



# Report and Recommendation of the President to the Board of Directors

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Project Number: 46422-003  
October 2015

## Proposed Loans Republic of the Union of Myanmar: Greater Mekong Subregion East–West Economic Corridor Eindu to Kawkareik Road Improvement Project

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**Asian Development Bank**

## CURRENCY EQUIVALENTS

(as of 30 September 2015)

Currency unit	–	kyat/s (MK)
MK1.00	=	\$0.00077
\$1.00	=	MK1,290

## ABBREVIATIONS

ADB	–	Asian Development Bank
AIF	–	ASEAN Infrastructure Fund
ASEAN	–	Association of Southeast Asian Nations
CSC	–	contract supervision consultant
DOH	–	Department of Highways
EMP	–	environmental management plan
EWEC	–	East–West Economic Corridor
GMS	–	Greater Mekong Subregion
IEE	–	initial environmental examination
km	–	kilometer
m	–	meter
m <sup>2</sup>	–	square meter
MOC	–	Ministry of Construction
PAM	–	project administration manual
PMU	–	project management unit
REGDP	–	resettlement and ethnic groups development plan
SDR	–	Special drawing rights

## NOTE

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

<b>Vice-President</b>	S. Groff, Operations 2
<b>Director General</b>	J. Nugent, Southeast Asia Department (SERD)
<b>Director</b>	H. Iwasaki, Transport and Communication Division, SERD
<b>Team leader</b>	J. Leather, Principal Transport Specialist, SERD
<b>Team members</b>	I. Ahsan, Counsel, Office of the General Counsel C. Clark, Senior Safeguard Specialist (Resettlement), SERD A. Fernando, Operations Officer, SERD A. Fox, Principal Procurement Specialist, Operations Services and Financial Management Department (OSFMD) K. Leung, Finance Specialist, SERD A. Velasquez, Safeguards Specialist (Environment), SERD A. Veron-Okamoto, Transport Specialist, SERD F. Villanueva, Senior Operations Assistant, SERD
<b>Peer reviewer</b>	S. Mitra, Principal Procurement Specialist, OSFMD

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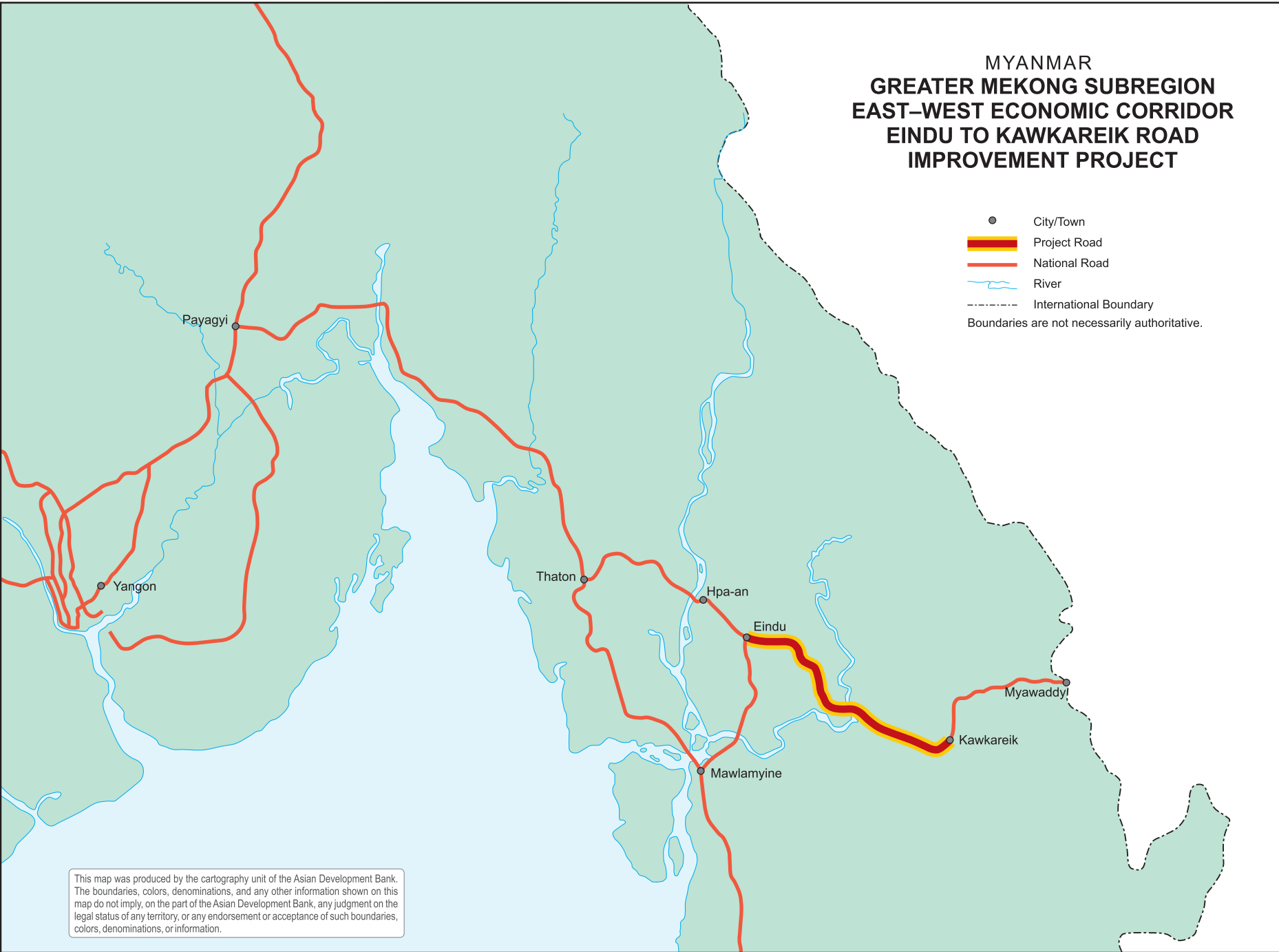
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## PROJECT AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number:</b> 46422-003	
<b>Project Name</b>	Greater Mekong Subregion East–West Economic Corridor Eindu to Kawkareik Road Improvement Project	<b>Department /Division</b>	SERD/SETC
<b>Country Borrower</b>	Republic of the Union of Myanmar Republic of the Union of Myanmar	<b>Executing Agency</b>	Ministry of Construction
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
✓ <b>Transport</b>	Road transport (non-urban)		100.00
		<b>Total</b>	<b>100.00</b>
<b>3. Strategic Agenda</b>	<b>Subcomponents</b>	<b>Climate Change Information</b>	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Medium
Regional integration (RCI)	Pillar 1: Cross-border infrastructure Pillar 2: Trade and investment Pillar 4: Other regional public goods		
<b>4. Drivers of Change</b>	<b>Components</b>	<b>Gender Equity and Mainstreaming</b>	
Governance and capacity development (GCD)	Institutional development	No gender elements (NGE)	✓
Partnerships (PAR)	Civil society organizations Official cofinancing Regional organizations		
<b>5. Poverty Targeting</b>		<b>Location Impact</b>	
Project directly targets poverty	No	Regional	High
<b>6. Risk Categorization:</b>	Complex		
<b>7. Safeguard Categorization</b>	<b>Environment: B Involuntary Resettlement: B Indigenous Peoples: B</b>		
<b>8. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>100.00</b>	
Sovereign Project loan: Asian Development Fund		100.00	
<b>Cofinancing</b>		<b>20.00</b>	
ASEAN Infrastructure Fund		20.00	
<b>Counterpart</b>		<b>1.80</b>	
Government		1.80	
<b>Total</b>		<b>121.80</b>	
<b>9. Effective Development Cooperation</b>			
Use of country procurement systems		No	
Use of country public financial management systems		No	

MYANMAR  
GREATER MEKONG SUBREGION  
EAST-WEST ECONOMIC CORRIDOR  
EINDU TO KAWKAREIK ROAD  
IMPROVEMENT PROJECT

- City/Town
  - Project Road
  - National Road
  - River
  - International Boundary
- Boundaries are not necessarily authoritative.



This map was produced by the cartography unit of the Asian Development Bank. The boundaries, colors, denominations, and any other information shown on this map do not imply, on the part of the Asian Development Bank, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries, colors, denominations, or information.

## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed loan from the Asian Development Fund resources (A loan) of the Asian Development Bank (ADB); and (ii) a proposed loan funded through the participation of the ASEAN Infrastructure Fund (AIF) (B loan), both to the Republic of the Union of Myanmar, for the Greater Mekong Subregion (GMS) East–West Economic Corridor (EWEC) Eindu to Kawkareik Road Improvement Project.<sup>1</sup>

2. The project is located in Myanmar’s Kayin State, which borders Thailand. The state is isolated and has been affected by sectarian conflict since 1949. As a consequence, poverty levels are high, and social and economic infrastructure is rudimentary and in poor condition where it exists. Despite these factors, the state is traversed by Myanmar’s principal road link to Thailand, along which about 30% of the country’s land-based trade passes. This road link is part of the GMS EWEC, which is intended to connect Da Nang in Viet Nam with Mawlamyine and Yangon in Myanmar, through the Lao People’s Democratic Republic and Thailand. The GMS EWEC road sections have been completed in the Lao People’s Democratic Republic, Thailand, and Viet Nam; the Myanmar sections need to be completed and improved. The project is aligned with the development agenda of ADB’s Midterm Review of Strategy 2020, which supports inclusive economic growth and regional cooperation and integration.<sup>2</sup>

## II. THE PROJECT

### A. Rationale

3. Myanmar suffers from a lack of good quality transport connections nationally and with neighboring countries, which has constrained its economic growth and integration within Asia. After five decades of isolation, it is essential that regional connectivity is improved to stimulate and sustain economic development, and to normalize cross-border flow of goods and people. Improvement of the GMS EWEC within Myanmar will dramatically improve connectivity, reduce travel times, and support economic development within the corridor and beyond, lifting many in this poor state of Myanmar out of poverty. The project will (i) improve road access to and within Kayin State; (ii) facilitate trade between Myanmar and Thailand, and beyond to the wider GMS region; and (iii) support the peace process and demonstrate the government’s commitment to improving the well-being of people in areas that have long been affected by conflict. Detailed consultations were carried out during project preparation, and a comprehensive communication strategy has been prepared for the project to ensure continued and meaningful dialogue with all stakeholders during project implementation. The GMS EWEC within Myanmar is a priority of the government, as highlighted in the national transport master plan.<sup>3</sup>

4. The project will improve the central 66.4-kilometer (km) section of the GMS EWEC within Myanmar, between the towns of Eindu and Kawkareik. The section to the east, between Kawkareik and Myawaddy, on the border with Thailand, is being improved with assistance from the Government of Thailand. The section to the west, between Eindu and the main Yangon–Mawlamyine highway, is being improved through a government-managed build–operate–transfer concession operated by a Myanmar private company.

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<sup>1</sup> The design and monitoring framework is in Appendix 1.

<sup>2</sup> ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

<sup>3</sup> Government of Myanmar. 2015. *National Transport Master Plan*. Nay Pyi Taw.

5. The project road will be improved to the GMS road network standard of two lanes with appropriate width paved shoulders, suitable for all standard highway traffic. The section will require complete reconstruction, with some short sections of realignment for improved vehicle operating speed and road safety. The project also includes design features for climate resilience in this flood-prone area, including raising the road to a level that takes into account potentially higher future flood levels to provide year-round access.

6. The project fully supports the strategic thrusts of the interim country partnership strategy.<sup>4</sup> It also supports the findings of the Myanmar Transport Sector Initial Assessment.<sup>5</sup> The project forms one of a series of assistance programs and projects provided by ADB in Kayin State across several sectors. The focused approach to providing assistance in the state will allow greater familiarity with ADB by the government, as well as benefits from cross-sector improvements to end users and beneficiaries.

## **B. Impact and Outcome**

7. The impact will be improved trade between Myanmar and Thailand. The outcome will be improved connectivity within Kayin State and with Thailand.

## **C. Output**

8. The project output will be the improvement of 66.4 km of road between Eindu and Kawkareik. The completed road's main alignment will have two traffic lanes, each 3.5 meters (m) wide and with 1.5 m-wide paved shoulder. As part of the project road section, an approximately 0.67 km-long access road to Kyon Doe river port will also be reconstructed to facilitate transport interchange between the project road and Kayin State's extensive inland waterway network. The road design speed will be 80 km per hour outside built-up areas, with lower operational speeds in built-up areas for safety reasons. In general, the horizontal alignment of the road will follow the existing centerline. However, to allow higher traffic speeds and to improve road safety, about 15 km of the alignment will deviate from the existing alignment by up to 200 m. The road improvement works will also include 19 new bridges and 78 box culverts to improve drainage and water management, especially in the major flood-prone areas from km 34 to km 52. Output activities will include (i) two civil works packages for road improvement; and (ii) a consulting services package for construction supervision and design check, which will also include project management and implementation capacity development for government staff.

## **D. Investment and Financing Plans**

9. The project is estimated to cost \$121.8 million (Table 1).

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<sup>4</sup> ADB. 2012. *Interim Country Partnership Strategy: Myanmar, 2012–2014*. Manila.

<sup>5</sup> ADB. 2012. *Myanmar Transport Sector Initial Assessment*. Manila.

**Table 1: Project Investment Plan**  
(\$ million)

Item	Amount <sup>a</sup>
<b>A. Base Costs<sup>b</sup></b>	
1. Civil works	89.0
2. Utilities relocation (power and telecommunications)	1.2
3. Environment and social mitigation (land and resettlement) <sup>c</sup>	0.6
4. Project management and contract supervision consultants	6.0
5. Incremental administration costs <sup>d</sup>	0.6
<b>Subtotal (A)</b>	<b>97.4</b>
<b>B. Contingencies<sup>e</sup></b>	
1. Physical	9.7
2. Price	11.6
<b>Subtotal (B)</b>	<b>21.3</b>
<b>C. Financing Charges During Implementation<sup>f</sup></b>	
1. Interest during implementation	3.1
<b>Total (A+B+C)</b>	<b>121.8</b>

<sup>a</sup> Includes taxes and duties of about \$5.5 million to be financed from A loan (\$4.5 million) and B loan (\$1.0 million) resources. The following principles were followed in determining the amount of taxes and duties to be financed by the Asian Development Bank (ADB): (i) it is consistent with the interim country partnership strategy, (ii) the amount does not represent an excessive share of the project investment plan, (iii) the taxes and duties apply only to ADB and ASEAN Infrastructure Fund (AIF)-financed expenditures, and (iv) the financing of the taxes and duties is material and relevant to the success of the project.

<sup>b</sup> In January 2015 prices.

<sup>c</sup> The estimated cost includes (i) land acquisition and resettlement (\$580,000, including independent monitoring); and (ii) environment (\$20,000, including replacement tree planting).

<sup>d</sup> Costs to be financed include project management unit travel allowances, office operation and maintenance, utilities, and consumable supplies.

<sup>e</sup> Physical contingencies computed at 10% of base costs. Price contingencies computed for foreign exchange costs and local currency costs based on projected annual rates over the project's implementation period. The price contingencies include provision for the potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

<sup>f</sup> Includes A loan and B loan. For the A loan, interest during construction has been computed at 1% per annum. For the B loan, interest during construction has been computed at the 5-year (corresponding to the implementation period) US dollar fixed swap rate plus an AIF spread of 1.4%. The commitment charge of 0.15% per annum on undisbursed balance of the B loan is currently waived subject to annual approval of the AIF board of directors, and this waiver is expected to be maintained. The interest charges of both the A loan and the B loan will be capitalized.

Source: ADB estimates.

10. The government has requested (i) a loan in various currencies equivalent to SDR71,258,000 (\$100.0 million equivalent) from ADB's Special Funds resources (A loan), and (ii) a loan of \$20 million funded through the participation of the AIF (B loan) to help finance the project.<sup>6</sup> The A loan will have (i) a 32-year term, including a grace period of 8 years; (ii) an interest rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; and (iii) such other terms and conditions set forth in the draft A loan agreement. The ADB-administered B loan of \$20.0 million will have (i) a 20-year term, including a grace period of 5 years; (ii) a straight-line repayment method; (iii) an annual interest rate determined in accordance with ADB's London interbank offered rate-based lending facility (6-month rate plus 1.4%); (iv) a commitment charge of 0.15% per year on the undisbursed balance (which is currently waived on an annual basis by the AIF board of directors, and which is expected to continue being waived); and (v) such other terms and conditions set forth in the draft B loan agreement. Based on these conditions, the average loan maturity is 12.75 years and no

<sup>6</sup> ADB and AIF financing may finance local transportation and insurance costs.



maturity premium is applicable. The B loan will finance the same output as the A loan on a pro rata basis.<sup>7</sup> The financing plan is in Table 2.

**Table 2: Financing Plan**

<b>Source</b>	<b>Amount (\$ million)</b>	<b>Share of Total (%)</b>
Asian Development Bank		
Asian Development Fund	100.0	82.1
ASEAN Infrastructure Fund	20.0	16.4
Government	1.8	1.5
<b>Total</b>	<b>121.8</b>	<b>100.0</b>

Source: Asian Development Bank estimates.

## **E. Implementation Arrangements**

11. The project's executing agency will be the Ministry of Construction (MOC). MOC's Department of Highways (DOH) will be the implementing agency.<sup>8</sup> DOH has established a project management unit (PMU) that will be responsible for the day-to-day management of the project. Assessment undertaken during project preparation of MOC and DOH shows sufficient capacity to implement the project. The PMU, based in Yangon, is headed by a full-time project director and is staffed with engineering, financial, administrative, and safeguard specialists. The PMU will establish an appropriately staffed and resourced office in the project area during implementation. The arrangements mirror those of the recently approved Maubin–Phyapon Road Rehabilitation Project, which has performed well with respect to bidding and safeguard requirements.<sup>9</sup>

12. The rehabilitation of the project road will be implemented through two civil works contracts: (i) one covering the section of the project road from Eindu to Gyaing (Kawkareik) Bridge (km 0.0–km 40.4), and (ii) one covering the section from Gyaing (Kawkareik) Bridge to Kawkareik (km 42.2–km 66.5). The existing Gyaing (Kawkareik) Bridge (km 40.4–km 42.2) will be replaced with collaborative parallel funding support from the Government of Japan. The civil works contractors will be responsible for all aspects of their contracts, including coordinating labor, equipment, supplies, and use of materials; achieving specified schedule and quality standards; and complying with social and environmental requirements. All civil works contracts for the ADB- and AIF-financed part of the project will be procured following procedures set out in ADB's Procurement Guidelines (2015, as amended from time-to-time), subject to ADB's eligibility requirements waiver.<sup>10</sup> Universal procurement will be applied. Recent ADB experience with the Maubin–Phyapon Road Rehabilitation Project (footnote 9) has demonstrated considerable interest by contractors in civil works packages under ADB-supported projects.

13. The civil works contracts will be supervised by a contract supervision consultant (CSC), who will be the engineer for the contracts as defined in the contract documentation. The CSC

<sup>7</sup> The pro rata ratio is decided between the A loan and the B loan amounts, in this case 83.33% from the A loan and 16.67% from the B loan.

<sup>8</sup> Under a recent reorganization of MOC, the DOH has replaced Public Works as the implementing agency for highway projects.

<sup>9</sup> ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of the Union of Myanmar for the Maubin–Phyapon Road Rehabilitation Project*. Manila.

<sup>10</sup> ADB. 2014. *Blanket Waiver of Member Country Procurement Eligibility Restrictions in Cases of Cofinancing for Operations Financed from Asian Development Fund Resources*. Manila.

will be an international consulting firm, working with one or more national consulting firms or directly with national specialists, and will be engaged in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time), subject to ADB's eligibility requirements waiver (footnote 10). The CSC will be recruited through quality- and cost-based selection. The scope of the services provided by the CSC will include design review, construction supervision, and environmental and resettlement monitoring. The Maubin–Phyapon Road Rehabilitation Project demonstrated that there was substantial interest from qualified bidders for such works and services.

14. The implementation arrangements are summarized in Table 3 and described in detail in the project administration manual (PAM).<sup>11</sup>

**Table 3: Implementation Arrangements**

<b>Aspects</b>	<b>Arrangements</b>		
Implementation period	May 2016–September 2019		
Estimated closing date	31 March 2020		
<b>Management</b>			
(i) Executing agency	Ministry of Construction		
(ii) Implementing agency	Department of Highways, Ministry of Construction		
(iii) Implementation unit	Project management unit (project site offices and 18 staff)		
Procurement (civil works)	International competitive bidding	2 contracts	\$89.0 million <sup>a</sup>
Consulting services (contract supervision)	Quality- and cost-based selection	105 international person-months	\$6.0 million
		792 national person-months	
Advance contracting	Advance contracting for civil works and consulting services		
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank.

<sup>a</sup> Estimated contract values are base civil works costs plus 10% contract contingencies.

Source: ADB.

### III. DUE DILIGENCE

#### A. Technical

15. The completed project road's main alignment will have a total formation width of 11.0 m. Its cross section will typically comprise 3.5 m of traffic lanes with 1.5 m of paved shoulders and 0.5 m of unpaved shoulders on each side, except in urban areas where the paved shoulder width will be 2.0 m. The paved shoulders are provided for the substantial volumes of nonmotorized traffic and pedestrians that use the road. Along the approximately 0.67 km-long access road to Kyon Doe river port, the cross section will be typically two 3.0 m lanes with unpaved shoulders.

<sup>11</sup> Project Administration Manual (accessible from the list of linked documents in Appendix 2).

16. The project road will follow the existing alignment for around 45 km of its length. For the remaining length, the road will be realigned to maintain vehicle operating speed and to ensure road safety at the design speed of 80 km per hour. The project road will generally follow the existing vertical alignment, with some increase in height to account for potentially higher future flood levels. This will apply particularly from km 34 to km 52, where the road level will be substantially raised to avoid road closure due to flooding, as part of the project's climate-resilient design features, with additional culverts provided to equalize flood level impacts on agricultural land on both sides of the road.

17. The project road's main alignment will have a flexible pavement with asphaltic surfacing. The access road to Kyon Doe river port will be provided with a rigid concrete pavement because the area adjacent to the port is prone to frequent flooding. Pavement structures have been designed using appropriate design methods based on projected traffic on the project road from 2019 to 2039, assuming the provision of an asphaltic concrete overlay along the main alignment between years 2029-2031 to provide additional strength required for traffic loading for the remainder of the project road's service life. Detailed design for the project has been undertaken. The traffic projection is based on present traffic volumes, with growth rates that take into account the likely rapid increase in traffic, in terms of traffic volume and loading, that will occur as Myanmar's economy begins to reflect the effect of economic liberalization and increased trade with neighboring countries, in particular Thailand.

18. The Gyaing (Kawkareik) Bridge, which lies within the project road length, will be replaced under financing provided by the Government of Japan. The approaches to the new bridge will be designed and constructed to essentially the same technical standards as for the ADB- and AIF-financed sections of the project.

19. Existing utilities within the project road's corridor of impact will be relocated before the civil works commence.<sup>12</sup> These utilities include approximately 330 power poles and sections of three fiber-optic telecommunications cables.

20. The technical due diligence confirmed that the project's technical design, alignment, cross section, drainage structures, pavements, and road safety are appropriate for a road in this location, and for the volume of traffic projected to use it. The construction program and sequencing provide suitable implementation arrangements for construction activities and site access, especially where the acquisition of new land is required.

## **B. Economic and Financial**

21. The project has an economic internal rate of return of 19.5%, with a net present value of \$148.5 million at a 12% discount rate.<sup>13</sup> The three main benefits are reduced vehicle operating costs, reduced travel time, and reduced maintenance costs, with other quantified benefits being fewer accidents and less pollution, together resulting in increased regional and local trade, and improved road safety. Additional benefits from avoidance of future flooding over the road, which have not been evaluated, would improve the economic merit of the project.

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<sup>12</sup> The corridor of impact is defined typically as the area occupied by the road, including its embankment and cut slopes, plus 2 m–3 m on each side. This width is substantially less than the government's standard right-of-way width for a road of this class, which is approximately 46 m outside urban areas.

<sup>13</sup> Economic and Financial Analysis (accessible from the list of linked documents in Appendix 2).

22. The MOC is a general government sector unit, and the project is nonrevenue generating. The financial analysis undertaken during project preparation assessed the MOC's financial capacity to sustainably maintain the project. The analysis concluded that MOC has sufficient financial capacity, within the government's budgetary procedures, for the recurrent expenditures of operating and maintaining the project in a sustainable manner.

### **C. Governance**

23. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government, MOC, and DOH. The specific policy requirements and supplementary measures are described in the PAM (footnote 11). The financial management assessment undertaken during project preparation revealed that both the MOC and DOH understand ADB's financial management policies and implementation procedures as a result of their work for the ADB-supported Maubin–Phyapon Road Rehabilitation Project. Procurement risk assessment is high. Additional training in financial management and disbursement practices for the accounting staff of the MOC and DOH is included in the scope of the Maubin-Phyapon Road Rehabilitation project. With this additional support, the financial arrangements for the project are adequate for project implementation. The MOC and DOH will maintain separate project records and accounts that identify works and services financed from the ADB and AIF loan proceeds. The project financial statements will be audited annually by an independent auditor. Public disclosure of the project financial statements, including the annual audit reports on the project financial statements, will be guided by ADB's Public Communications Policy 2011.

24. The government is committed to promoting good governance and addressing corruption. An anticorruption commission was formed in January 2013, and an anticorruption law was promulgated in July 2013.

### **D. Poverty and Social**

25. Based on the social impact assessment undertaken in March and April 2014, the project will provide long-term positive impacts such as better access to basic facilities and services, and faster and convenient travel. Additionally, during construction, the project will provide job opportunities for the local communities. However, there are also adverse impacts such as physical and economic displacement of households due to acquisition of land and clearance of the corridor of impact, and increased risks of HIV/AIDS transmission and human trafficking. To maximize benefits and address adverse impacts, a summary poverty reduction and social strategy has been prepared.<sup>14</sup> The gender categorization of the project is no gender elements, but includes gender issues in the resettlement and ethnic groups development plan (REGDP).<sup>15</sup> As the project is in Kayin State, a former conflict area, a detailed communication strategy will be implemented during the project to inform all stakeholders of project progress and ensure meaningful dialogue throughout the project implementation period.<sup>16</sup>

### **E. Safeguards**

26. ADB's Safeguard Policy Statement (2009) will apply to the entire length of the project

<sup>14</sup> Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

<sup>15</sup> Resettlement and Ethnic Groups Development Plan (accessible from the list of linked documents in Appendix 2).

<sup>16</sup> A communication strategy has been prepared for the project to promote consultations with and participation of ethnic communities. The community strategy is included in the PAM (accessible from the list of linked documents in Appendix 2).

road between Eindu and Kawkareik, including the section of the road incorporating the Gyaing (Kawkareik) Bridge.

27. **Resettlement.** The project has been classified as involuntary resettlement category B in accordance with ADB's Safeguard Policy Statement. As presented in the project's REGDP (footnote 15), 114 households will be affected by land acquisition for the project. The effects include impacts on 68 main structures (houses and shops) and the acquisition of the following types of land outside the existing right-of-way, where realignments are required: 8,718 square meters (m<sup>2</sup>) of residential land, 113,324 m<sup>2</sup> of garden land, and 19,528 m<sup>2</sup> of cropland. Advance action for resettlement will be undertaken prior to the start of construction, as specified in the REGDP.

28. Communities in the project area consist of six ethnic groups: Bamar, Kayin, Mon, Pa Oh, Shan, and Tamil. Impacts on affected ethnic communities and households are described and addressed in the REGDP. This includes minimization of impacts due to land acquisition, promotion of local participation in project activities and benefits, and community consultation. The project is categorized as B for indigenous peoples safeguards. A communication and participation plan has been prepared for the project to ensure consultations with and participation of ethnic communities; this is included in the PAM.

29. **Environment.** The project is not anticipated to cause significant adverse environmental impacts and has been classified as environment category B in accordance with ADB's Safeguard Policy Statement. An initial environmental examination (IEE) has been prepared to meet the requirements of ADB's Safeguard Policy Statement.<sup>17</sup> The IEE and environmental management plan (EMP) will apply to the entire length of the project road between Eindu and Kawkareik, including the section of the road incorporating the Gyaing (Kawkareik) Bridge. The recommended environmental mitigation measures and monitoring activities set out in the EMP cover the preconstruction, construction, and operation stages of the project. The EMP, which also defines the institutional arrangements and responsibilities for its implementation, will be incorporated into the project's civil works contract documentation for the entire length of the project road between Eindu and Kawkareik, including the section of the road incorporating the Gyaing (Kawkareik) Bridge.

30. Training on social safeguards will be provided to MOC, DOH, and local authorities under the CSC contract and under a parallel technical assistance.<sup>18</sup>

31. In compliance with ADB's Safeguard Policy Statement requirements on information disclosure and consultation, the IEE and the REGDP will be posted on ADB's website before the project is considered by the ADB Board of Directors.

## **F. Risks and Mitigating Measures**

32. The overall risk assessment of the project is medium. The integrated benefits and impacts of the project are expected to outweigh the costs and thus the project will have a positive impact. Major risks and mitigating measures are summarized in Table 4 and described

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<sup>17</sup> Initial Environmental Examination (accessible from the list of linked documents in Appendix 2).

<sup>18</sup> ADB. 2010. *Technical Assistance for Strengthening and Use of Country Safeguards Systems into Regional Cooperation*. Manila.

in detail in the risk assessment and risk management plan.<sup>19</sup>

**Table 4: Summary of Risks and Mitigating Measures**

<b>Risks</b>	<b>Mitigating Measures</b>
Implementation delays due to lack of familiarity with ADB guidelines and procedures on procurement, recruitment of consultants, and disbursements	ADB will provide support to MOC and DOH with advance procurement action to ensure contracts for consulting services and civil works are finalized and ready to sign prior to loan effectiveness. Necessary capacity building for civil works procurement, engagement of consultants, disbursements, and financial management will be provided. The CSC will assist MOC and DOH in preparing reports following ADB guidelines and procedures. All disbursements for civil works and consulting services will be made through direct payment by ADB.
Peace process slows, delaying project implementation	ADB will monitor the emerging peace process and will adopt conflict-sensitive approaches during project implementation. <sup>a</sup>
Weak public financial management causes problems with financial reporting of the project	The CSC will provide support to the project management unit for project management, financial management, and accountancy to prepare financial statements in accordance with ADB guidelines and procedures.

ADB = Asian Development Bank, CSC = contract supervision consultant, DOH = Department of Highways, MOC = Ministry of Construction.

<sup>a</sup> A communication strategy has been prepared for the project to promote consultations with and participation of ethnic communities. The Communication Strategy is included in the Project Administration Manual (accessible from the list of linked documents in Appendix 2).

Source: ADB.

#### **IV. ASSURANCES AND CONDITIONS**

33. The government and MOC 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 PAM and loan documents.

34. The government and MOC have agreed with ADB on certain covenants for the project, which are set forth in the loan agreements.

35. The A loan and B loan are subject to cross-effectiveness and will not be declared effective until both the A loan and B loan agreements have been duly authorized or ratified by, and executed and delivered on behalf of, the government.

#### **V. RECOMMENDATION**

36. I am satisfied that the proposed loans would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the A loan in various currencies equivalent to SDR71,258,000 (\$100,000,000 equivalent) to the Republic of the Union of Myanmar for the Greater Mekong Subregion East–West Economic Corridor Eindu to Kawkareik Road Improvement

<sup>19</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Project, from ADB's Special Funds resources, with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; for a term of 32 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft A loan agreement presented to the Board; and

- (ii) the B loan of \$20,000,000 to the Republic of the Union of Myanmar for the Greater Mekong Subregion East–West Economic Corridor Eindu to Kawkareik Road Improvement Project, to be funded through the participation of the ASEAN Infrastructure Fund, on terms and conditions as are substantially in accordance with those set forth in the draft B loan agreement presented to the Board.

Takehiko Nakao  
President

20 October 2015

## DESIGN AND MONITORING FRAMEWORK

### Impacts the Project is Aligned with:

Improved trade between Myanmar and Thailand (Greater Mekong Subregion Regional Investment Framework Implementation Plan 2014–2018)<sup>a</sup>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<b>Outcome</b> Improved connectivity within Kayin State and with Thailand	By 2020 a. Traffic volume on project road increased fivefold (from under 1,000 vehicles per day in 2012 to over 5,000 vehicles per day in 2020)  b. By project completion (2020), travel time between Eindu and Kawkareik reduced by 20% from 2012 levels (3.5 hours in 2012)	a–b. National statistics  a–b. Project benefit and monitoring, and post-evaluation reports	Trade with Thailand fails to grow at expected rate  Peace process slows affecting travel and economic activity in Kayin State
<b>Output</b> Improvement of 66.4 km of road between Eindu and Kawkareik	By 2019 a. 66.4 km of road improved	a. MOC progress report, ADB review missions, and ADB project completion report	Adverse weather conditions in project area delay construction

### Key Activities with Milestones

#### 1. 66.4 km of road between Eindu and Kawkareik improved

- 1.1 MOC completes resettlement activities from 1 May 2015 to 30 September 2016
- 1.2 MOC completes relocation of all utilities affected by the project by 30 September 2016
- 1.3 MOC selects construction supervision consultants from 1 April 2015 to 31 August 2016
- 1.4 MOC undertakes procurement of civil works contractors from 1 April 2015 to 30 September 2016
- 1.5 MOC completes 66.4 km of road improvement by 30 September 2019

### Inputs

Asian Development Bank: \$100,000,000  
ASEAN Infrastructure Fund: \$20,000,000  
Government of Myanmar: \$1,800,000

### Assumptions for Partner Financing

Not applicable.

ADB = Asian Development Bank, MOC = Ministry of Construction, km = kilometer.

<sup>a</sup> ADB. 2014. *Greater Mekong Subregion Regional Investment Framework Implementation Plan, 2014–2018*. Manila. Source: ADB.



### **LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=46422-003-3>

1. Loan Agreement
2. Loan Agreement: ASEAN Infrastructure Fund
3. Sector Assessment (Summary): Transport
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 and Ethnic Groups Development Plan
12. Risk Assessment and Risk Management Plan

### **Supplementary Document**

13. Stakeholder Communication Strategy