



Report and Recommendation of the President to the Board of Directors

Project Number: 42399-024
November 2014

Proposed Loan and Grant for Additional Financing Kyrgyz Republic: CAREC Corridor 1 (Bishkek– Torugart Road) Project 3

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 30 October 2014)

Currency unit – som (Som)

Som1.00 = \$0.0177

\$1.00 = Som56.51

ABBREVIATIONS

ADB	–	Asian Development Bank
BNT	–	Bishkek–Naryn–Torugart
CAREC	–	Central Asia Regional Economic Cooperation
ERP	–	ecological response plan
EMP	–	environmental management plan
IPIG	–	investment project implementation group
km	–	kilometer
MOTC	–	Ministry of Transport and Communications
PAM	–	project administration manual
PRC	–	People’s Republic of China
SDR	–	special drawing right

NOTE

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

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 42399-024	
Project Name	CAREC Transport Corridor I (Bishkek-Torugart Road) Project 3 (Additional Financing)	Department /Division	CWRD/CWTC
Country Borrower	Kyrgyz Republic Kyrgyz Republic	Executing Agency	Ministry of Transport and Communications
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Transport	Road transport (non-urban)		15.10
		Total	15.10
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Adaptation (\$ million)	10.00
Environmentally sustainable growth (ESG)	Global and regional transboundary environmental concerns	Climate Change impact on the Project	Medium
Regional integration (RCI)	Pillar 1: Cross-border infrastructure		
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Organizational development	No gender elements (NGE)	✓
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Nation-wide	High
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		15.10	
Sovereign Project grant: Asian Development Fund		4.30	
Sovereign Project loan: Asian Development Fund		10.80	
Cofinancing		0.00	
None		0.00	
Counterpart		2.90	
Government		2.90	
Total		18.00	
9. Effective Development Cooperation			
Use of country procurement systems		No	
Use of country public financial management systems		No	

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 additional financing of the CAREC Corridor 1 (Bishkek–Torugart Road) Project 3.¹ The design and monitoring framework for the project is in Appendix 1.

2. The additional financing will cover cost overruns that have resulted in a funding gap for the project whose rationale remains valid and physical progress on track. The project, by improving the last 60-kilometer (km) bottleneck section of the Central Asia Regional Economic Cooperation (CAREC) Corridor 1 (Bishkek–Torugart Road), will contribute to fostering regional trade between the Kyrgyz Republic and the People's Republic of China (PRC) and higher mobility for people in Naryn Province where poverty is widespread. It will also help increase sustainability of the national road network by training staff on infrastructure management.

II. THE PROJECT

A. Rationale

3. The terrain of the Kyrgyz Republic is dominated by the Tian Shan and Pamir mountain systems, which together occupy about 65% of the country. Trade and travel in this landlocked country are highly dependent on road transport. Endorsed under the CAREC Transport and Trade Facilitation Strategy,² the approximate 539 km Bishkek–Torugart road forms part of the CAREC Transport Corridor 1 and has several important functions. The road, part of the old Silk Road that once linked Europe with what is now the PRC, is the shortest thoroughfare from Kashi, a vibrant cultural and trade center in the PRC, to consumer markets in northern Kyrgyz Republic and beyond. It is also the only north–south trunk road in central Kyrgyz Republic, where the city of Naryn, in particular, depends heavily on it for connecting to the rest of the country. It is the only road that provides direct access at present to Issyk Kul lake region, one of Central Asia's best-known tourist destinations with a huge growth potential. However, costly, unreliable, and unsafe travel caused by the poor road conditions has hampered social and economic development along the road corridor, particularly for Naryn Province.

4. As one of the key development partners for the country's roads, ADB financed the improvement of 114 km (km 365–479) of the road corridor in 2008 and 2009,³ and helped the government strengthen trade ties with its neighbors through CAREC. In 2010 the Government of the People's Republic of China financed the improvement of 223 km (most of km 9–272), and in 2012 the Islamic Development Bank financed the improvement of 93 km (km 272–365) of the road corridor. The project will improve the 60 km section from At Beit to Torugart (km 479–539) at the Kyrgyz Republic–PRC border, the last segment of the road corridor. Together with the improvement works in other sections and the corridor's full opening to traffic by 2017, this will enable all-weather smooth flow of local traffic between Bishkek and Torugart, as well as international through-traffic from the PRC to Central Asia and beyond, unleashing one of the key constraints to national and regional trade competitiveness and inclusive growth. Apart from the

¹ ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Kyrgyz Republic for the CAREC Transport Corridor 1 (Bishkek–Torugart Road) Project 3*. Manila.

² ADB. 2008. *CAREC Transport and Trade Facilitation Strategy*. Manila.

³ ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Asian Development Fund Grant to the Kyrgyz Republic for the CAREC Transport Corridor 1 (Bishkek–Torugart Road) Project*. Manila; ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Asian Development Fund Grant to the Kyrgyz Republic for the CAREC Transport Corridor 1 (Bishkek–Torugart Road) Project 2*. Manila.

economic benefits of time savings, reliability, and reduced transport costs, better road conditions and protective structures will help reduce the risk of accidental toxic spills and material runoff from vehicles, therefore benefiting the ecosystem of nearby Chatyr Kul Lake—a wetland of international significance protected under the Ramsar Convention on Wetlands. The project will also support a long-term, results-oriented program of learning and development for the Ministry of Transport and Communications (MOTC) and other government staff. It will result in better-informed staff, equipped to champion strategies for reducing life-cycle costs and improving user cost recovery.⁴

5. The project road site conditions are unique—elevation is over 3,000 meters and the weather allows only about 5 months (May–October) in a year for any construction work; the ground is permanently frozen, and part of the road alignment is close to a unique wetland. Civil works were procured using a tailored design–build delivery method to share the cost and risk of design changes between the project executing agency and the contractor, and allow the contractor to bring more economical and relevant technology and construction methods to the site. Detailed engineering investigations by the contractor and the construction supervision consultant indicate that additional engineering measures (mainly increasing the road embankment height, using suitable subgrade materials, and installing additional road drainage systems) are necessary to address the unforeseen frost heaves in some sections. This will help prevent premature pavement failure caused by pavement cracking and extend road service life.

6. The project was approved in June 2011 with a loan in various currencies equivalent to SDR35,041,000 from ADB's Special Funds resources. The loan became effective in February 2012 and will close on 31 March 2016. Contract packages for the works and construction supervision and environmental management were awarded in 2012. The project has been performing well with cumulative contract awards at 89% and disbursements at 62% as of 30 October 2014.⁵ The present project performance rating is *on track*.

7. **Additional financing.** The total project cost has increased by \$18 million, from \$70 million in 2011 to \$88 million in 2014. The cost overruns, resulting from the detailed engineering design under the design–build delivery arrangement, are attributed to corrective engineering measures and input price increases. The government has accordingly requested financing to achieve the project's intended outputs with greater technical quality. Given that additional engineering measures by nature are an integral part of ongoing civil works, additional financing is deemed a more suitable instrument than options of restructuring, scaling down, and/or canceling the project. This is because (i) the project will either not be completed to required standards or not delivered in full if cost overruns are not met, therefore unable to fully meet its development objectives; (ii) the project provided with additional financing can be completed within 2 years of the current loan closing date; and (iii) possible risks associated with the project, including procurement delays, high bid prices, construction delays, and further cost overruns, have been properly mitigated and/or addressed.

8. **Eligibility of additional financing.** The project is in an advanced stage of implementation and the government accords high priority to this additional financing to meet cost overruns.⁶ The development objectives remain unchanged with the additional financing. The project fits with ADB's Midterm Review of Strategy 2020⁷ and aligns with the country

⁴ Sector Assessment (Summary): Transport (accessible from the list of linked documents in Appendix 2).

⁵ Summary of Project Performance (accessible from the list of linked documents in Appendix 2).

⁶ The government requested the additional financing on 23 July 2014 when cost overruns were identified, and included in the forthcoming ADB country operations business plan, 2015–2017 for the Kyrgyz Republic.

⁷ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

partnership strategy, 2013–2017 for the Kyrgyz Republic, which highlights regional cooperation including road connectivity improvement, a strategic priority for ADB.⁸ The project is expected to remain technically, economically, and financially viable despite the cost overruns. As such, the additional financing meets the eligibility criteria in ADB's Additional Financing Policy.

B. Impact and Outcome

9. The impact and outcome for the revised project will remain unchanged from those for the original project, as the additional financing will not materially change the project scope and size. The project impact will be increased regional trade, particularly between the Kyrgyz Republic and the PRC. The outcome will be higher mobility for people and goods with origins and destinations in the road corridor between Naryn and Torugart.

C. Outputs

10. The project outputs are unchanged with the additional financing. The primary output will be 60 km of two-lane Bishkek–Torugart road (km 479–539) repaired, rehabilitated, or reconstructed to national category III road standards with a roadside truck parking facility and special features for protecting the environment, preserving the road structure, and reducing vehicle crashes. This will be delivered through the civil works component. The second output will be improved infrastructure management skills of MOTC and other government agency staff, achieved through training, education, and mentoring by national and international consultants.

D. Investment and Financing Plans

11. The project is estimated to cost \$88 million equivalent (Table 1).

Table 1: Project Investment Plan
(\$ million)

Item	Current Amount ^a	Additional Financing ^b	Total
A. Base Cost^c			
1. Road improvement			
(i) Civil works for km 479–539	55.0	14.0	69.0
(ii) Consulting services for construction supervision	4.0	0.8	4.8
(iii) Project management	1.7	0.0	1.7
2. Skills development	1.0	0.0	1.0
Subtotal (A)	61.7	14.8	76.5
B. Contingencies^d	7.3	3.0	10.3
C. Financing Charges^e	1.0	0.2	1.2
Total (A+B+C)	70.0	18.0	88.0

^a Refers to the original amount. Includes taxes and duties of about \$11.0 million financed from government resources.

^b Includes taxes and duties of about \$2.6 million to be financed from government resources.

^c In mid-2014 prices for the additional financing portion.

^d Physical contingencies of about 2% after additional financing. Price contingencies were estimated using ADB cost escalation factors, including provision for potential exchange rate fluctuation and price adjustment under the civil works contract.

^e Includes interest charges financed from the loan.

Source: Asian Development Bank estimates.

⁸ ADB. 2013. *Country Partnership Strategy: Kyrgyz Republic, 2013–2017*. Manila.

12. The government has requested (i) a loan in various currencies equivalent to SDR7.258 million; and (ii) a grant not exceeding \$4.3 million, both from ADB's Special Funds resources, to provide additional financing for the project. The loan will have a 32-year term, including a grace period of 8 years, an interest rate of 1.0% per annum during the grace period and 1.5% per annum thereafter, and such other terms and conditions set forth in the draft financing agreement. The government will finance the balance, mainly in the form of taxes and duties, and part of the contingencies. 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)	0.0	0.0	4.3	23.9	4.3	4.9
Special Funds resources (loan)	55.0	79.0	10.8	60.0	65.8	74.8
Government	15.0	21.0	2.9	16.1	17.9	20.3
Total	70.0	100.0	18.0	100.0	88.0	100.0

^a Refers to the original amount and any previous additional financing.

Source: Asian Development Bank estimates.

E. Implementation Arrangements

13. The implementation arrangements have not changed, as summarized in Table 3 and described in detail in the project administration manual (PAM).⁹ MOTC continues to be the executing agency. MOTC's investment projects implementation group (IPIG) continues to be responsible for day-to-day administration of project activities. IPIG was established in 1996 and has since implemented more than 12 road projects financed by development partners. Its project delivery performance has been satisfactory and staff have adequate technical skills and understanding of ADB procedures to manage the project.

Table 3: Implementation Arrangements

Aspects	Arrangements	
Implementation period	January 2015–August 2017	
Estimated completion date	31 August 2017 (loan and grant closing date: 31 December 2017)	
Management		
(i) Oversight body	Ministry of Finance	
(ii) Executing agency	Ministry of Transport and Communications	
(iii) Key implementing agencies	Investment project implementation group	
(iv) Implementation unit	Bishkek, 29 staff	
Procurement	International competitive bidding	Completed
Consulting services	Quality- and cost-based selection	Completed
	Consultants' qualifications selection ^a	Ongoing
	Individual consultants ^b	Ongoing
Advance contracting	Not required, as main works and services have been procured.	
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2012, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.	

ADB = Asian Development Bank.

^a Consulting services for environmental monitoring, technical auditing, and financial auditing.

^b Consulting services for investment project implementation group support and staff skills development.

Source: Asian Development Bank estimates.

⁹ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

14. This additional financing will not require new procurement of civil works, as the additional scope for treatment of frost heaves is an integral part of the ongoing civil works.¹⁰ As such, MOTC will issue contract variations to incorporate it into the scope of the existing civil works contract. Likewise, associated supervision of these additional works will be added through a variation to the existing construction supervision contract.

III. DUE DILIGENCE

A. Technical

15. The design–build delivery method was adopted for the project in view of unique site conditions, limitations of national standard specifications, output quality, and economy. The detailed engineering assessment conducted by the contractor and the construction supervision consultant, including an independent technical expert, noted the need for some design improvements to mitigate likely pavement cracking arising from unforeseen frost heaves in some road sections. The associated corrective engineering measures also respond to the climate risk assessment, which identifies the large temperature variation as a main climate change impact on the project road. The measures include (i) additional drainage layers in waterlogged areas to reduce the likelihood of capillary action into the pavement layers and deeper side drainage wherever required; (ii) additional subgrade layer of about 30 centimeters for km 502–532 to raise the pavement layers above the high water table; and (iii) removal of soft spots and replacement with suitable fill materials. Such corrective measures are essential to ensure that the finished road surface meets the quality requirements for road maintainability, safety, and comfort.

B. Economic and Financial

16. Rehabilitation and/or reconstruction of the 60 km section between km 479 on the Bishkek–Naryn–Torugart (BNT) road and the border with the PRC near Torugart will provide for an increasing volume of road traffic, and reduce the transit time for goods and passengers. The project is designed to reduce vehicle operating costs and lower travel times for domestic and regional travel through the provision of a higher quality route. This will facilitate national and regional trade and reduce poverty by improving access for rural communities to market, health, and education facilities. This project is part of a wider, multiagency BNT road rehabilitation and upgrading program. Completion of the 60 km section, in addition to providing benefits to users, will serve to protect benefits produced by rehabilitation of other sections of the entire BNT road.

17. For the project, which is experiencing cost overruns, a reduced project scope would leave the last-mile bottleneck unattended, hence impairing the full functionality of the 539 km BNT road corridor. A substandard road with the same project scope would require higher and more frequent maintenance and shorten the road service life, leading to higher life-cycle costs than would the outcome with additional capital financing. As such, the option of additional financing is considered an appropriate solution. An economic evaluation comparing with- and without-project scenarios was undertaken for km 479–539. The economic benefits include (i) vehicle operating cost savings and (ii) travel time savings. The results of the economic evaluation show that the project yields an average economic internal rate of return of 12.3%, moreover, considering that the project will yield benefits in terms of economic development,

¹⁰ The beneficiary will use the current loan to the extent possible before utilizing the additional financing from the loan and grant on a pro rata basis for contract payments, as described in the PAM.

comfort, and reliability of travel that are not monetized in the economic analysis, the project can be deemed to be economically viable.¹¹

18. The government has increased the road maintenance budget continuously, despite fiscal constraints. State budget allocations for road maintenance increased from Som221.6 million in 2005 to Som1.85 billion in 2013. While long-term maintenance needs are still underfinanced, this budget outlay is expected to increase in the coming years; in the meantime, road maintenance continues to be prioritized by the perceived importance of road corridors.

C. Governance

19. MOTC's IPIG has been following ADB's safeguards, procurement and financial management guidelines, policies, and procedures for implementing road projects since 1996, and has implemented more than 10 ADB road projects totaling more than \$300 million. IPIG staff have adequate knowledge, understanding, and experience with ADB procedures to manage the project. IPIG has satisfactory capacity for project financial accounting and a proven track record with ADB's disbursement procedures. A private audit firm acceptable to ADB has audited the project financial statements annually. Past audit reports on ADB projects have not highlighted any irregularities. The risk for the project's financial management arrangements during implementation is considered moderate. MOTC will conduct periodic technical audits of the work of the supervision consultant and contractor as part of its increased oversight of contracts for works, services, and goods. MOTC will train its staff under the skills development component of the project, and introduce internal financial audits and technical audits.

20. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the Ministry of Finance and MOTC. Key measures to ensure proper governance include (i) independent external auditing of contracts, project accounts, and financial statements; (ii) transparent decision processes for all procurement matters; and (iii) verification of contractors' payment claims by the supervising consultant, and oversight by the project implementation unit. IPIG staff responsible for procurement and contract administration are aware of and understand the requirements. The requirements and supplementary measures included in all contracts are described in the PAM.

D. Poverty and Social

21. When viewed in the context of the entire BNT road, the project will bring significant benefits to the people of Naryn Province and the Kyrgyz Republic as a whole, and will have positive impacts on poverty reduction in the PRC. The 30% reduction in trip times and vehicle operating costs from Torugart to Naryn will increase activity at the freight transit center in Naryn city. This will create more jobs and increase demand for local services. People residing along the road will be able to find employment in physical works and ancillary services during construction. The increase in traffic will help sustain the service businesses that people started during construction. Civil works and service contracts financed by ADB will require equal employment opportunities, equal wages for equal work, and full observance of core labor standards. The government has gradually increased border and internal security monitoring, and will implement a national road safety awareness program in local communities. These measures will help prevent possible negative social effects such as traffic accidents, human and drug trafficking, and spread of sexually transmitted infections, which may result from increased travel and trade.

¹¹ Economic and Financial Analysis (accessible from the list of linked documents in Appendix 2).

E. Safeguards

22. The project classification of A for environment reflects the fact that about 35 km of the road passes through the Karatal–Japaryk State Nature Reserve in close proximity to Chatyr Kul Lake, which is a Ramsar-protected wetland area. The additional financing will not entail any additional environmental impacts, and is classified as environment category C. ADB assisted the government in conducting an environmental impact assessment, which shows that (i) the impacts during construction are mostly acute, temporary, and reversible, with the exception of possible hazardous materials spills and operations of borrow pits; (ii) potential impacts during operations are expected to be much greater as the road has a design life of 20 years, and pollutants entering the Chatyr Kul aquatic ecosystem could be accumulated because the lake has no outlet; (iii) some improvements in dust, noise, and vibration are expected; and (iv) long-term impacts caused by increased traffic, vehicle emissions, and possible spills of hazardous materials pose potential risks to the Chatyr Kul ecosystem and other wildlife in the state nature reserve, including migrating birds.

23. The draft environmental impact assessment report was discussed with stakeholders and disclosed to the public in November 2010; it was subsequently updated prior to commencing civil works and publicly disclosed in January 2014.¹² The report contains a two-track environmental management plan (EMP) for pollutant source control and receptor (biodiversity) protection. The control and protection measures include speed limits, road signs, special permits for hazardous material movement; hydraulic structures such as retention ponds, contained borrow sites, and diversion channels to prevent runoff pollutants and accidentally spilled toxic substances from entering the wetlands; and equipment and training for emergency response.

24. The environmental monitoring program includes monthly monitoring by the contractor and quarterly ecological monitoring by the supervision consultant together with Karatal–Japaryk State Nature Reserve staff. The special monitoring plan for the borrow sites is included in the borrow pit management plan, which ADB and the local authority of the State Agency for Environmental Protection and Forestry have both approved. An ecological response plan (ERP) was prepared to supplement the EMP and is being implemented. The plan includes a comprehensive capacity building program for management of the state nature reserve. In addition to the supervision consultant, who has been working with MOTC during project implementation, MOTC has recruited an experienced international environment consultant to assist project implementation unit staff in developing the ERP as outlined in the EMP, providing guidance to the supervision consultant and contractor, and supervising implementation of the EMP and ERP.

25. ADB and the government have agreed that MOTC will continue to

- (i) promptly inform ADB of the occurrence of any risks or impacts, with a detailed description of the event and proposed corrective action plan if any unanticipated environmental and/or social risks and impacts arise during construction, implementation, or operation of the project that are not considered in the EIA and the EMP;
- (ii) promptly report any actual or potential breach of compliance with measures and requirements set forth in the EMP after becoming aware of the breach; and

¹² Environmental Impact Assessment (accessible from <http://www.adb.org/projects/42399-023/documents>).

- (iii) submit at least semiannual monitoring reports during project construction, and at least annual reports during operation.

26. The project was initially classified as resettlement category C and indigenous peoples category C. Upon the finalization of detailed design, it was reconfirmed that no indigenous peoples reside in the project area, however, 11 roadside mobile trailer units providing rudimentary accommodation and refreshment facilities at the border-holding area will have to be relocated about 100 meters away due to road rehabilitation and construction of a roadside truck parking facility. Accordingly, the project is reclassified as resettlement category B; a resettlement plan was prepared and discussed with affected persons. The indigenous peoples category C remains unchanged. Preparatory work for the relocation of mobile trailers is ongoing with the actual reallocation planned in mid-2015 when the harsh winter is over. The additional financing will not entail any additional involuntary resettlement impacts and is classified as resettlement category C. However, for any mitigation on unanticipated involuntary resettlement impacts, MOTC will consult with ADB and prepare an appropriate plan in accordance with ADB's Safeguard Policy Statement (2009).

F. Risks and Mitigating Measures

27. No significant risks are presented in the risk assessment and risk mitigation plan.¹³ The risks of construction delays and cost overruns as identified for the project are addressed through the additional financing. Government counterpart funding, as covenanted in the current loan agreement, is not a major concern despite procedural delays at times. For the other medium risk identified for the project, i.e., sustainability of road operation and maintenance, mitigation plans continue and include strict imposition of vehicle weight and dimensions limits, a separate line item in MOTC's annual budget for the Bishkek–Torugart Road Department, technical assistance projects provided by development partners for improving road maintenance practices and optimizing revenues from road users followed by suitable dialogue with the government, and project support for the learning and development program for MOTC and related agency staff.

IV. ASSURANCES

28. The government has 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 loan documents.

29. The government has agreed with ADB on certain covenants for the project, which are set forth in the financing agreement.

V. RECOMMENDATION

30. 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 in various currencies equivalent to SDR7,258,000 to the Kyrgyz Republic for the additional financing of the CAREC Corridor 1 (Bishkek–Torugart Road) Project 3, from ADB's Special Funds resources, with an interest charge at

¹³ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

- the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; for a term of 32 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft financing agreement presented to the Board; and
- (ii) the grant not exceeding \$4,300,000 to the Kyrgyz Republic from ADB's Special Funds resources for the additional financing of the CAREC Corridor 1 (Bishkek–Torugart Road) Project 3, on terms and conditions that are substantially in accordance with those set forth in the draft financing agreement presented to the Board.

Takehiko Nakao
President

10 November 2014

REVISED DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms (Overall Project)	Assumptions and Risks (Overall Project)
<p>Impact</p> <p>Increased regional trade, particularly between the Kyrgyz Republic and the People's Republic of China</p> <p>With additional financing</p> <p>Unchanged</p>	<p>By 2020:</p> <p>Average daily traffic crossing the border at Torugart increased to 400 (2010 baseline:100)</p> <p>Number of registered businesses in Naryn Province increased to at least 350 (2010 baseline: 250)</p> <p>By 2021:</p> <p>Average daily traffic crossing the border at Torugart increased to 310 (2010 baseline: 100) (changed)</p> <p>Number of registered businesses in Naryn Province increased to at least 350 (2010 baseline: 250 (unchanged)</p>	<p>Economic and social statistics published by the National Statistical Committee of the Kyrgyz Republic</p> <p>State Customs Committee data</p>	<p>Assumptions</p> <p>Current bilateral and multilateral agreements with neighboring countries are unchanged or strengthened.</p> <p>Other sections of the Bishkek–Torugart road are to be improved by 2016.</p> <p>Risk</p> <p>Tariffs, taxes, and road user charges are arbitrarily imposed.</p>
<p>Outcome</p> <p>Higher mobility for people and goods with origins and destinations in the road corridor between Naryn and Torugart</p> <p>With additional financing</p> <p>Unchanged</p>	<p>By 2016:</p> <p>Average travel time between Naryn and Torugart border crossing reduced to no more than 4 hours (2010 baseline: 6 hours)</p> <p>Number of freight operators offering services in the Naryn–Torugart section increased to at least 5 (2010 baseline: 2)</p> <p>By 2017:</p> <p>Average travel time between Naryn and Torugart border crossing reduced to no more than 4 hours (2010 baseline: 6 hours) (unchanged)</p> <p>Number of freight operators offering services in the Naryn–</p>	<p>MOTC's traffic and origin–destination surveys</p> <p>Economic and social statistics published by the National Statistical Committee of the Kyrgyz Republic</p>	<p>Assumptions</p> <p>Regulations and legislation to encourage provision of more transport services are in place.</p> <p>Skills development programs help improve maintenance of the Bishkek–Torugart road and other parts of the corridor.</p> <p>Risk</p> <p>The move to increase user charges to generate more maintenance revenue is met by political and public opposition.</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms (Overall Project)	Assumptions and Risks (Overall Project)
	Torugart section increased to at least 5 (2010 baseline: 2) (unchanged)		
<p>Outputs</p> <p>1. The last 60 km section of the Bishkek–Torugart road (km 479–539), repaired, rehabilitated, or reconstructed to meet national category III road standards with roadside truck parking facility and special hydraulic features for protecting the environment and preserving the road structure</p> <p>With additional financing Unchanged</p>	<p>By 2016: Average international roughness index of the road surface reduced to less than 4.0 (2010 baseline: 8.5) Safety audit score after completion of civil works at least 90% Monthly rate of compliance with environmental management plan no less than 90%</p> <p>By 2017: Average international roughness index of the road surface to be reduced to less than 3 (2010 baseline: 12) (changed) Road safety audit conducted with at least 90% of recommendations adopted (changed) Monthly rate of compliance with environmental management plan no less than 90% (unchanged)</p>	Civil works progress reports prepared by MOTC, and the project completion report	<p>Assumption</p> <p>Construction cost and time is not affected by political or social factors.</p>
2. Improved infrastructure management skills of MOTC and other government agency staff	<p>By 2016: Training and conference participation opportunities offered to at least 25 staff At least 15 staff successfully complete the training courses At least 10 formal presentations are made by staff at national and international meetings</p>	Progress reports prepared by MOTC, and the project completion report	<p>Assumption</p> <p>MOTC provides sufficient time to allow staff to participate in the training and development programs.</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms (Overall Project)	Assumptions and Risks (Overall Project)
With additional financing Unchanged	Unchanged		
Activities with Milestones (with additional financing) <ol style="list-style-type: none"> 1. 60 km section of the Bishkek–Torugart road (km 479–539) repaired, rehabilitated, or reconstructed meeting required national road standards <ol style="list-style-type: none"> 1.1 Request for proposals for construction supervision consultancy services issued by 31 October 2011 (changed, completed) 1.2 Civil works contractor prequalification completed by 15 August 2011 (completed) 1.3 Bidding documents issued by 30 August 2011 (completed) 1.4 Supervision consultancy service contract signed by 31 May 2012 (changed, completed) 1.5 Civil works contract signed by 31 August 2012 (changed, completed) 1.6 Civil works completed by 31 August 2017 (added) 1.7 MOTC completes project completion report by 15 October 2017 (changed) 1.8 ADB completes project completion report by 15 December 2017 (changed) 2. Improved infrastructure management skills of MOTC and other government agency staff <ol style="list-style-type: none"> 2.1 Skills development program proposal submitted to ADB by 31 December 2014 (changed) 2.2 First training program commenced before 15 May 2014 (changed) 2.3 Skills development program completed by 31 December 2016 (added) 			Inputs^a <p>ADB \$55.0 million (current) \$10.8 million (additional; ADF loan) \$4.3 million (additional; ADF grant) \$70.1 million (overall)</p> <p>Government \$15.0 million (current) \$2.9 million (additional) \$17.9 million (overall)</p>

ADB = Asian Development Bank, ADF = Asian Development Fund, km = kilometer, MOTC = Ministry of Transport and Communications.

Notes:

1. “Current project” refers to the original project with past additional financing (if any). For example, for the second additional financing, “current project” refers to the original project and the first additional financing. The same principle applies to subsequent additional financing, if any.

2. “Overall project” refers to the original project with past (if any) and proposed additional financing. For example, for the second additional financing, “overall project” refers to the original project, the first additional financing, and the second additional financing. The same principle applies to subsequent additional financing, if any.

^a Includes taxes and duties.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=42399-024-3>

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