

Kazakhstan's PPP future

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Kazakhstan is rich in [oil, gas and minerals](#), but its transportation infrastructure is in need of serious improvement. The country's government is intent on spurring investment in the sector and in June 2014 amended legislation to facilitate the use of PPPs. Seven months later, in January 2015, the Ministry of Investments and Development (MID) officially launched the [\\$680 million Almaty ring road](#) – Kazakhstan's debut PPP.

The European Bank for Reconstruction and Development (EBRD) says that the new legislation is in line with global best practice, provides adequate support and protection to foreign investments, and is attractive to investors. Thanks in part to its oil wealth, Kazakhstan has investment grade ratings from all three ratings agencies – BBB+ from Standard & Poor's, Baa2 from Moody's Investors Service and BBB+ from Fitch Ratings.

The EBRD, the International Finance Corporation (IFC) and the Asian Development Bank (ADB) have all been active in Kazakhstan for over 20 years, and the European Investment Bank has been able to operate in the country since 2008. [These multilaterals are understood to be interested in the Almaty road PPP.](#)

The inaugural PPP

The project entails building a 66km ring road about Almaty, Kazakhstan's largest city and until 1997 its capital, under a 20-year concession. The road would run through Almaty's suburbs, connecting the districts of Karasai, Lli and Talgar, and include 23 tolling plazas.

The road's first and last sections, about 9km in total, would have four lanes, while the other 57km would have six lanes. Construction is expected to take about 50 months.

More than 27,000 vehicles are projected to use the Almaty ring road each day, but the holder of the concession will receive availability payments rather than toll revenues.

The marketing and structure of the Almaty concession suggests that the Kazakhstan government has planned ahead in dealing with potential obstacles to closing on the PPP. It stipulated that the availability payments will be in Kazakh tenge – not US dollars, which most international lenders prefer. But it will compensate the project for any adverse movement in the tenge relative to the US dollar of more than 5%.

MID mandated the IFC to be financial and transaction adviser on Almaty, in a bid to make sure that the concession is attractive to international lenders and sponsors, and to exploit the IFC's existing reach with these players. Other advisers to the government include Gide Loyrette Nouel (international legal), Colibri Law (local legal) and Seco International (technical).

Bidders may change finance

Bidders submitted initial statements of qualification for the project on 7 April 2015. Chinese, Turkish, Japanese and local

groups were among the interested bidders.

While the EBRD, IFC and ADB are prepared to meet most of the project costs, the choice of preferred bidder will determine the size of the debt package that the multilaterals provide.

IJGlobal understands that if a Chinese-led or Turkish-led consortium wins the concession, then the multilaterals' role in a project financing may be limited. A Chinese-led group would lean on China Ex-Im and domestic commercial banks, including Industrial and Commercial Bank of China, China Development Bank and the Agricultural Bank of China. Turkish banks would likely supply the bulk of a debt financing if a Turkish group wins Almaty.

The MID plans to release a shortlist for the project in late April, and pick a preferred bidder by September 2015.

Future projects

The Almaty ring road PPP will be a test of the country's ability to attract international lenders and developers to its PPP projects. It will, if successful, lead to the wider application of PPP elsewhere in transport, as well as in social infrastructure.

But oil and mining projects, even where they have government entities as sponsors, will continue to use existing tested project or corporate finance structures. These structures have successfully attracted commercial and development bank debt, [including a recent financing for Polymetal](#).

Kazakhstan's PPP center says that transport, city infrastructure, water, and health are the sectors with the greatest potential for the use of PPP and that PPP investment could reach 10% of the country's overall infrastructure investment by 2023.

Whether water or health PPP projects will tempt foreign developers in the way that Almaty has is uncertain, however. Almaty's currency risk mitigation is generous by international standards, and the Kazakhstan government may not wish to keep offering this support on all subsequent projects.

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