



## Administration of Cofinancing

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## Afghanistan: Transport Network Development Investment Program (Tranche 4)

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Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 10 November 2014)

Currency Units	–	afghani (AF)
	–	euro (€)
AF1.00	=	\$0.0173
\$1.00	=	AF57.77
€1.00	=	\$1.245
\$1.00	=	€0.802

## ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
AfRA	–	Afghanistan Railway Authority
AITF	–	Afghanistan Infrastructure Trust Fund
CAREC	–	Central Asia Regional Economic Cooperation
EU	–	European Union
MFF	–	multitranches financing facility
MPW	–	Ministry of Public Works

## NOTE

In this report, "\$" refers to US dollars.

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## I. INTRODUCTION

1. This paper seeks the Board of Directors' approval of the administration by the Asian Development Bank (ADB) of a grant provided by the European Union (EU) to Afghanistan for tranche 4 of the Transport Network Development Investment Program.

## II. BACKGROUND

2. In September 2011, the Board approved a multitranches financing facility (MFF) for Afghanistan in the amount of \$787 million for the Transport Network Development Investment Program.<sup>1</sup> The investment program provides improved transport infrastructure and sector governance to increase access to domestic and international markets in order to support economic growth from more trade and jobs.

3. Three tranches have been approved under the MFF and implementation of the projects financed by such tranches is ongoing.<sup>2</sup> Implementation progress is considered satisfactory with no major cost overruns. The government has continued to follow and implement the road map for the investment program.

4. The Government of Afghanistan submitted to ADB a periodic financing request for tranche 4 of the MFF in November 2014.<sup>3</sup> The impact of the tranche 4 project will be better connectivity and efficiency through a completed transport corridor traversing Badakshan province to Tajikistan. The outcome of the project will be increased movement of goods and services and better connectivity for people and businesses in the project areas. The outputs of the project will include (i) reconstruction of the road from Beharak to Eshkashim (108 kilometers),<sup>4</sup> (ii) associated community development infrastructure, (iii) strengthened capacity of the Afghanistan Railway Authority (AfRA), and (iv) improved efficiency for traffic traversing Central Asia Regional Economic Cooperation (CAREC) corridors 5 and 6. The last two outputs are interventions under the transport network capacity development component of the investment program to improve transport sector governance and sustainability of the physical interventions.

5. The project is estimated to cost \$146 million equivalent. To help finance the project, the government has requested (i) a grant of \$109 million from ADB's Special Funds resources to reconstruct the road from Beharak to Eshkashim and construct associated community development infrastructure (the transport infrastructure component); and (ii) a grant not exceeding €16,808,766 (\$21 million) from the EU to strengthen the capacity of AfRA and

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<sup>1</sup> The MFF amount comprises loans and grants of up to \$754 million equivalent from ADB's Special Funds resources and grants not exceeding the balance of the MFF amount from the Afghanistan Infrastructure Trust Fund (AITF).

<sup>2</sup> Tranche 1 was approved on 12 October 2011. The grant agreements for tranche 1, totaling \$189 million from the Asian Development Fund (ADF) and \$33 million from the AITF, were signed on 19 October 2011 and became effective on 31 October 2011. Tranche 2 was approved on 10 December 2012. The grant agreements for tranche 2, totaling \$176 million from the ADF and \$60 million from the AITF, were signed on 7 March 2013 and became effective on 4 April 2013. The tranche 2 grant agreements were subsequently amended to reflect \$149 million from the ADF and \$87 million from the AITF as more funding from the AITF became available. Tranche 3 was approved on 11 September 2013. The grant agreement for tranche 3, totaling \$220 million from the ADF, was signed on 9 November 2013 and became effective on 3 January 2014.

<sup>3</sup> The tranche at a glance document was submitted to the Board on 13 November 2014.

<sup>4</sup> The Beharak–Eshkashim road is section 2 of the overall Faizabad–Eshkashim road. Section 1, from Faizabad to Beharak, is under construction through tranche 1 financing. Construction of section 2 completes the road subproject interventions under the MFF, in accordance with the road map.

improve efficiency for traffic on CAREC corridors 5 and 6 (the transport network capacity development component).<sup>5</sup>

6. The existing organizational relationships and implementation arrangements for the investment program are intended to cover all tranches. As such, the Ministry of Public Works (MPW) will be the executing agency for tranche 4. MPW is familiar with ADB's Procurement Guidelines (2013, as amended from time to time), and based on satisfactory past performance, is capable of implementing ADB-financed projects. The existing program management office will assist MPW in implementing all tranches of the investment program and ensuring the timely accomplishment of procurement activities and compliance with undertakings and grant covenants. MPW will be assisted by project management consultants and ADB, as necessary.

7. The due diligence for tranche 4 has been completed and the periodic financing request report and related documentation are being finalized for Management approval in December 2014. Tranche 4 is classified as category B for the environment, category A for involuntary resettlement, and category C for indigenous peoples.<sup>6</sup>

### **III. PROPOSED ADMINISTRATION OF COFINANCING**

8. It is proposed that ADB administer the grant to be provided by the EU to finance outputs (iii) and (iv) of the project under the transport network capacity development component of the investment program (para. 4). The mutual understanding of ADB and the EU regarding ADB's proposed administration of the EU grant is set out in a cofinancing agreement signed by the EU on 25 February 2014 and by ADB on 7 March 2014.<sup>7</sup>

### **IV. ASSESSMENT**

9. The investment program was planned based on a road map of physical and nonphysical interventions mirroring the twinned components of transport infrastructure and transport network management capacity development. The outputs to be financed by the EU are primarily nonphysical interventions under the transport network management capacity development component. These support enhanced transport sector governance and improved sustainability of the physical investments financed under the investment program by the Asian Development Fund and Afghanistan Infrastructure Trust Fund grants. These outputs are expected to reinforce the investment program's long-term impact of increased trade and jobs by increasing the efficiency of moving people and goods through Afghanistan on CAREC corridors 5 and 6.

### **V. THE PRESIDENT'S RECOMMENDATION**

10. The President recommends that the Board approve the administration by the Asian Development Bank of a grant not exceeding €16,808,766, to be provided by the European Union, to Afghanistan for tranche 4 of the Transport Network Development Investment Program.

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<sup>5</sup> This will comprise the provision of support to CAREC corridors 5 and 6, equipment for these corridors, consulting services, and pilot operation and maintenance studies for these corridors.

<sup>6</sup> In accordance with the environmental assessment and review framework and land acquisition and resettlement framework for the investment program, safeguards documents were prepared by and approved by ADB. The initial environmental examination was disclosed on 29 October 2014, while the land acquisition and resettlement plan was disclosed on 17 November 2014.

<sup>7</sup> European Union Contribution Agreement with an International Organisation (DCI-ASIE/2013/331537&339218).