



Project Design Advance

Project Number: 48401-006
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Kyrgyz Republic: Central Asia Regional Economic Cooperation Corridors 1 and 3 Connector Road Project

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CURRENCY EQUIVALENTS

(as of 29 April 2015)

Currency unit	–	som (Som)
Som1.00	=	\$0.0163
\$1.00	=	Som61.1096

ABBREVIATIONS

ADB	–	Asian Development Bank
CAREC	–	Central Asia Regional Economic Cooperation
km	–	kilometer
PDA	–	project design advance
TA	–	technical assistance

NOTE

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

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I. THE PROPOSED PROJECT

1. The proposed Central Asia Regional Economic Cooperation (CAREC) Corridors 1 and 3 Connector Road Project will improve national and regional connectivity by rehabilitating an estimated 253 kilometers (km) of road sections connecting the CAREC corridors 1 and 3 in the center of the Kyrgyz Republic. The Government of the Kyrgyz Republic requested project design advance (PDA) financing in the form of a grant to support preparatory activities for the project, as further discussed in section II.¹

2. The Asian Development Bank (ADB) has assisted the Kyrgyz Republic in rehabilitating CAREC corridors 1 and 3. These two regional corridors form a major backbone for domestic and international travel, connecting the country's north and south, and the capital, Bishkek, in the north. CAREC corridors 1 and 3 together connect the Kyrgyz economic and population centers, running from the west and south of the Siberian region of the Russian Federation through Afghanistan, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan to the Middle East and South Asia; and north and east from Kazakhstan to the People's Republic of China. However, the country does not have an adequate east–west connector road linking these two CAREC corridors. The primary binding constraint to growth and inclusiveness of access to economic opportunities continues to exist despite the advantage of being in the center of these countries and having strong potential. The unequal distribution of poverty, wealth, and economic hubs is linked to the uneven geographic distribution of economic opportunities.² The project will help link the southern regions of Osh, Batken, and Jalal-Abad with the northern regions of Naryn, Issyk-Kul, Chui, and Talas, and then further connect to the regional corridors.

3. The proposed project will (i) reduce the cost of passenger and cargo transportation between the southern and northern regions by enabling direct access, (ii) provide a more direct transit route between Kazakhstan and Tajikistan, and (iii) help stimulate trade. The project's scope includes soft components to tackle sector-wide issues. It may include support to (i) improve the efficiency of road asset management, (ii) assist the government with institutional reforms in the transport sector, (iii) introduce performance-based maintenance contracts, and (iv) improve road safety.

4. The impact of the proposed project will be enhanced regional connectivity and trade via the connector road between CAREC Corridors 1 and 3. The outcome will be improved efficiency and safer movement of goods and people on the connector road between CAREC Corridors 1 and 3. The project outputs will be (i) rehabilitated road sections—(a) from Balykchy village to distance marker 43 (43 km); (b) from Kochkor village to Jyldyz village (119 km); and (c) from Aral village to CAREC Corridor 3 via the Suusamyр valley (91 km)—and (ii) strengthened institutional capacity.

5. Project preparatory technical assistance (TA) in the amount of \$1.0 million equivalent is approved on 22 April 2015 and will be implemented from May 2015 to August 2016. The TA will prepare a project suitable for ADB financing, including all the required due diligence reports. The project is tentatively estimated to cost \$360 million, including taxes, duties, physical and price contingencies, and interest and other charges on the loan during implementation. The investment plan will be finalized during the TA.

¹ The PDA financing is not in the approved country operations business plan for 2015–2017 but it is in the draft plan for 2016–2018. The request from the government came in December 2014, after the plan for 2015–2017 had been approved.

² ADB. 2014. *The Kyrgyz Republic: Strategic Assessment of the Economy – Promoting Inclusive Growth*. Manila.

6. PDA advance action began in December 2014 by initiating the recruitment of an engineering consulting firm for undertaking detailed engineering designs. The request for proposals was issued in April 2015 and the financial proposal evaluation is targeted to be completed by June 2015. Pending the PDA effectiveness, the consulting contract could be signed and the consultant could be mobilized by August 2015.

II. ACTIVITIES TO BE FINANCED BY THE PROJECT DESIGN ADVANCE

7. A PDA grant for \$3 million will support the detailed engineering design for the project and external financial audit of the PDA account. The PDA is not listed in the country operations business plan for 2015–2017 and will follow approval and reporting procedures laid out for PDA financing not listed in the current year's plan. The PDA is proposed to be financed from ADB's Special Funds resources and is the first PDA grant for the project.

8. The PDA will fund (i) the engineering consultant recruited to prepare the detailed design and advance procurement actions of the project, and (ii) the financial audit firm required for auditing the use of the PDA. The PDA will allow the government to complete the detailed engineering design before the proposed project become effective. Once the ensuing financing becomes effective, the civil works contract will be either almost ready to be awarded or already awarded. The PDA will allow about 2 years of time saving from the grant effectiveness to contractor mobilization during the initial phase of implementation.

III. COST ESTIMATES AND FINANCING ARRANGEMENTS

9. The total cost of the PDA project is estimated at \$3.35 million, including taxes, duties, and contingencies during PDA grant administration. The government has requested a grant not exceeding \$3 million from ADB's Special Funds resources to help finance the PDA project.

Table 1: Investment and Financing Plan for the Project Design Advance
(\$ million)

Item	Cost ^a	ADB	Government
A. Base Cost^b			
1. Engineering consultant ^c	2.90	2.60	0.30
2. Financial audit ^c	0.10	0.09	0.01
Subtotal (A)	3.00	2.69	0.31
B. Contingencies^d	0.35	0.31	0.04
Total (A+B)	3.35	3.00	0.35

ADB = Asian Development Bank.

^a Includes taxes and duties of \$0.35 million to be financed from government resources.

^b In 2015 prices.

^c The government confirms that the PDA will only be used to finance the consulting services for detailed design and financial audit.

^d Physical and price contingencies computed at 12% for consulting services.

Source: Asian Development Bank.

IV. IMPLEMENTATION ARRANGEMENTS

10. The Ministry of Transport and Communications will be the executing agency. It has implemented all road projects financed by development partners since 1995, and has accumulated considerable experience. The ministry's Investment Projects Implementation

Group will be the unit responsible for project implementation activities. The executing agency will recruit the consulting firm using the quality- and cost-based selection method with full technical proposal. The executing agency will select and engage the consulting firm in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). The implementation arrangements are summarized in Table 2 and described in detail in the PDA project administration manual.

Table 2: Implementation Arrangements for Project Design Advance

Aspects	Arrangements		
PDA implementation period	June 2015–December 2016		
Estimated PDA completion date	December 2016		
Management			
(i) Oversight body	Ministry of Finance, deputy minister (chair); head of Public Investment Program, Technical Assistance, and Foreign Aid Department (member); head of Investment Projects Implementation Group (member)		
(ii) Executing agency	Ministry of Transport and Communications		
(iii) Implementation unit	Investment Projects Implementation Group, Bishkek, 35 staff		
Consulting services ^a	Quality- and cost-based selection	One engineering contract (198 person-months) ^b	\$2.9 million
	Consultant's qualifications selection	Financial audit	\$0.10 million
Advance contracting	Engineering consulting services. Any proposal of advance contracting will not constitute a commitment by ADB to finance the project.		
Disbursement	Disbursements under the PDA will be made in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

ADB = Asian Development Bank, PDA = project design advance.

^a The executing agency is carrying out the consultant recruitment without delegating to ADB.

^b An estimated 198 person-months (48 international, 150 national) of consulting services are required to (i) facilitate PDA management and implementation, and (ii) strengthen the institutional and operational capacity of the executing agency.

Source: Asian Development Bank.

V. SAFEGUARDS

11. The PDA finances only consulting services for detailed design and financial audit and is categorized C for environment, involuntary resettlement and indigenous peoples. The safeguard impacts of the ensuing project are expected to be minimal and thus categorized B for involuntary resettlement and environment, and categorized C for indigenous peoples. The project preparatory TA will prepare an initial environmental examination, including an environmental management plan, and undertake resettlement planning as required, all in compliance with ADB's Safeguard Policy Statement (2009). The PDA-financed engineering design consultant will update the initial environmental examination, including the environmental management plan, as well as the final resettlement plan as required.

VI. DECISION

12. The President hereby reports to ADB's Board of Directors (Board) that Management will approve a project design advance in the form of a grant not exceeding \$3,000,000 to the Kyrgyz Republic from ADB's Special Funds resources, for the preparation of the Central Asia Regional Economic Cooperation Corridors 1 and 3 Connector Road Project. The approval will be granted after 21 days from the date of circulation of this paper to the Board.