Kazakhstan

Railway Transport Capacity Development Project

Field Survey: November 2003

1. Project Profile & Japan's ODA Loan

Project site

Almaty railway-carriage repair plant

1.1 Background

Kazakhstan is a landlocked country with national territory extending 2.7 million sq. km. To enable its scattered population and industry to benefit from its abundant underground mineral resources, the government has focused on developing the transport sector, and the railways have played a central role in providing superlative long-distance and bulk transport services. However, railway facilities were becoming noticeably decrepit due to insufficient maintenance and replacement, and improvements and capacity expansions were deemed essential to maintaining smooth and safe railway services. In the days of the former Soviet Union, the Kazakhstan railway system was developed as a Moscow-centric network and after independence there was a need to develop transport routes with countries other than Russia and to increase the efficiency of freight transport in order to facilitate the development of independent economic activity in Kazakhstan. In terms of trade partners outside the former Soviet Union, since most trade was conducted with China and the share was increasing, with the aim of enhancing the safety of rail transport on the Aktogay-Druzhba route, which links the Kazakh capital Almaty and the western border with China, in addition to track rehabilitation and the development of communications facilities, the construction of an detouring route along the shores of Lake Alakol, which had become waterlogged due to bad weather and was in a perilous state, had been identified as a priority task. Moreover, freight cargo has to be transshipped at the Kazakh-China border because of differing track widths, and capacity expansions were necessary in the context of efforts to bolster demand for transshipments. In addition, the collapse of the former Soviet Union made it necessary to carry out rolling stock repairs in Kazakhstan, but since the country lacked sufficient repair and maintenance capacity, there was a pressing need

for capacity expansions.

1.2 Objectives

To rehabilitate the track on the Aktogay-Druzhba route as well as change the route, which links the Kazakhstan and China railway systems, as a means of increasing the transport capacity and improving safety on the route. And to increase the transshipment capacity of the Druzhba Station on the Kazakh-China border to satisfy projected increases in demand for rail transport services to China. Further, to build a new railway-carriage repair plant at Almaty as a means of strengthening deficient rolling stock repair and maintenance capacity, responding to increased demand for passenger transport, and enhancing safety.

1.3 Outputs

(1) Track rehabilitation / construction of detouring route on the Beskol-Druzhba route
(2) Improvements of communications equipment on the Aktogay-Druzhba
(3) Strengthening transshipment capacity at Druzhba Station
(4) Construction of a new railway-carriage repair plant
(5) Consulting services

1.4 Borrower / Executing Agency

Republic of Kazakhstan / Kazakhstan Temir Zholy (KTZ: the national railway company)

1.5 Outline of Loan Agreement

Loan Amount Disbursed Amount	7,236 million yen 7,157 million yen
Exchange of Notes Loan Agreement	November 1995 December 1995
Terms & Conditions Interest Rate Repayment Period (Grace Period) Procurement	 3.0% p.a. 25 years (7 years) General untied
Final Disbursement Date	May 2001

2. Results & Evaluation

2.1 Relevance

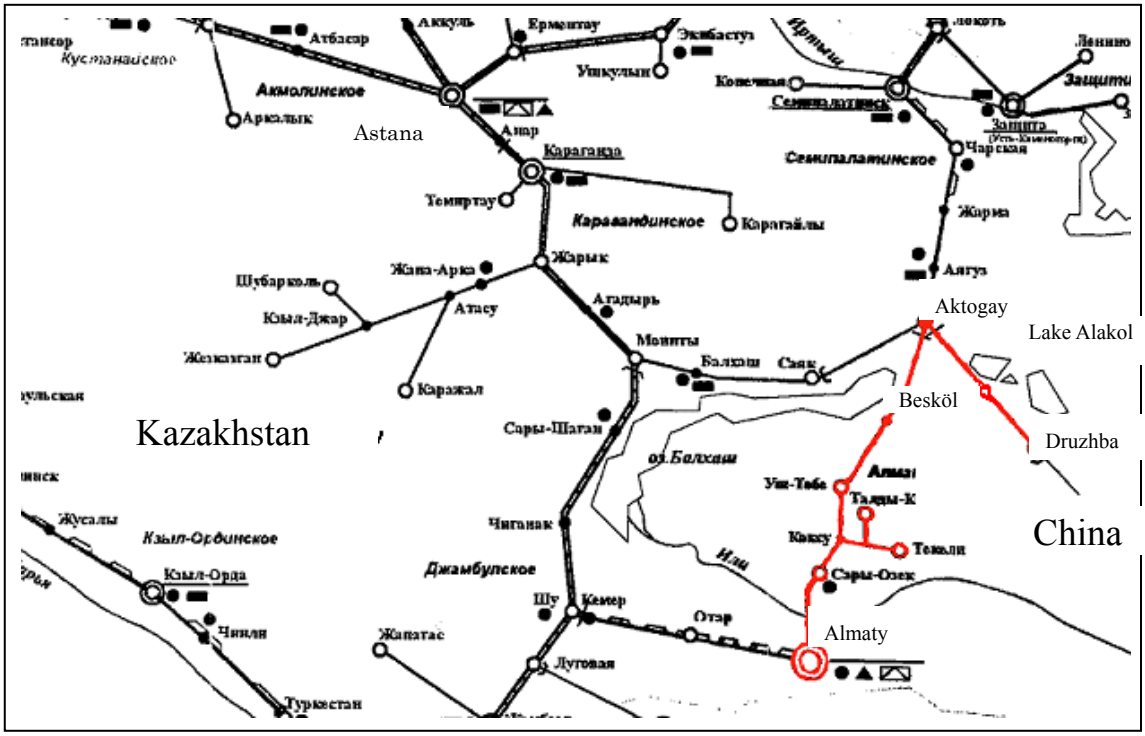
In 1993, when the request for this project was received, Kazakhstan was in a state of economic turmoil following the collapse of the former Soviet Union, and the 5-20 year medium- to long-term development plan that was created that year was focused on energy, oil, mining, transport / communications and the manufacture of consumer goods. Further, there was a

pressing need to develop transport routes with countries other than Russia*[1] and to increase the efficiency of freight transportation to enable Kazakhstan's railways, which had been part of the Moscow-centric rail network in the days of the former Soviet Union, to function as the engine for independent economic activity in Kazakhstan. There was a particularly urgent need to raise the efficiency of rail transport to China in the light of burgeoning volumes of trade with that country, which points to the high degree of relevance of this project at the planning stage.

Prior to implementation (1997), Kazakhstan's rail services were run by three separate bureaus: Almaty, Tselinnaya and West Kazakhstan. The Almaty Railway Bureau was the project's initial executing agency and there were questions over its ability to manage project operations and its future as an organization at the time; however, the three bureaus were merged in 1997 to form KTZ (Kazakhstan Temir Zholy, headquartered in Astana). At the time of evaluation, there were thirteen rail branches under KTZ headquarters' jurisdiction; the facilities and equipment that was developed through this project is owned by the Almaty branch (details of operation and maintenance are given below). Further, restructuring is underway at KTZ based on the Kazakh government's "2001-2005 Rail Sector Structural Reform Program" (approved in 2001), targeting the phased privatization of rail services and efficient operational management. Kazakhstan national transport policy emphasizes the need to increase the turnover of rail freight, particularly of raw materials; to revise fares; to reduce the total length of railroads (unprofitable routes); and to replace locomotives, carriages and tracks as a means of bolstering operational services by 2008, thereby verifying the ongoing relevance of this project at the time of evaluation.

[1] Approximately 300km of Aktogay-Druzhba route forms part of the Trans-Asian railroad, which stretches 11,300km and links the Pacific coast of China to Europe and the Middle East.

Figure1: Project Site Location Map



2.2 Efficiency

2.2.1 Outputs

As shown in Figure 2, the outputs for this project were essentially implemented according to the original plans.

Figure 2: Differences between Planned & Actual Outputs

Output	Planned	Actual	Differences
Track rehabilitation (replacement of rails / sleepers, etc.)	Beskol-Druzhba: 150km Concrete sleepers	As planned Wooden sleepers	A 21km route was funded by Japan's ODA loan. The remainder was financed by KTZ. Sleeper materials were changed.
Construction of alternate route	Lake Alakol area: approx. 22km	Lake Alakol area: 26.98km	4.98km increased by
Communications equipment improvements (installation of underground cables, replacement of telephone switching	Aktogay-Druzhba: approx. 300km	As planned	

equipment, etc.)			
Procurement of forklift and other cargo transshipment equipment	Druzhba Station 1.5-ton forklifts: 15 30-ton forklifts: 3 0.5-ton cranes: 2	Druzhba Station 1.5-ton forklifts: 15 20-ton forklifts: 2 40-ton forklifts: 1	Changes in forklift specifications Cranes not procured
Construction of a new railway-carriage repair plant	Almaty repair plant ($20,000m^2$)	As planned	

The project's outputs comprised rehabilitation of the track on the Beskol-Druzhba route (approx. 150km) and construction of an alternate route (approx. 22km), improvements to the communications equipment used on the Aktogay-Druzhba route (approx. 300km), increasing the transshipment capacity of Druzhba Station, and the construction of a new railway-carriage repair plant. Since the lowest price tendered at bidding exceeded the planned budget, rehabilitation of 21km of track that were notably deteriorated was frontloaded. KTZ funded the rehabilitation of the remaining 129km in 2002, and at evaluation, the originally targeted route had been fully rehabilitated and was in use. The original plans called for concrete sleepers to be installed on the rehabilitated route; however, wooden sleepers were used because temperatures are extreme and concrete sleepers are prone to cracking in winter months. In connection with the alternate route constructed on the shores of Lake Alakol, a station was built at Jaipak and the length of the route increased to 26.98km to include the track in the station yard. The KTZ merger was accompanied by a review of scope priorities and changes in Druzhba Station needs, and accordingly partial changes were made to the transshipment procurement, such as forklifts, component for Druzhba Station. The communications facilities improvements on the Aktogay-Druzhba route and the construction of the Almaty railway-carriage repair plant were implemented as planned. The project's efficiency in terms of its scope is considered to be generally favorable.

2.2.2 Execution Period

At appraisal, the project's execution period was scheduled to commence in December 1995 (conclusion of the loan agreement) and end in June 2000 (55 months), but adjustments to outputs necessitated by the budget overrun and the procurement delays in communication equipment improvements component, and holdups in construction due to bad weather resulted in delays of approximately 18 months, with the actual execution period spanning December 1995 through December 2001 (73 months).

2.2.3 Project Costs

Total project costs were 9.545 billion yen, within the appraisal budget of 9.649 billion yen, and even if the portion funded by KTZ (rehabilitation of 129km of track) were to be added, it is estimated that the costs would still be essentially in line with the initial plans. Broken down, there was a massive increase in foreign currency costs, which were 7.157 billion yen against the figure of 4.313 billion yen planned at appraisal. The reasons for this spring from the review of outputs that was made with the merger of KTZ, which resulted in the procurement of a large number of imported materials for the construction of the railway-carriage repair plant.

Almaty Railway-Carriage Repair Plant

2.3 Effectiveness

2.3.1. Current Facilities Operating Conditions & Effects

1. Strengthening Rail Transport Capacity

Figure 3 shows passenger turnover on the Almaty-Aktogay-Druzhba route (a former Almaty route) between 1995 and 2002; freight turnover for the same period is presented in Figure 4.

Fig. 3: Passenger turnover on the former Almaty route

Year	Passenger turnover (M people/km)
1995	5,120
1996	5,571
1997	5,249
1998	4,367
1999	3,477
2000	4,032
2001	4,144
2002	4,078

(Source: KTZ)

Fig. 4: Cargo turnover on the former Almaty route

Year	Cargo turnover (M tons/km)
1995	31,452
1996	30,324
1997	26,115
1998	24,985
1999	22,740
2000	29,911
2001	33,203
2002	34,120

(Source: KTZ)

As the two figures illustrate, both passenger and freight turnover on the route hit record lows in 1999, but have rebounded gradually since then. Freight volumes declined until 1999, but have increased sharply since 2000. KTZ has acknowledged the contribution made by project

completion, which confirms its effectiveness in promoting a rapid surge in trade with China.
The numbers of passenger and freight services on the Aktogay-Druzhba route are shown in Figure 5.

Figure 5: Passenger & Cargo Trains on the Aktogay-Druzhba route

Year	No. of services (passenger) Per week	No. of services (cargo) Per week
1995	-	6
1996	-	5
1997	2	6
1998	2	6
1999	2	8
2000	2	10
2001	2	10
2002	2	12
2003	2	12

(Source: KTZ)

As is evidenced by these figures, the number of freight trains operating on the Aktogay-Druzhba route is increasing by the year. At two services per week, there has been no change in the number of passenger services since 1997. According to KTZ, rail traffic capacity has been increased as the result of the growth in rail trade with China, but although passenger numbers have been increasing since 1999, the traffic capacity of existing services is sufficient to meet demand and the number of services, per se, has thus not been increased.
Travel times on the Aktogay-Druzhba route are shown in Figure 6. The time for regular passenger services between Aktogay and Druzhba has decreased by one hour since 2000, whilst freight journeys have shortened by 20 minutes since 2001. KTZ reports that these reductions are attributable to the construction of the alternative Lake Alakol route and to the improvements in communications equipment. The improvements in communications equipment have reduced connection times at Aktogay Station, which has served to reduce the journey time for freight trains traveling the Almaty-Aktogay route.

Figure 6: Journey Times on the Aktogay-Druzhba route

Year	Aktogay-Druzhba route		
	Regular services	Express services	Cargo services
1995	7	6	7
1996	7	6	7
1997	7	6	7
1998	7	6	7
1999	7	6	7
2000	6	6	7

2001	6	6	6.7
2002	6	6	6.7

(Source: KTZ)

Regarding accident rates, only data for the Aktogay-Druzhba route, which was targeted for track rehabilitation, alternative route construction and communications equipment improvements, were not available; however, according to KTZ, there are no records of any accidents involving passenger trains on any of the Almaty Railway routes between 1995 and 2002; figures on accidents*[2] involving freight trains are shown in Figure 7. This figure reveals that accident rates on Almaty Railway routes have fallen since 1999 when the above work was completed. Although there are no accident rate *[3] figures for the Aktogay-Druzhba route, no major improvement work has been undertaken on this route since the project was completed, which suggests that it has made a considerable contribution to the lower accident rates.

Figure 7: No. of Accidents on Almaty Railway Routes (accident rate)

Year	No. of accidents	Accident rate (%)
1997	381	17
1998	322	14
1999	171	5
2000	183	5
2001	149	4
2002	112	2

(Source: KTZ)

2. Transshipment Capacity of Druzhba Station

The transshipment capacity of Druzhba Station is shown in Figure 8 with performance figures. The effectiveness of the project is confirmed by steady annual increases in transshipment performance since 2000, the year that the forklifts were delivered to Druzhba Station. The station has been separately equipped in another project with container equipment (5 million tons p.a.), which, combined with the forklift, gives it a transit capacity of 7.5 million tons. The rail transport division of the Kazakhstan Agency on Statistics reports that freight shipments arriving at Druzhba Station have been increasing annually: 3.179 million tons in 1999, 3.882 million tons in 2000, 4.414 million tons in 2001 and 5.236 million tons in 2002.

Figure 8: Forklift Transshipment Capacity & Performance at Druzhba Station

Year	Annual transshipments (thousand tons)	Transshipment time per freight train (hours)
1995	60	9
1996	196	9

[2] Accidents include derailments, fatalities, breakdowns and theft.
[3] The accident rate expresses the number of trains involved in accidents as a percentage of the total number of routine trains.

1997	270	9
1998	229	9
1999	297	9
2000	499	9
2001	622	9
2002	800	9

(Source: KTZ)

3. Improved Railway-Carriage Repair Capacity

The repair capacity of the Almaty railway-carriage repair plant is shown in Figure 9 with performance figures. In appraisal plans, KR1 (inspection / repair work that is executed at 4-5 year intervals) repairs 300 carriages and KR2 (inspection / repair work that is executed at 20-year intervals) repairs 70 carriages per year. Since there are no data to evidence the actual repair capacity of the completed plant, repair results were compared with the planned repair capacity to determine the effectiveness of the project, showing that repair levels have remained low: the KRI rate is 10-69%, the KR2 0%. According to the state passenger traffic company (Passajirskiye Perevozki), which owns KTZ railway carriages and formulates the repair plans, this is due to shortages of skilled engineers and chronic delays in receiving supplies of spare parts. At the time of evaluation, the problem was identified as stemming from the time needed to complete bidding procedures, as the spare parts needed at the Almaty railway-carriage repair plant are procured on contract by the state passenger traffic company. The repair plant became an independent company on December 15, 2003 and has subsequently assumed control of bidding procedures and parts procurement; this is expected to enable requests for spare parts to be handled more rapidly. Efforts are being made to tackle the shortage of skilled engineers through training, etc.

Figure 9: Repair Performance of Almaty railway-carriage repair plant

	1995	1996	1997	1998	1999	2000	2001	2002	2003 (to Sept.)
Depot repairs[1]	771	756	741	672	388	345	410	611	425
KR1	40	30	40	51	105	207	129	135	59
KR2	0	0	0	0	0	0	0	N/A	N/A
KVR [2]	0	0	0	0	0	0	0	1	1

[Note 1] Inspection / repair work that is carried out per year.
[Note 2] Repairs approaching new assembly that include replacement of external steel sheets and that are conducted to prolong the service life of railway carriages.
[Sources: 1995-2001 performance: results from the hearing on with the state passenger traffic company; 2002-2003 performance: Ministry of Transport & Communications' Railway Committee]

2.3.3. Recalculation of the Economic Internal Rate of Return (EIRR)

The EIRR was not computed at appraisal because it was not possible to obtain the necessary data. Moreover, the EIRR was not recalculated during this field survey as it was not possible to

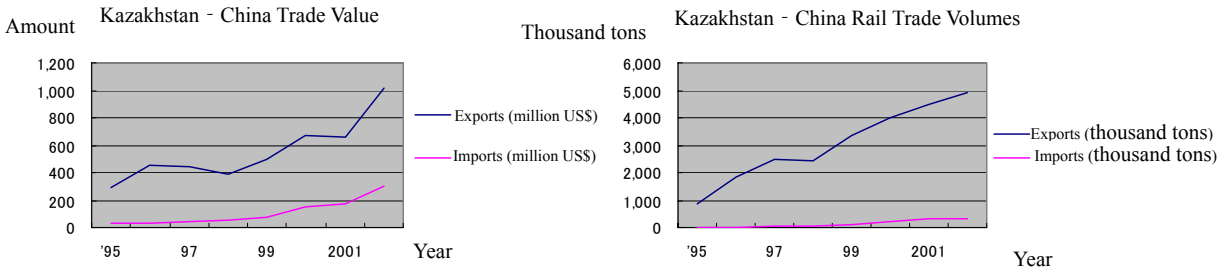
acquire data that would enable determination of project benefits.

2.4. Impacts

2.4.1 Expanded Kazakhstan-China Trade & Rail Traffic Volumes

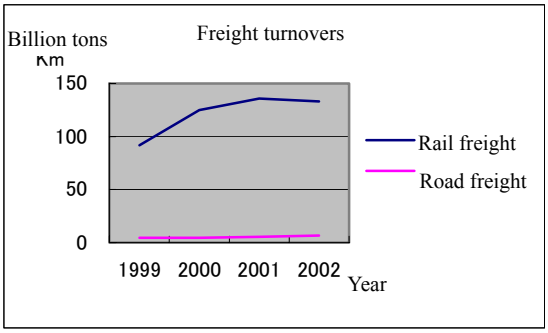
Less than two years have elapsed since project completion and it is thus considered too early to analyze the extent to which project outcomes have contributed to attaining project goals, but as Figure 10 below illustrates, trade between the two countries and rail traffic have been increasing since 1995. Kazakhstan primarily exports industrial raw materials such as metals, oil and steel, and has an export surplus. According to KTZ, imports from China predominantly consist of ceramics, machinery such as boilers, fertilizers and daily commodities, with Kazakhstan functioning as the transfer point for shipments bound for European markets. Despite the absence of any indices with which to measure the extent to which the rail sector contributes to Kazakhstan's economy, a look at the percentage of freight traffic (tons/km) accounted for by the rail sector, a pivotal index, reveals the overwhelming dominance of rail over other forms of transport between 1999 and 2002 (see Figure 11). The growth in the percentage of freight traffic on the railways is indicative of increasingly lively trade relations with China, Russia and other neighboring nations. And with China in particular, since Druzhba is the only gateway from Kazakhstan, this project is helping to promote bilateral trade between the two countries.

Figure 10: Fluctuations in Kazakhstan-China Trade



Source: Kazakhstan Agency on Statistics

Figure 11: Rail & Road Cargo Turnovers (nationwide)



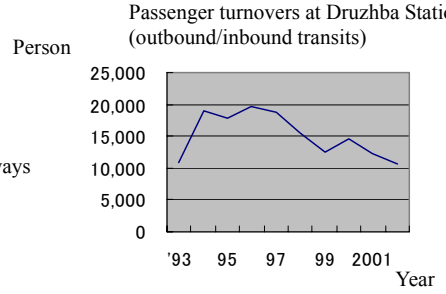
(Source: Kazakhstan Agency on Statistics 2003 "Major Transport and Telecommunications Services Indexes)

Meanwhile, as the figures on rail passenger traffic in Figure 12 evidence, between 1999 and 2002 the numbers of users on KTZ services as a whole and on the Almaty Rail routes has stagnated, whilst passengers traveling between Kazakhstan and China transiting at Druzhba Station have also been on the decline (see Figure 13).

Fig. 12: No. of passengers using KTZ and Almaty Railway routes

Source: Kazakhstan Agency on Statistics

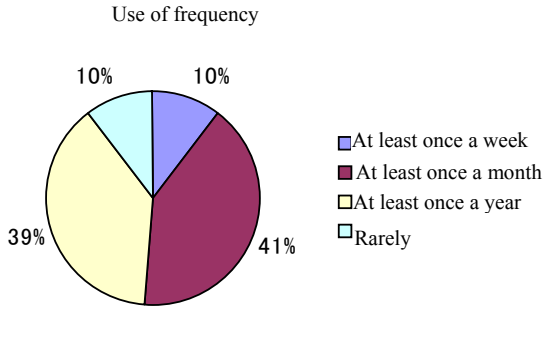
Fig. 13: No. of passengers using Druzhba Station on the Kazakh-China border

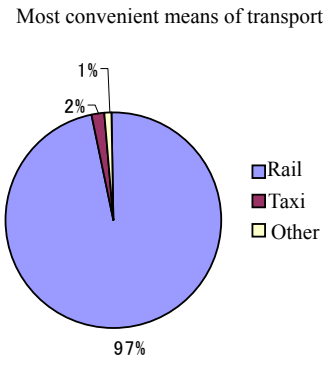


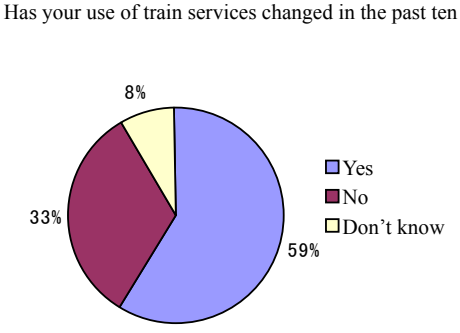
Source: KTZ

2.4.2 Analysis of Qualitative Outcomes (from the results of interviews with passengers)

To investigate the impact of this project, in November 2003 the local consultants interviewed passengers and freight carriers. For the passenger interviews, 100 passengers traveling from Almaty to Druzhba were selected at random.







Of the passengers interviewed, 10 percent stated that they use the railways at least once a week, from which it is inferred that the frequency of passenger movement between Kazakhstan and China is not much higher. By contrast, 97 percent of respondents stated that the trains are the most convenient form of transport, which suggests that the roads are inconvenient and that the road network in the area, as an alternative to the rail system, is underdeveloped. As key reasons for use of rail services passengers cited visits to China (29%), visits to relatives (10%) and the fact that the trains, which are cheaper than other means of transport, are economical (8%) (the remaining 50% gave no answer to this question). Asked as to whether there had been any changes in the railways and in their use of railways during the ten-year period spanning 1994 through 2003, the majority of respondents said "yes". A breakdown of answers reveals that train timetables have become more accurate (48%), there are now fewer cancellations on the Aktogay-Druzhba route (13%), and that there has been an increase in freight traffic (13%), with the former two representing positive impacts from the project.

2.4.3 Environmental Impact

No problems have been reported in connection with the land acquisition and involuntary resettlement components of this project.

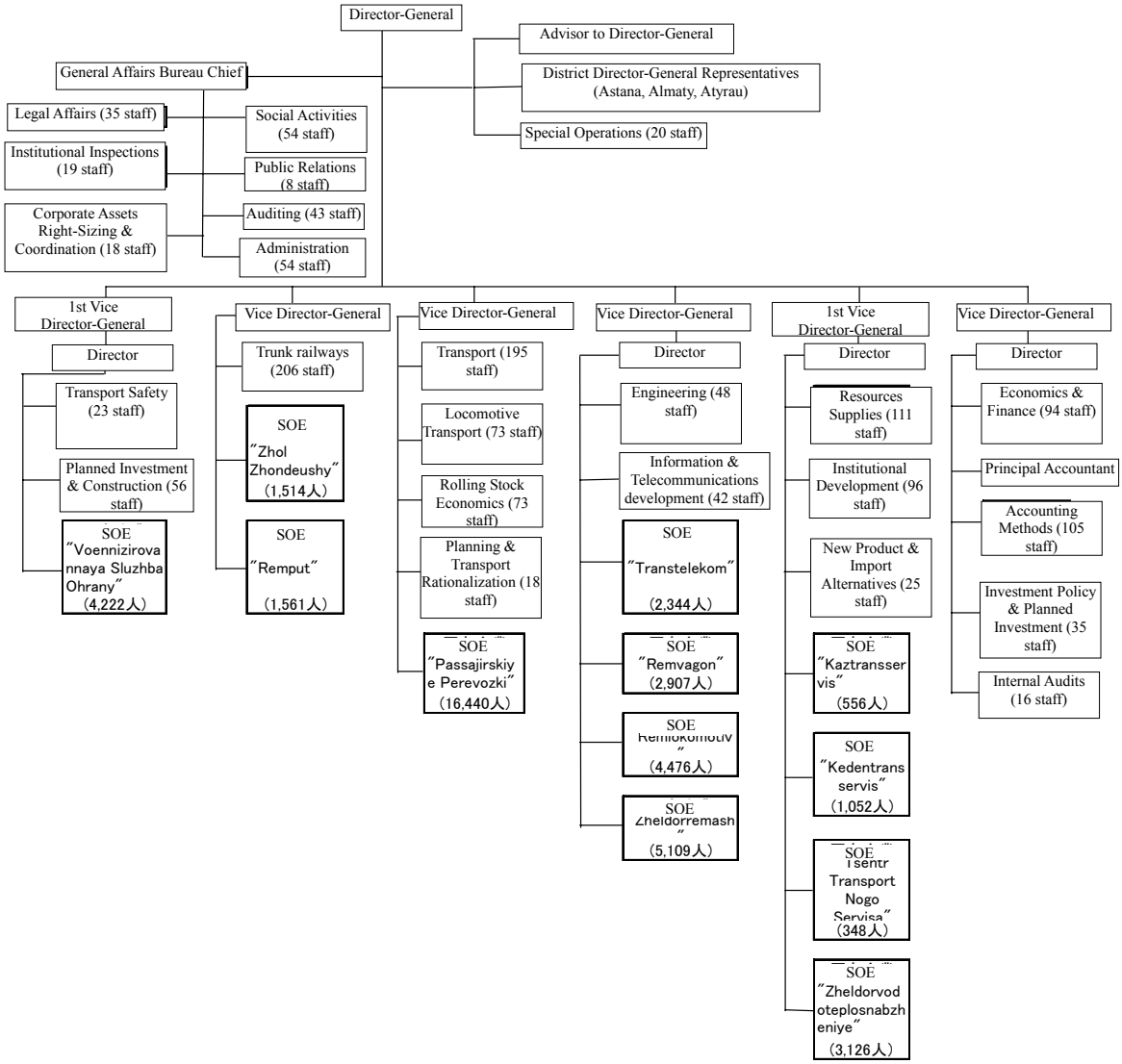
2.5 Sustainability

2.5.1 Executing Agency

(1) Operation & Maintenance System

The organization responsible for the operation and maintenance of this project changed from KTZ to Kazgipro Jeldortrans, a spin-off company established in 1999. This state-owned enterprise (SOE) was originally responsible for equipment design and construction supervision operations for facilities owned by KTZ. At the time of evaluation, this company had changed its name to Intranscom and become wholly independent of the national railway organization. At evaluation, a number of organizations was responsible for the operation and maintenance of the facilities constructed and equipment procured through this project. Specifically, the Almaty railway-carriage repair plant is responsible for repairs to railway carriages, Remput, which was spun off from KTZ in 1999, is responsible for track operation and management and maintenance. Transtelecom, also spun off in 1999, is responsible for the maintenance of communications facilities, while the transshipment facilities at Druzhba Station are operated directly by KTZ. The organizational structure of KTZ and its SOE spin-offs as of November 2003 is as shown in Figure 14; there are no notable problems with the system.

Figure 14: Organizational Chart of KTZ and its Subsidiaries (Source: KTZ)



(2) Technical Capacity

As of November 2003, no data on the personnel, budgets or operation and maintenance management status of the various organizations responsible for the operation and maintenance of project facilities and equipment were available. Until December 15, 2003, the Almaty railway-carriage repair plant was subordinate to the SOE "Passajirskiye Perevozki" (the state passenger traffic company) shown in Figure 14, but it became independent on that date. As of November 2003, the repair plant had no warranties or instruction manuals for some of the equipment procured, and was in a poor state of management; however, KTZ is funding an investigation into measures to improve this situation. In addition, approximately 1,000 employees – almost the entire workforce – have been receiving curriculum-based technical training once a month since January 2003, using textbooks and supplementary materials, and an exam system has been introduced in order to evidence the results of skills improvements. These

efforts are raising the skills and operation and maintenance capacity of the workforce and are critical to ensuring the sustainability of project outcomes. The repair plant became independent on December 15, 2003 and now has discretion over spare parts procurement. The more rapid procurement of spare parts is expected to raise the operation and maintenance capacity of the repair plant in the future.

(3) Financial Status

Since gaining independence from the former Soviet Union, demand for rail services has declined sharply in Kazakhstan as it has in many neighboring CIS (Commonwealth of Independent States) countries; however, KTZ underwent structural reform in 1997 with a view to strengthening its finances and productivity in responding to market-oriented economic reform, at which point the three former railway bureaus were merged into a single entity. Prior to the merger, the three railway bureaus each handled their own finances and accounts but these were consolidated with the merger, and KTZ now undertakes integrated management of all budgeting, including salary payments. Since 2000, KTZ has been compiling its financial documents on the basis of international accounting standards. Its consolidated profit and loss statements and balance sheets are shown in Figures 15 and 16, respectively.

Figure 15: Consolidated Profit & Loss Statement

(Unit: 1,000US$)

Item	1999RSE	2000RSE	2001RSE	2002RSE	2002CJSC
Operating income	660,747	866,818	1,010,606	424,218	697,465
(Cargo)	(546,768)	(736,762)	(875,187)	(358,939)	(594,396)
Operating expenses	569,291	680,193	887,516	327,694	577,211
(Personnel expenses)	(195,520)	(208,102)	(254,466)	(99,754)	(164,001)
(Resources / services)	(175,265)	(279,053)	(421,357)	(168,220)	(248,732)
Operating profits	91,456	186,625	123,090	96,524	120,254
Non-operating profits	75,241	15,302	30,458	3,600	8,871
Non-operating expenses	27,889	26,297	20,077	9,283	5,513
Pre-tax profits	138,808	175,630	133,471	90,841	123,612
Corporate tax, etc.	25,241	84,652	81,696	31,999	66,793
Current term profits	113,567	90,978	51,775	58,842	56,819

Source: KTZ

[Note] Due to corporate reorganization, the financial documents for fiscal 2002 are listed as the consolidated profit and loss statement for the five-month period from January to May 2002 and that for the 7-month period from June to December 2002 are listed. The consolidated profit and loss statements have been converted at a rate of 1$/155.60tng (the rate current at the end of 2002).

Figure 16: Consolidated Balance Sheet

(Unit: 1,000 US$)

Item	1999RSE	2000RSE	2001RSE	2002RSE	2002CJSC
Fixed assets	837,578	826,178	890,949	843,045	3,061,702
Liquid assets	191,381	209,759	218,180	333,027	431,527
Total assets	1,028,959	1,035,937	1,109,129	1,176,072	3,493,229
Long-term liabilities	143,713	101,085	117,471	126,396	131,487
Current liabilities	202,896	161,524	166,555	165,731	200,765
Total liabilities	346,609	262,609	284,026	297,127	332,252
Minority shareholder's equity	—	—	—	—	1,065
Capital	682,350	773,328	825,103	883,945	3,159,912
Total liabilities / capital	1,028,959	1,035,937	1,109,129	1,176,072	3,493,229

Source: KTZ

[Note 1] Due to corporate reorganization, the financial documents for fiscal 2002 are listed as the consolidated balance sheet for the end of May 2002 and that for the end of December 2002. The consolidated balance sheets have been converted at a rate of 1$/155.60tng (the rate current at the end of 2002).

[Note 2] The figures have been divided into pre- and post-organizational changes, and as the post-change balance sheet figures demonstrate, the assumption of rail assets has increased the organization's total assets from 1,176,072 thousand dollars prior to the change to 3,493,229 thousand dollars thereafter, an increase of 2,317,157 thousand dollars (197.0%).

First, with regard to operating results, KTZ has been posting steady increases in operating income and profits since 1999. Underscored by these positive results, the organization's financial status is also favorable, with its capital adequacy ratio rising from 66.3% in 1999 to 74.3% in 2001, an increase of 8%; it is therefore concluded that KTZ is currently a financially viable operation*[4].

On June 1, 2002, KZT undertook the rail assets owned by the state and by other SOEs as investment in kind, this was accompanied by organizational changes with the company being converted from a Republic State-owned Enterprise (RSE) to a Closed Joint Stock Company (CJSC); under the restructuring of the rail sector that is currently underway there are plans to separate the most profitable freight traffic division from the secondary passenger traffic division, and the policy of the Kazakhstan government has the potential to impact on the sustainability of the project; it will thus be necessary to watch carefully the direction of reforms.

2.5.3. JBIC Efforts to Improve KTZ Management

JBIC performed an interim monitoring survey in 1997 to ascertain the status of KTZ's operations as well as its financial and accounting methods, and recommended that KTZ change its operational management in order to respond to market-oriented economic reform. Specifically, the survey recommended the clarification of restructuring objectives, improvements in transport services, cash flow improvements, increased understanding of international financial and accounting standards, and the formulation of long-term investment plans, all of which are being executed in the context of KTZ's restructuring plan.

[4] This is also indicative of the shortage of reserves for possible loan losses posted in the financial documents for fiscal 2002 (33,618

3. Feedback

3.1. Lessons learned

None.

3.2. Recommendations

None.

thousand dollars).

Comparison of Original & Actual Scope

Item	Planned	Actual
(1) Outputs		
Track rehabilitation (replacement of rails / sleepers, etc.)	Besköl – Druzhba: 150km Concrete sleepers	As planned Wooden sleepers
Construction of alternate route	Lake Alakol area: approx. 22km	Lake Alakol area: 26.98km
Communications equipment improvements (installation of underground cables, replacement of telephone switching equipment, etc.)	Aktogay-Druzhba: approx. 300km	As planned
Procurement of forklift trucks & other cargo transit equipment	Druzhba Station 1.5-ton forklift trucks: 15 30-ton forklift trucks: 3 0.5-ton cranes: 2 Annual transit capacity: 1.135 million tons	Druzhba Station 1.5-ton forklift trucks: 15 20-ton forklift trucks: 2 40-ton forklift trucks: 1 Annual transit capacity: 1.025 million tons
Construction of railway-carriage repair plant	Almaty railway-carriage repair plant (20,000m^2)	As planned
Consulting services	Foreign consultants: 30M/M Local consultants: 318M/M	Foreign consultants: 20M/M Local consultants: 400M/M
(2) Execution period		
Track rehabilitation	Jul. 1996 – Jun. 2000	Jun. 1997 – Dec. 1999
Alternate route construction	Jul. 1996 – Jun. 2000	Jun. 1997 – Dec. 1999
Communications equipment improvements	Jul. 1996 – Jan. 1998	Jun. 1997 – Dec. 1999
Transshipment equipment procurement	Jul. 1996 – Jan. 1998	Jun. 1997 – Jan. 1998
Construction of new railway-carriage repair plant	Jul. 1996 – Jun. 2000	Jun. 1997 – Dec. 2001
Consulting services	Jan. 1996 – Jun. 2000	Mar. 1996 – Apr. 2001
(3) Project costs Foreign currency Local currency Total ODA loan portion Exchange rate	 4,313 million yen 5,336 million yen 9,649 million yen 7,236 million yen US$1 = 106.25 yen (March 1994)	 7,157 million yen 2,388 million yen 9,545 million yen 7,157 million yen KZT 1.00 = 1.61 yen (December 1996)

Railway Transport Capacity Development Project

Dr. Olga Kuznetsova
Rector
International Academy of Business

Relevance

The project objectives are meting the goal and requirements of "Kazakhstan Railway Transport Restructuring Program for 2004-2006", which aimed at the development of optimal for government and society railway transport functioning system (the previous Program title was "2001-2005 Rail Sector Structural Reform Program). The project is in line with the Kazakh Law "About Railway Transport" from 8th of December 2001. The government's policy in the road sector prioritizes rehabilitation and maintenance. Among of the program objectives there are production capacity optimization, railway transport efficiency improvement. Railway transport is taking the key role within the transport and communication sector of Kazakhstan Republic because of the raw material economy orientation. In accordance with official statistics (Kazakh Statistic Agency) 70% of cargo transportation and 50% of passenger transportation in year 2003 were provided by railway transport.

"Railway Transport Restructuring Program" is financed from own capital of Closed Joint Stock Company "Kazakhstan Temir Zholy" (KTZ) and state budget. KTZ is monopolist in railway transportation service and has no competitors. The objectives of the project are still relevant because the economic growth within last few years require the necessity for further industry development. At the same time government budget and Company assets are limited and due to fulfill the project objectives there is a necessity of external funding.

One of the principles of restructuring is the keeping of state ownership for the railway network, which aimed at meeting the needs of economy and society and extension of transit potential.

Impact

The length of Kazakhstan railways is about 13.6 thousands km, West of Kazakhstan has only 26.2% of railways (3577 km). Aktogai-Druzhba route that links the former Kazakh capital Almaty and the western border with China will improve the infrastructure of the region and country in a whole. It will effect on the turnover of goods and services, increase the trade between Kazakhstan and China, create the new job places and facilitate new business activities. China and Kazakhstan agreed for further cooperation in the railway transport sector in the future based on the principle of equality and mutual benefit and in line with the laws of each country and the international treaties joined by the two countries. Countries agreed to further develop direct international passenger and freight transport and trans-border transport. Container train transport linking the two countries and at the border will also be promoted. The number of passenger will be stabilized and simultaneously quality of services will be improved. The level of income of population stills not enough high so railway transport is remaining without alternative for majority of people.

I believe the expecting results are the growth of investment attractiveness of infrastructure sector enterprises, passenger and cargo transportation services quality improvement, creation and development of competitive environment at the infrastructure sector, railway transport services market formation and optimization the tariffs policy. It could help to increase the sphere of private capital implementation and entrepreneurship development, to maximize the utilization of transport potential between Europe and Asia.