of cargo through Russia, it was necessary to design a new railway. This new railway will also reduce the distance and train weight with additional traction because it will have a smooth slope.

In 2005, the government adjudicated the build-operate-transfer (BOT) concession to construct, operate, and maintain the new railway line “Shar-Oskemen Station” (around 153 kilometers of railways and 14 kilometers of station lines) to the joint stock company (JSC) Doszhan Temir Zholy, specially created to implement this concession.

The concessionaire is responsible for preparing final studies, construction, dealing respectfully with environmental issues, operating, maintaining, and obtaining financial resources for the concession period. The required investment is around \$250 million.

The volume of cargo planned for the new railway will be around 9,400 tons in 2009. It is expected to reach 16,300 tons per year by 2028. With respect to passengers, the new line is expected to carry 900,000 passengers at the beginning and 1.7 million passengers per year by 2028.

JSC Doszhan was established on January 18, 2005, and the concession agreement with the Ministry of Transport and Communications was signed on July 1, 2005. Construction started in August 27, 2005, and the line is expected to be ready this year. The concession will finish in the year 2028, and the assets of the concession will return to government hands.

This concession model has been called SPP (state-private partnership). The Kazakhstan Investment Fund (a public fund) participated in the company as a minority shareholder. The Fund is prohibited by law from acting as a majority shareholder. The company concessionaire participates with equity and raises money by issuing an infrastructure bond (which was bought by pension funds). The government backed the bond with a guarantee, and it was signed between the bondholders and the Ministry of Finance.

On the other hand, the securities were included in the list of certificates that pension funds are allowed to buy with high level of reliability. In addition, the instrument was included in the Kazakhstan stock exchange of Kazakhstan listed with the highest categorization (A).

Table 3: Characteristics of Kazakhstan's Infrastructure Bond

Type of bond	Coupon bond of the first issue
Type of debt	Secured
Issuer	Joint stock company Doszhan Temir Zholy
Nominal price	1,000.00
Issue and servicing currency	KZT
Issued in bonds	30,000.000
Issue volume at face value	30,000,000,000
Issue Date	08-02-05
Maturity Date	08-02-28
Term	23 years
Interest rate	8.05% APR
Interest payment frequency	1 time a year
Market makers	BCC Invest JSC - subsidiary organization Bank CenterCredit JSC

Source: Kazakhstan stock exchange (KASE)

The construction phase for this project started in August 2005, and it will finish in December 2008. The operation phase is expected to begin in January 2009. The estimated investment for this project is around 21 billion tenge.

After the law on concessions was approved on July 2006, the Ministry of Transport prepared three concession projects:

- a) Yeralievo – Kurvk with 14.4 kilometers and 7.6 billion tenge of investment. This project will connect the seaport of Koruk in the Caspian Sea and the south main port of Aktau.
- b) Transmission electrification of railway section Makat-Kandygash with 392 kilometers and an investment of 35.7 billion tenge. The government selected Nurzhol Energy Ltd. on December 14, 2007 as the concessionaire. The concessionaire is currently gathering information for the project. It is expected that the concessionaire will sign an agreement with Kazakhstan Temir Zholy JSC to manage the concession,
- c) Korgas-Zhetygen with 298 kilometers and an investment of around 93 billion tenge. This project will open the second border with China. On March 21, the government finished the selection process, and the concessionaire is ENRC Logistics Ltd. The concession agreement was signed on May 18th of this year. It is possible that final studies will conclude and the construction process can start in the second semester of this year.
- d) Railroad section Mangvshlak-Bautino. Was recently adjudicated on May 23th. This project will connect the main port of Boutino in the Caspian Sea to open the supply to the west countries. The project will serve the enterprises working with oil and gas operations at the Caspian Sea Shelf. This project has 135 kilometers and 22.7 billion tenge.

Most of these projects consist of construct, operate, and maintain tasks. The railway will be used principally for cargo because the passenger demand is still not developed. Apparently, several companies participated in the concession process, and the evaluation criteria have included both technical and economic factors. Among others, the factors considered were the concession period, construction period, experience of construction companies, technical capacity of the bidder, qualifications of personnel, government support required, and investment levels.

Another important project is Yeraliyev-Kuryk railroad (14.4 kilometers, 75 billion KZT). For this project, Astana –AREK Ltd. entered into design and contract preparation with Intereng-Almaty Ltd.

The design and documents preparation will finish in September 2008. Currently, the concessionaire is gathering initial data and technical conditions documents (including electrification, water supply, and other communications).

In February 2008, the Ministry of Transport and Communications created a new department responsible for coordinating the development of PPP projects in the railway sector. This department will be implementing the policy of the Minister of Transport and Communications supporting committee work.

2. Airport and Port Projects

With respect to airports, Kazakhstan has two international airports, one located in Almaty and the other in the capital Astana and eight important national airports.

Two ports operate in the Caspian Sea: Atyrau and Aktau. Other river ports are Semey, Pavlodar, Oskemen, and Irtysh.

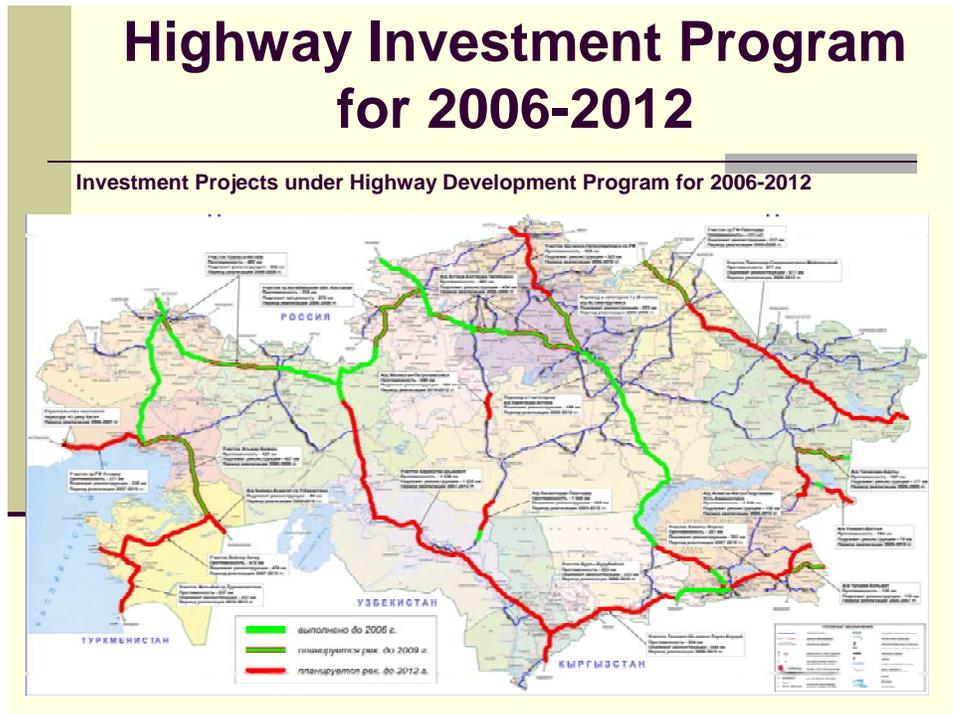
However, there are no projects managed by private companies in this sector yet.

3. Road Projects

There are no projects managed by private companies in this sector yet, but the government has an ambitious program to develop roads between 2006 and 2012 as we can observe in the map on the next page. The government is currently reconstructing Kazakhstan's parts of six international transit corridors under a program to develop the road transport sector, approved by decree (December 9, 2005, No. 1227).

- a) Tashkent – Shymkent – Taraz – Almaty - Horgos
- b) Shymkent – Kyzylorda – Aktobe – Uralsk - Samara
- c) Almaty – Karaganda – Astana - Petropavlosk
- d) Astrakhan – Atyrau – Aktau - border of Turkmenistan
- e) Omsk – Pavlodar – Semey - Maikapchagai
- f) Astana – Kostanai – Chelyabinsk - Yekaterinburg

Figure 3



Section III: Law Amendments and the New PPP Program in Kazakhstan

Over the next several years, a principal goal of the government is to encourage the diversification of the economy, which is still highly correlated with oil and mining sectors.

Concessions or PPPs are a new tool they can use to create a new economic sector, for example, opening the infrastructure sector to private participation (or other sectors to which the private sector can bring innovation and experience to increase users' value for money).

Kazakhstan urgently needs to invest in infrastructure. The Ministry of Transport and Communications has estimated a total of US\$26 billion to be invested in different infrastructure project to increase the productivity of the country and facilitate the connections between east and west and south to north. Kazakhstan needs to have adequate infrastructure networks to export its national production through neighboring territories. New investments in infrastructure will allow the country to increase the quality control and ensure maintenance funds for the long run.

The amendments to the Law on Concessions were sent to the Lower and Upper Houses of Parliament.

1. Amendments to the Laws

This year the Ministry of Finance is amending the existing concessions law to enable it to foster several BOT projects. These amendments will require adjustments to the budget code, the tax code, and the law on highways. The government's main objectives in making these amendments are:

1. Improve the quality of the concessions process to protect the public interest.
2. Increase the level of investor interest in concessions through public support. For example, roads could be a project that benefits from financial support from the government because of the low profitability of the business.
3. Achieve fair participation from the private and public sectors, without preferring one or the other.

We summarize the amendments to the law in Table 4.

Table 4: Main Proposed Changes for Laws Related to Concessions

Law Title	Amendment Code
Budget Code	<ul style="list-style-type: none"> • Introduction of a new definition “concession projects co-financing” as one of the type of budget investment, and “concessive obligatory” as a type of government debt. • Preparation of a list or ranking for co-financing concession projects • Outlining the competence of state authorities during preparation and realization of concession projects
Tax Code	<ul style="list-style-type: none"> • Elimination of a double user payment (by concessionaire toll road and by tax authorities) on the roads
The Law “On Highways”	<ul style="list-style-type: none"> • Elimination of the requirement to have an alternative thoroughfare during construction the toll road; • Calculation of the social benefits for using the toll roads for each type of transportation; • Establishment of maximum rates for the toll roads
Law “On Concession”	<ul style="list-style-type: none"> • New definition of “concession” and its basic principles; • Compensation for concessionaire expenses in order to attract competitors for the concession • Improvement of the selection and transferring order, according with budget legislation. • Clarification of procedures for conducting repeated tenders in order to select the concessionaire • Creation of the PPP Unit

Source: Ministry of Economy and Budget Planning

Currently, the law mentions that the government can apply guarantees for infrastructure bonds and guarantees for loans to finance the concession. One of the most important proposals included in the amendments to the law is the technical and political decision of the government to guarantee consumption of a percentage of the service delivered/produced by the concessionaire. This policy will mitigate the demand risk, facilitate project financing, and increase competition for the tender. Currently, this mechanism is being used in several concession projects around the world. Companies participating in such concession projects have found this mechanism a useful tool in order enabling bankability of infrastructure projects.

The government is also eager to support concession projects through co-funding or paying some expenses during the investment period. The idea here is that the government can leverage several projects with a fixed amount of state financing. If this policy is adequately managed, the government can be efficient because the infrastructure project will not need all necessary funds from the government.

2. Institutional Organization

The current legislation “On concessions” defines the responsibilities each government body has in the concession process. However, it does not indicate clearly the name of the government body. Given the functions ascribed, we can assume that the principal institutions involved are the following:

1. **Ministry of Economy and Budget Planning:** Considering the plan for social and economic development and sector programs, this Ministry must create a list of concession projects consistent with government policies. In addition, this Ministry is responsible for the guarantees accounting included in the concession contracts.
2. **Sector Ministries:** Every ministry can formulate a list of concession projects originating from itself or from private initiative. The ministry also has the responsibility of preparing the framework for the tender and entering into a concession agreement, where it will be in charge of the concessionaire supervision.
3. **Local Governments in Regions (Capitals or Important Cities):** These authorities, according to the current law, have the same responsibility as sector ministries plus two additional important responsibilities: (1) conduct the negotiations with a concessionaire to protect the regional interest and (2) develop and approve a regulation on a commission with respect to objects referring to municipal property.
4. **Committee on State Property and Privatization under the Ministry of Finance:** This government body must coordinate the concession proposals submitted by each sector and include them on the list of concession projects, maintaining a register of concession agreements. In addition, this authority also can be the tender organizer and be in charge of the supervision of the concession.

In Kazakhstan, the executive branch of government is composed of ministries, committees (under each ministry), and agencies, which depend directly upon the president. Examples of agencies include: the Agency for Natural Monopoly, the Agency for Financial Supervision (banking sector), and the Agency for the Protection of Competition. The government intends that committee can list annually the concessions anticipated for the next three years.

The amendments to the law maintain the institutional responsibilities of the government bodies mentioned above, but they also propose creation of a specialized organization for concessions. The proposal does not mention in which ministry this new organization will be located or if it will depend directly on the prime minister.

The new responsibilities proposed for existing institutions related with concession projects include:

1. **Ministry of Economy and Budget Planning**
 - Establish a specialized organization for concessions responsible for analysis and review of concession proposals, economic appraisal, feasibility studies, and analysis/review of concession projects submitted by bidders during tender.
 - Create a list of concession projects taking into consideration results of economic feasibility studies and study/submit it to the government.
 - Reconcile bid documents for subjects of concession agreements under state ownership and for subjects of concession agreements, where the following is envisaged:

government guarantee; government surety; incurrence of concession liabilities by the government of Kazakhstan or co-financing from the republican budget.

- Monitor implementation of concession projects.

2. Sector Ministries

- Arrange for transfer of property established (constructed) under concession agreements into state ownership.

3. Local Governments in Regions (Capitals or Important Cities)

- Prepare proposals for inclusion of concessionable municipal property of a corresponding sub-national entity into the list of concession objects, taking into account proposals made by individuals and legal entities as a matter of private initiative.

4. Authority for Implement Government Property Management Rights

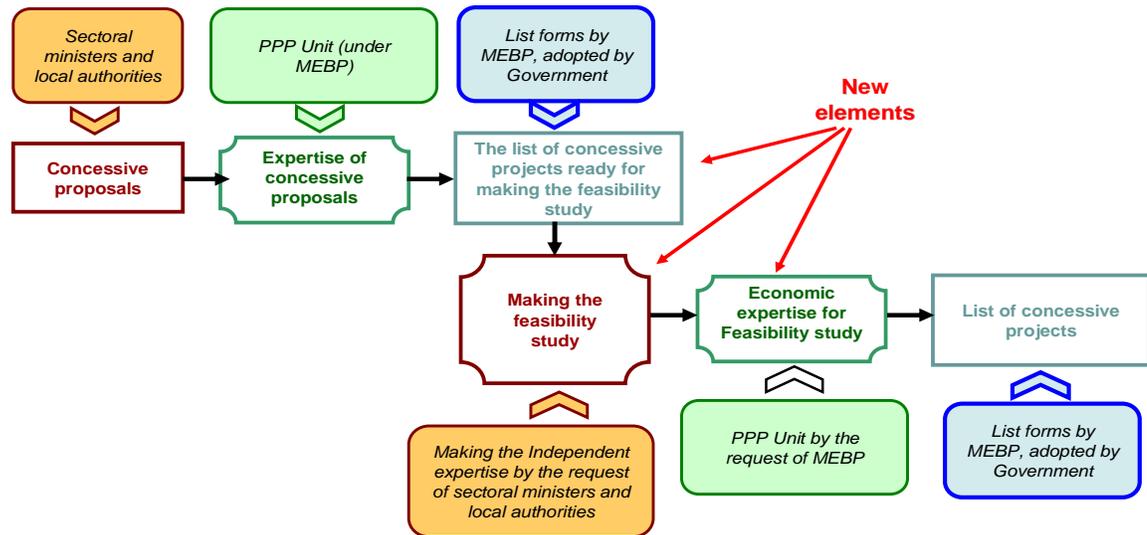
- Accept property established (constructed) under concession agreements into state ownership.
- Cause auditor to audit financial and economic activity of concessionaire for subjects of concession agreements under state ownership.
- Arrange for involvement of new concessionaires in implementation of a concession project in case of early termination of a previously awarded concession agreement related to national property.
- Cause auditor to audit financial and economic activity of concessionaire for subjects of concession agreements under state ownership.
- Arrange for involvement of new concessionaires in implementation of a concession project in case of early termination of a previously awarded concession agreement related to national property.

Considering the amendments to the law and assuming that the PPP unit is located under the Ministry of Economy and Budget Planning, Figure 4 illustrates the interrelation between the institutions involved with the PPP projects in Kazakhstan.

Thus, the new elements are basically:

- The list of concession projects accepted by the PPP Unit to start the feasibility studies.
- The process of feasibility studies itself.
- The possibility that the PPP Unit can participate in the design of some feasibility studies.

Figure 4: Institutional Organization for PPP Development

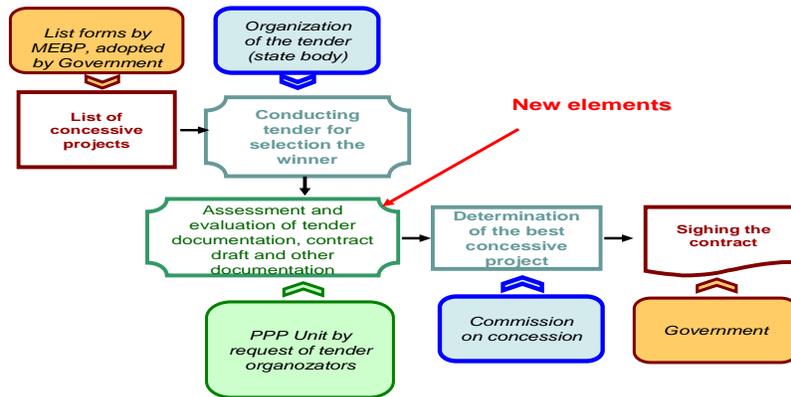


3. Procedures of the PPP System

Considering the procedures established in the Law on Concessions and also the proposed amendments, we can summarize the procedures as in Figure 5 (next page).

- The PPP Unit, supposedly under the Ministry of Economy and Budget Planning elaborates the list of projects.
- The state body (ministries, local government, or Committee on State Property and Privatization under the Ministry of Finance) prepares the tender for the bidders.
- The institution responsible for preparing the tender, prepares the contract documentation, evaluates bidders' proposals, and can ask for the support of the PPP unit professionals for any of these activities.
- The responsible institution must also sign the contract or previous agreement with other responsible organs of the public sector, like the Commission on Concessions.

Figure 5: Procedures for Kazakhstani PPP Projects



According to the professionals participating in the PPP process, they mentioned that the government’s accounting process in the fiscal budget will include subsidies or co-funding as state investments, whereas the guarantee will be considered as public debt.

With the objective of increase the efficiency and also mitigating coordination problems which are normal in decentralized schemes, we recommend that the government implement the following tools:

1. Eligibility criteria and Methodology to select the PPP projects
2. Institutional responsibilities Manual
3. Procedures Manual

1. Eligibility criteria

While the government can have multiple criteria in choosing the list of its projects, it is important to prioritize objective criteria including cost-benefit analysis and financial modeling. The first methodology measures economic and social factors to see if the project has a direct impact in the welfare of the community. The second methodology indicates if the project is financially viable and therefore if the project can be self-funded in a project finance scheme by the private sector or it will need any government support.

Governments always will have subjective factors in deciding on projects but it is recommend that these subjective factors have less weight in the decision-making process.

2. Institutional Responsibilities Manual

A PPP project is the final result of a multiple interactions and decisions made by different government institutions. It is a sine quanon requirement to have an Institutional Responsibility Manual that describe in detail the activities that a particular institution will be responsible for, the period of time to prepare the activities and also the economic and human resources involved.

In a decentralized scheme which the government is proposing, where the PPP projects can be executed by multiple public units, the coordination factor will be extremely important to mitigate future problems, overlapping and duplicity of resources.

3. Procedures Manual

Once the PPP system has the regulatory framework outlined in an Institutional Responsibilities Manual, it will be necessary to prepare a Procedures Manual which will be the guide for each institution with respect to the flow of documents and approval for every public unit participating in the system.

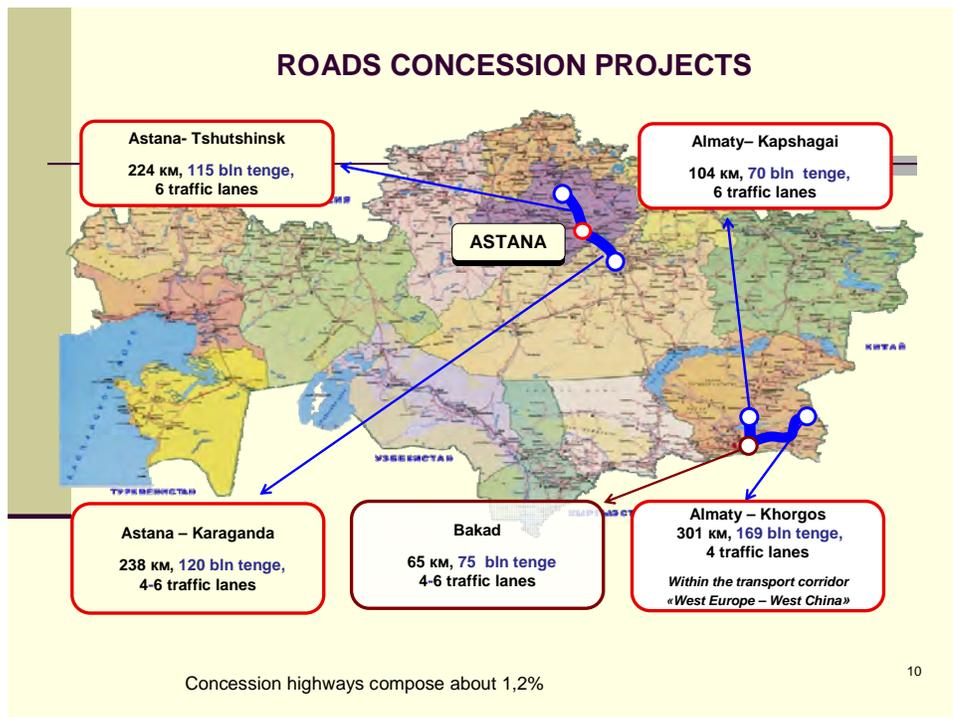
This manual will convey an increased understanding of document flow for every professional working in the PPP system. The Manual can also include deadlines and times for approval of every document required by the others public institutions.

4. Concession Projects

The Minister of Transport and Communications, Mr. Serik Akhmetov, has announced that at least five road projects will be launched next year 2009 as PPP contracts:

- a) Almaty-Khorgos
- b) Astana-Karaganda
- c) Almaty-Kapshagai
- d) Tashkent-Shymkent-border of Zhambyl region.
- e) BAKAD construction in the Almaty region. Big Almaty belt-line highway (BAKAD)

Figure 6



The government is focused on developing concession projects in the productive area of the economy. After this program is successful, then it could be expected that the government can design new projects in the social areas like health and education.

In the case of railways, the government's plans are very optimistic and include at least the following projects:

- Uzen-Gyzylgaya-Bereket-Etrek-Gorgan. 137 kilometers and 27.7 billion tenge. This project is part of the mutual agreement between Turkmenistan, Kazakhstan, and Iran. It includes 137 kilometers in Kazakhstan, 520 kilometers in Turkmenistan, and 70 kilometers in Iran.
- Makat-Kandygash - electrification of this railway section. This project will decrease the cost of transportation and eliminate environmental pollution. The length is 392 kilometers, and the investment is over 25 bln tenge.

In the case of electrification of railways projects, the government is thinking of developing the following projects targeted at the intensification of cargo transportation between Kazakhstan and China:

- Transmission line Almaty-Aktogay.
- Transmission line Aktogay-Dostyk..
- Transmission line Aktogay-Mointy..

With this program, Kazakhstan is expected to have around 16,000 kilometers operating in adequate condition.

One important project, currently under development, is the new industry to produce locomotive equipment. The construction is expected to finish in 2009. It is an association between the government of Kazakhstan and General Electric.

Another railroad project under concession was Mangyshlak- Bautino with around 135.1 kilometers and an investment of 22.7 billion tenge. This project was launched on May 23th, and the government is expected to select the concessionaire at the end of July.

In addition, the government is expected to finish the concession for the construction of Beineu-Zhezkazgan railway line (988 kilometers, 274.2 billion KZT). The project feasibility study was prepared by Design Institute Transproject-K Ltd., and this study was submitted to Gosexpertiza RGP (state company “State expertise”) to get its recommendations. This study was also submitted to Water Resources Committee of the Ministry of Agriculture, the Chief Sanitary Doctor of the Ministry of Healthcare, and the Ministry of Environmental Protection. This project is in the pipeline and the government plans to execute it this year.

Finally, another important project is the construction of railway line Uzen - state border with Uzbekistan (137 kilometers, 27.7 billion KZT). The feasibility studies for this project were prepared by Intraskom JSC. Recently, the feasibility study was submitted to the Southern Branch of Gosexpertiza RGC (Almaty) to get the recommendation of state experts.

Section IV: Recommendations

1. Investment Climate

Kazakhstan had a huge improvement in economic stability in its short life as an independent country and sent an important signal to international investors with its Standard & Poor's investment grade. This allows the country relatively cheap access to international financial resources in comparison to countries that do not have this important investment grade recognition.

Its positive rating also suggests that domestic investors can participate in Kazakhstan's long-term contracts with low risk. However, this country is still young and the investment grade is still the lowest among the group of ranking. Some international investors may require additional guarantees to invest in PPPs or long-term contracts. For instance, Chile has a higher investment grade (A) than Kazakhstan, and yet private investors demand guarantees for PPP contracts.

We should mention that this consultant did not have time or opportunity to talk with domestic or international companies participating in business in Kazakhstan. Once the institutional framework and the draft contracts for any concession are ready, the government will need to talk with domestic and international investors to get feedback about the system and the design of PPP contracts.

In this context, we must highlight that an adequate business design could mitigate and/or compensate for risks that bidders envision for PPP projects. We include several recommendations related to business design below for the government of Kazakhstan.

2. Institutional Organization

2.1 Building Capacity

The PPP Unit and most of the professionals working in the public sector and dealing with PPP projects must have a permanent education program in the technical areas related to PPPs. For instance, engineering, environmental concerns, economics, cost-benefit analysis, financial modeling, regulation, transport economics, and other topics. Such a program will enable professionals to increase their skills. At the same time, the PPP system will be highly responsive to the needs of the specific jobs.

2.2 Multilateral Agencies' Participation

It is strongly recommended that bilateral and multilateral agencies like EBRD, Eurasian Bank, ADB, and others support the government principally in two steps. The first phase is basically the institutional organization of the PPP Unit in the Ministry of Economy and Budget Planning and the principal PPP units, for example, in the Ministry of Transport and Communications and the Ministry of Energy and Mineral Resources. The capacity of those public organizations must be built for the second phase to be successful.

The second phase is the implementation of the Kazakhstan PPP Program, where bilateral and multilateral agencies can participate as transaction advisors to the projects, providing funds for the correct design of feasibility studies, participating in the promotion of the PPP projects, and finally helping the government bring high levels of transparency by participating in the selection process of a couple of PPP projects.

2.3 Level of Salaries

It seems that currently and according to the professionals interviewed, the salary level for the average professional working in the public sector is low. Increasing the salaries of professional people working in the PPP world should be seriously considered. First, it is important to maintain a direct relation with the productivity level demanded by the job. Second, public sector professionals must be motivated to protect the public interest in each interaction with the private sector. This policy will attract highly qualified professionals that also will have increasing levels of motivation.

2.4 Clear Definition of the Public Sector Participation

Currently, in the case of railways for example, the public sector can participate with a percentage of equity in the Special Purpose Vehicle being part of the concessionaire property once one company wins the concession.

This situation must to be clear from the very beginning of the process, because this industrial configuration can create potential problems once the government is participating as the supervisor of the contract concession and also as a part of the concessionaire.

In a positive example, the government defined the railways, telecommunications, energy, and part of mining sector as strategic sectors where the public sector through Kazyna and JSC Samruk can participate with shares from the concessionaire.

We recommend that the government indicate that this kind of industrial configuration be used only for the sectors mentioned above. It should not be used in the other areas of infrastructure development, like roads, ports, airports, and water. In these cases, the concessionaire will be totally private and the public sector will regulate and enforce the contract. This arrangement is normally used in concessions or PPP projects in Western countries, where the concessionaire is responsible for the construction, operation, maintenance, and financial feasibility.

3. Procedures

3.1 Minimum Standard Requirements

The Law on Concessions raises the possibility that ministries, regional governments, and the Committee on State Property and Privatization under the Ministry of Finance can all be responsible for preparing project bids. This situation could create a heterogeneous environment for similar projects.

For example, if similar projects in roads are managed by the three different government authorities, the business design and standards for operation and maintenance could be different, raising a source of potential renegotiation for the concessionaire. The concessionaire could dispute the differences in requirements, and argue for increasing or reducing the requirements according to the principle of maximized profits.

We recommend that the Kazakhstan government follow the principle of “one public window” or “one stop-shop” in the relation to the private sector. This public policy principle will strengthen the government and will show a unified public sector.

3.2 Domestic and International Communication

We strongly recommend that once Kazakhstan finished with the amendment process and the PPP institutions are working on the PPP program, it should officially present the law to the community and, after that, to potential investors through conferences locally and internationally.

Another normal communication process is to conduct one-on-one meetings with potential bidders and firms to gather recommendations and also questions about the PPP process. Road shows and one-on-one meetings to attract bidders in a difficult environment and investment climate. It was a successful effort, and today the PPP sector in Peru has companies operating infrastructure projects from Brazil, Peru, Ecuador, United Arab Emirates, and other countries. The Chilean experience also included several design of investment prospectuses to bring the business design characteristics most important to the bidders interested in the projects.

Finally, national and international press and/or national and international economic magazines are also an important source of advertisement for the projects. In case the government is interested in this kind of publicity, the government must have enough time since the information to the magazine is sent, until it is published and identified by the national and international companies.

4. Business Design

4.1 Credibility

Credibility is normally related to the capacity of the authority to maintain a rule in the long run and also avoid or mitigate discretionary changes that negatively impact the concessionaire. In summary, credibility is the quality, capability, or power to elicit confidence.

We strongly recommend that the government of Kazakhstan adhere to the principles and measures necessary to achieve high levels of credibility. Proving a trustworthy partner is the most important factor in creating and maintaining a successful and sustainable PPP program in a young country with strong economic indicators.

How can the government get and maintain credibility for the PPP Program?

- Once the government decides to develop a project by PPP, it is highly recommended that it consult stakeholders during design to receive the maximum number of recommendations, concerns, and questions.
- Once the government and stakeholders agree about project design and feasibility studies, the government (all institutions involved in the PPP process) must present its position clearly in the business design of the project, which must be economically, financially, and technically feasible for the bidders.
- Once the business design of the project is clear, it will be necessary to limit the number of additional changes in the contract or business design because of suggestions or recommendations from the bidders.
- Information about the PPP process can be released to the bidders through official documents and on a special web page for PPP projects.

The word “credibility” must come to the mind of each professional working in the PPP sector, and it must cross all levels of public administration. We must highlight that Article 3 in the Law on Concessions encourages credibility because it currently indicates that the activities related to providing concession objects must be based on the following main principles:

- 1) Openness and transparency of concedent and concessionaire activities;

- 2) Provision for balanced interests and risks of a concedent and concessionaire;
- 3) Provision for rights and legal interests of consumers of goods (works, services) provided by a concessionaire under a concession agreement.

In addition, the proposed amendment to the law reinforces this idea with two more principles:

- 4) Unrestricted competition
- 5) Equality and non-discrimination of all potential concessionaires

We are glad that the current law and the changes are going in the right way on this issue.

4.2 Competition

Although the consultant did not have access to the information related to the name or number of bidders in each past tender, it is possible to assume that — according to our meeting with Mr. Bekbolat Naregeyev, Vice-Chairman of Railway Transport Committee and Mr. Tulen Konkavov, Head of Transport and Communication Lines Department — the bidding process has been competitive with several companies submitting their economic and technical offers. The consortium seems to be composed by domestic and international companies.

We would like to suggest that it is very important to diversify the number of bidders and to motivate increased participation from domestic companies in future processes. The prequalification process will be the first opportunity to mitigate problems of asymmetric information, normally called “adverse selection.” It means that if the prequalification process allows participation from companies without technical experience or with insufficient financial support, the concession process in practice can increase the probability of failure in the term of concession.

We recommend designing several road shows in several countries to communicate the existence of PPP projects in Kazakhstan and also to increase the likelihood of receiving better technical and economic proposals from experienced companies.

4.3 Bidding Mechanisms

Chilean experience in concession projects (one of the most successful experiences in Latin America and in the world) started in 1993 with a project called “El Melon Tunnel,” which was a very competitive process but the bidding mechanism was very complicated. For each bidder, it blended technical and budget factors in scoring process and thereby created a somewhat subjective selection process.

After this experience, Chilean authorities modified the bidding process and the concession law, giving first priority to the financial offer as the most important variable to select the winning company.

Thus, today the Chilean system is very transparent and works in two phases. In the first phase, companies must fulfill minimum technical requirements specified in the contract under the principle of pass or not pass. This pre-qualification system was used in Chile in all the 6 urban road projects and in the Chilean Panamerican Highway, Route 5.

In the second phase, just those competitors that passed the first phase continue and the selection process consists of simply opening the financial offers of each company. The winner is the company that shows adequate technical capacity and the best financial offer. Note that the detailed minimum

technical specifications of the contract are set in the request for proposals, and after the winner is selected, these specifications are not renegotiated.

Chile is one of the countries that shows several innovative mechanisms and the professionals select different economic variables for each PPP process. For instance, the Ministry of Public Works in Chile innovated in the nineties using a new bidding mechanism bidding called “Least Present Value of Revenues” in the Santiago - Viña del Mar concession road. Chile also used a minimum set of tariffs, minimum subsidies, maximum payment to the state, minimum term of concession, and others as bidding variables to adjudicate the concession.

The spirit of the changes in the Kazakhstani law also allows bidders to propose toll roads or fees that are either equal to, or lower than, the established toll road in the RFP, which could be a major factor in selecting of the winner.

Thus, our recommendation in this point is to follow the Chilean experience using bidding mechanisms in two phases and also give priority to economic variables in order to increase transparency and mitigate the risk of claims from the bidders who lost the competition.

4.4 Concession Term

Although the concession of infrastructure investment is recognized as a long-term (20-30 years) agreement, in the case of projects that are not self-funded projects or where the demand is weak at the beginning or difficult to forecast, it is recommended that the government reduce the term of the concession.

Normally these projects will require financial support from the government. The shorter the concession period, the lower the government support. Once the concession is finished, the government will know the historical demand and in a second PPP agreement can easily extend the concession period if it is necessary to bring bankability for the project.

4.5 Demand Risk

In the case of roads, the demand depends directly on the number of vehicles in the places that will be connected through the concession, the number of daily trips users make, and their capacity to pay for travel on the road (which is directly related to economic growth).

In the case of Kazakhstan, we found that according to the statistics of the Ministry of Transport and Communications there are 2,840,000 vehicles and 428,000 buses, trucks, and other vehicles. Most of the transit is concentrated in the big cities: Almaty and Astana. Intuitively and after the experience of other countries, we recommend that the government start the PPP Program with highly profitable roads, that are in close proximity to both of these cities.

Should it be necessary to implement tools for demand risk mitigation, we encourage the government to use minimum revenue guarantee and state financial support if it is strictly necessary and is evaluated as worthwhile using cost-benefit analysis or similar available techniques.

4.6 Alternative Roads for the Concession Roads?

One important proposed change in the law is the elimination of the requirement to have alternative roads for the concession road with toll roads, established in the Law on Highways. The Kazakhstan government is making the right decision on this issue. It is technically consistent with the reality of the country's roads, basically because the low daily average traffic in the interurban roads and the

efficient allocation of the resources preventing the construction of “white elephants⁴,” provoking duplication of infrastructure investment with scarce possibility of cost recovery in a reasonable period. Thus, users must also include in their transportation budget the cost of infrastructure provision by the public or private sector as is currently the case in many countries in the world.

On the other hand, the authorities have also declared that they are considering allowing exemptions for certain categories of people requiring social protection from payment for toll roads given into concession. Our comment here is that it is always necessary to study in detail the real impact of toll roads on the people. Therefore, we recommend the government prepare a serious study to analyze the costs and benefits of each project and the distributive effects of the specific toll road system and their effects in the road network.

A common rule in several countries is that users pay tolls in relation to the marginal impact that they cause on the road, measured through the number of axles a vehicle has. Under this scheme, trucks normally pay proportionally higher tolls than buses and cars.

Another common rule is the application of payment in proportion to the use of the highway. Thus, users from towns close to the principal city can pay a lower amount of money compared to what users located in towns far away from the principal city pay. However, the cost per kilometer is normally the same for both users. This system considers that users pay according to the distance traveled in the road.

In addition to the toll road systems described above, we also find peak-valley toll systems, which are normally used on roads facing congestion traffic. At peak hours, users pay higher tariffs per kilometer compared with the tariffs paid in valley hours.

Therefore, exemptions must be carefully studied and applied only when necessary because exemptions work against one of the main objective of concessions: recovering costs from users.

We agree with the fact that ambulance cars, fire fighting engines, and vehicles of public bodies and organizations involved in the prevention and response to natural and manmade disasters be exempt from the tolls and clearly identified to avoid misuse of this special benefit.

However, the categories that will receive special preferences in each concession contract must be carefully identified by conducting studies and must be rigorously determined in the concession contract to avoid statistical error type 1 or type 2.⁵

4.7 Potential Double Charges for Roads

The possibility of establishing toll roads in concession projects is one of the amendments in the law. However, the current Kazakhstani tax code stipulates collection of all tolls for toll roads for the government budget. It means that in any time with the toll road for the private participation exists the possibility that the concessionaire and also the public sector can be collecting tolls from the users over a road.

⁴ A **white elephant** is an investment in infrastructure whose cost normally exceeds its usefulness.

⁵ To give the exemption to users that do not need it or do not give the exemption to the users that need it.

The government is modifying the tax code to avoid double taxation\collection of fees from a user by both the government and a concessionaire. We believe that this modification is a move in the right direction. However, it is also normal in other countries like Chile (for example) for the toll to be initially collected by the government and, after a couple of years, collection is given to the private sector under concession contract.

A first phase with the government collecting the tolls can help identify the demand and help citizens develop the habit of paying the toll. Once the users are accustomed to paying the government, the risk of non- payment under concession will be lowered. Therefore, it is possible that both laws can exist and ensure the user will not face double toll collection.

4.8 Financial Support from the Government

The amendments to the Law on Concession allow the Kazakhstan government to compensate the concessionaire for costs during the period of concession using the government budget. We agree with this measure, because it is a normal way to increase the attractiveness of the concession and also increase the competition among bidders. We recommend ranking projects using cost-benefit analysis. Those with high social profitability could be selected for a co-funding concession project.

While the government can have multiple criteria in choosing the list of its projects, it is important to prioritize objective criteria including cost-benefit analysis and financial modeling. The first methodology measures economic and social factors to see if the project has a direct impact in the welfare of the community. The second methodology indicates if the project is financially viable and therefore if the project can be self-funded in a project finance scheme by the private sector or it will need any government support.

4.9 Shadow Rating

Chile has implemented the concept of shadow rating⁶ in PPP projects in order to generate an independent opinion of the PPP project, based on analysis of feasibility studies, contract drafts, request for proposals, and other important information available for the bidders interested in preparing a proposal.

Thus, a credit rating agency can provide a shadow rating and ex ante the winner of the concession can go to the financial market asking for debt. This is important because the possible rating can suggest whether the project will have bankability or not.

A shadow rating can also require simulation of long-term financing in order to ensure the financial feasibility of the project. A shadow rating can also indicate the possibility that pension funds can participate (through buying bonds or with equity) in the concession depending on the risk classification of the project. If the project is not able to reach “pension fund risk classification” then the government can modify some economic or financial terms to make it more attractive for pension funds.

⁶ Shadow rating is a methodology to estimate the bancability grade of a PPP Project. It is prepared by a rating company to the government in any moment before the bidding process is finished.

4.10 Partial Credit Guarantee

One financial instrument that could facilitate access to the international capital markets is the partial credit guarantee (PCG). This mechanism increases the potential of international investment by providing government sponsored guarantees to offset some of the financial risk borne by international investors.

The institutions available to implement PCG for infrastructure projects are the Asian Development Bank and the World Bank. In the case of ADB it is necessary that the Kazakhstan government can give to the ADB a counter guarantee. The Guarantee can be until \$75 million or 25% of project costs. Always the bank will take the less amount. The fees for the ADB are 40 bp over the present value of the guarantee.

In the case of World Bank normally the PCG has a standby fee of 75 basis points (waives 50 bp and retain 25 bp). The guarantee fee is applied to the “callable amount” and the interest is normally between 75 to 100 basis points.

For example, in the case of Amazon North road in Peru, a partial credit guarantee was offered by the Inter-American Development Bank (IDB) to facilitate the financing of around US\$220 million. This is the first-ever financial guarantee granted by the public sector window of the IDB. The PCG not only allowed the concessionaire to obtain better financial terms but also facilitated access to international capital markets. Thanks in large part to the IDB PCG, the IIRSA Norte Concessionaire was able to place \$218 million of securitized bonds under 144A rules in the United States to European and U.S. investors.

4.11 Environmental Protection

Although the environmental issues were not discussed in our interviews, we cannot forget that adequate environmental studies are a key factor in reducing the design risk in PPPs. Normally, environmental regulation in the construction and operation phases requires the definition of a minimum amount of money that the concessionaire will invest in this issue in the PPP period.

On the other hand, citizens must understand and participate in the PPP process, giving opinions and suggestions that can have local, regional, or national impact.

Many examples in Latin America and the world suggest that it is not possible to get the “social license” if environmental issues are not considered seriously because unexpected problems that were ignored at the beginning in the environmental assessment will appear.

We recommend the government conduct the environmental impact evaluation studies (measuring impacts from the concessionaire activities on citizens or towns) and also strategic environmental evaluation (measuring impacts from the application of public policies over the concession).

Finally we can highlight that in any transactions in which Multilateral banks are involved, the banks will require that feasibility studies and environmental studies are well prepared and will include public comments from the national and international community (as was the case with Amazonas Norte in Peru). This level of transparency and the opportunity for public comment which is a requirement for multi-lateral participation is a very good way to build confidence in the early stages of a PPP program.

Annexes

Annex A: Conference: The Program of carrying out a round table discussion on a theme: Development of Public-Private Partnerships in the Republic of Kazakhstan, organized by the Ministry of Economy and Budget Planning.

**May 29 2008, Astana – Kazakhstan
Rixos Hotel**

Time	Speaker
09:00 – 09:30	Arrival and registration of participation of round table discussion (Venue- Rixos Hotel)
09:30- 09:40	The greetings of participation of the conferece and opening address of the Prime Minister of the Republic of Kazakhstan K. Massimov
	Session 1 Subject: Improving Legislation of the Republic of Kazakhstan in the Public-Private Partnership issues. Moderator: B. Sultanov - Minister of Economy and Budget Planning of the Republic of Kazakhstan
09:40- 09:55	B. Sultanov - Minister of Economy and Budget Planning of the Republic of Kazakhstan. “Development of Public-Private Partnerhip in the Republic of Kazakhstan”
09:55- 10:10	S. Akhmetov – Minister of Transport and Communications of the Republic of Kazakhstan. “Application concessions in the developing of road-transport branch”
10:10- 10:25	Stephan Wermert - Asian Development Bank. “Attracting reliable experienced investors to bid for PPP’s in Asia: Relevant Experience for Kazakhstan Situation”
10:25- 10:45	Patricio Mansilla - USAID. “Mechanism of risk and cost sharing, which reduces market distortion to minimum”.
10:45- 11:00	A. Peruashev – Business Association Atameken. “Issues of perfection legislation of the Republic of Kazakhstan in the field of Public-Private Partnership”
11:00- 11:15	Infrastructure financing director- V. Antonov Corporate finance director – D. Radchenko (Raiffeisen Investment AG) “Public-Private Partnership as an instrument of modernization social infrastructure”
11:15- 11:35	Coffee break
	Session 2 Subject: The role of Public-Private Partnership in developing economy Moderator:

	K. Aitekenov - Deputy Head of Executive committee of “Kazyna”
11:35- 11:55	K. Aitekenov - Deputy Head of Executive committee of “Kazyna” “The perspectives of collaboration of Kazyna SDF in concession projects
11:55- 12:15	Ulf Hindstrom – Chief banker of European Bank of Reconstruction and Development. “Essential prerequisites for successful concessions – EBRD: International Experience”
12:15- 12:35	N. Alimukhambetov - Deputy Head of executive committee “NPF National Bank of Kazakhstan” JSC “The development of the financial devices of PPP- the main expectations of National Pension Fund in this mechanism”
12:35- 12:55	M. Bekteпов - Vice President of “Kazakhstan Development Bank” JSC “The participation of Kazakhstan Development Bank in the developing Public-Private Partnership”
12:55- 13:20	Questions & Answers
13:20- 13:40	Concluding Speech (recommendations, wishes, signing the protocol)

Annex B: USAID/Chemonics Meetings in Astana

Day	Professional and Institution
May 28th	Mr. John Irons, Director of the Office of Economic Growth/USAID and Ms. Lora Kudaibergenova, Project Management Specialist/USAID
May 28th	Mr. Marat Kusainov Vice-Minister of Economy and Budget Planning and advisor to Vice-Minister Mr. Baurzhan Tortaev
May 29th	Presentation at the Rixos President Hotel in Astana
May 29th	Mr. Baurzhan Tortaev, Advisor to Vice-Minister of Economy and Budget Planning
May 29th	Mr. Galykhair Shidenov, General Director of the Astana city branch of the accumulative pension fund Ular Umit Ms. Yuliya Yakupbaeva, Association of Financiers of Kazakhstan
May 29th	Mr. Kurmangazy Ibragimov, Chief of Administration Department JSC “Batys transit” (concession company)
May 30th	Mr. Kairat Tnalın, Analyst of Tsesna Capital Investment Fund
May 30th	Mr. Gabit Shaikin, Alternate Head of Investment Policy and 9 professionals of the Minister of Economy and Budget Planning
May 31th	Mr. Talgat Lastaev, Head of Department on Road Development and Mr. Nurlanbek Umirbaev, Deputy Chair of the Road Committee. Ministry of Transport and Communications
June 2d	Mr. Ulf Hindström, Senior Banker Infrastructure. European Bank for Reconstruction and Development
June 2d	Mr. Timurlan Altayev, Senior Leader Halliburton.
June 2d	Ms. Zhanat Ansaganova, Deputy Director of the Department on Project Structuring and Analysis. Kazakhstan Development Bank.
June 2d	Presentation at Kazakhstan Development Bank
June 2d	Mr. Zhanat Ansaganova, Deputy Director Project Structuring and Analysis Department; Mr. Dinar Akhmetbekov, Director of Project Structuring and Analysis Department; Mr. Zhan-Tore Ayazbekov, Manager of Market Research Division Project Structuring and Analysis Department. Kazakhstan Development Bank

	<p>Irzhan Isabayev - Chief Manager, Project Structuring and Analysis Department</p> <p>Zhantore Ayazbekov - Manager, Project Structuring and Analysis Department</p> <p>Nurzhan Karabayev - Manager, Project Structuring and Analysis Department</p> <p>Almat Bolekov - Chief Front-Manager, Project Office</p> <p>Marat Karibzhanov - Chief Manager, Borrowing Division Treasury Department</p> <p>Bakhykul Aryspayeva, Head of Division, Infrastructure Project Financing Department of Project Financing</p>
June 2d	Mr. Marat , Head of Debt Department of Kazakhstan Development Bank
June 3 rd	Mr. Stephen Wermert, Country Director, Asian Development Bank
June 3 rd	Ms. Aliya Mukay, Infrastructure Program Consultant. The World Bank Country office in Kazakhstan
June 3 rd	Ms. Zere Seidimbek, Director of PPP Projects Department at Kazyna Sustainable Development Bank and Mr. Aslan Bulatov, Manager of PPP Projects Department at Kazyna Sustainable Development Fund.
June 4 th	Presentation at the Ministry of Economy and Budget Planning
June 5 th	Mr. Bekbolat Naregeyev, Vice-Chairman of Railway Transport Committee Ministry of Transport and Mr. Tulen Konkavov, Head of Transport and Communication Lines Department, Ministry of Transport and Communications.
June 5 th	Ms. Gulmira Makhmutova, General Director of Samruk Invest and Murat Amirkhanov, Director Legal Department of Samruk Invest.
June 5 th	Mr. Kevin Mills, Deputy Head of Mission, U.S. Embassy and Robert Simpson, USAID representative in Astana
June 5 th	Mr. John Irons, Chief of Economic Growth/USAID and Ms. Lora Kudaibergenova, Project Management Specialist/USAID. Meeting in Almaty

Annex C: USAID/Chemonics Conference Presentations

We had four high level conferences with the participation of the government authorities of Kazakhstan

A) On May 29th .Conference: The Program of carrying out a round table discussion on a theme: Development of Public-Private Partnerships in the Republic of Kazakhstan. It had the participation of the Prime Minister, Minister of Economy and Budget Planning and Minister of Transport and Communications.

B) On May 30th with the participation of all PPP team in the Ministry of Economy

C) On June 2d. Kazyna Sustainable Development Fund.

D) On June 4th With the participation of 25 professionals coming from all ministries related with PPP. This conference and later discussions were moderated by Vice Minister of Economy and Budget Planning.