



Report and Recommendation of the President to the Board of Directors

Project Number: 49229-003
August 2016

Proposed Grants and Administration of Grant Islamic Republic of Afghanistan: Preparation of Central Asia Regional Economic Cooperation Corridors 5 and 6 (Salang Corridor) Project

Distribution of this document is restricted until it has been approved by the Board of Directors. Following such approval, ADB will disclose the document to the public in accordance with ADB's Public Communications Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 15 July 2016)

Currency unit	–	afghani/s (AF)
AF1.00	=	\$0.01456
\$1.00	=	AF68.68

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
AITF	–	Afghanistan Infrastructure Trust Fund
CAREC	–	Central Asia Regional Economic Cooperation
FCAS	–	fragile and conflict-affected state
MOF	–	Ministry of Finance
MPW	–	Ministry of Public Works
PAM	–	project administration manual
PMO	–	program management office
USAID	–	United States Agency for International Development

NOTE

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

Vice-President	W. Zhang, Operations 1
Director General	S. O’Sullivan, Central and West Asia Department (CWRD)
Director	X. Yang, Transport and Communications Division, CWRD
Team leader	K. Sakamoto, Transport Economist, CWRD
Team members	S. Ahmadzai, Associate Project Analyst, CWRD S. Campbell, Senior Social Development Specialist, CWRD B. Debnath, Principal Social Development Specialist (Safeguards), CWRD N. Djenchuraev, Senior Environment Specialist, CWRD A. Qadir, Principal Counsel, Office of the General Counsel C. San Miguel, Senior Project Officer, CWRD A. Silverio, Senior Operations Assistant, CWRD C. Tabernilla, Project Analyst, CWRD W. Tawisook, Principal Transport Specialist, CWRD
Peer reviewer	D. Fay, Transport Specialist, Transport and Communications Division, East Asia Department

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

	Page
PROJECT AT A GLANCE	
MAPS	
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	7
C. Governance	7
D. Poverty and Social	8
E. Safeguards	8
F. Risks and Mitigating Measures	8
IV. ASSURANCES	8
V. RECOMMENDATION	9
APPENDIXES	
1. Design and Monitoring Framework	10
2. List of Linked Documents	12

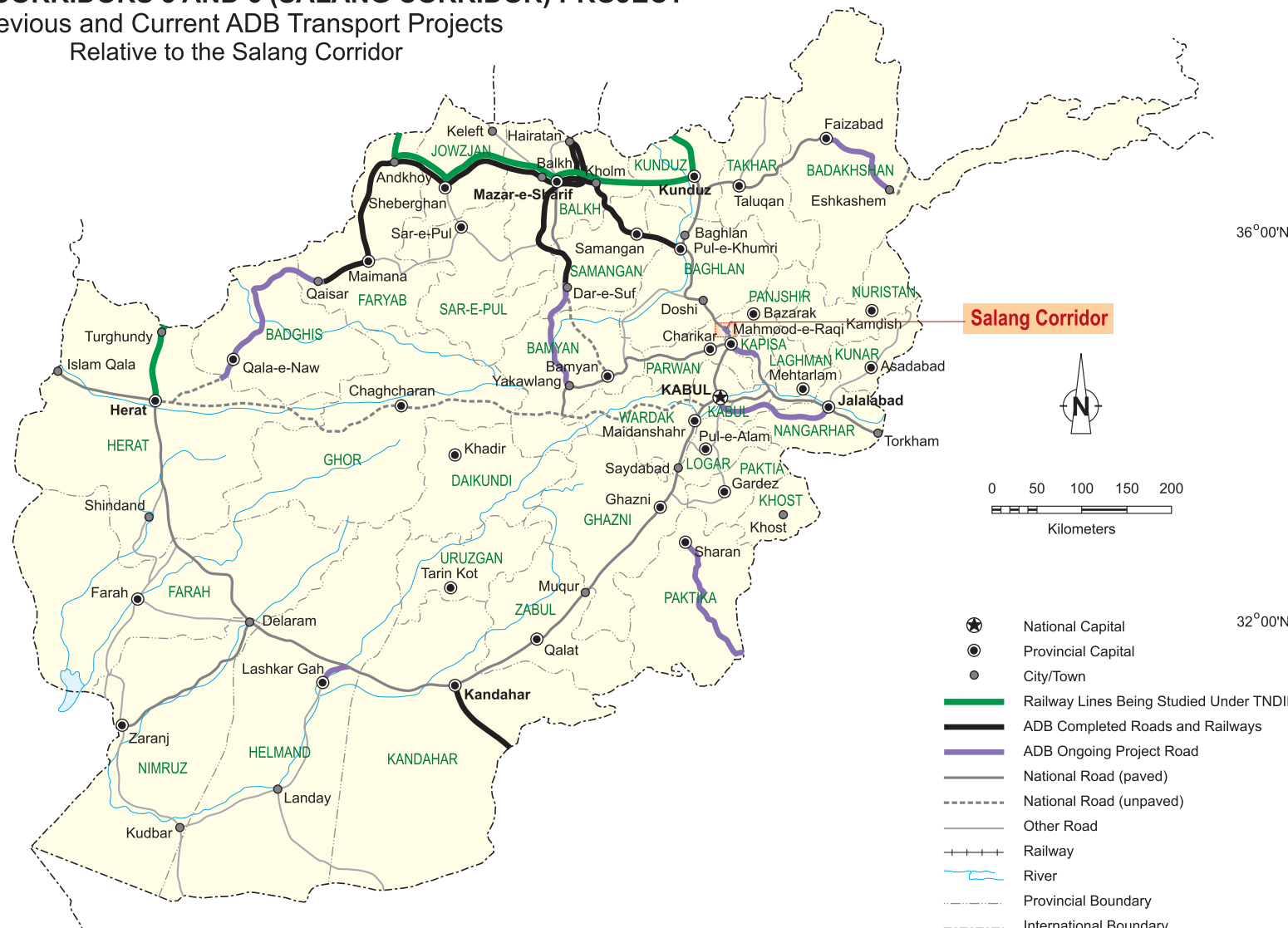
PROJECT AT A GLANCE

1. Basic Data		Project Number: 49229-003	
Project Name	Preparation of Central Asia Regional Economic Cooperation Corridors 5 and 6 (Salang Corridor) Project	Department /Division	CWRD/CWTC
Country Borrower	Afghanistan, Islamic Republic of Afghanistan, Islamic Republic of	Executing Agency	Ministry of Finance
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Transport	Road transport (non-urban)		15.45
		Total	15.45
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
Regional integration (RCI)	Pillar 4: Other regional public goods		
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Knowledge solutions (KNS)	Application and use of new knowledge solutions in key operational areas	No gender elements (NGE)	✓
Partnerships (PAR)	International finance institutions (IFI)		
	Official cofinancing		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Nation-wide	High
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		15.45	
Sovereign Project grant: Asian Development Fund		15.45	
Cofinancing		15.92	
Afghanistan Infrastructure Trust Fund - Grant		15.92	
Counterpart		0.00	
None		0.00	
Total		31.37	
9. Effective Development Cooperation			
Use of country procurement systems		No	
Use of country public financial management systems		No	

AFGHANISTAN

PREPARATION OF CENTRAL ASIA REGIONAL ECONOMIC COOPERATION CORRIDORS 5 AND 6 (SALANG CORRIDOR) PROJECT

Previous and Current ADB Transport Projects
Relative to the Salang Corridor



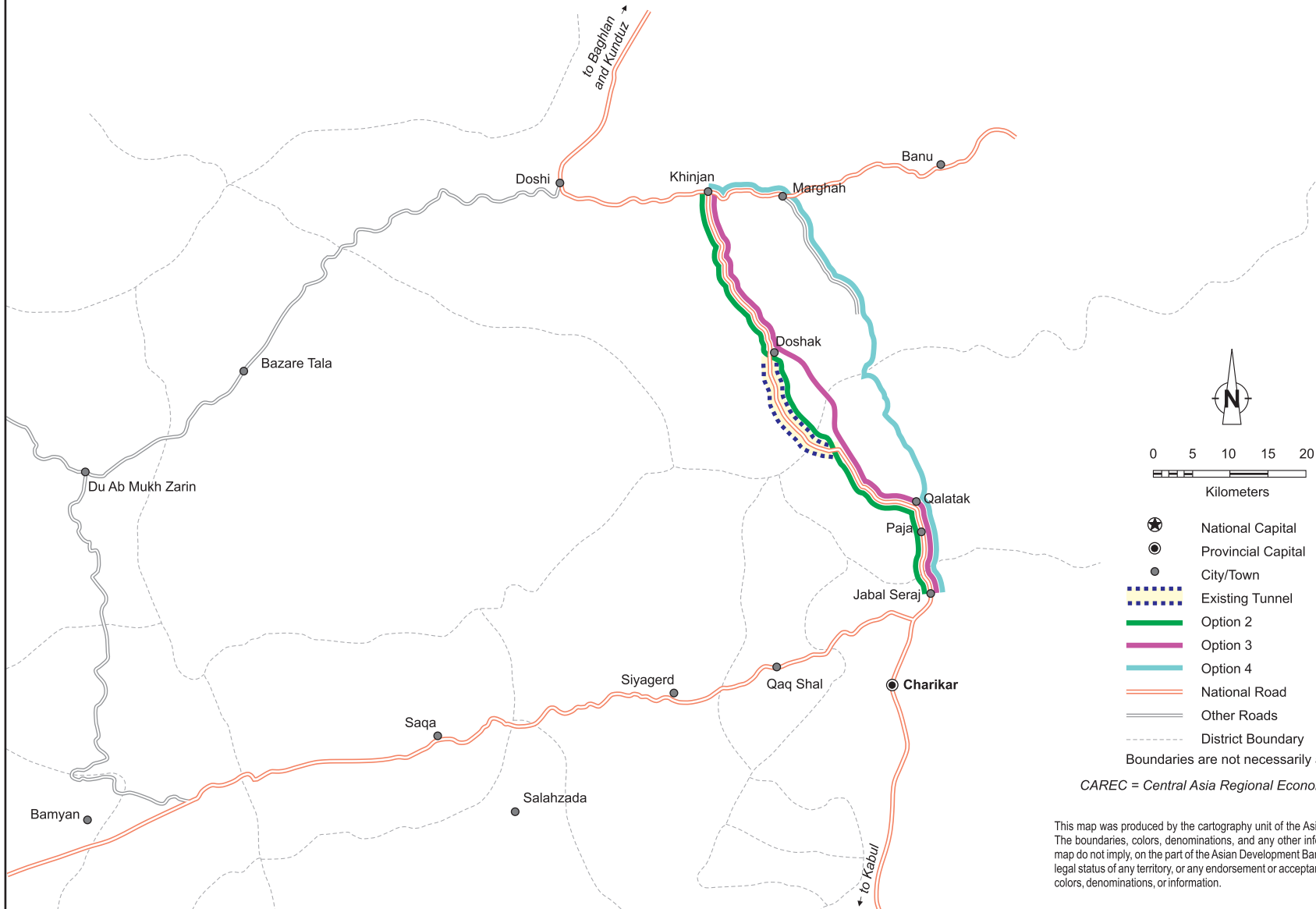
This map was produced by the cartography unit of the Asian Development Bank. The boundaries, colors, denominations, and any other information shown on this map do not imply, on the part of the Asian Development Bank, any judgment on the legal status of any territory, or any endorsement or acceptance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

TNDIP = Transport Network Development Investment Program

AFGHANISTAN

PREPARATION OF CENTRAL ASIA REGIONAL ECONOMIC COOPERATION CORRIDORS 5 AND 6 (SALANG CORRIDOR) PROJECT

Alignment Options to be Studied



I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed grant to be provided by the Asian Development Bank (ADB) from its Special Funds resources, and (ii) a proposed grant to be provided by the Afghanistan Infrastructure Trust Fund (AITF),¹ both to the Islamic Republic of Afghanistan for the Preparation of Central Asia Regional Economic Cooperation Corridors 5 and 6 (Salang Corridor) Project,² and if the Board approves the proposed grants, I, acting under the authority delegated to me by the Board, approve the administration of the grant provided by AITF.

2. The proposed project will assist the Government of Afghanistan in preparing the Central Asia Regional Economic Cooperation (CAREC) Corridors 5 and 6 (Salang Corridor) Project (ensuing project). The ensuing project will rehabilitate and upgrade the Salang Corridor—one of the few viable land routes linking the north and south of Afghanistan. The project will support the government in (i) studying the feasibility of three alignment options for the rehabilitation and upgrade of the Salang Corridor; and (ii) completing the detailed engineering design, procurement documentation, and project and safeguard documents for the selected option.

II. THE PROJECT

A. Rationale

3. Afghanistan is the geographic center of gravity in Central Asia, and has vast potential to be the nexus between north–south and east–west regional trade corridors. Within Afghanistan, one of the few viable land routes linking the south, including the capital of Kabul, with the north is the Salang Tunnel and associated connecting roads, collectively known as the Salang Corridor. Forming key sections of the CAREC Corridors 5 and 6, the Salang Corridor is the only route that permits year-round north–south passage of goods and people across the Hindu Kush mountain range, which has peaks over 7,700 meters above sea level. This makes the Salang Tunnel one of the highest tunnels in the world. Given the lack of alternative routes, the vast majority of goods shipped to Kabul from the north traverse the Salang Corridor. Conservative estimates suggest that over 5,500 vehicles per day transit the Salang Corridor—far exceeding its capacity.

4. Planned and designed over many years, construction of the 2.7-kilometer Salang Tunnel was completed in 1964. During more than 50 years of service, proper maintenance and rehabilitation did not occur regularly, if at all, as a result of the 30 years of internal conflict and associated effects on sector governance. Road crashes, fires, conflict-related acts, and constant usage have contributed to the tunnel falling into a state of severe disrepair. Present conditions within the tunnel are dangerous to users because of inadequate ventilation, poor lighting, lack of proper modern safety features, and a failing road surface—all of which constrain the traffic flow and incur an estimated economic cost of \$60 million per year.³ If the tunnel completely fails, the costs to the Afghan economy would be substantial and could pose an additional risk to the stability of the fragile and conflict-affected state (FCAS).

¹ Financing partners: the governments of Japan, the United Kingdom, and the United States, and the governments of Germany and the Netherlands through the North Atlantic Treaty Organization Afghan National Army Trust Fund.

² The design and monitoring framework is in Appendix 1.

³ Based on the United States Agency for International Development (USAID). 2012. *Salang Tunnel Feasibility Study*. Kabul. Economic costs include vehicle operating costs, road crashes, and travel time resulting from congestion.

5. In 2012, the United States Agency for International Development (USAID) completed a study that analyzed six potential options and various sub-options to solve the capacity problem and failure risk associated with the Salang Corridor. Although the USAID study was entitled the Salang Tunnel Feasibility Study, limitations on the budget and study scope produced what should be termed a prefeasibility study—identifying route options for further refinement and future study. In discussing the results, and given the very broad level of detail of this initial study, USAID and the government decided to further study the more promising options to obtain a better estimate of the costs as well as the technical, economic, and financial viability.

6. Since the publication of the USAID study, and given delays in moving forward with a longer term solution, the World Bank agreed in 2015 to rehabilitate some of the most damaged galleries in the existing tunnel, the road surface within the tunnel, and substantial sections of the approach roads—as part of a larger project focused on rehabilitating the roads north of the tunnel from Baghlan to Bamyan. This will provide connectivity to the roads already rehabilitated or undergoing rehabilitation under the ADB-financed North–South Corridor Project and tranche 3 of the Multitranchise Financing Facility for the Transport Network Development Investment Program.⁴ However, the World Bank-financed project will not result in a long-term solution to the corridor traffic capacity constraint. It is a short- to medium-term solution for the Salang Corridor by keeping the existing tunnel open year-round and precluding a total failure of the structure until a long-term solution is agreed on and implemented.⁵

7. The ensuing project will improve regional and national connectivity by constructing new tunnels and connecting roads that will significantly improve the capacity of the Salang Corridor and thereby the transport network of Afghanistan. The ensuing project is consistent with the government's national infrastructure priorities; is aligned with the objectives of ADB's interim country partnership strategy, 2014–2015 for Afghanistan and the Midterm Review of Strategy 2020; and is included in the country operations business plan, 2016–2018 for Afghanistan.⁶

8. ADB has assisted Afghanistan in rehabilitating CAREC Corridors 5 and 6 through (i) completion of the North–South Corridor Project,⁷ (ii) ongoing construction of the Jabul Seraj–Nijrab road, (iii) ongoing construction of the Kabul–Jalalabad road, and (iv) planned construction of the approved yet remaining un-rehabilitated link in the North–South Corridor between Dar-i-Suf and Yakawlang. The latter three interventions are being funded under the Transport Network Development Investment Program.⁸ Collectively, these two CAREC corridors form significant sections of Afghanistan's national transport network, providing connectivity between north and south as well as links to three of the four major urban centers: Mazar-e-Sharif, Kabul, and Jalalabad.

⁴ ADB. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Asian Development Fund Grant to the Islamic Republic of Afghanistan for the North–South Corridor Project*. Manila; and ADB. 2013. *Periodic Financing Request Report for Islamic Republic of Afghanistan: Transport Network Development Investment Program (Tranche 3)*. Manila.

⁵ World Bank. 2015. *Trans-Hindukush Road Connectivity Project: Project Appraisal Document*. Washington, DC. http://www-wds.worldbank.org/external/default/WDSP/IB/2015/10/01/090224b08311647b/1_0/Rendered/PDF/Afghanistan0000Connectivity0Project.pdf

⁶ ADB. 2014. *Interim Country Partnership Strategy: Afghanistan, 2014–2015*. Manila; ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila; and ADB. 2015. *Country Operations Business Plan: Afghanistan, 2016–2018*. Manila.

⁷ ADB. 2013. *Completion Report: North–South Corridor Project in Afghanistan*. Manila.

⁸ ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranchise Financing Facility to the Islamic Republic of Afghanistan for the Transport Network Development Investment Program*. Manila (see periodic financing requests for Tranches 1, 2, and 3).

9. Through these interventions, ADB has accumulated a wealth of experience on how to execute road transport projects in Afghanistan, which is an FCAS. Lessons include (i) ensuring the security of consultants and contractors, (ii) the need for up-front support to the government on project design, and (iii) the need for close support to the government on consultant selection and procurement.

10. Together with the other completed, ongoing, and planned ADB-financed interventions, as well as the World Bank-financed project, the ensuing project will increase the capacity, efficiency, and reliability of CAREC Corridors 5 and 6 by rehabilitating the Salang Corridor with a long-term solution spanning a planning horizon of more than 50 years. The ensuing project will (i) reduce the cost of passenger and cargo transportation between the southern and northern regions of Afghanistan and Central Asia by reducing travel times; (ii) ensure the security, reliability, and year-round use of the Salang Corridor by providing some redundancy through the availability of two alternative routes; and (iii) promote trade and investment.

11. Additionally, the ensuing project will produce road safety benefits and may be a vehicle for introducing private sector participation in the transport sector through possible partial financing of construction and future operations and maintenance. Based on the previous USAID study and the three options remaining for consideration, the ensuing project is tentatively estimated to cost \$1,150 million–\$1,600 million, including taxes, duties, and physical contingencies. The feasibility study and detailed engineering design to be undertaken under this project will provide more confident estimates.

B. Impact and Outcome

12. The impact the project is aligned with is the accelerated implementation of the ensuing project, contributing to improved efficiency and safer movement of goods and people in Afghanistan and across Central and West Asia. The outcome of the project will be the ensuing project designed and procured, ready for implementation.

13. The intended impact of the ensuing project will be enhanced regional connectivity and trade through the Salang Corridor. The outcome of the ensuing project will be improved efficiency and safer movement of goods and people through the Salang Corridor.

C. Outputs

14. The outputs of the project are (i) feasibility studies on three alignment options completed; and (ii) detailed engineering design, procurement documentation, and project and safeguard documents on the selected option completed. The two outputs relate to the two distinct phases of the project. In the first phase, feasibility studies will be undertaken on the three alignment options considered most viable in the USAID study.⁹ The options will be studied from a technical, financial, economic, social, and environmental point of view. The ability for each alignment option to meet long-term capacity needs will be assessed. Based on the results of the feasibility studies, the government, supported by ADB, will decide on the alignment option that would best meet the future needs of the Salang Corridor.

⁹ These are options 2, 3, and 4. Further details of the three alignment options are in the Project Administration Manual (PAM, accessible from the list of linked documents in Appendix 2).

15. When the preferred option has been identified, the project will move to the second phase, which will undertake a detailed engineering design on the selected option, prepare detailed cost estimates, formulate environmental and social safeguards planning documents, and complete advance procurement for the ensuing project to the stage of civil works contracts ready to be signed.

D. Investment and Financing Plans

16. The project is estimated to cost \$31.37 million, including taxes, duties, and contingencies (Table 1).¹⁰

Table 1: Project Investment Plan
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Output 1: Feasibility studies on three alignment options	8.85
2. Output 2: Detailed engineering design, procurement documentation, and project and safeguard documents on selected options	19.02
Subtotal (A)	27.87
B. Contingencies^c	3.50
Total (A+B)	31.37

^a Includes taxes and duties of about \$2 million to be financed by the Asian Development Fund and Afghanistan Infrastructure Trust Fund (AIF) grant resources. AIF financing partners: the governments of Japan, the United Kingdom, and the United States, and the governments of Germany and the Netherlands through the North Atlantic Treaty Organization Afghan National Army Trust Fund. Administered by the Asian Development Bank.

^b In mid-2016 prices.

^c Contingencies computed at 11.6% of base cost.

Source: Asian Development Bank estimates.

17. The government has requested a grant not exceeding \$15,450,000 from ADB's Special Funds resources to help finance the project.¹¹ The ADB-administered AIF will provide grant cofinancing of \$15,920,000 to be administered by ADB.¹² The ADB and AIF funding for the project includes financing of taxes and duties.¹³ ADB financing of project taxes and duties is justified because (i) the amount will not represent an excessive share of the project investment plan, and (ii) the financing of the taxes and duties is material and relevant to the success of the project. The financing plan is in Table 2.

¹⁰ Detailed cost estimates by expenditure category and detailed cost estimates by financier are in the PAM (accessible from the list of linked documents in Appendix 2).

¹¹ A country's eligibility for Asian Development Fund (ADF) grants under the revised grant framework is determined by its risk of debt distress. The latest debt sustainability analysis determined that Afghanistan had a high risk of debt distress and was therefore eligible to receive 100% of its ADF allocation as grants.

¹² Financing partners: the governments of Japan, the United Kingdom, and the United States, and the governments of Germany and the Netherlands through the North Atlantic Treaty Organization Afghan National Army Trust Fund.

¹³ Taxes and duties costs are the business receipt tax, estimated at 7%; the fixed tax on imports of 2%–7%; and custom duties of 2%–16%. They do not represent an excessive share of the financing plan and are within applicable country partnership strategy parameters. ADB. 2005. *Innovation and Efficiency Initiative: Cost Sharing and Eligibility of Expenditures for Asian Development Bank Financing—A New Approach*. Manila.

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Special Funds resources (grant)	15.45	49.3
Afghanistan Infrastructure Trust Fund ^a	15.92	50.7
Total	31.37	100.0

^a Financing partners: the governments of Japan, the United Kingdom, and the United States, and the governments of Germany and the Netherlands through the North Atlantic Treaty Organization Afghan National Army Trust Fund. Administered by the Asian Development Bank.

Source: Asian Development Bank estimates.

E. Implementation Arrangements

18. Considering the country's political situation, FCAS principles and practices will be adopted for processing and implementing the project. By offering up-front grant financing for the preparation of the ensuing project, the project is considered highly relevant from an FCAS perspective. Without the project, the government would not have any recourse to funds for preparing the ensuing project, which is of national strategic importance. The project will support the government in raising the required resources for the ensuing project, including through the public-private partnership modality. The ensuing project will fully take into account FCAS principles, and consider how to allow maximum use of national contractors. Procurement packages will be prepared accordingly.

19. The Ministry of Finance (MOF) will be the executing agency of the project. The Ministry of Public Works (MPW), through the ADB-financed program management office (PMO), will be the implementing agency. Since its inception in 2009, the MPW-PMO has accumulated considerable experience in ADB-financed projects and is being reformed for greater efficiency. During project implementation, the MPW will ensure that a team of staff with sufficient experience in procurement, engineering, financial management, accounting, and program monitoring and evaluation, as well as legal, administrative, and secretarial matters, is available in the PMO. The MPW will ensure that a project manager is assigned to the PMO for the day-to-day management and implementation of the project. The consultants to be recruited under the project will offer additional capacity to the PMO in areas such as procurement, financial management, environment safeguards, and social safeguards. The PMO will also be equipped with the necessary office space, equipment, and facilities to undertake its duties.

20. Two international consulting firms will be mobilized for the implementation of the project. The first will undertake the feasibility studies and detailed engineering design, while the second will provide an independent proof check of the detailed engineering design to be developed by the first firm, specifically for the tunnels and galleries. The terms of reference for both consulting firms are in the project administration manual (PAM).¹⁴ Full technical proposals will be solicited for the first firm, and simplified technical proposals will be used for the second firm. Both firms will be recruited using the quality- and cost-based selection method with a quality-cost ratio of 90:10. Additional individual consultants and resource persons will be recruited to carry out capacity building and implementation support to the PMO, especially in financial management, procurement, and work requiring highly technical skills. Individual consultants and procurement of small equipment will be paid through an imprest account. Consultants will be selected and engaged in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). To ensure high quality of consulting services and to avoid start-up delays, the

¹⁴ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

government requested ADB to select the consultants on its behalf. The MPW will negotiate and sign the contract with the selected consultants.

21. Up to four armored vehicles will be procured for use by the consultants, as required to conform with the United Nations' Minimum Operating Security Standards. Procurement of the armored vehicles will be in accordance with ADB's Procurement Guidelines (2015, as amended from time to time). The contracts for armored vehicles will include provision for operation and maintenance. At the conclusion of the contract, the armored vehicles will be handed over to the government.

22. The expected implementation period of the project will be from December 2016 to June 2020. The implementation arrangements are summarized in Table 3 and described in detail in the PAM.

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	December 2016–June 2020		
Estimated completion date	30 June 2020		
ADB and AITF ^a grant closing date	31 December 2020		
Management			
(i) Executing agency	Ministry of Finance		
(ii) Implementing agency	Ministry of Public Works		
(iii) Implementation unit	Program Management Office, 35 staff		
Consulting services	1. Feasibility and detailed engineering design	International: 261 person-months National: 271 person-months	\$24.07 million
	2. Independent proof check	International: 16 person-months	\$0.80 million
	3. Individual consultants and resource persons	48 person-months	\$2.00 million
Procurement ^b	International competitive bidding	1 contract	\$1.00 million (for armored vehicles)
Retroactive financing and/or advance contracting	Consulting firm selection process will commence prior to Board approval. Advance contracting and retroactive financing is not required.		
Disbursement	The grant 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 upon between the government and ADB.		

ADB = Asian Development Bank, AITF = Afghanistan Infrastructure Trust Fund.

^a Financing partners: the governments of Japan, the United Kingdom, and the United States, and the governments of Germany and the Netherlands through the North Atlantic Treaty Organization Afghan National Army Trust Fund. Administered by the Asian Development Bank.

^b The project is eligible for universal procurement under ADB's procurement guidelines.

Source: Asian Development Bank.

III. DUE DILIGENCE

A. Technical

23. The feasibility studies and detailed engineering design work to be undertaken under the project are complex, but within the capacity of experienced international consulting firms. The

work under this project will require a highly qualified consulting firm, with experience in designing and procuring contractors for large-scale projects involving tunnels in difficult terrain and security environments. The project will assess the technical, economic, financial, social, and environmental feasibility of the ensuing project. Viable engineering options will be prepared and optimized for economy and construction efficiency in accordance with international practice and applicable standards. The designs will integrate climate-proofing measures and use proven technology with standard materials compatible with local conditions. Methodologies in developing a robust tunnel and road maintenance regime will be developed. Road safety will be explicitly taken into consideration in the detailed engineering design.

B. Economic and Financial

24. The ensuing project will support Afghanistan's economic growth and reduce poverty by ensuring reliable access between the northern and southern parts of the country. Under the project, economic analyses will be conducted to evaluate the national and regional economic benefits of the preferred tunnel option by comparing the with- and without-project scenarios, including risk-based analysis of failure without the project. Such a failure is not an unlikely event. Financial analysis will also be prepared in consideration of the substantial demand for funding for both construction as well as operations and maintenance. The financial analysis will consider the application of tolls for funding part of the capital investment as well as operations and maintenance. The economic analysis will be conducted according to ADB's Guidelines for the Economic Analysis of Projects and the Cost-Benefit Analysis for Development: A Practical Guide.¹⁵ It will cover all aspects of analysis as specified in ADB's *Operations Manual* on the Economic Analysis of Projects and summarized in the Key Areas of Economic Analysis of Investment Projects: An Overview.¹⁶

C. Governance

25. Governance risks are prevalent in Afghanistan, in areas of public financial management, procurement, and corruption. ADB conducted a financial risk assessment of the MPW and PMO, and found that the inherent and control risks were both moderate. The project has been designed to mitigate such governance risks. First, ADB will select the consultants to be recruited under the project, reducing start-up delays. Second, ADB has prepared an updated financial management assessment of the MPW and its PMO. This found that the MPW and its PMO have significantly improved their financial management capabilities in 2015, and now have adequate staff and a satisfactory organizational structure for proper planning, accounting, disbursement, replenishment, and reporting. Third, consultants recruited under the project will provide day-to-day support to the MPW and PMO on the financial management of the project. Details of the financial management assessment and disbursement procedures are described in the PAM.

26. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and MPW. The specific policy requirements and supplementary measures are described in the PAM.

¹⁵ ADB. 1997. *Guidelines for the Economic Analysis of Projects*. Manila; and ADB. 2013. *Cost-Benefit Analysis for Development: A Practical Guide*. Manila.

¹⁶ ADB. 2003. *Economic Analysis of Projects. Operations Manual*. OM G1/OP. Manila; ADB. 2013. *Key Areas of Economic Analysis of Investment Projects: An Overview*. Manila.

D. Poverty and Social

27. The project is not expected to have any impacts on gender and social dimensions. The project will ensure that the ensuing project will be prepared in compliance with ADB's *Handbook on Poverty and Social Analysis: A Working Document*.¹⁷ Gender, labor, HIV/AIDS, and other social risks related to the ensuing project will be assessed, and a mitigation plan will be prepared to address those issues.

E. Safeguards

28. The project will support the development of an environmentally and socially viable investment project. Because the project is focused on project preparation, it will not have any adverse social and environmental consequences. The project is categorized C for environment, involuntary resettlement, and indigenous peoples. The ensuing project will be designed in accordance with ADB's Safeguard Policy Statement (2009) and government laws, guidelines, regulations, and policies. During project implementation, the consultants will prepare environmental impact assessments or initial environmental examinations, as applicable, along with climate risk and vulnerability assessments, and environmental management plans that will be incorporated in the project's procurement documentation. Similarly, resettlement planning, indigenous peoples' planning, and gender analyses will be conducted as applicable.

F. Risks and Mitigating Measures

29. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.¹⁸ The integrated benefits are expected to outweigh the costs.

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Project is in a fragile and conflict-affected state	The project site is located in a relatively secure area of Afghanistan. Consultant contracts will include sufficient budget for security arrangements. Armored vehicles will be procured. Drones, satellite imagery, and other remote surveying methods will be used to minimize on-site exposure.
Staff turnover in PMO	Competitive salary structure with long-term contracts (at least yearly) are in place, financed through ADB projects.
Selection of consultants may be delayed	ADB will select the consultants on behalf of the government. Hands-on support will be provided for contracting after ADB selection. Internal clearance procedures will be closely followed up.
Insufficient public financial management	Consultants mobilized under the project will support the PMO in financial management.

ADB = Asian Development Bank, PMO = program management office.

Source: Asian Development Bank.

IV. ASSURANCES

30. The government and MOF 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 grant documents.

¹⁷ ADB. 2012. *Handbook on Poverty and Social Analysis: A Working Document*. Manila.

¹⁸ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

31. The government and MOF have agreed with ADB on certain covenants for the project, which are set forth in the grant agreements.

V. RECOMMENDATION

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

- (i) the grant not exceeding \$15,450,000 to the Islamic Republic of Afghanistan from ADB's Special Funds resources for the Preparation of Central Asia Regional Economic Cooperation Corridors 5 and 6 (Salang Corridor) Project, on terms and conditions that are substantially in accordance with those set forth in the draft grant agreement presented to the Board, and
- (ii) the grant not exceeding \$15,920,000 to the Islamic Republic of Afghanistan, to be provided by the Afghanistan Infrastructure Trust Fund, for the Preparation of Central Asia Regional Economic Cooperation Corridors 5 and 6 (Salang Corridor) Project, on terms and conditions that are substantially in accordance with those set forth in the draft grant agreement presented to the Board.

Takehiko Nakao
President

4 August 2016

Key Activities with Milestones**1. Feasibility studies on three alignment options completed**

- 1.1 Initiate selection of feasibility study and detailed engineering design consultant by June 2016
- 1.2 Contract feasibility study and detailed engineering design consultant by December 2016
- 1.3 Complete feasibility studies of the three alignment options by Q3 2017
- 1.4 Hold a workshop to review the consultants' recommendations and make a decision on the preferred option by Q4 2017

2. Detailed engineering design, procurement documentation, and project and safeguard documents on selected option completed

- 2.1 Complete detailed engineering design of the selected option by Q4 2018
- 2.2 Prepare bidding documents by Q4 2018
- 2.3 Conduct road shows to mobilize donor support for the financing of the ensuing project, by Q2 2020

Inputs

ADB: \$15.45 million (ADF grant)

AITF:^a \$15.92 million (grant)

Assumptions for Partner Financing

Not applicable.

ADB = Asian Development Bank, ADF = Asian Development Fund, AITF = Afghanistan Infrastructure Trust Fund, MPW = Ministry of Public Works, PMO = project management office, Q = quarter, USAID = United States Agency for International Development.

^a Financing partners: the governments of Japan, the United Kingdom, and the United States, and the government of Germany and the Netherlands through the North Atlantic Treaty Organization Afghan National Army Trust Fund. Administered by the Asian Development Bank.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=49229-003-2>

1. Grant Agreement: Special Operations
2. Grant Agreement: Externally Financed
3. Sector Assessment (Summary): Road Transport
4. Project Administration Manual
5. Contribution to the ADB Results Framework
6. Development Coordination
7. Country Economic Indicators
8. Summary Poverty Reduction and Social Strategy
9. Risk Assessment and Risk Management Plan