



Report and Recommendation of the President to the Board of Directors

Project Number: 48401-008
Loan Number: 3432
Grant Number: 0496
October 2018

Proposed Loan and Grant for Additional Financing Kyrgyz Republic: Central Asia Regional Economic Cooperation Corridors 1 and 3 Connector Road Project (Phase 2)

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 18 September 2018)

Currency unit	–	som (Som)
Som1.00	=	\$0.01443
\$1.00	=	Som69.2654

ABBREVIATIONS

ADB	–	Asian Development Bank
CAREC	–	Central Asia Regional Economic Cooperation
CPS	–	Country Partnership Strategy
EMP	–	environmental management plan
IEE	–	initial environmental examination
IPIG	–	Investment Projects Implementation Group
Km	–	kilometer marker
km	–	kilometer
LARP	–	land acquisition and resettlement plan
m	–	Meter
MOTR	–	Ministry of Transport and Roads
PAM	–	project administration manual
PDA	–	project design advance
RAMS	–	road asset management system
TA	–	technical assistance

NOTE

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

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 48401-008	
Project Name	Central Asia Regional Economic Cooperation Corridors 1 and 3 Connector Road Project (Phase 2)-Additional Financing	Department /Division	CWRD/CWTC
Country Borrower	Kyrgyz Republic Kyrgyz Republic	Executing Agency	Ministry of Transport and Roads
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Transport	Road transport (non-urban)		78.00
		Total	78.00
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	Medium
Environmentally sustainable growth (ESG)	Global and regional transboundary environmental concerns	ADB Financing	
Regional integration (RCI)	Pillar 1: Cross-border infrastructure	Adaptation (\$ million)	2.75
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development	Some gender elements (SGE)	✓
Knowledge solutions (KNS)	Application and use of new knowledge solutions in key operational areas		
Partnerships (PAR)	Civil society organizations Implementation		
Private sector development (PSD)	International finance institutions (IFI) Public sector goods and services essential for private sector development		
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Nation-wide	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG9		
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: B Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		78.00	
Sovereign Project grant: Asian Development Fund		9.50	
Sovereign Project (Concessional Loan): Ordinary capital resources		68.50	
Cofinancing		0.00	
None		0.00	
Counterpart		12.75	
Government		12.75	
Total		90.75	
Currency of ADB Financing: USD			

72°00'E 77°00'E

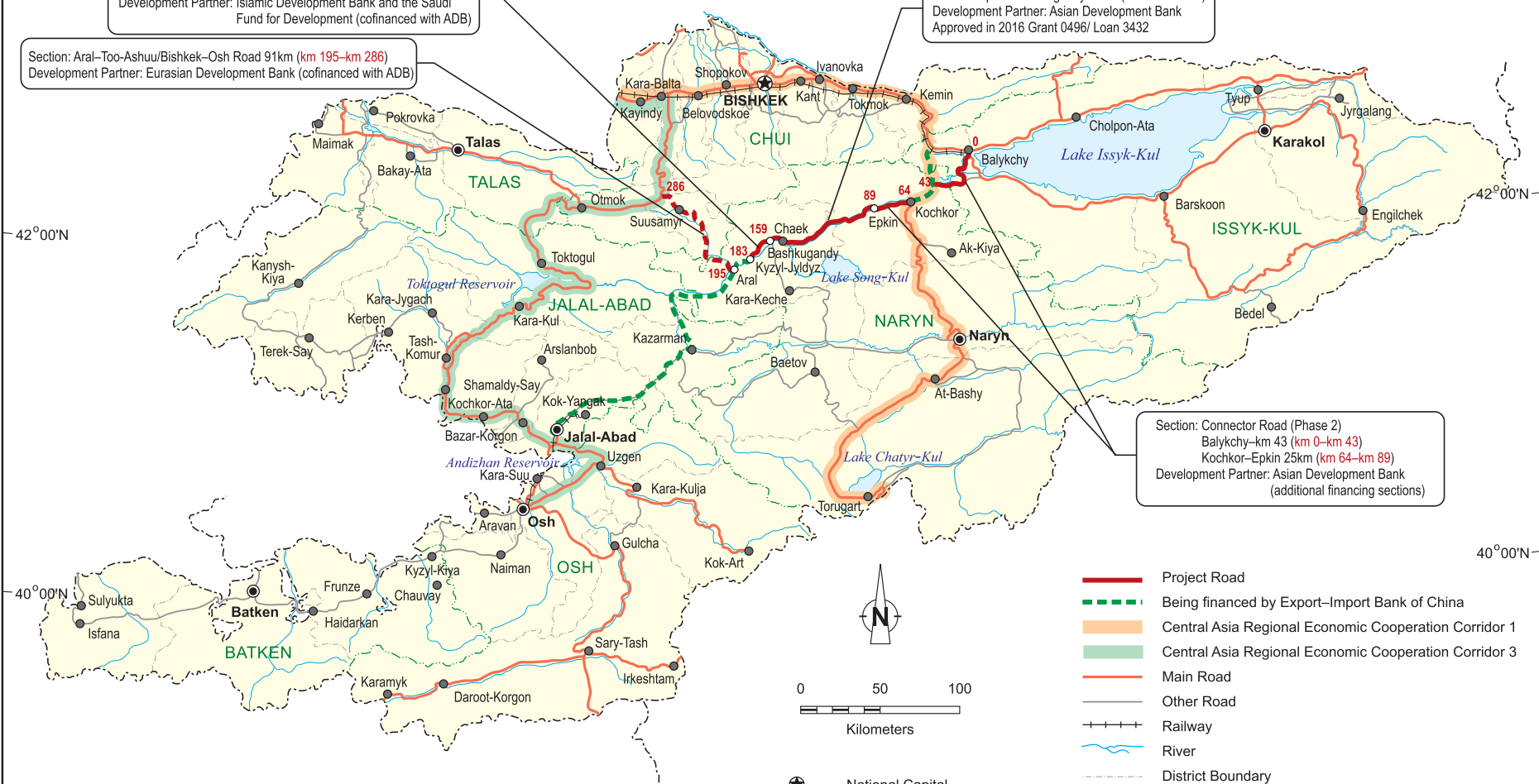
KYRGYZ REPUBLIC CENTRAL ASIA REGIONAL ECONOMIC COOPERATION CORRIDORS 1 AND 3 CONNECTOR ROAD PROJECT (PHASE 2) (additional financing)

Section: Bashkugandy–Kyzyl-Jyldyz 24km (km 159–km 183)
Development Partner: Islamic Development Bank and the Saudi Fund for Development (cofinanced with ADB)

Section: Aral–Too-Ashuu/Bishkek–Osh Road 91km (km 195–km 286)
Development Partner: Eurasian Development Bank (cofinanced with ADB)


Section: Connector Road (Phase 1)
Epkin–Bashkugandy 70km (km 89–km 159)
Development Partner: Asian Development Bank
Approved in 2016 Grant 0496/ Loan 3432

Section: Connector Road (Phase 2)
Balykchy–km 43 (km 0–km 43)
Kochkor–Epkin 25km (km 64–km 89)
Development Partner: Asian Development Bank
(additional financing sections)







42°00'N 42°00'N

40°00'N 40°00'N



0 50 100
Kilometers

-  National Capital
-  Provincial Capital
-  City/Town/Settlement
-  Village

-  Project Road
 -  Being financed by Export–Import Bank of China
 -  Central Asia Regional Economic Cooperation Corridor 1
 -  Central Asia Regional Economic Cooperation Corridor 3
 -  Main Road
 -  Other Road
 -  Railway
 -  River
 -  District Boundary
 -  Provincial Boundary
 -  International Boundary
- ADB** Asian Development Bank
km kilometer
- 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.

72°00'E

77°00'E

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed loan and (ii) a proposed grant, both to the Kyrgyz Republic for the additional financing of the Central Asia Regional Economic Cooperation (CAREC) Corridors 1 and 3 Connector Road Project (Phase 2).¹

2. Weak domestic and regional connectivity has hindered the development of the Kyrgyz Republic and limited economic and inclusive growth of the urban and rural population. To address this issue, in 2016, the Asian Development Bank (ADB) approved the financing of the CAREC Corridors 1 and 3 Connector Road Project costing \$114.35 million.² The project connects two major CAREC regional corridors by rehabilitating a crucial connector road, part of the North–South Alternate Corridor linking Balykchy with Jalal-Abad. The project will (i) improve connectivity and mobility, (ii) link economically underprivileged regions with economic hubs, and (iii) strengthen institutional capacity. Consistent with the current project, the additional financing will rehabilitate the missing sections of the North–South Alternate Corridor, and continue the ongoing efforts to strengthen institutional capacity of the Ministry of Transport and Roads (MOTR).

II. THE PROJECT

A. Rationale

3. In 2018, the government approved its medium-term development program—Unity, Trust, Creation—covering 2018–2022, which prioritizes construction and expansion of the network of highways and international transport corridors to improve connectivity.³ The development program prioritizes the construction of the North–South Alternate Corridor. Development of transport and road infrastructure under the CAREC Program is a priority area identified by the 2018–2022 development program. The government is focusing on rehabilitation and maintenance of international transport corridors to promote movement of cargo and passengers, and increase access to regional economic centers.

4. Being a landlocked country, the Kyrgyz Republic depends heavily on road transport. The road network caters to 58% of cargo and 78% of passenger traffic. Of the country's 34,000-kilometer (km) road network, international road corridors comprise 2,654 km. About 69% of the international corridors have been rehabilitated, with the remainder in the process of rehabilitation. The government plans to expand the size of the international road corridor network to 3,248 km by 2025.⁴ Besides expanding the network, the government aims to allocate more funds for road maintenance, and improve its road asset management system.

5. The CAREC Corridors 1 and 3 Connector Road (connector road) linking Balykchy with Bashkugandy forms part of the North–South Alternate Corridor and will improve national and regional connectivity in the center of the Kyrgyz Republic. Besides linking the two CAREC corridors, it contributes to enhancing the connectivity between the southern regions (Jalal-Abad and Osh) and the northern regions (Chui and Issyk-Kul) through a more efficient alternative route,

¹ The design and monitoring framework is in Appendix 1.

² ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grant to the Kyrgyz Republic for the Central Asia Regional Economic Cooperation Corridors 1 and 3 Connector Road Project*. Manila (Loan 3432-KGZ and Grant 0496-KGZ).

³ Government of the Kyrgyz Republic. 2018. *Development Program of the Kyrgyz Republic, 2018–2022: Unity, Trust, Creation*. Bishkek.

⁴ Road subsector-related figures sourced from Government of the Kyrgyz Republic - Ministry of Transport and Roads; and National Statistical Committee of the Kyrgyz Republic.

improving access to international markets.⁵ The project will also support the government's road sector reform agenda and assist the government in improving its road asset management system (RAMS) and road safety.

6. The rehabilitation of the connector road is consistent with the government's priority, as stated in its medium-term strategy (footnote 3). It is also aligned with ADB's country partnership strategy (CPS) for the Kyrgyz Republic, 2018–2022, and Strategy 2030; and is included in ADB's country operations business plan for the Kyrgyz Republic, 2018–2020.⁶

7. Based on the government's request, ADB approved the concept paper of the CAREC Corridors 1 and 3 Connector Road Project on 22 April 2015.⁷ The concept paper included the approval of transaction technical assistance (TA) of \$1 million. In parallel, ADB approved a \$3 million grant for the project design advance (PDA) financing for the CAREC Corridors 1 and 3 Connector Road Project on 2 June 2015. The PDA was used to finance a detailed design consultant for ADB-financed sections. The PDA grant agreement was signed by ADB and the government on 15 June 2015 and became effective on 25 January 2016. The detailed design consultant was mobilized in February 2016. On 27 September 2016, ADB approved a loan and a grant for the CAREC Corridors 1 and 3 Connector Road Project (the current project), which is phase 1 of the connector road (footnote 2). The financing agreement was signed on 2 December 2016 and became effective on 23 May 2017. The PDA was integrated into the current project when the financing agreement became effective.

8. Because of limited funding, it was not possible to finance all sections studied under the current project. The current project included only one section of 70 km (Epkin village to Bashkugandy village) for rehabilitation along with soft components comprising preparation and implementation of the RAMS, and review of pilot performance-based maintenance contracting.

9. The rehabilitation of two other road sections totaling 68 km (Balykchy–km marker [Km] 43 and Kochkor–Epkin) was proposed to be considered for approval as additional financing under the subsequent phase 2 of the connector road project. All project documents related to the two sections under phase 2 were prepared and reviewed under the transaction TA and then the PDA. The PDA consultant is responsible for assisting the government in procuring the contracts and updating the safeguards documents.

10. Besides ADB, other development partners are supporting the rehabilitation of the connector road. Financing from the Islamic Development Bank and the Saudi Fund for Development was used for rehabilitating 24 km of the Bashkugandy–Kyzyl Jyldyz section. A Eurasian Development Bank loan will rehabilitate the 91 km road linking Aral with CAREC Corridor 3. Export-Import Bank of China is financing the rehabilitation of 250 km of the Kyzyl Jyldyz to Jalal-Abad section. Construction works are currently ongoing.

11. **Implementation status of the current project.** The civil works contract for the current project, the Epkin–Bashkugandy section, was awarded in September 2018 and mobilization works will begin in November 2018. The delay in procurement was caused by the protracted bid

⁵ Sector Assessment (Summary): Transport (accessible from the list of linked documents in Appendix 2).

⁶ ADB. 2018. *Country Partnership Strategy: Kyrgyz Republic, 2018–2022 – Supporting Sustainable Growth, Inclusion, and Regional Cooperation*. Manila; ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila; ADB. 2017. *Country Operations Business Plan: Kyrgyz Republic, 2018–2020*. Manila.

⁷ ADB. 2015. *Concept Paper for Proposed Loan and Administration of Technical Assistance Grant, Kyrgyz Republic: Central Asia Regional Economic Cooperation Corridors 1 and 3 Connector Road Project*. Manila.

evaluation process and the time taken for obtaining clarifications for substantiating abnormally low bid prices. The government will decide on the use of loan savings after sufficient physical progress is achieved. The consultancy contract for the RAMS was awarded in August 2018.

12. **Safeguards compliance.** The land acquisition and resettlement plan (LARP), updated based on detailed design for the current project, was cleared and disclosed by ADB on its website in July 2018. The government is committed to implementing the LARP before the start of the construction activities on any specific road section. The initial environmental examination (IEE) report, also updated based on the detailed design, was cleared and disclosed by ADB on its website in June 2018.

13. **Project performance.** The current project performance rating is *on track*. With the award of the RAMS consulting contract, the achievement of contract awards improved. Project performance parameters—delivery of outputs, compliance with safeguards policy requirements, and management of risks—are satisfactory. Although the loan and grant were made effective in late May 2017, the civil works contract was awarded in September 2018. Disbursement performance will improve after the start of physical works. Risk mitigation measures related to efficient implementation of the project include (i) delegation of the project to KYRM to ensure close and frequent monitoring of the physical progress; (ii) monthly reporting by the supervision engineer of the construction progress, identifying issues and solutions; and (iii) periodic monitoring by ADB of the key milestones to ensure that the project is completed by July 2021, as scheduled.

14. **Eligibility of additional financing.** The justification for additional financing is to scale up the project, which is consistent with the approval of the current project. The two new sections included in phase 2 are contiguous with the current project section. The project remains technically, economically, and financially viable. The development objectives remain unchanged with the additional financing. The project is accorded high priority by the government (para. 3), and is consistent with the CPS (para. 6). The project has a high degree of readiness. The current project is performing well, as stipulated in ADB's *Operations Manual*.⁸ As such, the additional financing meets other eligibility criteria in ADB's additional financing policy.

15. **Value added by ADB assistance.** The following features provide ADB value addition:

- (i) **Project design and innovation.** ADB's intervention initiated an innovative design feature of combining road rehabilitation with performance-based road maintenance by customizing ADB's existing standard bidding documents.
- (ii) **Institutional development.** Besides the RAMS, ADB will continue road safety interventions intended to improve the institutional framework for conducting road safety audits.
- (iii) **Climate change resilience.** The road design incorporates climate change adaptation mechanisms that will lead to enhanced climate change resilience.

B. Impact and Outcome

16. The project is aligned with the following impact: enhanced regional and national connectivity (footnote 3). The project will have the following outcome: improved efficiency and

⁸ A president's waiver was sought in respect of the following: "While projects may experience problems, these should have been addressed and the project should be performing well for at least 12 months before the cross-departmental circulation of the report and recommendation of the President." ADB. 2011. Additional Financing. *Operations Manual*. OM H5/OP. Manila (para. 4).

safer movement of goods and people.⁹ The impact statement has been updated based on the development program of the government for 2018–2022.

C. Outputs

17. In addition to the current project's two outputs, another output (output 3) will be added as described below:

- (i) **Output 1.** 70 km road from Epkin to Bashkugandy (Diykan) (Km 89–Km 159) (referred to as section 2B of the connector road) rehabilitated, which incorporates specific features for road safety and climate change adaptation.
- (ii) **Output 2.** Institutional capacity strengthened, including consulting services for detailed design,¹⁰ construction supervision, project management, project auditing, safeguards support, preparation and implementation of the RAMS, and a review of pilot performance-based maintenance contracting.
- (iii) **Output 3.** Two road sections—(i) a 43 km section from Balykchy to Km 43 (referred to as section 1 of the connector road) and a 25 km section from Kochkor to Epkin (referred as section 2A of the connector road)—totaling 68 km (together comprising phase 2) will be rehabilitated. The rehabilitation will be followed by a performance-based road maintenance period. Consulting services will be provided for supporting the MOTR in implementing road sector reforms, continuing the interventions in road safety reforms and audits, and the development of RAMS.

D. Investment and Financing Plans

18. The project is estimated to cost \$205.10 million (Table 1).

Table 1: Project Investment Plan
(\$ million)

Item	Current Amount	Additional Financing	Total
A. Base Cost^a			
1. Rehabilitation of the Epkin–Bashkugandy road section (70 km)	71.89	0.00	71.89
2. Rehabilitation of the Balykchy village–km marker 43 road section (43 km)	0.00	30.65	30.65
3. Rehabilitation of the Kochkor village–Epkin village road section (25 km)	0.00	22.89	22.89
4. Institutional strengthening ^b	8.60	8.83	17.43
5. Project management support ^c	2.16	1.20	3.36
6. Resettlement expenses for the Epkin–Bashkugandy road section ^d	0.10	0.00	0.10
7. Resettlement expenses for the Kochkor village–Epkin village road section ^d	0.00	0.09	0.09
8. Project expertise and approval (State Architectural Agency)	0.44	0.00	0.44
9. Taxes and duties ^e	16.75	12.73	29.48
Subtotal (A)	99.94	76.40	176.34
B. Contingencies^f	12.37	10.85	23.22
C. Financing Charges During Implementation^g	2.04	3.50	5.54
Total (A+B+C)	114.35	90.75	205.10

ADB = Asian Development Bank, km = kilometer.

^a In mid-2017 prices.

^b Includes supervision firms, road asset management systems development and implementation, performance-based maintenance consultants, road safety consultants, insurance, consulting services, income tax on nonresidents, and employer's social fund contributions for individual consultants; also includes a \$3 million project design advance.

⁹ The revised design and monitoring framework is in Appendix 1.

¹⁰ ADB approved a \$3 million Asian Development Fund grant as a PDA for the CAREC Corridors 1 and 3 Connector Road Project on 2 June 2015 to finance detailed design.

- ^c Includes project implementation unit staff salaries, plus employer's social fund contributions (17.25%), office operating expenses, bank charges, local transport, insurance and auditors' costs. ADB will finance taxes and duties for project management support, provided that (i) the amount is within the reasonable threshold identified during the country partnership strategy preparation process, (ii) the amount will not represent an excessive share of the project investment plan, (iii) taxes and duties apply only to ADB-financed expenditures, and (iv) the financing of taxes and duties is material and relevant to the project's success. Includes financial auditor expenses.
- ^d Resettlement expenses will be financed from the Asian Development Fund grant.
- ^e Includes taxes and duties to be financed from government resources.
- ^f Physical contingencies were computed at 10% for civil works and consulting services. Price contingencies were computed according to ADB's cost escalation factors, including a provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.
- ^g Includes interest charges financed from the loan and calculated at 1% per year.
- Source: ADB estimates.

19. For phase 2 (additional financing), the government has requested (i) a concessional loan not exceeding \$68.5 million from ADB's ordinary capital resources, and (ii) a grant not exceeding \$9.5 million from ADB's Special Funds resources (Asian Development Fund) to help finance the project. The loan will have a 32-year term, including a grace period of 8 years; an interest rate of 1.0% per year during the grace period and 1.5% per year thereafter, and such other terms and conditions set forth in the financing agreement. ADB will not finance taxes. The government will provide counterpart funding of \$12.75 million to cover taxes and duties related to all civil works, goods, and consulting services. The government has requested that the loan be denominated in United States dollars.

20. The financing plan is in Table 2.

Table 2: Financing Plan

Source	Current ^a		Additional Financing		Total	
	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)
Asian Development Bank						
Special Funds resources (grant)	36.72	32	9.50	10	46.22	22
Ordinary capital resources (loan)	58.39	51	68.50	76	126.89	62
Government of the Kyrgyz Republic	19.24	17	12.75	14	31.99	16
Total	114.35	100	90.75	100	205.10	100

^a Refers to the original amount.

Source: Asian Development Bank estimates.

E. Implementation Arrangements

21. The MOTR will be the executing agency. It has implemented all development partner-financed road projects in Kyrgyz Republic since 1995, and has accumulated considerable experience. The project implementation unit - Investment Projects Implementation Group (IPIG) will be responsible for project implementation activities. Construction supervision consultants will be engaged as the engineer for the construction contract. Road safety consultants will be recruited by the MOTR to provide advice on road safety reforms, road safety engineering, road safety campaign, and capacity strengthening. Additional scope of the RAMS will be decided pending the results of the current project's RAMS development.

22. The government requested ADB's approval for importing bitumen under the two civil works contracts of phase 2 (additional financing) from the Russian Federation, a nonmember country of ADB. Because of climate conditions in the Kyrgyz Republic, bitumen required for construction should be able to endure extreme weather conditions. Bitumen from neighboring ADB member countries often cannot meet the quality requirements and is subjected to unreliable supply of consistent quality. Allowing bitumen produced in the Russian Federation to be used for road

construction works would result in better quality road pavement requiring relatively lower maintenance costs during operation, compared with using bitumen from neighboring member countries. Therefore, to maximize the project's development impact, economic efficiency, and quality assurance, a waiver to allow procurement of bitumen from the Russian Federation is requested from the ADB Board of Directors.¹¹

23. The implementation arrangements have not changed, as summarized in Table 3 and described in detail in the project administration manual (PAM).¹² The functioning of IPIG has been improved as part of the MOTR's reform, as a result of which IPIG has separate units handling different development partner projects. The proposed additional financing for phase 2 will require new civil works procurement for the two added sections. Likewise, one additional supervision consulting firm will need to be recruited; however, one firm can manage supervision for both phase 2 sections. Road safety components have been added to the additional financing as per the request of the government and the National Road Safety Conference held in 2017. The RAMS may need to be expanded to include more sections of road in the country, and legislative and capacity support; this will be carried out either by a new firm or the existing firm. The same financial audit firm will carry out financial audits for the current and additional financing scope.

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	1 December 2018–31 July 2027		
Estimated project completion date	31 July 2027		
Estimated loan closing date	31 December 2027 (loan and grant closing date)		
Management			
(i) Oversight body	Ministry of Finance, deputy minister (chair) Head of Public Investment Program, Technical Assistance, and Foreign Aid Department; and head of Investment Projects Implementation Division (members)		
(ii) Executing agency	Ministry of Transport and Roads		
(iii) Key implementing agencies	Investment Projects Implementation Group		
(iv) Implementation unit	Bishkek, 20 staff		
Procurement	International competitive bidding using ADB's Procurement Guidelines (2015, as amended from time to time)	Current project: 1 civil works contract	\$72.00 million
		Additional financing: 2 civil works contracts	\$53.54 million
Consulting services	Recruitment of Consulting Firm using Quality- and cost-based selection using ADB's Guidelines on the Use of Consultants (2013, as amended from time to time)	Current project: 1 construction supervision (301 person-months)	\$3.26 million
		1 road asset management (191 person-months)	\$2.41 million
		Additional financing: 1 construction supervision (486 person-months)	\$5.4 million
		1 road safety (200 person-months)	\$1.8 million
		1 RAMS (100 person-months)	\$1.67 million
	Least-cost selection using ADB's Guidelines on the Use of Consultants	Current project: Financial audit	\$0.10 million
		Additional financing: Financial audit	\$0.10 million

¹¹ The ADB Board of Directors must approve the waiver by a vote representing not less than two-thirds of the total voting power of the members of the Board.

¹² Project Administration Manual (accessible from the list of linked documents in Appendix 2).

Aspects	Arrangements		
	Individual consultants using ADB's Guidelines on Use of Consultants (2013, as amended from time to time)	Current project: Project management (1,080 person-months) 2 performance-based maintenance contract specialists (18 person-months) Additional financing: Project management (900 person-months)	\$1.57 million \$0.34 million \$1.2 million
Advance contracting	The following items of expenditure are being proposed for advance contracting: civil works, construction supervision consultant, and RAMS consulting services. Any proposal of advance contracting will not constitute a commitment by ADB to finance the project.		
Disbursement	The loan and/or grant proceeds will be disbursed in accordance with ADB's Loan Disbursement Handbook (2017, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

ADB = Asian Development Bank, RAMS = road asset management system.

Source: ADB.

III. DUE DILIGENCE

A. Technical

24. For the two sections to be financed by additional financing (phase 2), preliminary design details, cost estimates, and economic assessments were prepared during the initial TA stage. Detailed design and bid documents were prepared subsequently by PDA consultants. Using contemporary geometric design standards, the detailed designs have been prepared for a two-lane road (four lanes in the first part of section 1 and in all the village areas) featuring 3.75-meter (m) traffic lanes with adjacent shoulders featuring a configuration of 0.75 m paved and 3.00 m unpaved. This is considered appropriate based on the forecast future traffic demand. The project plans to use materials recycled from the existing roadbed as part of the fill, including the old asphalt surfacing that could present environmental concerns if moved to off-site disposal areas. Civil works rehabilitation will also cover improvement of the bridges. To address concerns over increased traffic volumes and operating speeds, road safety measures have been introduced into the detailed design following audits by design team specialists.

B. Economic and Financial

25. **Economic assessment.** Economic assessment conducted during preparation and processing of the current project included the two new sections under phase 2. This analysis is an extension to that conducted for the current project (footnote 2) with a focus on those sections to be rehabilitated under the additional financing (sections 1 and 2A). The analysis applied (i) investment costs based on the updated detailed design and (ii) baseline traffic and the traffic forecast based on traffic counts conducted on those sections in June 2017. All other aspects of the economic analysis remain the same. The project will lower transport costs, and increase travel speeds and time savings. The project's economic evaluation was undertaken using the highway development and management model¹³ and following ADB's Guidelines for the Economic Analysis of Projects.¹⁴ The results indicate that the project is economically viable with an economic internal rate of return of 22.8%. The high economic internal rate of return reflects high traffic volumes and the poor state of the roads without the project. Sensitivity tests confirmed that the project would remain viable even if the envisaged project costs increase or benefits decrease.

¹³ The model is a software package managed by HDMGlobal (www.hdmglobal.com).

¹⁴ ADB. 2017. *Guidelines for the Economic Analysis of Projects*. Manila.

26. **Financial sustainability.** The costs related to operation and maintenance of the road will decrease after construction because the road condition will be improved. Besides implementation of the RAMS, the proposed additional financing includes introduction of a hybrid construction and performance-based road maintenance contract for the Balykchy–Km 43 and the Kochkor–Epkin road sections. This will cover routine and periodic maintenance after the construction work. After the completion of the contract, the government is expected to continue the performance-based road maintenance system and allocate sufficient funds from the general budget.

C. Governance

27. **Institutional capacity.** The IPIG has been implementing ADB-funded projects since 1996 and has delivered 11 ADB road projects with a total cost of more than \$601 million. IPIG staff have adequate knowledge and understanding of, and experience with, ADB procedures to manage the project.

28. **Financial management.** The IPIG's capacity for project financial accounting is satisfactory, and it has a proven track record with ADB's disbursement procedures. Separate project records and accounts will be maintained. The project accounts and related financial statements will be audited annually in accordance with national and international auditing standards. The pre-mitigation risk rating assigned to the project is *substantial* based on the assessment of the existing financial management arrangements, including budgeting and planning, accounting and reporting, internal controls, and functioning of the accounting information system. Mitigation measures include (i) stricter monitoring of compliance with audit observations, (ii) strengthening of financial management staffing in the IPIG, and (iii) strengthening of internal audit functions in the IPIG. Project sustainability has been identified as a key risk, and will be mitigated through sector reform, implementation of performance-based road maintenance, and the implementation of the RAMS.

29. **Procurement.** The project procurement risk classification is *moderate*. Besides closer monitoring by ADB, the mitigation measures include mobilization of an experienced international procurement specialist to support the MOTR to assist in preparing the procurement documents and in bid evaluation. The invitation for bids for the additional financing sections (Balykchy–Km 43 and the Kochkor–Epkin road sections) will be advertised in October 2018, and the contracts are expected to be awarded by March 2019. In parallel, the recruitment of the supervision consultant for the phase 2 works will also start in October 2018 and the contract is envisaged to be awarded by March 2019. Advance actions in terms of finalizing the detailed design and bidding documents have been taken to ensure project implementation readiness. Recommendations of the procurement risk assessment will be implemented in conjunction with the government. ADB will continue to provide support to the MOTR procurement team and tender committee.

30. The country suffers from inadequate road maintenance, and budgetary allocations for planned road maintenance have not been sufficient. To address this issue, the civil works contracts for phase 2 will be based on a hybrid contract comprising construction works and performance-based road maintenance activities. The defects notification period of the contract will be expanded to include a performance-based road maintenance period of 5 years. The civil works contract will be based on an amended version of ADB's standard bidding documents.

31. **Anticorruption.** ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the MOTR. The specific policy requirements and supplementary measures are described in the PAM (footnote 12).

D. Poverty and Social

32. The project is expected to contribute to poverty reduction through the stimulation of economic activities by improving the transport of goods and people and access to services. It will also benefit local residents and enterprises by creating jobs during construction, and reducing transport cost and travel time. The project is classified as a general intervention, with no direct poverty reduction component. The civil works contract will require that contractors (i) comply with applicable labor laws of the Kyrgyz Republic and related international treaty obligations, and not employ child labor; (ii) provide safe working conditions and separate sanitation facilities for male and female workers; (iii) provide equal wages to male and female workers for work of equal value; (iv) provide employment opportunities for women; and (v) carry out HIV/AIDS, illicit drugs, and human trafficking prevention and awareness programs in workers' campsites. The project is categorized as having some gender elements, with the following gender actions: (i) employing women during construction; (ii) ensuring women's participation in all project consultations, as well as in road safety campaigns; and (iii) including women staff of the MOTR in capacity building activities relevant to the project.

E. Safeguards

33. **Environment.** The project is classified as category B under ADB's Safeguard Policy Statement (2009). In accordance with ADB's Safeguard Policy Statement, an IEE report, including an environmental management plan (EMP), has been prepared for each project section. The updated reports were disclosed on the ADB and MOTR websites in June 2018. The road sections traverse through sparse residential areas and close to a few archaeological sites. In addition, the Balykchy–Km 43 section is an existing road located inside a rehabilitation zone of the Issyk-Kul Biosphere Reserve, which contains Issyk-Kul Lake, a Ramsar site. The lake is 6 km away from the starting point of the road section, and thus no impacts on the lake are expected. The EMP provides adequate mitigation measures and a monitoring plan. Site-specific EMPs will be developed in consultation with the Issyk-Kul Biosphere Reserve Directorate. Impacts from the project are expected to be mostly related to construction work and can be mitigated. The identified impacts during the construction phase include noise, dust, vehicle emissions, vibration, disturbances to rivers because of bridge rehabilitation and construction works along the rivers, limited tree cutting, borrow and quarry sites, impacts from campsites and material processing plants, and traffic safety. Impacts during operation are likely to be insignificant and mainly related to an increase in noise levels and a decrease in road safety because of increased traffic. As part of the IEE, modeling studies for noise and vibration, and an archaeological survey (site walkover) were undertaken; results are presented in the IEEs and were used as part of the impact assessment. The IPIG has adequate capacity for safeguard management. Public consultation was conducted in all villages during the IEE preparation.

34. **Resettlement.** The project is classified as category B for involuntary resettlement impacts. The census carried out during project preparation identified approximately 40 affected households, including private agriculture plots and buildings, with 249 affected persons. Of the 40 affected households, 12 households, including 67 affected persons, will experience severe impacts on their livelihood, and 16 households with 117 members were found to belong to vulnerable groups. A LARP was prepared to mitigate and address all the associated losses in accordance with ADB's Safeguard Policy Statement and relevant national legislation. The LARP was disclosed on the ADB website in July 2018. Consultations with the project stakeholders and displaced persons were undertaken during LARP preparation, and will continue throughout implementation. A grievance redress mechanism will be put in place in accordance with the LARP

to assist affected persons in resolving grievances and complaints. The MOTR will submit semiannual safeguards monitoring reports to ADB for review and disclosure.

35. **Indigenous peoples.** There are no indigenous peoples, as defined in ADB's Safeguard Policy Statement, in the project area, and the project is classified as category C for indigenous peoples.

F. Risks and Mitigating Measures

36. Project risk is rated *low*. Major risks and mitigating measures are described in detail in the risk assessment and risk management plan.¹⁵

IV. ASSURANCES

37. The government and the MOTR 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. The government and the MOTR have agreed with ADB on certain covenants for the project, which are set forth in the financing agreement.

V. RECOMMENDATION

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

- (i) the loan of \$68,500,000 to the Kyrgyz Republic for the additional financing of the Central Asia Regional Economic Cooperation Corridors 1 and 3 Connector Road Project (Phase 2), from ADB's ordinary capital resources, in concessional terms, with an interest charge at the rate of 1.0% per year during the grace period and 1.5% 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 loan agreement presented to the Board;
- (ii) the grant not exceeding \$9,500,000 to the Kyrgyz Republic from ADB's Special Funds resources (Asian Development Fund) for the additional financing of the Central Asia Regional Economic Cooperation Corridors 1 and 3 Connector Road Project (Phase 2), on terms and conditions that are substantially in accordance with those set forth in the draft grant agreement presented to the Board; and
- (iii) the proposal in para. 22 of this report to permit procurement in a nonmember country of ADB of goods produced in the Russian Federation.

Takehiko Nakao
President

8 October 2018

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

REVISED DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with			
Current project Regional and national connectivity enhanced (National Sustainable Development Strategy, 2013–2017) ^a			
Overall project Regional and national connectivity enhanced (Development Program of the Kyrgyz Republic, 2018–2022: Unity, Trust, Creation) ^b			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome			
Current project Efficiency and safer movement of goods and people improved	Current project a. Travel time between Naryn and Osh reduced by 50% (11 hours) by 2022 when the entire north–south corridor project is implemented (2015 baseline: 22 hours) b. Daily vehicle traffic from Epkin to Bashkugandy (annual average) increased to 5,572 by 2022 (2015 baseline: 1,621)	Current project a–b. MOTR progress reports	Current project Rehabilitation of adjacent sections funded by other development partners experiences delays in project implementation
Overall project Efficiency and safer movement of people and goods improved	Overall project a. Travel time between Naryn and Osh reduced by 50% by 2028 (2015 baseline: 22 hours) b. Daily vehicle traffic from Epkin to Bashkugandy (annual average) increased to 5,572 by 2028 (2015 baseline: 1,621) c. Daily vehicle traffic from Balykchy to Epkin (annual average) increased to 9,112 by 2028 (2017 baseline: 2,061)	Overall project a–c. MOTR progress reports	Overall project Unchanged
Outputs			
Output 1			
Current project 1. 70 km road from Epkin village to Bashkugandy village rehabilitated (Km 89–Km 159)	Current project 1a. 70 km of road rehabilitated and the pavement international roughness index reduced to 3.00 m/km by 2021 (2015 baseline: 8.33 m/km)	Current project 1a. MOTR and ADB project completion reports	Current project Cost overruns are caused by unexpected price increases during construction
Overall project 1. Road from Epkin village to Bashkugandy village rehabilitated (Km 89 – Km 159)	Overall project Unchanged	Overall project 1a. MOTR progress reports, consultants' reports	Overall project Cost overruns are caused by unexpected price increases beyond contingency during construction

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>Output 2 Current project 2. Institutional capacity strengthened</p> <p>Overall project Unchanged</p>	<p>Current project 2a. A RAMS designed and implemented by 2020 (2015 baseline: not applicable)</p> <p>2b. PIU's administrative manual and procedures in place by 2020 (2015 baseline: 0)</p> <p>Overall project 2a. Unchanged</p> <p>2b. Road safety reforms, audit, and campaigns completed by 2027 (2017 baseline: not applicable)</p> <p>2c. MOTR staff receive capacity building assistance until 2027 (2015 baseline: not applicable)</p>	<p>Current project 2a–b. MOTR and consultants' reports</p> <p>Overall project 2a–c. MOTR progress reports, consultants' reports</p>	<p>Current project Lack of technical expertise and funding to continue the RAMS</p> <p>PIU and MOTR lack understanding of the new administrative process</p> <p>Overall project Changing government priorities may delay implementation of institutional changes</p>
<p>Output 3 (new) 3. Road sections from Balykchy village to Km 43 and from Kochkor village to Epkin village rehabilitated</p>	<p>3a. 68 km of road rehabilitated and the pavement international roughness index reduced to 3.00 m/km by 2022 (2015 baseline: 8.33 m/km)</p> <p>3b. Performance-based road maintenance contract completed by 2027 (2018 baseline: not applicable)</p> <p>3c. At least 10% of the employed office staff and project construction workers are women. (2018 baseline: not applicable)</p>	<p>3a–c. MOTR progress reports</p>	<p>Cost overruns are caused by unexpected price increases beyond contingency during construction</p> <p>Procurement delays</p> <p>Funding allocation is insufficient for maintenance</p>

Key Activities with Milestones

1. Road from Epkin village to Bashkugandy village (Km 89 – Km 159) rehabilitated
 - 1.1 Recruit detailed design consultants by February 2016 (completed)
 - 1.2 Recruit supervision consultants by September 2018 (completed)
 - 1.3 Award civil works contract by September 2018 (completed)
 - 1.4 Complete civil works by July 2021
2. Institutional capacity strengthened
 - 2.1 Recruit RAMS consultant by August 2018, and the MOTR will design and apply the RAMS in planning the key road network by June 2020
 - 2.2 Put in place the PIU's administrative manual and procedures by June 2017 (completed)
 - 2.3 Conduct road safety campaign, audits, and capacity strengthening by 2027
3. Road sections from Balykchy village to Km 43 and from Kochkor village to Epkin village rehabilitated
 - 3.1 Recruit detailed design consultants by February 2016 (completed)
 - 3.2 Advertise invitation to bid for civil works and call for expression of interest for supervision consultants by October 2018
 - 3.3 Recruit supervision consultants by March 2019
 - 3.4 Award civil works contract by March 2019
 - 3.5 Complete civil works and performance-based road maintenance contract by July 2027

Inputs**Asian Development Bank**

Loan	Grant
\$58.39 million equivalent (current)	\$36.72 million equivalent (current) ^c
\$68.50 million equivalent (additional)	\$9.50 million equivalent (additional)
\$126.89 million (overall)	\$46.22 million (overall)
Total ADB financing: \$173.11 million equivalent	

Government of the Kyrgyz Republic

Counterpart
\$19.24 million (current)
\$12.75 million (additional)
\$31.99 (overall)

Total

\$114.35 million (current)
\$90.75 million (additional)
\$205.10 million (overall)

Assumptions for Partner Financing**Current project**

The Eurasian Development Bank approved a loan for the rehabilitation of the 91 km road from Aral village to CAREC Corridor 3 via Suusamyр valley in the amount of \$85 million under collaborative cofinancing with the ADB project. Similarly, the Islamic Development Bank approved \$12 million financing, and the Saudi Fund for Development approved \$20 million financing to rehabilitate 24 km of road from Bashkugandy village to Jyldyz village.

Overall project

Unchanged.

ADB = Asian Development Bank, CAREC = Central Asia Regional Economic Cooperation, km = kilometer, Km = kilometer marker, m = meter, MOTR = Ministry of Transport and Roads, PIU = project implementation unit, RAMS = road asset management system.

Note: The design and monitoring framework covers only the scope to be financed and administered by ADB.

^a Government of the Kyrgyz Republic, National Council for Sustainable Development. 2013. *National Sustainable Development Strategy for the Kyrgyz Republic, 2013–2017*. Bishkek.

^b Government of the Kyrgyz Republic. 2018. *Development Program of the Kyrgyz Republic, 2018–2022: Unity, Trust, Creation*. Bishkek.

^c Includes the ADB-approved Asian Development Fund grant for a \$3 million project design advance to engage detailed design consultants in 2015.

Source: ADB.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=48401-008-3>

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

Supplementary Document

14. Climate Change Assessment