

## SUMMARY OF PROJECT PERFORMANCE

### A. Background

1. On 27 September 2016, the Asian Development Bank (ADB) Board of Directors approved the Central Asia Regional Economic Cooperation (CAREC) Corridors 1 and 3 Connector Road Project (the current project). The financing agreement was signed on 2 December 2016 and became effective on 23 May 2017. The approved ADB-financed section outputs include the following: (i) 70 kilometer (km) road from Epkin village to Bashkugandy village (km marker [Km] 89–Km 159) rehabilitated, which incorporates specific features for road safety and climate change adaptation; and (ii) institutional capacity strengthened, including consulting services for detailed design, construction supervision, project management, project auditing, safeguards support, preparation and implementation of the road asset management system (RAMS), and a review of pilot performance-based maintenance contracting.

2. In addition, (i) 91 km of road from Aral village to CAREC Corridor 3 via the Suusamyry valley (Km 195–Km 286) will be rehabilitated and cofinanced by the Eurasian Development Bank and the government; and (ii) 24 km of road from Bashkugandy village to Jyldyz village (Km 159–Km 183) will be rehabilitated and cofinanced by the Islamic Development Bank, the Saudi Fund for Development, and the government. ADB will not administer any of the cofinancing funds. The financing partners will implement and administer their assigned components parallel to the ADB-financed project using their own policies, procedures, and guidelines. The combined efforts of the government and the various international financial institutions will improve the network overall, not just a single corridor. The Eurasian Development Bank project's procurement process is underway.

3. Prior to the current project approval, based on the government's request, ADB Management approved the concept paper of the CAREC Corridors 1 and 3 Connector Road Project on 22 April 2015.<sup>1</sup> The concept paper included the approval of project preparatory 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 and audit services for ADB-financed sections. The PDA grant agreement was signed by ADB and the government on 15 June 2015, and the PDA became effective on 25 January 2016. The detailed design consultant was mobilized in February 2016.

4. Because of limited funding, it was not possible to finance all sections studied under the project preparatory TA in 2016. The current project left out two road sections totaling 68 km (Balykchy village–Km 43 and Kochkor village–Epkin village). All project documents related the two sections were prepared under the project preparatory TA and then the PDA.

### B. Performance of the Project

5. The current project is assessed in the following aspects and considered performing well.

- (i) **Delivery of expected outputs and satisfactory implementation progress.** The detailed design consultant (Japan Overseas Consultant) was being funded by the PDA, which has been integrated into the ongoing grant. The detailed design consultant has completed detailed design and bid documents of the current 70 km

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<sup>1</sup> 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.

section (Epkin village–Bashkugandy village) and the two sections totaling 67 km under the additional financing (Balykchy village–Km 43 and Kochkor village–Epkin village). The consultants are currently assisting the Ministry of Transport and Roads in procurement of civil works contracts and finalization of land acquisition and resettlement plans (LARPs) for all three sections. The funding source of the detailed design consultant engaged was shifted from the PDA grant to the project grant. As the PDA grant has only one contract, the funding source to finance the detailed design consultant’s remaining undisbursed contract balance was shifted to the project grant. Financial audit of the PDA grant will also be financed under the project grant, while recruitment of the audit firm is ongoing; the audited financial statements are expected by December 2018.

An invitation for bids for the civil works contract for the current project (road section from Epkin village to Bashkugandy village) was issued on 26 May 2017; the closing date for bid submission was 7 July 2017. The contract was awarded in September 2018. The delay was caused by the elongated bid evaluation process and the time taken for obtaining clarifications for substantiating abnormally low bid prices. The recruitment of construction supervision consultants for the current project is completed, and the consultancy contract was awarded in August 2018. Recruitment of consultancy services for the RAMS component is complete and the RAMS consultant mobilized in October 2018.

(ii) **Satisfactory compliance with safeguard policy requirements.**

- (a) **Resettlement.** For phase 1 of the project, the LARP, which was 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.

Phase 2 is classified as category B for involuntary resettlement impacts. The LARP was prepared to mitigate and address all the associated losses in accordance with the ADB Safeguard Policy Statement (SPS) (2009) and relevant national legislation, and it 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.

- (b) **Environment.** For phase 1, the initial environmental examination report, also updated based on the detailed design, was cleared and disclosed by ADB on its website in June 2018. When the contractor mobilizes, training on environmental safeguard requirements will be provided by ADB experts and supervision consultants. Furthermore, the supervision consultant will provide guidance to the contractor in developing relevant site-specific environmental management plans and approval prior to the endorsement of the Implementation Agency -Investment Projects Implementation Group.

Phase 2 is classified as category B under ADB’s SPS. In accordance with the SPS, an initial environmental examination report, including an environmental management plan, has been prepared for each project section. The updated reports were disclosed on the ADB and Ministry of Transport and Roads websites in June 2018.

- (iii) **Successful management of risks.** Major risks identified at project appraisal included initial delays in project implementation, collusion, corruption and cartel conduct, counterpart funding delays, procurement delays, safeguard noncompliance and complaints, cost overruns, and insufficient funding for maintenance. Risk mitigation measures include (i) close monitoring by ADB of the procurement and construction activities to ensure that the project is completed by July 2021, as scheduled; (ii) monthly reporting by the supervision engineer of the construction progress, identifying issues and solutions; (iii) regular missions by ADB to review the physical progress; and (iv) introduction of a performance-based road maintenance concept to address the issue of insufficient funding for maintenance.
- (iv) **Project performance.** The current project performance rating is *on track*. With the award of the RAMS contract, the achievement of contract awards improved from *actual problem* to *on track*. 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 civil works.

## C. Conclusion

6. The implementation of the current project has witnessed delays in contract awards and disbursements. However, it is in compliance with all safeguard requirements, and is expected to be successfully completed by the scheduled date of July 2021. It will achieve all of the output targets specified in the design and monitoring framework. Risks identified at loan and grant approval have been managed as anticipated.

7. Phase 2 is at an advanced stage of preparation. Detailed design of the Balykchy village–Km 43 and Kochkor village–Epkin village road sections is complete. Bidding documents are currently being reviewed by ADB and tendering will start in Q4 2018. Safeguards documents requirements are complete. The civil works and supervision consultant contracts are expected to be awarded in Q1 2019.

8. The reason for additional financing is to scale up the project, which is proceeding as designed and planned. The two new road sections included in phase 2 are contiguous with the current project. The project is expected to remain technically, economically, and financially viable. The development objectives remain unchanged with the additional financing. The rehabilitation of the connector road is consistent with the government's priority as stated in its development program for 2018–2022: *Unity, Trust, Creation*.<sup>2</sup> It is also aligned with ADB's country partnership strategy for the Kyrgyz Republic, 2013–2017,<sup>3</sup> and Strategy 2030,<sup>4</sup> and is included in ADB's country operations business plan for the Kyrgyz Republic, 2018–2020.<sup>5</sup> As such, the additional financing meets other eligibility criteria in ADB's additional financing policy. Therefore, the additional financing for phase 2 is justified.

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<sup>2</sup> Government of the Kyrgyz Republic. 2018. *Development Program of the Kyrgyz Republic, 2018–2022: Unity, Trust, Creation*. Bishkek.

<sup>3</sup> ADB. 2013. *Country Partnership Strategy: Kyrgyz Republic, 2013–2017*. Manila.

<sup>4</sup> ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

<sup>5</sup> ADB. 2017. *Country Operations Business Plan: Kyrgyz Republic, 2018–2020*. Manila.