



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

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Project Number: 37075-023  
November 2017

## Proposed Grant Islamic Republic of Afghanistan: Qaisar–Dari Bum Road Project

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Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 24 October 2017)

Currency unit	–	afghani (AF)
AF1.00	=	\$0.0146
\$1.00	=	AF68.210

## ABBREVIATIONS

ADB	–	Asian Development Bank
km	–	Kilometer
MFF	–	multitranches financing facility
MOF	–	Ministry of Finance
MPW	–	Ministry of Public Works
PMO	–	Program Management Office
SPS	–	Safeguard Policy Statement

## NOTE

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

<b>Vice-President</b>	Wencai Zhang, Operations 1
<b>Director General</b>	Sean O’Sullivan, Central and West Asia Department (CWRD)
<b>Director</b>	Dong-Soo Pyo, Transport and Communications Division, CWRD
<b>Team leader</b>	Witoon Tawisook, Principal Transport Specialist, CWRD
<b>Team members</b>	Nurlan Djenchuraev, Senior Environment Specialist, CWRD Maureen Mamayson, Project Analyst, CWRD Neak Mohibi, Senior Project Officer (Infrastructure), CWRD Jose Tiburcio Nicolas, Senior Social Development Specialist, CWRD Douglas Perkins, Senior Counsel, Office of the General Counsel Arghya Sinha Roy, Senior Disaster Risk Management Specialist, Sustainable Development and Climate Change Department Ko Sakamoto, Transport Specialist, CWRD Anna Liza Silverio, Senior Operations Assistant, CWRD Nana Soetantri, Transport Specialist, CWRD Nazaneen Yousofzai, Associate Project Analyst, CWRD
<b>Peer reviewer</b>	Dong Kyu Lee, Unit Head, Project Administration, Transport and Communications Division, South Asia Department

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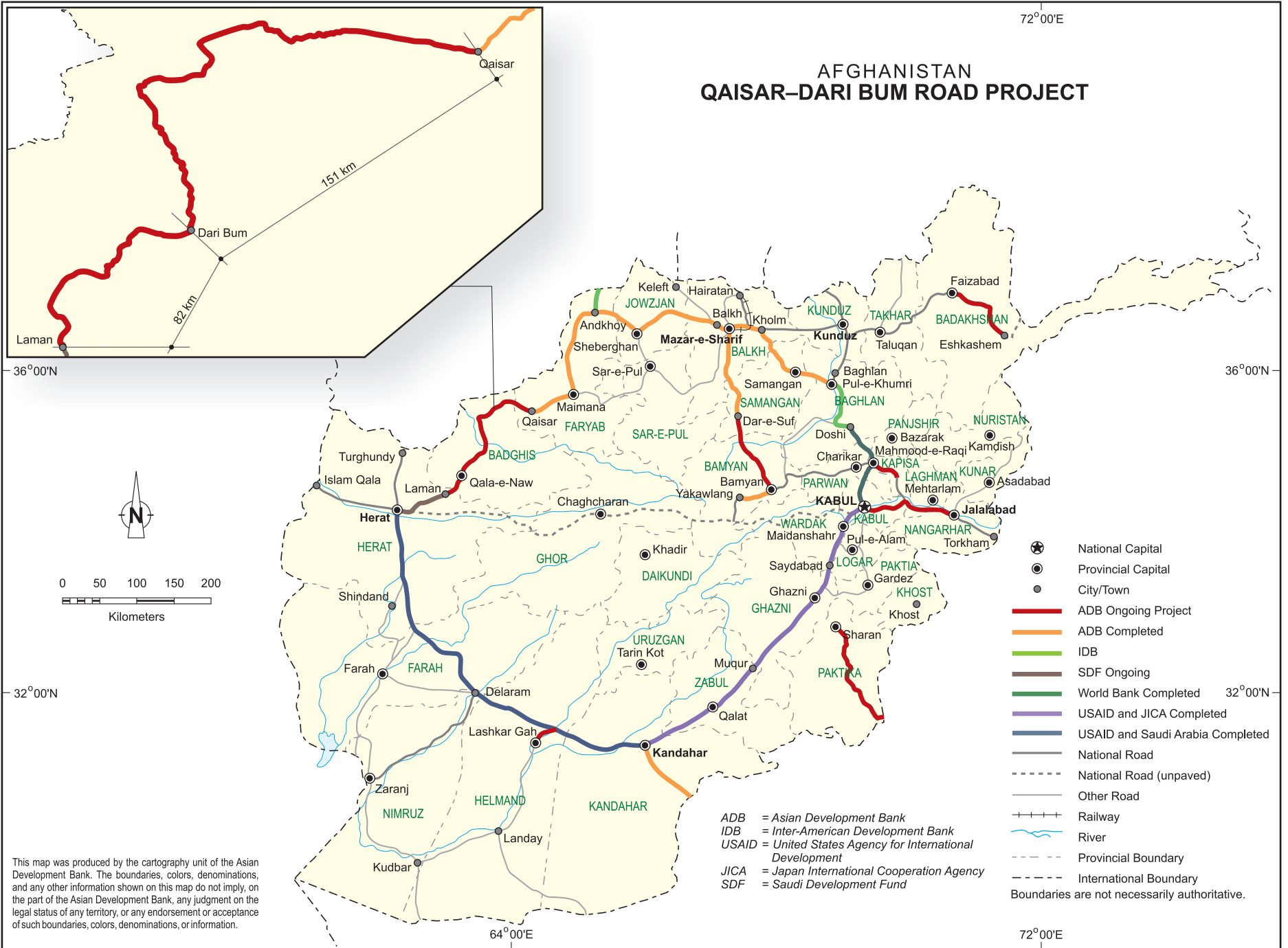
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## PROJECT AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number: 37075-023</b>	
<b>Project Name</b>	Qaisar–Dari Bum Road Project	<b>Department /Division</b>	CWRD/CWTC
<b>Country Borrower</b>	AFG Islamic Republic of Afghanistan	<b>Executing Agency</b>	Ministry of Finance
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
✓ <b>Transport</b>	Road transport (non-urban)		330.00
		<b>Total</b>	<b>330.00</b>
<b>3. Strategic Agenda</b>	<b>Subcomponents</b>	<b>Climate Change Information</b>	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Adaptation (\$ million)	9.00
Environmentally sustainable growth (ESG)	Global and regional transboundary environmental concerns	Climate Change impact on the Project	Medium
Regional integration (RCI)	Pillar 2: Trade and investment		
<b>4. Drivers of Change</b>	<b>Components</b>	<b>Gender Equity and Mainstreaming</b>	
Knowledge solutions (KNS)	Knowledge sharing activities	Some gender elements (SGE)	✓
<b>5. Poverty and SDG Targeting</b>		<b>Location Impact</b>	
Geographic Targeting	Yes	Rural	High
Household Targeting	No	Urban	Low
SDG Targeting	Yes		
SDG Goals	SDG8, SDG9		
<b>6. Risk Categorization:</b>	Complex		
<b>7. Safeguard Categorization</b>	<b>Environment: B Involuntary Resettlement: B Indigenous Peoples: C</b>		
<b>8. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>330.00</b>	
Sovereign Grant projects: Asian Development Fund		330.00	
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>4.00</b>	
Government		4.00	
<b>Total</b>		<b>334.00</b>	

# AFGHANISTAN QAISAR-DARI BUM ROAD PROJECT



72°00'E

36°00'N

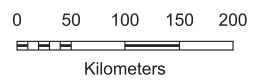
36°00'N

32°00'N

32°00'N

64°00'E

72°00'E



- National Capital
  - Provincial Capital
  - City/Town
  - ADB Ongoing Project
  - ADB Completed
  - IDB
  - SDF Ongoing
  - World Bank Completed
  - USAID and JICA Completed
  - USAID and Saudi Arabia Completed
  - National Road
  - National Road (unpaved)
  - Other Road
  - Railway
  - River
  - Provincial Boundary
  - International Boundary
- Boundaries are not necessarily authoritative.

ADB = Asian Development Bank  
 IDB = Inter-American Development Bank  
 USAID = United States Agency for International Development  
 JICA = Japan International Cooperation Agency  
 SDF = Saudi Development Fund

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

## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed grant to the Islamic Republic of Afghanistan for the Qaisar–Dari Bum Road Project.
2. The proposed grant will finance the construction of a 151-kilometer (km) section of road in northwestern Afghanistan from Qaisar to Dari Bum, which is the last missing link of the Ring Road and the top priority among the nation’s strategic corridors. The road section is also part of the key corridors under the Central Asia Regional Economic Cooperation (CAREC) Program. The project is the latest attempt to complete this road section and will be taking the fragile and conflict-affected situation (FCAS) approach to give the contractors more flexibility in security provision and arrangement.<sup>1</sup> It will also include capacity development programs for the implementing agency.

## II. THE PROJECT

### A. Rationale

3. Surrounded by six countries, Afghanistan is in a strategic location along the ancient Silk Route and is the crucial link for Central Asia, South Asia, and the Middle East. It is also a conduit to access ports in Pakistan and on the Caspian Sea for trade with Europe and the Middle East. However, prolonged wars and conflict have devastated Afghanistan’s economy by destroying the minimal economic infrastructure and institutions this country once possessed and driving more than 2.5 million Afghans away from their homes and livelihoods. Following the fall of the Taliban regime, Afghanistan received billions of dollars for reconstruction of the country through international assistance, which has dramatically boosted its gross domestic product to more than \$20 billion—five times higher than in 2002. However, the country is still at the beginning of recreating an economy that can ensure stable and sustainable development.
4. Rehabilitation of the transport infrastructure was one of the key development strategies, and the Ring Road, with a total length of 2,210 km, was the government’s top priority because it is considered the backbone of Afghanistan’s transport system and the principal conduit for national and international passenger and freight traffic. More than 80% of Afghans live within 50 km from the road alignment. Reconstruction of the Ring Road started in 2002 and to date, 1,925 km have been completed under the assistance of the United States Agency for International Development, Japan International Cooperation Agency, World Bank, Government of Saudi Arabia, and Asian Development Bank (ADB). The ongoing construction of the 52-km section from Armalik to Leman, financed by the Government of Saudi Arabia, is expected to be completed by December 2017. Therefore, the 233-km section from Qaisar to Leman is virtually the only missing link of the Ring Road. This link is strategically important, as it passes through one of Afghanistan’s most remote and insecure regions.
5. With ADB’s support, the government has made multiple attempts since 2005 to complete construction of this missing link of the Ring Road. First, in 2005, ADB approved \$55 million under Grant 0012-AFG: Qaisar–Bala Murghab Road Project to finance the construction of the 90-km section from Qaisar to Bala Murghab,<sup>2</sup> and subsequently, in 2007, approved \$176 million under

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<sup>1</sup> M. Woolcock. 2014. *Engaging with fragile and conflict-affected states: An alternative approach to theory, measurement, and practice*. <https://www.wider.unu.edu/publication/engaging-fragile-and-conflict-affected-states>.

<sup>2</sup> ADB. Islamic Republic of Afghanistan: Qaisar-Bala Murghab Road Project. <https://www.adb.org/projects/documents/qaisar-bala-murghab-road-project-rrp>.

Grant 0081-AFG: Road Network Development Project 1 to finance the 143-km section from Bala Murghab to Leman.<sup>3</sup> The Ministry of Finance (MOF) was the executing agency and the Ministry of Public Works (MPW) through its Program Management Office (PMO) was the implementing agency for both projects. The implementation of Qaisar–Bala Murghab Road Project was hampered by significant security challenges, including the kidnappings of two contractor personnel, one of whom was subsequently killed. Due to the security threats and a lack of construction progress, the contract was terminated for convenience in November 2009. For the Bala Murghab–Leman Project, the civil works procurement failed in all three attempts made between 2007 and 2009, as each was unable to attract any bids from qualified contractors. As of December 2009, the combined physical progress of these two projects was approximately 5%, and the combined undisbursed amount was \$202 million.

6. The rising prices for construction materials and labor during the prolonged construction delay, and the need for additional funds for project security, led to a significant shortfall in project financing. To fill the funding gap and complete the entire 233-km section from Qaisar to Leman, in December 2010, ADB approved \$340 million under Grant 0244-AFG: Road Network Development Investment Program Tranche 2 (Project 2) under the Multi-tranche Financing Facility Road Network Development Investment Program (the MFF) to finance the cost overruns under both sections.<sup>4</sup> As a result, the total amount of ADB financing for the entire road section from Qaisar to Leman increased to \$542 million, comprising the newly approved \$340 million under Grant 0244 and the undisbursed \$202 million under Grants 0012 and 0081. In a new approach, the civil works contract was re-tendered as one large design-build contract with an intention to attract bids from quality international firms capable of managing the complex risks in the Afghanistan context. The contract was awarded in December 2011 to a joint venture of U.S. and Turkish firms in the amount of \$477.8 million. To ensure the works could proceed in a secure environment, \$30 million of the overall contract amount was allocated for community development and \$50 million of the overall contract amount was allocated for security services from the Afghan Public Protection Force (APPF), the Government of Afghanistan-controlled security service provider.

7. Poor coordination among the MPW/PMO, the contractor and the consultant caused substantial implementation delays and several contractual disputes. The security threats remained a major challenge. During implementation, the contractor only had access to the 82-km section from Leman to Dari Bum while the remaining 151 km from Qaisar to Dari Bum was not handed over as it remained unsecured. The contract was terminated in August 2014 after a series of contract disputes with the overall physical progress standing at approximately 15%. The disbursements of the three grants under Project 2 at the time of contract termination was \$208 million.

8. Following the change in the MPW's leadership in May 2015, the government, with the support of ADB, made a major change in the PMO's personnel to strengthen its project implementation capacity. In addition, to manage the persistent security threats, the FCAS approach has been adopted for the ongoing ADB financed projects. The contractors were given dispensation to make their own security arrangements with third party security firms instead of being required to use the APPF. These changes have led to significant progress for two ongoing

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<sup>3</sup> ADB. Islamic Republic of Afghanistan: Road Network Development Project 1.

<https://www.adb.org/projects/documents/road-network-development-project-i-rrp>.

<sup>4</sup> ADB. 2010. *Report and Recommendation of the President to the Board of Directors to the Islamic Republic of Afghanistan: Road Network Development Investment Program Tranche 2*. Manila. The MFF was approved on 27 November 2008 for \$400 million. Financing for tranche 1 was utilized to fill the financing gap for the Andkhoy–Qaisar Road Project and North–South Corridor Project.

ADB-financed projects in the security-volatile provinces of Helmand and Paktika, where contract awards and disbursements have proceeded apace. In addition, the National Procurement Authority was introduced in 2015 to provide oversight support for procurement and greatly improved transparency in Afghanistan's public procurement processes. In parallel, the Leman–Dari Bum section, which was left uncompleted under the terminated contract, was re-tendered in two international competitive bidding packages and the contracts were awarded in September 2017. Recruitment of a consulting firm to carry out the detailed design of the Qaisar–Dari Bum section is in progress and mobilization is expected by March 2018.

9. While making efforts to resume the work, the government requires additional funding, as \$232 million has been spent under the previous contract on the civil works, security services and contractual dispute. The remaining amount of \$310 million under the three grants is inadequate to finance the remaining work of the Qaisar-Leman section. An estimated \$130 million is required to complete the unfinished 82-km section from Leman to Dari Bum, and an estimated \$330 million to complete the 151-km section from Qaisar to Dari Bum. Furthermore, Grant 0244, under which an uncommitted amount of \$220 million still remains, will expire on 28 November 2018 because the MFF expires. Based on the current progress of Project 2, it will take the government at least 5 more years, i.e., until June 2022, to utilize all the funds, which will exceed the MFF availability period by 3.5 years. To ensure sufficient funds for completing the Ring Road, the government requested to restructure Project 2's financing by (i) cancelling \$180 million from Grant 0244, (ii) combining the cancelled amount of \$180 million with \$150 million of the 2017 allocation for Afghanistan, and (iii) utilizing the combined amount of \$330 million to finance a new stand-alone project for construction of the 151-km section from Qaisar to Dari Bum. The remaining amount of \$130 million (\$40 million under Grant 0244 and \$90 million under Grant 0081) will be sufficient to finance the uncompleted Leman–Dari Bum section.

10. **Lessons learned.** To ensure the successful implementation of the project, ADB and the government have taken the lessons from the failures of the previous attempts and introduced preventive and corrective measures using an FCAS approach<sup>5</sup> as follows:

- (i) **Contractors to manage their own security.** Based on the improved performance of the ongoing projects in Helmand and Paktika following the adoption of FCAS approach, the civil works contractors will be allowed to arrange their own project security, which will be made a pay item of the contract. To ensure that the security budget is effectively spent, the payments for security will be linked to the physical progress of the project. In addition, the project scope includes community development works to help obtain the support of local communities and thus indirectly improve the project's security.
- (ii) **Project implementation capacity strengthened.** The change in the MPW's leadership and the PMO's personnel in 2015 have significantly improved the government's implementing capacity. Continued strengthening of the PMO through the ongoing ADB-financed projects and the capacity-building programs under this project should ensure the sustainability of the implementing capacity in the short and medium term.
- (iii) **Design-bid-build modality with contract size suitable for local contractors.** The change in project modality from a large design–build contract to the conventional design–bid–build contracts of smaller sizes was made to improve the

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<sup>5</sup> ADB. 2016. *Afghanistan: Enhanced Project Delivery Approach Paper*. Manila.



project's readiness and reduce contractual risks. The civil works will be tendered in three packages to attract the capable local firms and hence increase competition. To minimize procurement delays, the single-stage–one-envelope bidding procedure will be used instead of the single-stage–two-envelopes bidding procedure under the predecessor projects.

11. **Value added by ADB assistance.** Its rugged terrain and arid climate make Afghanistan prone to a wide range of natural hazards such as floods, droughts, landslides, avalanches, and earthquakes. Disasters triggered by these hazards have devastating impacts on lives, livelihoods, and physical infrastructure, including roads. Recent estimates by the World Bank indicate that the modeled economic impacts of a 1-in-50-years flood could be \$30 million for the road subsector alone, and \$5.5 billion in the event of a 1-in-50-years earthquake.<sup>6</sup> Moreover, climate change is expected to lead to an increase in temperature and spring precipitation patterns, and alter the intensity and frequency of extreme weather events. These changes will have serious implications for road planning, design, construction, and operation and maintenance. Accordingly, the project will also develop the capacity for strengthening the disaster and climate resilience of road infrastructure.

12. **Strategic context.** The project is ranked first among the investment priorities of the road improvement master plan and is programmed under the Afghanistan National Development Strategy.<sup>7</sup> The road is part of a strategic international and regional corridor. The recently updated Transport Master Plan under TA 8687-AFG considers the completion of the Ring Road as a critical element in enabling regional connectivity,<sup>8</sup> improving road transport services, and promoting inclusive economic growth in Afghanistan. The project is consistent with the country partnership strategy for Afghanistan, 2017–2021,<sup>9</sup> and is included in the country operations business plan for Afghanistan, 2017–2019.<sup>10</sup>

## B. Impact and Outcome

13. The project is aligned with the following impact: national trade in and through northwestern Afghanistan increased. The project will have the following outcome: an efficient and reliable road network in northwestern Afghanistan developed.<sup>11</sup>

## C. Outputs

14. **Output 1: Qaisar–Dari Bum link of the national Ring Road constructed.** Output 1 will be a 151-km, two-lane national highway from Qaisar to Dari Bum, with appropriate drainage structures and highway safety features.

15. **Output 2: Roadside infrastructure facilities for 60 local communities installed or constructed.** Output 2 will provide basic infrastructure such as rural access roads, culverts, small-scale irrigation schemes, schools, and clinics. The community development program will be designed based on needs assessment and culturally appropriate consultation with women.

<sup>6</sup> The World Bank. 2017. *Disaster Risk Profile: Afghanistan*. Washington, DC.

<sup>7</sup> Government of Afghanistan. 2008. *Afghanistan National Development Strategy*. Kabul.

<sup>8</sup> ADB. 2014. *Transport Master Plan Update*. Manila.

<sup>9</sup> ADB. 2017. *Country Partnership Strategy: Afghanistan, 2017–2021*. Manila.

<sup>10</sup> ADB. 2016. *Country Operations Business Plan: Afghanistan, 2017–2019*. Manila. The document originally listed the project as MFF Transport Connectivity Investment Program. However, following ADB approval of the government's request (para. 9), this project was renamed Qaisar–Dari Bum Road Project with a revised total project allocation of \$330 million.

<sup>11</sup> The design and monitoring framework is in Appendix 1.

16. **Output 3: Institutional capacity of the MPW strengthened.** Output 3 aims to (i) strengthen the capacity of the MPW in the medium and long term for developing national transportation codes, manual, and standards; (ii) boost the capacity of MPW's survey, design, and construction departments; and (iii) establish a national institute for certification of engineers.

17. **Output 4: Disaster reduction and climate change adaptation capacity in the road subsector improved.** Output 4 activities include (i) climate change and disaster risk assessment for the road subsector; (ii) probabilistic flood risk assessment for Qaisar–Dari Bum section; (iii) review of current road design standards and recommendations for strengthening resilience; and (iv) training for the MPW, PMO, and local contractors on integrating climate change and disaster risk considerations into road design and construction.

#### D. Summary Cost Estimates and Financing Plan

18. The project is estimated to cost \$334 million (Table 1). Detailed cost estimates by expenditure category and by financier are included in the project administration manual. The major expenditure items include civil works and consultancy services.

**Table 1: Summary Cost Estimates**  
(\$ million)

Item	Amount <sup>a</sup>
<b>A. Base Cost<sup>b</sup></b>	
1. Output 1: Qaisar–Dari Bum link of the national Ring Road constructed	270.0
2. Output 2: Roadside infrastructure for 60 local communities installed or constructed	19.0
3. Output 3: Capacity building program for the MPW and PMO implemented	10.0
4. Output 4 Disaster risk reduction and climate change adaptation capacity in the road subsector improved	5.0
<b>Subtotal (A)</b>	<b>304.0</b>
<b>B. Contingencies<sup>c</sup></b>	<b>30.0</b>
<b>Total (A+B)</b>	<b>334.0</b>

<sup>a</sup> Includes taxes and duties of \$13 million. Such amount does not represent an excessive share of the project cost.

<sup>b</sup> In mid-2017 prices as of 30 June 2017.

<sup>c</sup> Physical contingencies computed at 9% for civil works; and at 2% for consultancy services, field research and development, training, surveys, and studies. Price contingencies computed at 2.5% on foreign exchange costs and 5.5% on local currency costs for 2017, 5.8% for 2018, and 6.0% for 2019 to 2022; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

Source: Asian Development Bank estimates.

19. The government has requested a grant not exceeding \$330 million from ADB's Special Funds resources (Asian Development Fund) to help finance the project. The summary financing plan is in Table 2. ADB will finance the expenditures relating to civil works, consultancy services, equipment, and financial support to the PMO. The government will contribute \$4.0 million to land acquisition costs and incremental administrative expenses. Climate adaptation is estimated to cost \$9 million. ADB will finance 100% of the climate adaptation costs. Details are in the project administration manual.<sup>12</sup>

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

**Table 2: Summary Financing Plan**

<b>Source</b>	<b>Amount (\$ million)</b>	<b>Share of Total (%)</b>
Asian Development Bank	330.0	98.8
Special Funds resources (Asian Development Fund grant)	330.0	98.8
Government	4.0	1.2
<b>Total</b>	<b>334.0</b>	<b>100.0</b>

Source: Asian Development Bank estimates.

## E. Implementation Arrangements

20. The executing agency will be the Ministry of Finance (MOF) and the implementing agency will be the MPW through the PMO. For the capacity development component on climate change and disaster risk reduction, the MPW will work closely with the Ministry of Disaster Management and Humanitarian Affairs as well as the National Environmental Protection Agency. The implementation arrangements are summarized in Table 3 and described in detail in the project administration manual.

**Table 3: Implementation Arrangements**

<b>Aspects</b>	<b>Arrangements</b>		
Implementation period	January 2018–June 2022		
Estimated completion date	June 2022		
Estimated grant closing date	30 June 2023		
<b>Management</b>			
(i) Executing agency	Ministry of Finance		
(ii) Key implementing agency	Ministry of Public Works		
(iii) Implementation unit	Program Management Office, 50 staff		
Procurement	International competitive bidding (civil works)	3 contracts	\$245.0 million
	National competitive bidding (civil works)	10 contracts	\$17.0 million
	International competitive bidding (goods)	1 contract	\$2.0 million
Consulting services	Construction supervision consultants	1,240 person-months (298 international, 942 national)	\$22.0 million
	Community development consultants	132 person-months (36 international, 96 national)	\$1.0 million
	Capacity development consultants for Ministry of Public Works and Program Management Office	236 person-months (96 international, 140 national)	\$2.0 million
	Capacity development for climate change and disaster risk management	290 person-months (98 international, 192 national)	\$5.0 million
Disbursement	The grant proceeds will be disbursed following the Asian Development Bank's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and detailed arrangements agreed between the government and the Asian Development Bank. Direct payment procedures will be used for consultancy services.		

Sources: Asian Development Bank and Ministry of Public Works, Afghanistan.

## III. DUE DILIGENCE

### A. Technical

21. The conventional design–bid–build modality was adopted for the project, instead of design–build modality. The consultant for detailed engineering design is expected to be mobilized by March 2018. In parallel, the bid documents are being prepared by the PMO's international

specialists. The preliminary design from the 2004 feasibility study is being improved using high-resolution satellite imagery.<sup>13</sup> The bid documents are being prepared based on the improved preliminary design and expected to be ready by August 2017. The civil works will be procured in three packages (40 km–60 km each). For project security, the government has agreed that the contractors will be allowed to have their own security arrangements, including selection of a security subcontractor. The MPW will hold consultations with the local communities to assess their needs for basic infrastructure as soon as the detailed design consultant is mobilized.

22. The project will undertake a climate change and disaster risk assessment for the road subsector, including a probabilistic flood risk assessment of the road section that passes through Badghis and Faryab provinces, to inform the detailed design. The assessment proposed under the project will provide a better understanding of the potential impacts of climate change and disaster risk on the road infrastructure, and help identify critical road sections, the expected annual losses (of key hazards) for the critical sections, and recommendations on measures to manage the risk. The assessment will build on the disaster risk management decision-making tool developed by the MPW with support from the World Bank and currently focusing on earthquakes and landslides, and expand its scope to include data on flood risk.<sup>14</sup>

## **B. Economic and Financial**

23. Being the last missing link of the national Ring Road and a high-priority part of one of the corridors under the CAREC Program, the project road will have a strategic impact on the efficiency of the transport corridor. The complete Ring Road will substantially improve regional connectivity, raise intercity travel speeds, reduce vehicle operating costs, and increase communities' access to social services and infrastructure. The community development component will build basic infrastructure such as rural access roads, culverts, schools, clinics, and small-scale irrigation schemes. Thus, the project will benefit the economy as a whole by improving the investment and job-creation conditions in the areas. The economic evaluation of the project was undertaken using ADB's Guidelines for the Economic Analysis of Projects.<sup>15</sup> The results show that the project is economically feasible with an estimated economic internal rate of return of 12.4%. The results of sensitivity tests indicate that the project will remain economically viable even when assuming adverse developments of traffic and project cost. A 29.5% increase in project cost will reduce the economic internal rate of return to 9%. A reduction in traffic by 24.3% would have the same impact.

24. Government funding for maintenance is considered a major risk in Afghanistan. Given the country's narrow economic base and competing claims on scarce budget resources, Afghanistan will in the foreseeable future have to rely on donor contributions to finance road maintenance.<sup>16</sup> The government needs about \$250 million annually to maintain its roads, while the revenue collected in 2016 through road user fees and taxes totaled \$83 million. However, revenues from road users are not earmarked for road financing but are part of the general budget. Supported by donors, the government has taken steps to introduce a road asset management system that

<sup>13</sup> The satellite imagery used for improving the preliminary design provides an accuracy of 1 meter for the horizontal dimension and 0.10 meters for the vertical dimension.

<sup>14</sup> MPW has recently developed an online decision-making support system that allows analysis and visualization of potential disaster risk scenarios for the Baghlan–Bamiyan road and the Salang Highway. The system currently includes the risks from earthquakes, landslides (dry), and avalanches. The system also provides disaster risk reduction strategies at the transport corridor scale, such as slope stabilization using vegetation.

<sup>15</sup> ADB. 2017. *Guidelines for the Economic Analysis of Projects*. Manila.

<sup>16</sup> ADB. Islamic Republic of Afghanistan: Road Asset Management Project.  
<https://www.adb.org/projects/documents/afg-road-asset-management-project-rfp>.

would enable a more rational and systematic operation and maintenance regime. A review of road user charges and their allocation is underway. The effective introduction of a road asset management system and the envisaged restructuring of road user charges entail major reforms. Based on ADB's experience with such reforms and Afghanistan's fragile and conflict-affected situation, it difficult to determine a time-bound target for the conclusion of the reforms.

### C. Governance

25. The financial management risk is *moderate*—while the PMO has a fully functional finance section with adequate financial management capacity and the overall capacity of the PMO continues to improve, delays may occur in the submission of the audited project financial statements and country-level corruption is prevalent.

26. **Institutional capacity.** The overall capacity of the MPW is still inadequate to implement the ADB transport program with a portfolio value of about \$1.4 billion. Therefore, the reliance on the PMO (also financed by ADB) is inevitable. During the change in 2015, the program director and several key staff were removed because of their weak capacity, poor performance, and governance issues. The vacant positions were filled by new staff who were jointly selected by the MPW, MOF, and ADB in a transparent recruitment process. Later, three international experts were engaged to support the PMO in the field of highway design, contract management, and involuntary resettlement. These changes have significantly improved the overall capacity of the PMO, as verified by the steady improvement in the portfolio performance from January 2016 to date. With its current staffing (22 professionals and 30 supporting staff), the PMO's capacity is deemed adequate to implement the ADB transport program, including this project.

27. **Financial management.** An updated financial management assessment of the MPW and PMO took into consideration their overall capacity, including governance, staffing, budgeting, fund-flow arrangements, accounting and financial reporting systems, internal control procedures, financial information systems, and internal and external auditing arrangements. It was found that, from a financial management perspective, the overall control risk is moderate, and that the MPW and PMO have adequate experience and capacity in financial management to manage the project funds as well as adequate fund flow, accounting, and budgeting arrangements. The 2015 strengthening of the PMO has significantly improved its overall capacity. The PMO's finance section staff includes a section manager, five accountants, and a trainee. To support the finance section more efficiently in the conduct of financial management and further strengthen the staff's capacity, the PMO is currently recruiting an international financial management specialist.

28. The MPW conducts internal audits periodically, and annual external audits have yielded satisfactory results since ADB's engagement with the MPW in 2003. The MPW is responsible for ensuring an adequate audit trail, and an independent auditor acceptable to ADB has been auditing the annual financial statements in accordance with auditing standards. Although the financial management risk is assessed to be moderate, major delays were observed in the submission of the audited project financial statements, and this needs to be monitored closely.

29. **Procurement and anticorruption.** For the procurement of project-related goods, works, and non-consulting and consulting services, ADB's Procurement Policy (2017, as amended from time to time) and Procurement Regulations for ADB Borrowers (2017, as amended from time to time) shall apply. The civil works will be packaged in three open competitive bidding packages, for about 40 km–60 km each. To mitigate procurement delay, the single-stage–one-envelope bidding procedure will be used. ADB's Anticorruption Policy (1998, as amended to date) was

explained to and discussed with the government and MOF. Policy requirements and supplementary measures are described in the project administration manual (footnote 12).

#### **D. Poverty, Social, and Gender**

30. **Poverty and social.** Socially, the improved road is expected to ameliorate the mobility constraint in accessing education, health services, employment, and wage labor. Better mobility may contribute to increased market-based production, enabling small farmers and herders to improve food security and income. (The poverty and social assessment conducted for the project revealed the extent of poverty in the country—including, among other factors, (i) a high rate of food insecurity affecting one-third of the population, (ii) a lack of access to improved water resources, and (iii) limited access to education and health services.)

31. **Gender.** The gender assessment revealed high maternal and infant mortality rates, less mobility of women than of men, and women's overall low status. While the project's long-term impact is expected to improve women's physical access to education, health, and other services by shortening travel times and making roads safer, these benefits are indirect. The project will ensure equal pay for equal work among men and women. The project will attempt to benefit the women and children in communities along the road alignment through the community development component. To ensure that women's needs are dealt with meaningfully, infrastructure subprojects will be selected based on separate consultations with the communities' women, instituted in a culturally appropriate manner.

#### **E. Safeguards**

32. In compliance with ADB's Safeguard Policy Statement (SPS) (2009), the project's safeguard categories are as follows.<sup>17</sup>

33. **Environment (category B).** The project road will mostly follow the existing dirt track's alignment, so the environmental impacts are expected to be minimal. The initial environmental examination prepared for Project 2 in 2010 was updated in accordance with ADB's SPS, and was disclosed in August 2017. The initial environmental examination will be updated by the detailed design consultant, whose mobilization is expected by October 2017. It is anticipated that the major environmental impacts of the project will occur during construction and will include soil erosion, air and water pollution, noise impacts, occupational health and safety issues, and cutting of trees. Adequate mitigation measures are included in, and will be implemented through, an environmental management plan. Emissions from the increased traffic volume will be minimized by vehicle speed control. The environmental management plan stipulates that capacity development be provided through training workshops before and during construction. Due to security issues on the site, additional public consultations will be conducted during the detailed design stage (before construction). The proposed subprojects under the community development component (output 2) will be screened by the PMO. The proposals that will cause significant impacts on the environment (category B or A) will not be considered.

34. **Involuntary resettlement (category B).** Most of the road improvement work will be carried out within the existing right-of-way. However, acquisition of privately owned land presently being used for agricultural, residential, and commercial purposes will be needed to meet the minimum standard pavement and embankment width of 12 meters for national roads. Based on a preliminary assessment, works in all three road sections (Dari Bum–Bala Murghab, Bala

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<sup>17</sup> ADB. Safeguard Categories. <https://www.adb.org/site/safeguards/safeguard-categories>.

Murghab–Gormach, and Gormach–Sar Chashma) will require the acquisition of 34.6 hectares of agricultural and 8.96 hectares of residential and commercial land, and will have an impact on 14,701 square meters of primary and secondary residential and commercial structures. It is estimated that 491 households (3,437 individuals) will be affected. Of these, 168 persons will experience significant impacts, i.e., be displaced from housing or lose 10% or more of their productive assets. Access to the project sites is difficult at this time because of security threats. The anticipated land acquisition impact was assessed by using satellite imagery in combination with highway design software. Based on this and consultation with village representatives, three draft land acquisition and resettlement plans, one for each road section, were prepared in accordance with Afghanistan law and ADB's SPS. The draft plans were endorsed by the MPW and disclosed on the ADB website by 15 August 2017. These will be updated following detailed design, consultations, detailed measurement surveys, and valuation of assets.

35. Land acquisition and resettlement plan implementation will be monitored, and semi-annual monitoring reports will be submitted to ADB and the MPW for review and disclosure. The proposed works under the community development component will involve land acquisition. The proposals that will have involuntary resettlement impacts will not be considered. The PMO will screen community proposals to ensure that this requirement is met.

36. The MPW has demonstrated a commitment to manage social risks while implementing the three tranches of an ongoing MFF Transport Network Development Investment Program. This has also enabled the continuation of the PMO's environmental and social safeguards unit beyond its initial establishment. The unit exhibits a good level of proficiency in understanding the laws, rules, and procedures for land acquisition and resettlement-related tasks, and the social safeguards requirements of ADB. MPW officers as well as PMO project managers will participate in orientation workshops on ADB's SPS and other land acquisition and resettlement topics to be conducted under RETA 7433.<sup>18</sup>

37. **Indigenous peoples (category C).** Communities along the project alignment comprise mainly Pashtuns and some other, smaller ethnic groups. These are all mainstreamed into Afghanistan's general society and culture and cannot be considered as indigenous people as defined under ADB's SPS.

## F. Summary of Risk Assessment and Risk Management Plan

38. Significant risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.<sup>19</sup>

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

<b>Risks</b>	<b>Mitigation Measures</b>
Volatile security in project area	Civil works will be procured in small and medium-sized packages to involve local contractors. The contractors are allowed to make their own security arrangements. The community development works will create a sense of ownership and gain support from local communities for the project.
Uncertain financial sustainability of O&M	In the short and medium term, ADB's Road Asset Management Project will provide maintenance for selected major highways and develop an asset management system to help the government prioritize O&M works. In the long term, USAID's Road Sector Sustainability Program is supporting road sector reform by establishing a road authority and road fund that will help develop and allocate O&M resources.

<sup>18</sup> ADB.2009. *Mainstreaming Land Acquisition and Resettlement Safeguards in the Central and West Asia Region*. Manila.

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

<b>Risks</b>	<b>Mitigation Measures</b>
Corruption	Establishment of the NPA has significantly improved transparency of public procurement. The PMO's capacity was strengthened, especially in financial management and contract management, and has substantially mitigated corruption at the operational level.
Unsustainable implementing capacity	The PMO's capacity substantially improved after its restructuring in 2015. ADB, through the project, will continue to provide support to further strengthen the capacity of the PMO and MPW. This will alleviate the staff's concerns on job security and hence mitigate staff turnover.

ADB = Asian Development Bank, NPA = National Procurement Authority, O&M = operation and maintenance, PMO = Program Management Office, USAID = United States Agency for International Development.

Source: Asian Development Bank.

#### **IV. ASSURANCES**

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

40. The government, MOF, and the MPW have agreed with ADB on certain covenants for the project, which are set forth in the draft grant agreement.

#### **V. RECOMMENDATION**

41. I am satisfied that the proposed grant would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the grant not exceeding \$330,000,000 to the Islamic Republic of Afghanistan from ADB's Special Funds resources (Asian Development Fund) for the Qaisar–Dari Bum Road 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

14 November 2017



## DESIGN AND MONITORING FRAMEWORK

<b>Impact the Project is Aligned with</b> National trade in and through northwestern Afghanistan increased (Afghanistan National Development Strategy 2008–2013) <sup>a</sup>			
<b>Results Chain</b>	<b>Performance Indicators with Targets and Baselines</b>	<b>Data Sources and Reporting</b>	<b>Risks</b>
<b>Outcome</b> An efficient and reliable road network in northwestern Afghanistan developed	By 2023: a. Number of provincial capitals and major towns (population of 8,000 or more) connected to the regional highway network increased by 15% (2017 baseline: 76%)  b. Travel time between Herat and Mazar-e-Sharif reduced by 30% for freight traffic (2017 baseline: 16 hours)  c. Vehicle operating cost on project road decreased by 30% (2017 baseline: 81 AF/km for cars and 9 AF/km for trucks)	a. Project performance monitoring surveys and evaluations by consultant and MPW  b. Central Statistics Organization of Afghanistan  c. Central Statistics Organization of Afghanistan	Volatile security in project area
<b>Outputs</b> 1. Qaisar–Dari Bum link of the national Ring Road constructed  2. Roadside infrastructure facilities for 60 local communities installed or constructed  3. Institutional capacity of MPW strengthened	By 2022: 1. 151 km of national Ring Road between Qaisar and Dari Bum completed (2017 baseline: 0 km)  2a. 80% of rural infrastructure for roadside communities functional by 2021 (2017 baseline: 0%)  2b. Women meaningfully participate in the selection of community infrastructure, and the segregated process documented and certified by elders of the village estate council for each subproject (2017 baseline: 0)  3a. National transportation standard, guidelines, and manuals developed by 2021  3b. National certification process for engineers established and operational by 2021  3c. Improve project management skills of at least 100 MPW staff by 2021	1–4. MPW's and consultants' progress reports	Corruption  Unsustainable implementing capacity

<p>4. Disaster risk reduction and climate change adaptation capacity in the road subsector improved</p>	<p>4a. Climate change and disaster risk assessment for the road subsector available by 2021 (2017 baseline: not available)</p> <p>4b. Probabilistic flood risk assessment of road sections available by 2021 (2017 baseline: not available)</p> <p>4c. Climate- and disaster-resilient road design standards available by 2021 (2017 baseline: not available)</p> <p>4d. At least 50 MPW staff and contractors (of which 20% are local contractors) reporting improved skills in disaster risk reduction and climate change adaptation by 2019 (2017 baseline: 0)</p>		
<p><b>Key Activities with Milestones</b></p> <p><b>1. Qaisar–Dari Bum link of the national Ring Road constructed</b></p> <p>1.1 Recruit construction supervision consultant by March 2018.</p> <p>1.2 Award civil works contract by March 2018.</p> <p>1.3 Complete detailed engineering design by September 2018.</p> <p>1.4 Implement land acquisition and resettlement plan by December 2018.</p> <p>1.5 Complete civil works by June 2022.</p> <p><b>2. Roadside infrastructure facilities for 60 local communities installed or constructed</b></p> <p>2.1 Conduct initial social and needs assessment of roadside communities by September 2018.</p> <p>2.2 Implement community development component by December 2021.</p> <p><b>3. Institutional capacity of MPW strengthened</b></p> <p>3.1 Recruit consultants by March 2019.</p> <p>3.2 Complete capacity building program by June 2021.</p> <p><b>4. Disaster risk reduction and climate change adaptation capacity in the road subsector improved</b></p> <p>4.1 Recruit consultants for capacity building on disaster risk reduction and climate change (January 2018).</p> <p>4.2 Undertake climate change and disaster risk assessment of the road subsector (March 2019).</p> <p>4.3 Undertake probabilistic flood risk assessment for the road section (December 2018).</p> <p>4.4 Review and recommend changes in road design standards (June 2019).</p> <p>4.5 Deliver three training units (December 2019).</p>			
<p><b>Inputs</b></p> <p>ADB: \$330,000,000 (grant)</p> <p>Government: \$4,000,000</p>			
<p><b>Assumptions for Partner Financing</b></p> <p>Not applicable.</p>			

ADB = Asian Development Bank, km = kilometer, MPW = Ministry of Public Works, PMO = Program Management Office.

<sup>a</sup> Government of Afghanistan. Ministry of Economy. 2014. *Afghanistan National Development Strategy 2008–2013*. Kabul. Source: Asian Development Bank.

### **LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=37075-023-2>

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

### **Supplementary Document**

13. Financial Management Assessment Report