



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

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Project Number: 46124  
March 2013

Proposed Loan and Grants  
Kyrgyz Republic and the Republic of Tajikistan:  
Central Asia Regional Economic Cooperation  
Regional Improvement of Border Services Project

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 12 February 2013)

Currency unit	–	som (Som)
Som1.00	=	\$0.02
\$1.00	=	Som47.97
Currency unit	–	somoni (TJS)
TJS1.00	=	\$0.21
\$1.00	=	TJS4.76

## ABBREVIATIONS

ADB	–	Asian Development Bank
BCP	–	border crossing point
CAREC	–	Central Asia Regional Economic Cooperation
CPMM	–	corridor performance measurement and monitoring
NSW	–	national single window
PIU	–	project implementation unit
PSC	–	project steering committee

## NOTE

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

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## PROJECT AT A GLANCE

<b>1. Project Name:</b> Central Asia Regional Economic Cooperation (CAREC) Regional Improvement of Border Services Project (RIBS)					<b>2. Project Number:</b> 46124-001				
<b>3. Country:</b> Kyrgyz Republic, Tajikistan					<b>4. Department/Division:</b> Central and West Asia Department/Transport and Communications Division				
<b>5. Sector Classification:</b>									
			<b>Sectors</b>		<b>Primary</b>		<b>Subsectors</b>		
			Industry and trade		✓		Trade and services		
<b>6. Thematic Classification:</b>									
				<b>Themes</b>		<b>Primary</b>		<b>Subthemes</b>	
				Regional cooperation and integration		✓		Cross-border infrastructure	
<b>6a. Climate Change Impact</b> No Climate Change Indicator available.					<b>6b. Gender Mainstreaming</b>				
					Gender equity theme (GEN)				
					Effective gender mainstreaming (EGM)				
					Some gender elements (SGE)			✓	
					No gender elements (NGE)				
<b>7. Targeting Classification:</b>					<b>8. Location Impact:</b>				
<b>General Intervention</b>		<b>Targeted Intervention</b>			Regional High				
		<b>Geographic dimensions of inclusive growth</b>	<b>Millennium development goals</b>	<b>Income poverty at household level</b>					
✓									
<b>9. Project Risk Categorization:</b> Complex									
<b>10. Safeguards Categorization:</b>									
				Environment		C			
				Involuntary resettlement		B			
				Indigenous peoples		C			
<b>11. ADB Financing:</b>									
		<b>Sovereign/Nonsovereign</b>		<b>Modality</b>		<b>Source</b>		<b>Amount (\$ Million)</b>	
		Sovereign		Project grant		Asian Development		13.4	
		Sovereign		Project loan		Asian Development		4.2	
		Total						17.6	
<b>12. Cofinancing:</b> No Cofinancing available.									
<b>13. Counterpart Financing:</b>									
				<b>Source</b>		<b>Amount (\$ Million)</b>			
				Government		3.4			
				Total		3.4			
<b>14. Aid Effectiveness:</b>									
				Parallel project implementation unit		No			
				Program-based approach		No			

## **I. THE PROPOSAL**

1. I submit for your approval the following report and recommendation on (i) a proposed loan and a proposed grant to the Kyrgyz Republic, and (ii) a proposed grant to the Republic of Tajikistan, all for the Central Asia Regional Economic Cooperation (CAREC) Regional Improvement of Border Services Project.<sup>1</sup>

## **II. THE PROJECT**

### **A. Rationale**

2. The project supports the CAREC transport and trade facilitation strategy, which aims to streamline transport, trade logistics, customs, and other border control operations to increase cross-border trade in Central Asia.<sup>2</sup> From 2007 to 2009, CAREC ministerial conferences endorsed a transport and trade facilitation strategy<sup>3</sup> and its implementation action plan,<sup>4</sup> and a plan to address physical infrastructure needs at border crossing points (BCPs) along priority CAREC corridors, and to establish and network national single window (NSW) facilities.<sup>5</sup> The goal was to develop seamless corridors to enhance economic competitiveness of the region.

3. BCPs are identified as the major impediments to cross-border transport and trade in the CAREC region. The CAREC corridor performance measurement and monitoring (CPMM) system indicates that in 2012 a typical 500-kilometer journey by a 20-ton truck took an average of 19.3 hours and cost \$1,068.<sup>6</sup> A similar journey in Western Europe takes about 8 hours and costs \$800.<sup>7</sup> Delays are mainly due to poor physical infrastructure and inadequate trade logistics facilities, cumbersome customs clearance procedures, and limited utilization of information and communication technologies.

4. NSW facilities, which enable trade- and transport-related information and documents to be submitted only once through a single entry point, and to be reviewed and processed by relevant government agencies prior to the cargo's arrival at the border, can provide significant efficiency gains. To maximize the benefits of NSWs, coverage should be extended to include cross-border electronic data exchange. Many CAREC governments—supported by business communities—are designing NSWs to accommodate eventual CAREC-wide interoperability.

5. The benefits of good BCP infrastructure and NSWs can only be fully realized when countries on both sides of the border fund complementary investments, and border control agencies cooperate. The project supports the construction and renovation of BCPs in cases where investments to upgrade complementary facilities on the other side of the border have been completed or are nearing completion. It will help develop NSWs based on international standards to streamline trade-related procedures. The project will be implemented in

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

<sup>2</sup> The Asian Development Bank (ADB) provided project preparatory technical assistance. ADB. 2011. Technical Assistance for Preparing the Central Asia Regional Economic Cooperation (CAREC)—Transport and Trade Facilitation: Border Crossing Point Improvement and Single Window Development Project. Manila. Processing of components originally envisaged for Mongolia has not been completed, and may in due course be considered for separate approval.

<sup>3</sup> Endorsed by the Sixth Ministerial Conference on CAREC. 2007. Dushanbe.

<sup>4</sup> Endorsed by the Seventh Ministerial Conference on CAREC. 2008. Baku.

<sup>5</sup> Endorsed by the Eight Ministerial Conference on CAREC. 2009. Ulaanbaatar.

<sup>6</sup> ADB. 2013. Draft *CAREC Corridor Performance Measurement and Monitoring Annual Report 2012*. Manila.

<sup>7</sup> The World Bank. 2008. *Transport Prices and Costs in Africa*. Washington, DC.

coordination with ongoing and proposed CAREC trade facilitation initiatives, particularly those under the CAREC Customs Cooperation Committee, including joint customs control, simplification of customs procedures, and development of information and communication technology for customs modernization. Both governments of the Kyrgyz Republic and Tajikistan accord high priority to the project.

6. As landlocked countries, the Kyrgyz Republic and Tajikistan need to develop predictable and transparent trading environments, improve trade facilitation, and leverage more transit and international trade to increase competitiveness and sustain inclusive growth. By modernizing BCP infrastructure and developing electronic trade platforms like NSWs, they can improve the performance of CAREC corridors, minimize negative impacts of geographic isolation, foster more diverse economic activity, and realize their economic potential. Two road BCPs have been selected under the project: the Karamyk in the Kyrgyz Republic and the Guliston in Tajikistan. The BCPs selection is based on the governments' priority, their special significance for regional trade, complementary development on both sides of the border, and minimal safeguard impacts.

7. ADB support for regional cooperation intersects with the strategies and priorities of the project countries, particularly those related to promoting sustainable growth and improving governance. The project will help improve the environment for trade, which is an engine for economic growth and development. NSW development is consistent with the main priority of governments to improve governance, reduce corruption by increasing transparency, and ensure effective public administration by improving the capacity of the civil service.

8. The project is included in ADB's country operations business plan 2012–2013 for the Kyrgyz Republic<sup>8</sup> and is in line with the government's medium-term development program for 2012–2014. The main goal of the development plan is to improve living standards and reduce poverty by accelerating economic growth, improving the business climate, and developing an efficient governance system.

9. The ADB country partnership strategy for Tajikistan supports addressing the most critical development constraints and creating a basis for higher economic growth.<sup>9</sup> ADB is committed to helping ensure access to efficient and cost-effective regional transport, developing new export markets, improving regional customs facilities, and facilitating regional trade. ADB's strategy is to reduce logistics costs for trade and encourage knowledge sharing between Tajikistan and other CAREC member countries to foster regional integration and facilitation. Key intended outcomes include improved regional transport connections, improved trade and transit infrastructure, and reduced cross-border barriers. The project is included in ADB's country operations business plan 2013–2014 for Tajikistan.<sup>10</sup>

10. With ADB support, the Kyrgyz Republic has made an initial \$1.1 million investment in its NSW<sup>11</sup> to complement the development of a customs unified automated information system under the first CAREC regional project loan.<sup>12</sup> Tajikistan has benefited substantially from ADB's

<sup>8</sup> ADB. 2012. *Country Operations Business Plan: Kyrgyz Republic, 2012–2013*. Manila.

<sup>9</sup> ADB. 2010. *Country Partnership Strategy: Tajikistan, 2010–2014*. Manila.

<sup>10</sup> ADB. 2012. *Country Operations Business Plan: Tajikistan, 2013–2014*. Manila.

<sup>11</sup> ADB. 2004. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster, Grant for Subprogram 1, and Grant Assistance to the Kyrgyz Republic for the Investment Climate Improvement Program*. Manila.

<sup>12</sup> ADB. 2004. *Report and Recommendation of the President to the Board of Directors: Proposed Loans and Technical Assistance Grants to the Kyrgyz Republic and the Republic of Tajikistan for the Regional Customs Modernization and Infrastructure Development Project*. Manila.

previous investment in a unified automated information system (footnote 12). The proposed project has incorporated key lessons learned from the past projects: (i) harmonization of trade-related procedures through enhanced interagency coordination and commitment at the highest level are prerequisites for the success of NSW development; (ii) adequate capacity of the information technology staff is the key in achieving technical and operational sustainability of the system; and (iii) users' acceptance is critical to smooth operations of NSW systems.

## **B. Impact and Outcome**

11. The impact will be accelerated trade growth within the CAREC region and with the rest of the world. The outcome will be faster, more predictable and cost-efficient cross-border transport and trade.

## **C. Outputs**

12. **Border crossing point improvement.** The project will improve infrastructure at the following two road BCPs to improve working conditions and performance of border management personnel, and reduce processing time and cost:

- (i) In the Kyrgyz Republic, at the Karamyk BCP, located along CAREC corridors 3b and 5, (a) the inspection facilities including customs, sanitary and quarantine, and veterinary checkpoints will be improved to handle traffic growth and improve the inspection process; and (b) power, water supply and sewerage facilities, communication facilities, and office and inspection equipment will be provided; and
- (ii) In Tajikistan, at the Guliston BCP, located in a key conduit of the regional Osh–Khujand highway, facilities will be upgraded and equipped, including infrastructure for vehicle inspection and two new border check posts, and water supply and sewerage facilities provided.

13. **National single window development.** This project will support the establishment of NSW facilities to streamline data submission to international trade regulators, and ensure conformity of submitted data with the requirements of business processes in various stages of trade and transport in the international supply chain. International standards will be adopted to ensure regional interoperability.<sup>13</sup>

14. The subcomponents of NSW facilities include (i) single window and trade portal software development; (ii) single window backup system and hardware, regional centers, and trade portal hardware; (iii) certificate of origin and licensed track and trace of system development; (iv) operating assistance to the single window governance and working groups; (v) business process analysis and re-engineering (for up to 10 government agencies); (vi) legal and regulatory framework review; (vii) stakeholder engagement and public awareness activities; and (viii) market study and research. In terms of sequencing, a flexible software development process will incorporate possible policy and regulatory changes resulting from subcomponents (v) and (vi).

15. **Project management and supervision capacity strengthening.** The project provides funding to engage project management consultants for the project implementation unit (PIU) of each project country to provide oversight and supervision.

<sup>13</sup> United Nations Centre for Trade Facilitation and Electronic Business recommendations, World Customs Organization database requirements, and World Trade Organization standards.

## D. Investment and Financing Plans

16. The project is estimated to cost \$21,007,000 equivalent (Table 1). Detailed cost estimates by expenditure category and by financier are in the project administration manuals.<sup>14</sup>

17. The Government of the Kyrgyz Republic has requested a loan in various currencies equivalent to SDR2,748,000 and a grant<sup>15</sup> not exceeding \$4,202,000, both from ADB's Special Funds resources, to help finance 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.

18. The Government of Tajikistan has requested a grant<sup>16</sup> not exceeding \$9,202,000 from ADB's Special Funds resources to help finance the project.

**Table 1: Project Investment Plan**

Item	Amount <sup>a</sup> (\$ million)		
	Kyrgyz Republic	Tajikistan	Total
A. Base Cost <sup>b</sup>			
1. Border crossing points improvement	2.810	2.224	5.034
2. National single window development	4.120	6.194	10.314
3. Project management and supervision capacity strengthening	1.736	1.735	3.471
<b>Subtotal (A)</b>	<b>8.666</b>	<b>10.153</b>	<b>18.819</b>
B. Contingencies <sup>c</sup>	1.168	0.967	2.135
C. Financing Charges During Implementation	0.053	0.000	0.053
<b>Total (A+B+C)</b>	<b>9.887</b>	<b>11.120</b>	<b>21.007</b>

<sup>a</sup> Includes taxes and duties of \$1.483 million to be financed by the Government of the Kyrgyz Republic; and \$1.918 million to be financed by the Government of Tajikistan in the form of tax exemption.

<sup>b</sup> In mid-2012 prices.

<sup>c</sup> Physical contingencies computed at 10% for civil works, field research and development, training, surveys, and studies. Price contingencies computed at 10% for foreign exchange costs and 10% for local currency costs, includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

Source: Asian Development Bank estimates.

19. The financing plan is in Table 2. ADB will provide \$17.606 million (83.8% of the total project cost, representing 85% share for the subproject in the Kyrgyz Republic and 82.75% for Tajikistan). The governments will finance the equivalent of \$3.401 million to cover taxes and duties on civil works, services, and vehicles and equipment. The physical contingency is 10% of the base cost and the price contingency is 10% of the base cost based on the countries' estimated 5-year average annual inflation rate.

<sup>14</sup> Project Administration Manuals (accessible from the list of linked documents in Appendix 2).

<sup>15</sup> A country's eligibility for Asian Development Fund (ADF) grants under the revised grant framework is determined by its risk of debt distress. The latest debt sustainability analysis determined that the Kyrgyz Republic had a moderate risk of debt distress and therefore is eligible to receive 50% of its ADF allocation as grants.

<sup>16</sup> A country's eligibility for ADF grants under the revised grant framework is determined by its risk of debt distress. The latest debt sustainability analysis determined that Tajikistan has a high risk of debt distress and therefore is eligible to receive 100% of its ADF allocation as grants.



**Table 2: Financing Plan**

<b>Source</b>	<b>Kyrgyz Republic</b>		<b>Tajikistan</b>		<b>Total</b>	
	<b>Amount (\$ million)</b>	<b>Share of Total (%)</b>	<b>Amount (\$ million)</b>	<b>Share of Total (%)</b>	<b>Amount (\$ million)</b>	<b>Share of Total (%)</b>
ADB loan	4.202	42.50			4.202	20.00
ADB grants	4.202	42.50	9.202	82.75	13.404	63.81
Government	1.483	15.00	1.918	17.25	3.401	16.19
<b>Total</b>	<b>9.887</b>	<b>100.00</b>	<b>11.120</b>	<b>100.00</b>	<b>21.007</b>	<b>100.00</b>

Source: Asian Development Bank estimates.

## **E. Implementation Arrangements**

20. The Ministry of Economy in the Kyrgyz Republic and the Ministry of Economic Development and Trade in Tajikistan will be the executing agencies for their respective subprojects. The State Enterprise Single Window Center in the Foreign Arena under the Ministry of Economy of the Kyrgyz Republic (with support of the State Customs Service of the Kyrgyz Republic), and the Customs Service under the Government of the Republic of Tajikistan will be the implementing agencies for their respective subprojects. The executing agencies will help the implementing agencies coordinate closely with other government agencies and ADB for the prompt resolution of any issue, expedite the procurement process, organize project steering committee (PSC) meetings, and complete the project by the established target date. The executing agencies will designate project coordinators to carry out these tasks. The implementing agencies will designate project directors to work with project management consultants to provide overall supervision of project implementation. ADB will organize joint consultations on project implementation at least annually during the CAREC Customs Cooperation Committee and Transport Sector Coordinating Committee meetings to ensure that the project countries coordinate with each other closely to complete the project in a timely and synchronized manner.

21. Each project country will set up a PSC, chaired by the project coordinator, to ensure interagency cooperation for project oversight. The PSCs will be responsible for (i) guiding the project's overall policy and strategic direction; (ii) evaluating project performance; (iii) helping coordinate other projects relating to BCP improvement and single window development funded by development partners; (iv) serving as a platform to promote private sector participation in customs and border control improvement initiatives under the project; and (v) ensuring project implementation adheres to agreed schedules. They will meet at least twice a year or as needed.

22. Each project country will establish a PIU under the implementing agency. The PIU will manage procurement activities, supervise the implementation of each subproject, prepare and submit periodic progress reports to the executing agencies and ADB, provide secretariat support to the PSCs, and regularly liaise with the executing agencies and ADB. The PIU will be headed by a project manager and comprise a team of project management consultants, including procurement specialists, border crossing point supervision specialists, single window experts, project performance monitoring specialists, finance specialists, and administration officers. The project manager will report to the implementing agency.

23. The implementation arrangements are summarized in Table 3 and described in detail in the project administration manuals (footnote 14).

**Table 3: Implementation Arrangements**

Aspects		Arrangements		
Implementation period		June 2013–December 2017		
Estimated completion date		31 December 2017		
Management				
(i) Oversight body		A project steering committee <sup>a</sup> in each of the Kyrgyz Republic and Tajikistan		
(ii) Executing agency		Kyrgyz Republic: Ministry of Economy Tajikistan: Ministry of Economic Development and Trade		
(iii) Implementing agency		Kyrgyz Republic: State Enterprise Single Window Center (SWC) in the Foreign Arena under the Ministry of Economy Tajikistan: Customs Service under the Government of the Republic of Tajikistan (CST)		
(iv) Implementation unit		Kyrgyz Republic: PIU under SWC, 8 staff Tajikistan: PIU under CST, 8 staff		
Procurement			<b>Kyrgyz Republic</b>	<b>Tajikistan</b>
		International competitive bidding	2 contracts \$4.568 million	2 contracts \$5.091 million
		National competitive bidding		1 contract \$0.753 million
		Shopping	2 contracts \$0.065 million	2 contracts \$0.189 million
Consulting services		Quality and cost-based selection	3 contracts 760 person-months (52 person-months international, 708 person-months national) \$4.032 million	3 contracts 469 person-months (55 person-months international, 414 person-months national) \$4.120 million
Advance contracting		Consulting services		
Disbursement		The loan and grant 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 governments and ADB.		

ADB = Asian Development Bank, PIU = project implementation unit.

<sup>a</sup> Representatives of other key stakeholders may be appointed as project steering committee members.

Source: Asian Development Bank.

### III. DUE DILIGENCE

24. The primary stakeholders and project beneficiaries are (i) government agencies responsible for regulating international trade; (ii) civil servants responsible for carrying out border management functions; (iii) traders, truck drivers, freight forwarders, and transport service providers engaged in international trade and transport activities; and (iv) communities situated in the vicinity of BCPs that depend on cross-border markets.

#### A. Technical

25. Selection criteria for identifying BCPs to be part of the project include (i) government priority; (ii) BCP along a CAREC corridor or of special significance for regional trade; (iii) complementary development on both sides of the border; and (iv) minimal safeguard impacts. In the Kyrgyz Republic, the Karamyk BCP is an important gateway in the CAREC region. Based on the volume of transit traffic it supports, its significance is clearly of a regional nature. ADB supported the rehabilitation of border facilities on the Tajikistan side of Karamyk;

the project will upgrade facilities in the Kyrgyz Republic. In Tajikistan, new traffic patterns based on recent economic development increased freight transport. BCPs along these new routes need upgrading. Guliston, in particular needs urgent attention to match renovations made by the Kyrgyz Republic at Kyzyl-Bel on the other side of the border. The Guliston–Kyzyl-Bel BCP pair has special significance for regional trade given its strategic location in an important Tajikistan, Kyrgyz Republic, and Uzbekistan triangle providing critical trade and transport services. Overall, the performance of CAREC corridors 3 and 5 is less than optimal. The BCPs are major bottlenecks: in 2012, it required 11.8 hours and \$147 to cross Karamyk (corridors 3 and 5), and 1.5 hours and \$171 to cross Guliston.

26. In developing NSW facilities, the Kyrgyz Republic and Tajikistan have carried out important preparatory work, including development of necessary information technology infrastructure with support from ADB and other development partners. The work provides the countries with solid foundations for developing NSW facilities. With ADB support, the Kyrgyz Republic has made an initial \$1.1 million investment in its NSW (footnote 11) to complement the development of a customs unified automated information system under the first CAREC regional project loan (footnote 12). Tajikistan has benefited substantially from ADB's previous investment in a unified automated information system (footnote 12), Deutsche Gesellschaft für Internationale Zusammenarbeit's conduct of business process analyses, and a €2 million grant from the European Union<sup>17</sup> to fund the initial stage of single window development focusing on developing system specification requirements. Substantial work remains to develop fully functional NSW facilities that will maximize the benefits to be derived from, and ensure the sustainability of, initial investments. The project was prepared in coordination with other development partners. Effective aid coordination will continue during project implementation to avoid duplication of efforts.

## **B. Economic and Financial**

27. Clear selection criteria were established to identify BCPs to be upgraded. NSW components were identified using a needs assessment and gap analysis based on work completed or planned for a specific country. The anticipated economic benefits of the project include (i) a more informed trade subsector through the information portal, which is a core component of a NSW providing traders with access to information about the relevant governing regulatory agencies, certification agencies' specific documentary requirements, and official costs and times for issuance; (ii) reduced documentary requirements for submission and time spent on obtaining regulatory certification from and submitting documents to customs and other regulatory agencies; (iii) reduced time and cost for import and export businesses that lead to increased supply chain productivity, reduce waiting time at BCPs, and translate to efficiency gains for vehicle operators and passengers; (iv) reduced scope for rent seeking at the interface between regulatory agencies and traders and/or brokers as a result of NSW facilities, thereby removing the potential for human factor intervention; and (v) increased interest by foreign investors as international trade processing becomes less cumbersome and more efficient. The economic analysis resulted in an economic internal rate of return of 36.37% and net present value of \$11.42 million for the subproject in the Kyrgyz Republic; 37.19% and \$19.48 million for the subproject in Tajikistan; and 36.99% and \$30.89 million for the project as a whole. Thus, the investments in the NSW and the BCP components are considered to be highly economically justifiable and implementation is therefore recommended.

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<sup>17</sup> The European Union-funded project focusing on developing system requirements and software design is expected to be completed by October 2013. The ADB project will build on the European Union project and provide support for the NSW hardware and backup system, which will be procured in Q2 2014 to ensure technical compatibility.

28. NSW implementation aims to reduce administrative barriers to foreign trade. Improved trade facilitation will simplify trade processes and administrative procedures, and promote greater transparency and predictability in international trade transactions, thus leading to reduced costs for foreign trade participants. NSW benefits will be gained at both the macro and micro levels. The improvement of BCPs will generate time savings for freight movements and eventually have a positive impact on trade. The provision of enabling infrastructure such as reliable power supply, water supply and sanitation, and better staff accommodation will lead to improved staff welfare and productivity gains. The underlying assumption is that poor infrastructure is causing congestion and delays, negatively affecting trade between neighboring CAREC countries and causing decreases in the overall welfare of consumers. Noteworthy to the analysis is that substantial synergy could result from the collective BCP upgrades and establishment of NSWs, transforming the CAREC region from one that has been considered “problematic”<sup>18</sup> to one that welcomes and supports transit traffic. Becoming the land bridge between Asia and Europe would generate considerably more benefits than are shown in the economic and financial analysis.

### **C. Governance**

29. A governance assessment undertaken during project preparation examined policy, legal, and institutional capacity to adopt good governance processes for project implementation. Over the past decade, the two governments have implemented public expenditure reforms that contributed to improvements in efficiency, accountability, and transparency in public financial management. They adopted national procurement laws and strengthened efforts to reduce corruption. Further, the executing and implementing agencies for the two countries have experience in successfully implementing ADB projects, and in the process augmented their financial management capacity.<sup>19</sup>

30. All procurement to be financed by ADB will be carried out in accordance with ADB's Procurement Guidelines (2010, as amended from time to time). All consulting services to be financed under the project will be procured in accordance with ADB's Guidelines on the Use of Consultants (2010, as amended from time to time). Project implementation, procurement, and financial management will be aligned with the governments' standard operating procedures. Auditors acceptable to ADB will audit the project accounts annually. The project will strengthen staff capacity in financial management procedures. It will use existing government websites to (i) disclose the implementation progress, and bid notifications and their results; and (ii) provide opportunities for reporting any corrupt practice. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the governments. The specific policy requirements and supplementary measures are described in the project administration manuals (footnote 14).

### **D. Poverty and Social**

31. By eliminating physical and administrative obstacles to trade at BCPs and developing NSW facilities with regional interoperability capable of electronic data exchange, the project will

<sup>18</sup> See World Bank Logistics Performance Index and World Bank Doing Business Survey, both of which regularly rank the Central Asian countries quite low. In terms of trading across borders (Doing Business Survey 2013), the Kyrgyz Republic ranked 174th out of 185 economies and Tajikistan 184th. In Logistics Performance Index 2012, the Kyrgyz Republic ranked 130th out of 155 countries and Tajikistan 136th.

<sup>19</sup> The State Enterprise Single Window Center in the Foreign Arena under the Ministry of Economy of the Kyrgyz Republic implemented the Foreign Trade Single Window under the Investment Climate Improvement Program System Support Project; and the Customs Service under the Government of Tajikistan implemented the Regional Customs Modernization and Infrastructure Development Project.

(i) provide and/or upgrade infrastructure; (ii) improve customs services; (iii) create direct short-term employment<sup>20</sup> and NSW development,<sup>21</sup> and indirect long-term income generating opportunities; and (iv) reduce logistics costs for trade leading to lower consumer prices in the market, thereby contributing to improved economic development for CAREC residents.

32. The project design includes some gender elements. Public health and gender equity concerns will be addressed by designing gender-sensitive BCPs, such as separate washrooms, inspection lanes, and nursing areas for women; and providing equal opportunities for female border staff. Development of gender-sensitive infrastructure for cross-border trade will improve women's livelihood in border communities, as most local traders are women.

33. A more liberal trading environment could result in increased human and narcotics trafficking, and rate of transmission of HIV/AIDS and other communicable diseases. The project will augment measures for prohibiting human and narcotics trafficking by providing relevant information material to border officers and necessary inspection equipment.

## **E. Safeguards**

34. The project will not have any adverse environmental impacts or cause any negative regional or international environmental impacts. In line with ADB's Safeguard Policy Statement (2009), the project is classified environment category C. Social safeguard due diligence was conducted during project preparation. The project does not involve land acquisition or involuntary resettlement impacts for the components in Tajikistan. However, three households currently leasing land for cultivating crops at the Karamyk BCP in the Kyrgyz Republic will be affected. In line with ADB's Safeguard Policy Statement (2009), the project is classified as category B for involuntary resettlement. Affected persons will be provided with appropriate cash compensation for the potential income loss from the leased plots. The details of the impact, cash compensation, and its delivery schedule are provided in the draft resettlement plan approved by the Ministry of Economy of the Kyrgyz Republic and ADB, and disclosed at the ADB website on 5 February 2013. No ethnic minority communities will be affected since the BCP civil works will be carried out within customs-controlled zones or public land owned by local administrations. The project is classified as category C for indigenous peoples.

## **F. Risks and Mitigating Measures**

35. Sensitivity tests indicate that economic circumstances would have to become substantially worse for the project to lose its economic viability. Stable economic performance is expected based on the governments' projections and growth trends. Risks associated with potential changes in government policy are moderate. The project is a high-priority supported by the governments. Major risks and mitigating measures (Table 4) are described in detail in the risk assessment and risk management plan.<sup>22</sup>

<sup>20</sup> About 70 construction jobs (50 in the Kyrgyz Republic and 20 in Tajikistan) will be created.

<sup>21</sup> About 1,229 person-months of consulting services (107 person-months international and 1,122 person-months national) will be needed.

<sup>22</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

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

<b>Risks</b>	<b>Mitigating Measures</b>
Procurement delays	<p>Project readiness before approval, including advance contracting, and governments' commitment to expedite internal approvals.</p> <p>Adopt a design-and-build modality for major procurement packages, as appropriate, to attract better-qualified contractors, and combine individual procurements into larger contracts to generate economies of scale and simplify project supervision.</p>
Lack of operating and financial sustainability after project completion	<p>Government assurances of allocating annual budgetary resources to cover recurrent costs related to operation and maintenance of the single window and border crossing points.</p> <p>Implementing agencies to prepare operation and maintenance plans.</p> <p>Enhance stakeholder engagement and public awareness to generate demand for and ensure the acceptance of the national single window.</p> <p>Provide a focused capacity building program, particularly for information technology staff.</p>

Source: Asian Development Bank.

#### **IV. ASSURANCES**

36. The governments of the Kyrgyz Republic and Tajikistan 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 respective project administration manuals and loan and/or grant documents. Each government has agreed with ADB on certain covenants for the project, which are set forth in the respective loan and/or grant documents.

#### **V. RECOMMENDATION**

37. I am satisfied that the proposed loan and grants 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 SDR2,748,000 to the Kyrgyz Republic, from ADB's Special Funds resources, with an interest charge at 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;
- (ii) the grant not exceeding \$4,202,000 to the Kyrgyz Republic, from ADB's Special Funds resources, on terms and conditions that are substantially in accordance with those set forth in the draft financing agreement presented to the Board; and
- (iii) the grant not exceeding \$9,202,000 to the Republic of Tajikistan, from ADB's Special Funds resources, on terms and conditions that are substantially in accordance with those set forth in the draft grant agreement presented to the Board;

all for the Central Asia Regional Economic Cooperation Regional Improvement of Border Services Project.

Haruhiko Kuroda  
President

7 March 2013

## DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<b>Impact</b> Accelerated trade growth within the CAREC region and with the rest of the world	<b>By 2022</b> International trade volume in project countries cumulatively increased by 50% (2011 baseline: \$8.5 billion for the Kyrgyz Republic, and \$5.7 billion for Tajikistan)	United Nations International Trade Centre trade statistics  National and international economic statistics  National customs service reports	<b>Assumptions</b> Country reforms for strengthening governance at customs and other trade-related agencies and regional cooperation efforts continue  CAREC corridors are key conduits for domestic and international traffic  <b>Risk</b> Regional economies may be negatively affected by regional and global economic crises
<b>Outcome</b> Faster, more predictable, and cost efficient cross-border transport and trade	<b>By 2018</b> Time and cost to cross project BCPs reduced by 30% (2012 baseline: Karamyk BCP in Kyrgyz Republic: 11.8 hours, \$147; and Guliston BCP in Tajikistan: 1.5 hours, \$171)  Average annual cargo volume increased to 140,000 tons/year at Karamyk BCP and 35,000 tons/year at Guliston BCP (2011 baseline: Karamyk BCP: 107,000 tons/year, Guliston BCP: 27,000 tons/year)	CAREC CPMM quarterly and annual reports  CAREC TSCC and CCC reports  Reports by NSW operators  National customs service reports	<b>Assumptions</b> Business process re-engineering will be effectively implemented at country level to manage resistance from groups with vested interests  NSW operators will be able to recruit and retain skilled staff  Adequate financial resources will be available for operation and maintenance of NSW  <b>Risk</b> Opportunity for private sector participation is limited
<b>Outputs</b> 1. Physical infrastructure and working conditions at Karamyk and Guliston BCPs improved	Civil works completed with the required facilities and the needed equipment installed at project BCPs by 2016	Updates to CAREC SOM and MC  CAREC CPMM quarterly and annual reports  CFCFA reports	<b>Assumptions</b> Adequate national project implementation capability  Project Steering Committee timely resolves interagency conflicts to avoid implementation delays

<b>Design Summary</b>	<b>Performance Targets and Indicators with Baselines</b>	<b>Data Sources and Reporting Mechanisms</b>	<b>Assumptions and Risks</b>
2. NSW facilities in the Kyrgyz Republic and Tajikistan established	Time to prepare and process export and import documents reduced by 50% in project countries by 2017 (2012 baseline in days: 23 days for preparation and 25 days for processing for the Kyrgyz Republic; and 20 and 20 for Tajikistan)	World Bank–IFC Doing Business indicators	<b>Risk</b> Procurement will be delayed due to lengthy internal approval procedures
3. Capacity in project management and supervision strengthened	Coordinated completion of BCP improvement and NSW development in the two project countries achieved by 2017	National customs service reports	

<b>Activities with Milestones</b>	<b>Inputs</b>		
<b>1. Improvement of the Karamyk and Guliston BCPs</b> 1.1 Contracts for works and goods awarded by December 2013 1.2 Goods procured by December 2015 1.3 Civil works completed by March 2016 1.4 Inspection and acceptance of BCP facilities by December 2016  <b>2. National single window development</b> 2.1 Institutional and technical support contracts awarded by October 2013 2.2 Single window design, develop, build, and deploy contracts awarded by December 2013 2.3 Legal framework review and recommendations supporting single window interoperability and information and data exchange with major trading partners completed by December 2015 2.4 Pilot operation of NSW facilities in both countries conducted by October 2017 2.5 Inspection and acceptance of NSW facilities by December 2017  <b>3. Project management and supervision capacity strengthened</b> 3.1 PIUs established and staffed by June 2013 3.2 Annual work plans, personnel scheduling, budgets, and procurement plans by July 2013, and by January of each year starting in 2014	<b>Loan (ADF)</b> <b>ADB: \$4.202 million</b>		
	<b>Item</b>	<b>Amount (\$ million)</b>	
		Kyrgyz Republic	
		<b>4.202</b>	
	Civil works	2.220	
	ICT systems	0.121	
	Equipment	1.224	
	Institutional and technical support		
	Project management and supervision		
	Contingencies and Interest	0.637	
	<b>Government: \$3.401 million</b>		
	<b>Item</b>	<b>Amount (\$ million)</b>	
		Kyrgyz Republic	Tajikistan
	Taxes and duties	1.483	1.918
	<b>Grants (ADF)</b> <b>ADB: \$13.404 million</b>		
	<b>Item</b>	<b>Amount (\$ million)</b>	
		Kyrgyz Republic	Tajikistan
		<b>4.202</b>	<b>9.202</b>
	Civil works		0.615
	ICT systems	0.242	2.954
	Equipment		1.200
	Institutional and technical support	1.968	2.100
	Project management and supervision	1.408	1.366



Activities with Milestones	Inputs		
3.3 First PSC meeting convened by July 2013; schedule adopted for regularly scheduled meetings as agreed with ADB  3.4 Project management consultants recruited by August 2013 3.5 Project performance management system established by December 2013 3.6 Joint customs control procedures introduced at Karamyk BCP before September 2015	Contingencies and Interest	0.584	0.967

ADB = Asian Development Bank, ADF = Asian Development Fund, BCP = border crossing point, CAREC = Central Asia Regional Economic Cooperation, CCC = customs cooperation committee, CFCFA = CAREC Federation of Carrier and Forwarder Associations, CPMM = corridor performance measurement and monitoring, ICT = information and communication technology, IFC = International Finance Corporation, MC = ministerial conference, NSW = national single window, PIU = project implementation unit, PSC = project steering committee, SOM = senior officials meeting, TSCC = transport sector coordinating committee.

Source: Asian Development Bank.

### **LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=46124-001-3>

1. Financing Agreement: Kyrgyz Republic
2. Project Agreement: Kyrgyz Republic
3. Grant Agreement: Republic of Tajikistan
4. Sector Assessment (Summary): Industry and Trade
5. Project Administration Manual: Kyrgyz Republic
6. Project Administration Manual: Republic of Tajikistan
7. Contribution to the ADB Results Framework
8. Development Coordination
9. Economic and Financial Analyses
10. Country Economic Indicators
11. Summary Poverty Reduction and Social Strategy
12. Resettlement Plan
13. Risk Assessment and Risk Management Plan

### **Supplementary Document**

14. United Nations Centre for Trade Facilitation and Electronic Business Recommendation No. 33