



Report and Recommendation of the President to the Board of Directors

Project Number: 47281
June 2014

Proposed Loan Islamic Republic of Pakistan: National Highway Network Development in Balochistan Project

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CURRENCY EQUIVALENTS

(as of 3 June 2014)

Currency unit – Pakistan rupee/s (PRe/PRs)

PRe1.00 = \$0.01012
\$1.00 = PRs98.730

ABBREVIATIONS

ADB	–	Asian Development Bank
EIRR	–	economic internal rate of return
km	–	kilometer
NHA	–	National Highway Authority
PIU	–	project implementation unit
ROW	–	right-of-way

NOTE

In this report, “\$” refers to US dollars.

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CONTENTS

	Page
PROJECT AT A GLANCE	
I. THE PROPOSAL	1
II. THE PROJECT	1
A. Rationale	1
B. Impact and Outcome	3
C. Outputs	3
D. Investment and Financing Plans	4
E. Implementation Arrangements	5
III. DUE DILIGENCE	6
A. Technical	6
B. Economic and Financial	6
C. Governance	7
D. Poverty and Social	7
E. Safeguards	8
F. Risks and Mitigating Measures	9
IV. ASSURANCES	10
V. RECOMMENDATION	10
APPENDIXES	
1. Design and Monitoring Framework	11
2. List of Linked Documents	12

PROJECT AT A GLANCE

1. Basic Data		Project Number: 47281-001	
Project Name	National Highway Network Development in Balochistan Project	Department /Division	CWRD/CWTC
Country	Pakistan	Executing Agency	National Highway Authority
Borrower	Ministry of Finance		
2. Sector		ADB Financing (\$ million)	
✓ Transport	Subsector(s) Road transport (non-urban)		195.00
		Total	195.00
3. Strategic Agenda		Climate Change Information	
Inclusive economic growth	Subcomponents Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
4. Drivers of Change		Gender Equity and Mainstreaming	
Partnerships	Components Civil society organizations Implementation	No gender elements (NGE)	✓
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Nation-wide	High
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: B Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		195.00	
Sovereign Project loan: Ordinary capital resources		195.00	
Cofinancing		0.00	
None		0.00	
Counterpart		40.00	
Government		40.00	
Total		235.00	
9. Effective Development Cooperation			
Use of country procurement systems		No	
Use of country public financial management systems		No	

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Islamic Republic of Pakistan for the National Highway Network Development in Balochistan Project.¹

2. The proposed project will rehabilitate (i) the two-lane National Highway No. 50 (N-50) from Zhob to Mughal Kot (81 kilometers [km]); and (ii) the two-lane National Highway No. 70 (N-70) from Qila Saifullah to Waghum Rud (120 km) in Balochistan. Local community facilitation centers will also be developed along the project roads to enable local communities to take advantage of the improved mobility through rehabilitated project roads.

II. THE PROJECT

A. Rationale

3. Pakistan's transport sector contributes 10% to its gross domestic product, consumes 35% of the total energy annually, and is the recipient of 20%–25% of the annual federal public sector development program. It generates a large number of employment opportunities, estimated at 2.3 million jobs (5.9% of the employed labor force). The total road network is about 260,000 km and consists of national highways (about 11,400 km), provincial highways (92,500 km), and district and urban roads (156,100 km). The national highway network, which is 4% of the total road network, caters to 80% of the commercial traffic. Road transport is a dominant transport mode in Pakistan—accounting for 91% of passenger traffic and 96% of freight traffic. Despite the high reliance on road transport, the quality of the road infrastructure causes severe capacity constraints. Although the quality of the national highways has improved considerably over the past decades through continuous investments and better road asset management, the overall road condition needs further improvement.

4. Pakistan is strategically located to act as a hub for subregional transport and to take advantage of the subregion's rapidly improving environment for the development of transit and cross-border trade and commerce. Pakistan's road corridors offer the shortest route to the sea for landlocked Afghanistan, Central Asia, and Xinjiang province of the People's Republic of China. However, physical, institutional, and other constraints prevent Pakistan from taking full advantage of its location. The potential for increased trade through improved trade facilitation, rehabilitated transport links, efficient cross-border movements, and increased efficiency at ports has not fully materialized.

5. Before 1995, Asian Development Bank (ADB) assistance to Pakistan had focused on improvement of rural access roads to ensure all-weather access to villages—to complement ADB's then focus on agriculture sector development. From 1995, the perspective was expanded to national connectivity for economic growth in general, and the assistance started to cover provincial and national highways. Since 2005, ADB assistance has focused on the trade corridor and regional connectivity to help government take advantage of its strategic location and act as a hub for subregional transport. Two multitranche financing facilities provided in 2005 and 2007 were designed to construct and/or improve key trade corridors connecting sea ports, industrial centers, and border crossing points.²

¹ The design and monitoring framework is in Appendix 1.

² ADB. 2007. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Islamic Republic of Pakistan for the National Trade Corridor Highway Investment Program*. Manila; and ADB. 2005.

6. In parallel with assistance for road infrastructure improvement, ADB has supported the government to address institutional constraints. ADB's program loan provided in 2001 for the national sector policy reform program assisted the National Highway Authority (NHA) in implementing comprehensive reform programs covering (i) transport policy, (ii) road sector resource management, (iii) road sector preservation, (iv) institutional efficiency improvement, and (v) road safety.³ Through institutional capacity development and institutional reforms, the NHA has become a capable road agency despite structural constraints. It managed to (i) establish the road maintenance fund and secure a stable source of road maintenance expenditure; (ii) establish the road asset management system, which allows more efficient use of scarce resources; (iii) establish the National Highway and Motorway Police, which contributes to controlling overloading and reducing traffic violations and accidents on motorways and national highways; (iv) promote awareness of policy makers and regulators on road safety; and (v) change the mindset of policy makers and NHA officials toward public–private partnerships.

7. Despite these achievements, sector reforms should continue, particularly for (i) the chronic shortfall of road maintenance resources generated through the road maintenance fund (the toll base should be expanded and the toll rate should be rationalized); (ii) overloading (the trucking industry should be restructured—this is dominated by a small fleet of owners and by local manufacturers producing low-capacity, low-powered trucks protected by high import tariffs on high-capacity, multi-axle trucks); (iii) road safety (national and provincial efforts should be concerted, with responsibilities and accountability clearly demarcated among the institutions and provincial departments); and (iv) public–private partnership (the country risk should be reduced to a tolerable level for private investors to price it properly).

8. Balochistan is situated in southwest Pakistan and is the largest province by area, constituting 44% of Pakistan's total land mass. It is bordered by Afghanistan north and northwest, by Iran southwest, and by Khyber Pakhtunkhwa and the Federally Administered Tribal Areas northeast. To the south lies the Arabian Sea. Balochistan links the geopolitical regions of the Middle East, Central Asia, and South Asia; and provides the shortest route to seaports from Central Asia and Xinjiang province, the People's Republic of China. Despite this large potential as a transport hub, its economic development has been stagnant because of poor security and political instability, and its transport infrastructure is dire—hardly serviceable for regional transit traffic. The road network and connectivity is the poorest in the country. Balochistan has the lowest density of roads among the four provinces.

9. Balochistan is connected to the country's political and industrial centers by the N-50 (from Quetta to Qila Saifullah, Zhob, Mughal Kot, DI Khan, Kohat, and ultimately to Peshawar and Islamabad) and the N-70 (from Quetta to Qila Saifullah, Loralai, Waghun Rud, DG Khan, and ultimately to Multan). Despite the government's effort to improve mobility along these corridors, the Zhob–Mughal Kot section of the N-50 and the Qila Saifullah–Waghun Rud section of the N-70 remain missing links and seriously hamper the seamless flow of traffic. Consequently, traffic originating in Quetta bound for northern and western Punjab, the political and industrial centers in the country, takes a longer route through the N-65 (from Quetta to Jacobabad and Sukkur in Sindh province) and then the N-5 (northward to Multan and farther to Lahore and Islamabad). Rehabilitating the two missing links and completing the network of the N-50 and the N-70 will redirect traffic to a shorter and less costly route, and help integrate cities and towns along the N-50 and the N-70 into Balochistan's development initiative.

Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Islamic Republic of Pakistan for the National Highway Development Sector Investment Program. Manila.

³ ADB. 2001. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Islamic Republic of Pakistan for the Road Sector Development Program.* Manila.

10. Improvement of the national highway network in Balochistan is expected to enable socioeconomic development of the province by shortening distances across the province with improved interprovincial links. However, trickling down of these benefits to local rural communities in extreme impoverishment requires a transport link to enable local communities to access consumers. Such a link is hampered by (i) unavailable or limited access to transport (goods and freight transport) to carry the harvest of small farmers to nearby urban centers, (ii) nonexistent local markets or thin markets in nearby rural centers for agricultural products, (iii) limited information and resources to access competitive markets in faraway areas, and (iv) limited resources and opportunities for engaging in alternate livelihoods such as small-scale business or trade at the roadside. As a link between project roads and the local population, community facilitation centers in nearby rural settlements along the project roads will be instrumental in distributing the benefits of the improved highway network to rural communities (see para. 15).

11. Since early 2000s, Balochistan has been neglected from Pakistan's main development thrust, mainly because of poor security and political instability. Balochistan's lack of development allows insurgents to gain ground and a vicious circle follows. The government defines its top development agenda as equitable provincial development, and tries to help lagging provinces like Balochistan to catch up and integrate with the rest of the country. ADB support for Balochistan's road network improvement will encourage the government to pursue its priority agenda and be prepared for the future when Balochistan will play a key role in economic growth and regional cooperation and integration.

12. ADB has coordinated closely with other development partners, including the World Bank and Japan International Cooperation Agency, for road sector development in Pakistan; and has played a lead role in upgrading road infrastructure and sector management. Collaboration between development partners for sector reforms was instrumental to transforming the NHA into a service-oriented road asset manager with a sophisticated road asset management system. Through involvement in road sector development, ADB has gained valuable lessons such as designing projects with a manageable number of components and implementing agencies, carefully assessing the capacity of counterpart funding, estimating project costs conservatively and avoiding cost overrun, and properly assessing the time frame of land acquisition and resettlement of affected people. These lessons are adequately incorporated in the design of the project.

B. Impact and Outcome

13. The expected impact of the project will be an accessible, affordable, and safe national highway network in Balochistan. The expected outcome will be reduced transport cost from Balochistan to the political and industrial centers of the country.

C. Outputs

14. The first output will be the rehabilitated two-lane Zhob–Mughal Kot section of the N-50 (81 km) and the Qila Saifullah–Waghum Rud section of the N-70 (120 km).

15. The project will develop community facilitation centers along the project roads, focusing on (i) creating opportunities for the local population to exploit the benefits offered by improved mobility; (ii) improving local market hubs in rural centers along the project road, with community involvement; (iii) improving rural market hubs' access to, and linkage with, national markets through project roads; and (iv) helping socioeconomic uplift of local communities by organizing

and promoting local products and alternate means of livelihood. The second output will be five local community facilitation centers along the project roads, better integrated into the improved mobility through rehabilitated project roads.

D. Investment and Financing Plans

16. The project is estimated to cost \$235 million (Table 1).

Table 1: Project Investment Plan
(\$ million)

Items	Amount ^a
A. Base Cost^b	
1. Resettlement cost	1.0
2. Civil works	188.2
3. Community facilitation centers	5.0
4. Supervision consultant	9.0
Subtotal (A)	203.2
B. Contingencies^c	26.3
C. Financing Charges During Implementation^d	5.5
Total (A+B+C)	235.0

^a Includes taxes and duties of \$16 million to be financed from the government resources.

^b In March 2014 prices.

^c Physical contingencies computed at 10% for civil works. Price contingencies computed at 1.8%–2.2% on foreign exchange costs and at 7.5%–9.0% on local currency costs include provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Includes interest and commitment charges. Interest during construction for the Asian Development Bank (ADB) loan has been computed at the 3-year forward London interbank offered rate plus a spread of 0.5%. Commitment charges for an ADB loan are 0.15% per year to be charged on the undisbursed loan amount.

Sources: National Highway Authority and ADB estimates.

17. The government has requested a loan of \$195 million from ADB's ordinary capital resources to help finance the project. The loan will have a 25-year term, including a grace period of 5 years, an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility,⁴ a commitment charge of 0.15% per year (the interest and other charges during construction to be capitalized in the loan), and such other terms and conditions set forth in the draft loan agreement. ADB will finance resettlement cost to expedite payment of resettlement compensation and avoid project implementation delay.

18. The financing plan is in Table 2.⁵ The government portion will finance taxes and duties and contingencies.

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (loan)	195.0	83.0
Government	40.0	17.0
Total	235.0	100.0

Source: Asian Development Bank estimates.

⁴ The interest includes a maturity premium of 10 basis points. This is based on the above loan terms and the government's choice of repayment option and dates.

⁵ The Department for International Development of the United Kingdom has indicated its interest to contribute about \$65 million equivalent of grant cofinancing to the project. If such cofinancing becomes available, it will be on a joint basis with full administration by ADB.

E. Implementation Arrangements

19. The executing agency will be the NHA. A project implementation unit (PIU) will be established under the NHA for overall implementation of construction, including supervision of contractors and supervision consultants. A general manager will head the PIU, which will have suitably qualified staff including project directors and safeguard specialists.

20. Procurement of goods, civil works, and related services financed from the ADB loan will be done in accordance with ADB's Procurement Guidelines (2013, as amended from time to time). To ensure competition, international competitive bidding contracts will be adopted. The project will require consulting services for design review and construction supervision. Consultants will be recruited in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). Advance contracting and retroactive financing will be sought to ensure timely implementation of the project (Table 3). Retroactive financing for resettlement cost will be executed through reimbursement arrangements under ADB's *Loan Disbursement Handbook* (2012, as amended from time to time). The government has been advised that approval of advance contracting and retroactive financing does not commit ADB to finance the project.

21. For the development of community facilitation centers, a social development specialist with adequate knowledge of the socioeconomic fabric of the area and local needs will be hired as part of supervision consultants. The social community development specialist will carry out public consultations with all stakeholders (including the local administration, civil society organizations working in the field, and the local community) to assess their needs; and engage with relevant local government departments and community support organizations to provide and manage the required facilities. Based on consultation, the PIU will design and implement the facilitation centers under the supervision of the construction supervision consultants. The civil works contractor will carry out any construction work.

22. The implementation arrangements are summarized in Table 3 and described in detail in the project administration manual.⁶

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	July 2015–June 2018		
Estimated completion date	30 June 2018		
Management			
(i) Oversight body	Steering committee, NHA Chairman, NHA (chair) Senior members, NHA (members)		
(ii) Executing agency	NHA		
(iii) Implementation unit	PIU in Qila Saifullah, headed by general manager with 2 project directors and 7 staff members assigned		
Procurement	International competitive bidding	4 contracts	\$188.2 million
Consulting services	QCBS	International: 78 person-months National: 2,309 person-months	\$9.0 million
Retroactive financing and/or advance contracting	Advance contracting for civil works and supervision consultant. Retroactive financing for resettlement cost for up to \$1.0 million of the loan amount, provided that expenditures are incurred during the 12 months before the signing of the loan agreement.		

⁶ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

Aspects	Arrangements
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2012, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.

ADB = Asian Development Bank, NHA = National Highway Authority, PIU = project implementation unit, QCBS = quality- and cost-based selection.

Source: ADB estimates.

III. DUE DILIGENCE

A. Technical

23. The existing project roads will be rehabilitated to NHA specifications for national highways—carriageway width of 7.3 meters, with two lanes constructed of aggregate base courses and asphaltic layers and 2.5 meter-wide surface treated shoulders. Drainage will be improved through the construction of reinforced cement concrete box culverts as well as the construction of new bridge structures as required.⁷ Road safety works (including signage, lane marking, and road furniture) will be carried out in accordance with NHA standards for national highways. The proposed rehabilitation work is technically feasible, with manageable social and environmental impacts.

24. For both road sections, the detailed design of the road pavement, road geometrics, and bridge structures has been conducted in accordance with acceptable international practices. The pavement design of both roads sections is based on Road Note 31 (Transport Research Laboratory, United Kingdom).⁸ Geometric design is based on the American Association of State Highway and Transportation Officials policy on geometric design of highways and streets.⁹ Bridges are designed in accordance with the West Pakistan Code of Practice for highway bridges 1967,¹⁰ and conform to the American Concrete Institute Code of Practice¹¹ and American Association of State Highway and Transportation Officials Bridge Design Codes.¹²

25. The bid documents for procurement of civil works packages contain these detailed design drawings. Under the loan, the consultant firms recruited for design review and construction supervision will carry out a review of the detailed design, and incorporate any changes needed during implementation.

B. Economic and Financial

26. The economic analysis evaluates the economic viability of the N-50 Zhob–Mughal Kot and the N-70 Qila Saifullah to Waghum Rud sections. The analyses compare the benefits arising from the project—time savings and a reduction in vehicle operating costs—against the up-front investment cost and incremental changes to operation and maintenance costs over the 20-year appraisal period.

⁷ As the country experienced heavy floods in 2009–2011, the NHA strengthened its design standards by raising the road profile in the project area to make its road assets more resilient to climate change.

⁸ Transport Research Laboratory. 1993. *Overseas Road Note 31: A Guide to the Structural Design of Bitumen-surfaced Roads in Tropical and Sub-tropical Countries*. London.

⁹ American Association of State Highway and Transportation Officials. 2011. *A Policy on Geometric Design of Highways and Streets*. Washington, DC.

¹⁰ Government of West Pakistan. 1967. *Code of Practice for Highway Bridges Manual*. Islamabad.

¹¹ American Concrete Institute. 2011. *Manual of Concrete Practice*. Farmington Hills.

¹² American Association of State Highway and Transportation Officials. 2014. *Load and Resistance Factor Design Bridge Design Specifications*. Washington, DC.

27. The economic analysis shows that the project is viable, yielding an overall economic internal rate of return (EIRR) of 19.7%. The N-50 Zhob–Mughal Kot section has an EIRR of 23.8%, while the N-70 Qila Saifullah–Waghum Rud section has an EIRR of 15.1%. As both sections have EIRRs in excess of the ADB threshold, the project is considered economically viable.

28. There are no plans to toll either the N-50 Zhob–Mughal Kot or the N-70 Qila Saifullah–Waghum Rud sections, so the project will not be revenue-generating. The government established a road maintenance fund in 2003 that is financed by toll revenue from motorways and national highways, federal grants, and other road revenues. The fund provides a stable source for road maintenance expenditure—free from federal fiscal budget allocation, which is open to political influence. The fund has enabled the NHA to plan and use scarce resources effectively, setting priorities according to the economic rate of return calculated by the road asset management system. Resources generated by the road maintenance fund are 30%–40% short of the unconstrained requirement to maintain roads at the level of new pavement. Constrained by scarce resources, the NHA aims to maintain the roads in such a way that the vehicle operating cost is kept 30%–40% higher than that of newly paved roads. The project roads will be maintained in line with this strategy. However, in the long term, the standard of road maintenance will be raised to the level of new pavement. To overcome this shortage of funds, the NHA is trying to rationalize the toll level, one of the lowest in the world, and expand the base of toll collection by building more toll-based motorways and transforming existing national highways into toll-based.

C. Governance

29. ADB’s Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the NHA. The specific policy requirements and supplementary measures are described in the project administration manual.

30. A financial management assessment of NHA or the implementation of the project was carried out. The purpose of the assessment was to determine the financial management capacity of the NHA in maintaining the accounting systems, financial controls, and audit arrangements. NHA financial accounting, internal and external auditing rules, and internal control systems follow generally accepted international accounting and auditing practices. The NHA maintains separate project records and accounts adequate to identify the goods and services financed from the loan proceeds, financing resources received, expenditures incurred for the project, and use of local funds, including adequate internal controls and financial reporting arrangements. The project accounts and related financial statements will be audited annually in accordance with national and international auditing standards by the Auditor General of Pakistan and by a chartered accountant.

D. Poverty and Social

31. The country’s national poverty rate is 33%, while the population below the extreme poverty line is 21% (2012).¹³ Balochistan is one of the poorest provinces in Pakistan. In addition to long-standing political instability, the poor condition of infrastructure inhibits economic activity of people both within and outside the province. In Balochistan, the poverty rate in 2012 was estimated at 52%, and poverty incidence is higher in rural areas (72%) than in urban areas

¹³ Sustainable Policy Development Institute. 2012. *Clustered Deprivation: District Profile of Poverty in Pakistan*. Islamabad.

(29%). The project aims to increase economic growth through the enhancement of trade and traffic along the project roads. The project will benefit both local communities (through improved access to markets and social service facilities, and enhanced opportunities for community networking) and the population of the wider region through transportation of goods. During the socioeconomic survey, about 200 households and men and women from settlements along the project road participated in consultations and focus group discussions. The majority stated that the project would increase economic and employment opportunities by improving linkages to markets, production centers, and public and social service facilities.

32. **Gender.** Established sociocultural practices in the project area mean that women residing along the project roads are unlikely to participate in civil works or roadside business with construction workers or drivers. Focus group discussions were undertaken with women in the project influence area, and detailed gender analysis will be conducted by a national specialist early during implementation to identify priority concerns of local women. These will be taken into account in designing the function and activities of the proposed community facilitation centers. In preliminary consultations, women identified project benefits for them as better transport services and improved access to social services, markets, education and health facilities, and employment opportunities. The bidding documents provide clauses designed to ensure that all civil works contractors comply with applicable labor laws; do not employ child labor or forced labor; encourage the employment of the poor, particularly women; and do not offer different wages to men and women for work of equal value.

33. **HIV/AIDS, other communicable diseases, and human trafficking.** The prevalence rate of HIV/AIDS in the country is 0.10% (2011). Surveillance data for Balochistan in 2011 found HIV infection among 7% of injecting drug users in Quetta.¹⁴ However, the potential risks of HIV/AIDS and other sexually transmitted infections and/or communicable diseases are always a concern because the main reasons for prevalence are sexual transmissions and abuse of injections, which are not publicly well campaigned and not well regulated, particularly in rural areas. There is no evidence that the project will increase HIV/AIDS incidence, during or after implementation. However, any associated risks will be minimized by conducting awareness campaigns targeting construction workers and local populations during implementation. The contractor will be required to conduct these campaigns, under the oversight of the construction supervision consultant and the NHA, and such requirement will be included in the civil works bid documents and contract.

E. Safeguards

34. **Environment.** The project has been categorized environment category B. The civil works associated with the two road rehabilitation subprojects are limited to resurfacing and some widening. This will involve minimum civil works, and the entire operation will remain within the existing right-of-way (ROW) of both highways. The environmental impacts that will result from this are limited to the construction phase of the two subprojects; all impacts will be temporary in nature, with no residual long-term impacts. Initial environmental examination reports for the two project roads were prepared and uploaded on the ADB website on 8 and 9 January 2014. The environment, afforestation, land, and social wing of the NHA will be responsible for implementation of the environmental management plan. This NHA unit will submit to ADB semiannual environmental monitoring reports, which will be disclosed on the ADB website.

¹⁴ National AIDS Control Program Pakistan. 2011. *Bio Behavioral Survey among Mine Workers in Balochistan, Pakistan*. Islamabad.

35. **Land acquisition and resettlement.** The project is classified category B for resettlement impacts. The project was designed to avoid land acquisition and minimize the involuntary resettlement impacts by adopting existing alignment of the project roads and using the most feasible technical design. According to the detailed design, the proposed rehabilitation and improvement works will be confined to 15–21 meter width while the ROW of 33 meter in urban areas and 66 meter in rural areas is secured. However, in some sections near settlements and along agricultural lands, the ROW is encroached by adjoining landowners. An impact assessment and full census was conducted, based on the detailed designs (updated in 2013) for both project roads, and resettlement plans were prepared in accordance with national legal requirements and ADB's Safeguard Policy Statement (2009). According to the census survey, no affected household will be physically or economically displaced.

36. According to resettlement plans, there will be no land acquisition, and key resettlement impacts include partially affected structures (permanent structures and temporary thatched sheds or kiosks) and trees encroached onto the ROW. All affected households will restore or rehabilitate their structures at the same place outside of the ROW and will not be displaced physically or economically. The project impacts will be temporary and insignificant in nature; affected households will be compensated for all their lost assets on a replacement cost basis, and income restoration support will be provided for business and livelihood losses. The total resettlement budget is estimated as PRs98.3 million.

37. Public consultation and information disclosure were undertaken during the preparation of resettlement plans, including affected persons and the public along the project roads. The consultation and information-sharing process will be continued throughout project implementation. The main features of the resettlement plan—project impacts, asset valuation, entitlements, and compensation provisions—were disclosed to project-affected people during consultative meetings. An information booklet was prepared in the local language and distributed to project-affected people. The resettlement plan has been disclosed to the public via the NHA and ADB websites. The NHA will regularly monitor implementation of the resettlement plans; and the result, including social monitoring, will be shared with ADB quarterly during the implementation phase of resettlement plans and semiannually throughout project implementation after the resettlement plan has been implemented.

38. **Indigenous peoples.** The project roads are located in the settled areas of Balochistan Province, with no indigenous peoples as defined under ADB's Safeguard Policy Statement (2009). Therefore, no indigenous peoples communities will be affected by the project. Accordingly, the project is classified category C under ADB's Safeguard Policy Statement, with no indigenous peoples planning documents required.

F. Risks and Mitigating Measures

39. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.¹⁵ The risks are assessed manageable by adopting mitigating measures, and the integrated benefits and impacts are expected to outweigh the costs of mitigation.

¹⁵ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Government's development agenda for balanced provincial development compromised, and inadequate development budget allocated for Balochistan.	The new government has reiterated its commitment to ensuring balanced provincial development, focusing on underdeveloped provinces like Balochistan. A national consensus exists on the importance of engaging with underdeveloped provinces to contain political and religious insurgents.
Government's investments in transport sector in Balochistan erratically financed.	The federal government is committed to rebalancing public investment in the transport sector, which was skewed to provinces that were free from security risks.
Poor security and political instability deteriorate and disrupt free flow of traffic.	The project roads are located in relatively safe areas in Balochistan. Security protection measures in the former civil works contract in Balochistan, such as engaging local paramilitary agencies as security service providers, proved effective—with no security incident during project implementation or after opening of the rehabilitated road.
Few internationally qualified contractors and consultants are interested in the work.	In many past construction works, joint ventures of medium-sized international firms and qualified local firms carried out the works. In the course of construction, a few local firms proved their competence to build roads as designed. Civil works contracts are packaged to be suitable for the same joint venture arrangement between medium-sized international firms and competent local firms. Qualification requirements in the bidding documents will be carefully prepared to ensure that contractors with adequate financial and technical capacity are selected for civil works.
The procurement process is unduly prolonged because of governance issue involved in selection of contractors and consultants.	The new government ensures no political intervention in bidding for large-scale public works. The National Accountability Bureau is fully empowered to enforce the National Anticorruption Ordinance to prevent, detect, investigate, and prosecute of cases involving corruption, corrupt practices, misuse and abuse of powers, misappropriation of property, kickbacks, and commissions.

Source: Asian Development Bank assessment.

IV. ASSURANCES

40. The government and the NHA have assured ADB that implementation of the project shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the project administration manual and loan documents.

41. The government and the NHA have agreed with ADB on certain covenants for the project, which are set forth in the loan agreement and project agreement.

V. RECOMMENDATION

42. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of \$195,000,000 to the Islamic Republic of Pakistan for the National Highway Network Development in Balochistan Project, from ADB's ordinary capital resources, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 25 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements presented to the Board.

Takehiko Nakao
President

4 June 2014

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact Accessible, affordable, and safe road network in Balochistan</p>	<p>Average daily vehicle-km from Quetta to Peshawar via the N-50 and from Quetta to Multan via the N-70 increased by 30% in the first full year of operation of two project roads (2013 base line: 357,000 average daily vehicle-km for the N-50 and 248,000 average daily vehicle-km for the N-70)</p>	<p>NHA traffic statistics</p>	<p>Assumptions Government's development agenda for balanced provincial development intact, and adequate development budget allocated for Balochistan</p> <p>Government's investments in transport sector in Balochistan financed sustainably</p>
<p>Outcome Reduced transport cost from Balochistan to the political and industrial centers of the country</p>	<p>By 2018, the travel time reduced to 28 hours from Quetta to Islamabad (from 33 hours in 2013), 25 hours from Quetta to Peshawar (from 30 hours in 2013), and 22 hours from Quetta to Multan (from 28 hours in 2013)</p>	<p>Supervision consultant's baseline survey</p> <p>NHA traffic statistics</p>	<p>Risk Poor security and political instability disrupts construction work during implementation and free flow of traffic after completion</p>
<p>Outputs</p> <p>1. Two-lane roads of Zhob–Mughal Kot and Qila Saifullah–Waghum rehabilitated</p> <p>2. Community facilitation centers integrated into the improved mobility through rehabilitated project roads</p>	<p>Total of 201 km of roads rehabilitated by 2018 with IRI no higher than 4 (Zhob–Mughal Kot: 81 km; Qila Saifullah–Waghum: 120 km)</p> <p>5 community facilitation centers developed along the project roads by 2018</p>	<p>Supervision consultant's project progress report and project completion report</p>	<p>Risks Few internationally qualified contractors and consultants are interested in the work</p> <p>The procurement process is unduly prolonged</p>
<p>Activities with Milestones</p> <p>1. Road rehabilitation</p> <p>1.1 Bidding for contractor and consultant</p> <p>1.1.1 NHA submits bid evaluation report for contractor and consultant by April 2015.</p> <p>1.1.2 ADB evaluates and approves NHA's bid evaluation report by May 2015.</p> <p>1.1.3 NHA awards the contract for civil work and design review and supervision consultancy by June 2015.</p> <p>1.2. Construction work</p> <p>1.2.1 NHA mobilizes consultant team and contractor team by July 2015.</p> <p>1.2.2 Consultant team reviews detailed design by September 2015.</p> <p>1.2.3 Contractor team starts construction work in July 2015 and completes it by June 2018.</p> <p>2. Community facilitation centers</p> <p>2.1 NHA identifies potential rural centers for development of community facilitation centers by December 2015.</p> <p>2.2 NHA conducts an in-depth study of livelihoods and needs of women residing in the project area, and identifies potential elements benefitting them by June 2016.</p> <p>2.3 NHA assesses community needs and designs the socio-economic facilities to be provided by September 2016.</p> <p>2.4 Consultant team develops engineering designs by December 2016 and contractor team builds them by June 2018.</p>		<p>Inputs</p> <p>Loan ADB: \$195,000,000</p> <p>Government: \$40,000,000</p>	

ADB = Asian Development Bank, IRI = international roughness index, km = kilometer, NHA = National Highway Authority.
Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=47281-001-3>

1. Loan Agreement
2. Project Agreement
3. Sector Assessment (Summary): Road Transport (Nonurban)
4. Project Administration Manual
5. Contribution to the ADB Results Framework
6. Development Coordination
7. Economic and Financial Analysis
8. Country Economic Indicators
9. Summary Poverty Reduction and Social Strategy
10. Initial Environmental Examination
11. Resettlement Plan
12. Risk Assessment and Risk Management Plan