

Public-Private Partnership Stories

Kazakhstan: Almaty Ring Road PPP



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This series provides an overview of public-private partnership stories in various infrastructure sectors, where IFC was the lead advisor.

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With around 2 million residents and 1 million vehicles on the streets every day, road congestion has frustrated commuters and threatened economic growth in Kazakhstan’s largest city of Almaty. Experts say that the traffic is also responsible for approximately 80 percent of the city’s air pollution—an unsustainable situation for a country trying to meet national environmental targets. To address this issue, the Government of Kazakhstan (GoK) engaged IFC to structure a public-private partnership (PPP) to develop new road infrastructure and improve public services for local motorists. The Almaty Ring Road (also known as “BAKAD”) will reduce traffic congestion, improve the ecological situation, and leverage new project finance methods to attract international investors.

Following an international competitive tender—which attracted interest from companies in Spain, France, Italy, Hungary, Turkey, Kazakhstan, China, and South Korea—the Turkish-South Korean consortium Alsim Alarko/Makyol/SK Engineering & Construction/Korea Expressway Corporation was selected as the winner. In February 2018, the consortium signed a 20-year concession agreement with the GoK and committed to invest about US\$ 740 million in construction and equipment for the new toll road.

The project was implemented with the financial support of Switzerland’s State Secretariat for Economic Affairs SECO and Austria’s Federal Ministry of Finance.

BACKGROUND

Urban transit in Kazakhstan is increasingly dominated by automobiles. In 2015, the motorization rate in Almaty reached 428 cars per 1000 inhabitants. With about 1 million vehicles on the streets every day, it is difficult, time consuming, and dangerous to get around the city. Moreover, the air pollution resulting from traffic congestion poses a severe health risk to Almaty's 2 million residents.

With plans for a China-Europe transit link (the "New Silk Road") through the Almaty metropolitan area under development, GoK realized that a bypass motorway was needed. In addition to reducing congestion and environmental pollution, it will test new project finance mechanisms. The Almaty Ring Road PPP will serve as a benchmark for new projects developed in infrastructure and public services in Kazakhstan, if successful.

IFC'S ROLE

IFC served as the lead advisor to the Ministry for Investments and Development in structuring and tendering the project. IFC's role covered technical, legal, and analytical support, which included:

- conducting detailed engineering and traffic studies to confirm project's technical parameters;
- updating the feasibility study and getting it passed through appropriate regulatory approvals;
- analysis of the scope of environmental and social impact assessment work to be completed by the future concessionaire to secure funding from international lenders;
- review of existing legislation to ensure a viable PPP transaction structure;
- financial structuring of the transaction, including balancing affordability of tolls and fiscal impact against reasonable return for investors;
- promoting the project and running a transparent and competitive international tender to select the concessionaire;
- conducting negotiations with the winning bidder until signing of the agreement with GoK.

IFC partnered with other international financial institutions, including the International Bank for Reconstruction and Development, European Bank for Reconstruction and Development, and Asian Development Bank, to improve 'bankability' of the transaction and help GoK amend legislation and the regulatory environment to make BAKAD and future PPPs possible.

TRANSACTION STRUCTURE

A 20-year concession to design, finance, build, transfer, operate, and maintain the road, which will be a 66km long, 6/4-lane "Category I-A" bypass motorway. It will handle traffic from three districts that border Almaty and will be equipped with modern traffic management and toll collection technology.

The consortium will invest about US\$ 740 million for construction in the first 4.5 years, after which it will maintain the road and collect tolls from road users on behalf of the government. GoK will compensate the private-sector partner with annual availability payments, set against strict performance criteria. As a result of legislative amendments, standard project finance features, including payments in case of early termination of the contract, international arbitration, lender step-in provisions, are present in the contract.

This is the first infrastructure PPP of its type and magnitude in Kazakhstan and Central Asia.

BIDDING

A two-stage bid process was adopted to identify the concessionaire. On January 14, 2015, GoK launched a competitive international tender process by issuing the request for prequalification. There was a strong showing of interest from private players, and nine groups of companies submitted applications. After careful consideration, the special Commission for Concessions invited five qualifying consortia to participate in the second stage.

On November 25, 2015, after several rounds of meetings with each qualifying consortium, GoK received three bids for the project. On February 26, 2016, based on the technical and financial proposals, the Turkish-South Korean consortium (which included Turkish Alsim Alarko Sanayi Tesisleri Ve Ticaret and Makyol Insaat Sanayi Turizm Ve Ticaret and South Korea's SK Engineering & Construction and Korea Expressway Corporation) was announced as the winning bidder and invited to post-award negotiations with GoK. After a lengthy negotiation period, the concession was signed in February 2018 between the government and the consortium.

EXPECTED POST-TENDER RESULTS

- Approximately US\$ 740 million in private sector investment.
- Improved services to about 1.8 million people every year.
- Construction of a key link in the New Silk Road (Western China – Western Europe) transnational highway.
- Significant reduction in traffic congestion and air pollution in the Almaty city area.
- Capital-intensive, privately financed infrastructure project outside of the oil & gas sector.
- Opening of Kazakhstan's market to more PPP deals in the future.