



FOR OFFICIAL USE ONLY

R145-16
14 November 2016

Proposed Loan Kashkadarya Regional Road Project (Uzbekistan)

1. The Report and Recommendation of the President (RRP: UZB 50063-001) on the proposed loan to Uzbekistan for the Kashkadarya Regional Road Project is circulated herewith.
2. This Report and Recommendation should be read with *Country Partnership Strategy: Uzbekistan, 2012–2016*, which was circulated to the Board on 14 August 2012 (DOC.Sec.M52-12).
3. In the absence of any request for discussion and in the absence of a sufficient number of abstentions or oppositions (which should be communicated to The Secretary by the close of business on 5 December 2016, the recommendation in paragraph 38 of the paper will be deemed to have been approved, to be so recorded in the minutes of a subsequent Board meeting. Any notified abstentions or oppositions will also be recorded in the minutes.

For Inquiries: J. Ning, Central and West Asia Department
(Ext. 6950)
A. Carlota, Office of the General Counsel
(Ext. 6280)



Report and Recommendation of the President to the Board of Directors

Project Number: 50063-001
November 2016

Proposed Loan Republic of Uzbekistan: Kashkadarya Regional Road Project

Distribution of this document is restricted until it has been approved by the Board of Directors. Following such approval, ADB will disclose the document to the public in accordance with ADB's Public Communications Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 31 October 2016)

Currency unit	–	sum (SUM)
SUM1.00	=	\$0.00032
\$1.00	=	SUM3,083.16

ABBREVIATIONS

ADB	–	Asian Development Bank
CAREC	–	Central Asia Regional Economic Cooperation
DDR	–	due diligence report
EMP	–	environmental management plan
km	–	kilometer
PAM	–	project administration manual
PMU	–	project management unit
RAMS	–	road asset management system
RRF	–	Republican Road Fund

NOTE

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

Vice-President	W. Zhang, Operations 1
Director General	S. O'Sullivan, Central and West Asia Department (CWRD)
Director	X. Yang, Transport and Communications Division, CWRD
Team leader	J. Ning, Principal Transport Specialist, CWRD
Team members	S. Campbell, Senior Social Development Specialist, CWRD A. Carlota, Counsel, Office of the General Counsel B. Debnath, Principal Social Development Specialist (Safeguards), CWRD A. Diamante, Associate Project Analyst, CWRD F. Insavaliyeva, Associate Project Analyst, Uzbekistan Resident Mission (URM), CWRD M. Khaltarpurev, Principal Procurement Specialist, Operations Services and Financial Management Department M. Khudayberdiyeva, Senior Social Development Officer (Gender), URM, CWRD K. Luu, Transport Specialist, CWRD T. Nasirov, Project Officer, URM, CWRD K. Sakamoto, Transport Economist, CWRD T. Tran, Senior Environment Specialist, CWRD M. Villanueva, Associate Project Analyst, CWRD
Peer reviewer	S. Date, Senior Transport Specialist, Southeast Asia Department

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

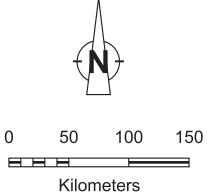
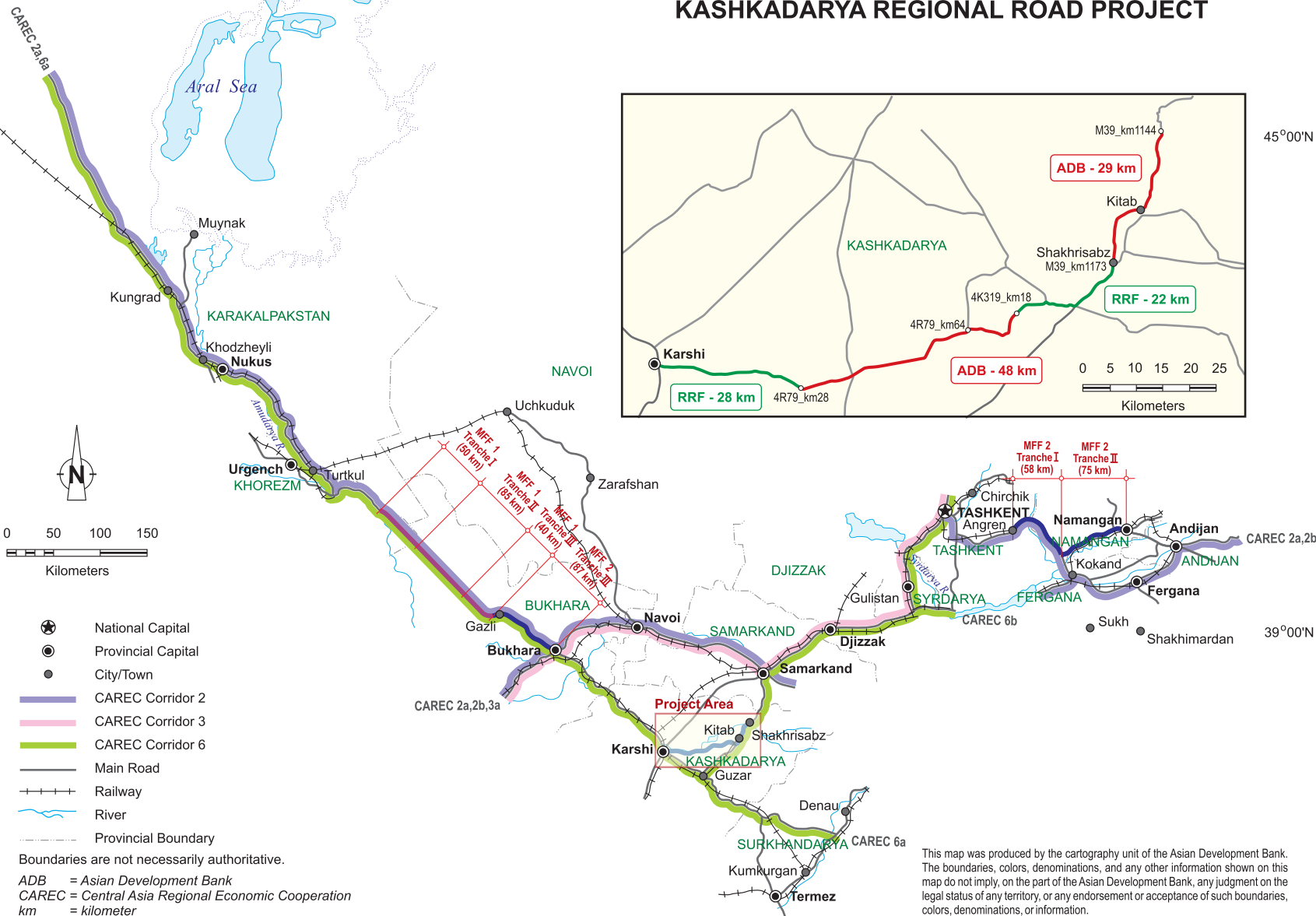
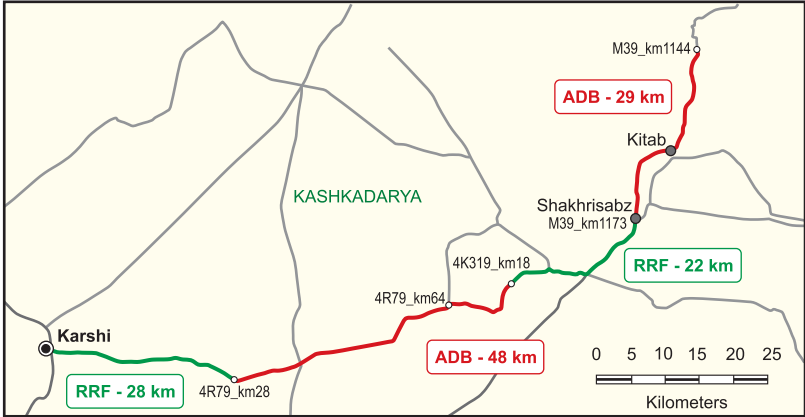
CONTENTS

	Page
PROJECT AT A GLANCE	
MAP	
I. THE PROPOSAL	1
II. THE PROJECT	1
A. Rationale	1
B. Impacts and Outcome	4
C. Outputs	4
D. Investment and Financing Plans	4
E. Implementation Arrangements	5
III. DUE DILIGENCE	6
A. Technical	6
B. Economic and Financial	6
C. Governance	7
D. Poverty, Social, and Gender	8
E. Safeguards	8
F. Risks and Mitigating Measures	9
IV. ASSURANCES	10
V. RECOMMENDATION	10
APPENDIXES	
1. Design and Monitoring Framework	11
2. List of Linked Documents	13

PROJECT AT A GLANCE

1. Basic Data		Project Number: 50063-001	
Project Name	Kashkadarya Regional Road Project	Department /Division	CWRD/CWTC
Country Borrower	Uzbekistan Republic of Uzbekistan	Executing Agency	Republican Road Fund
2. Sector		ADB Financing (\$ million)	
✓ Transport	Subsector(s) Road transport (non-urban)		198.00
		Total	198.00
3. Strategic Agenda		Climate Change Information	
Subcomponents			
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Adaptation (\$ million)	1.00
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		Gender Equity and Mainstreaming	
Components			
Governance and capacity development (GCD)	Institutional development	No gender elements (NGE)	✓
Knowledge solutions (KNS)	Application and use of new knowledge solutions in key operational areas		
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Regional	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG9		
6. Risk Categorization:		Low	
7. Safeguard Categorization		Environment: B Involuntary Resettlement: B Indigenous Peoples: C	
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		198.00	
Sovereign Project loan: Ordinary capital resources		198.00	
Cofinancing		0.00	
None		0.00	
Counterpart		68.20	
Government		68.20	
Total		266.20	
9. Effective Development Cooperation			
Use of country procurement systems		No	
Use of country public financial management systems		No	

UZBEKISTAN KASHKADARYA REGIONAL ROAD PROJECT



- National Capital
- Provincial Capital
- City/Town
- CAREC Corridor 2
- CAREC Corridor 3
- CAREC Corridor 6
- Main Road
- Railway
- River
- Provincial Boundary

Boundaries are not necessarily authoritative.
 ADB = Asian Development Bank
 CAREC = Central Asia Regional Economic Cooperation
 km = kilometer
 RRF = Republican Road Fund

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

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Republic of Uzbekistan for the Kashkadarya Regional Road Project.¹

2. The project aims to upgrade and widen the existing Karshi–Shakhrisabz–Kitab highway in Kashkadarya province, with a total length of about 77 kilometers (km).² A section of the project road is part of Central Asia Regional Economic Cooperation (CAREC) Corridor 6a. The project also includes an institutional capacity development component for the Republican Road Fund (RRF) and national design institutes that aims to advance effective design and construction standards and support project management.³

II. THE PROJECT

A. Rationale

3. **Double landlocked country.** Uzbekistan is a double landlocked country located in the heart of Central Asia that borders all of the other Central Asian countries, including Afghanistan, Kazakhstan, the Kyrgyz Republic, Tajikistan, and Turkmenistan. Uzbekistan is a lower middle-income, resource-rich country, with a population of about 31.8 million in 2016. The country's economy grew by 8% in 2015, its ninth consecutive year of expansion at 8% or higher. However, growth is expected to decline due to the economic slowdown in the Russian Federation, Uzbekistan's largest trading partner, and slowing economic activity in the People's Republic of China.

4. **Improved transit corridor.** As a key transit country for trade within the region and with the rest of Eurasia, Uzbekistan is a member country of the CAREC program, which aims to improve regional connectivity and cut transport costs.⁴ CAREC's action plan envisages six CAREC corridors connecting the region's key economic hubs to each other, and to other Eurasian and global markets. Two corridors cross Uzbekistan, including Corridor 2, which connects the Caucasus and Mediterranean to East Asia; and Corridor 6, which connects Europe and the Russian Federation to the Middle East and South Asia. The proposed road improvements covering a section of CAREC Corridor 6a will improve the corridor's efficiency.

5. **Adequate scope of the road network.** Road transport is the dominant mode of freight and passenger movements within the country as well as across its international borders. Road transport consists of international transit traffic, which accounts for 10% of the volume of freight transport; and domestic passenger and short-haul cargo traffic, which represent around 88% of road traffic. The total length of Uzbekistan's road network is 185,000 km, 42,654 km of which form the core network. The core road network comprises international roads (3,979 km), national roads (14,069 km), and regional roads (24,606 km), all of which fall under the purview of the RRF and are maintained by Uzavtoyul Joint Stock Company. Almost all of the roads of the core road network are paved. While Uzbekistan is comparable with other countries in Central Asia in terms of density of paved roads, the distribution of paved roads varies within the

¹ The design and monitoring framework is in Appendix 1.

² The project is included in: Asian Development Bank (ADB). 2015. *Country Operations Business Plan: Uzbekistan, 2016–2018*. Manila.

³ ADB provided a project preparatory technical assistance for preparing the Third CAREC Corridor Road Investment Program (TA 8950-UZB). The project used to be part of the Third CAREC Corridor Road Investment Program and ADB agreed with the government's request to process it as a stand-alone project on 13 May 2016.

⁴ ADB. 2014. *CAREC Transport and Trade Facilitation Strategy 2020*. Manila.

country.⁵

6. **Past achievements.** Uzbekistan has developed a road sector policy framework to improve governance, accountability, sustainability, seamless transport logistics, and greater private participation. Several policy and institutional reforms have been carried out since 2003, including (i) separating planning and programming of road works from road construction and maintenance; (ii) creating the RRF as a quasi-independent body to mobilize and manage road sector revenues; (iii) promoting competitive bidding for all road construction works; (iv) establishing an external quality control mechanism; (iv) engaging road design engineers through competitive selection for low class roads; and (v) establishing a state-owned road equipment pool company to lease equipment to all contractors.⁶ The Government of Uzbekistan has also restructured Uzavtoyul⁷ to be a joint stock company with defined performance and accountability targets. Despite recent achievements, the road sector still faces a number of challenges.

7. **Financial sustainability.** The RRF is responsible for financing about 25% of the entire network. About 85% of the financial resources available to the RRF accrue from the profit and turnover tax, which generates substantial revenue. However, the tax is neither equitable nor commensurate with the cost incidence of the different vehicle classes and their impact on road conditions and maintenance. The profit and turnover tax is not fully aligned with road use and thus does not adequately reflect the costs caused by road users. It is necessary to introduce designated user charges, which should be identified and levied separately from general taxation so that they can be earmarked and allocated for road works.

8. **Need for a systematic maintenance regime.** Allocations to the RRF have increased from about \$297.5 million in 2011 to about \$747.3 million in 2015, an annual increase of about 26%. During this period, RRF expenditures also rose sharply by almost 45% per year, exceeding revenues for the first time in 2013. In 2015, revenues accounted for only 70% of total expenditures. In 2011, routine and periodic maintenance expenditures accounted for 33% of total road expenditures; this dropped to 27% in 2015. The average maintenance expenditure (both routine and periodic) is relatively low at \$23,800 per km. However, maintenance allocations vary widely, from about \$90,000 per km for international roads to \$10,000 per km for local roads. The Asian Development Bank (ADB) has helped the RRF develop a road asset management system (RAMS).⁸ Additional support for a condition survey and the preparation of a road asset inventory will be needed before the RAMS becomes fully functional. Both ADB and the World Bank are currently providing assistance to this end.

9. **Road sector institutions.** Despite the delineation of functions between the RRF and Uzavtoyul, some overlaps continue to exist. Neither Uzavtoyul nor the RRF is currently a full-fledged road authority, although both display some characteristics thereof. The RRF, as a financier, might focus on managing the collection and expenditure of the revenues, such as

⁵ The density is higher in the eastern regions (4,000 km–6,000 km per 10,000 km² in Andijan, Ferghana, Namangan, and Tashkent). To the south, the density decreases to moderate values (1,000 km–3,000 km per 10,000 km²), and is lowest in the western regions (less than 1,000 km per 10,000 km² in Karakalpakstan and Novoi).

⁶ A subcomponent of ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Uzbekistan for the CAREC Regional Road Project*. Manila (Loan 2403-UZB).

⁷ Uzavtoyul was restructured into a joint stock company in 2003. Highway maintenance was separated from the rest of the network, and seven specialized highway maintenance enterprises were established under Uzavtoyul.

⁸ The development of a RAMS was supported by ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Uzbekistan for the CAREC Regional Road Project*. Manila (Loan 2403-UZB); and ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranchise Financing Facility to the Republic of Uzbekistan for the Central Asia Regional Economic Cooperation Corridor 2 Road Investment Program*. Manila (Loan 2365-UZB).

forecasting revenues, optimizing expenditure, and monitoring use of fund. Although some of Uzavtoyul's technical expertise migrated to the RRF when the RRF was shifted to the Treasury, Uzavtoyul remains the premier road agency in terms of technical skills. The dilution of this skill base, combined with the creation of a parallel organization, diminishes road sector efficiency. Uzavtoyul, supported by ADB, is currently divesting some of its construction subsidiaries so that they become legally and financially autonomous commercial entities. After having attained this status, they will be eligible to participate in the bidding for ADB-financed projects.

10. **Road design and construction standards.** The design and construction standards currently in use were developed in the 1980s and have been updated periodically, but without changing their essential features.⁹ Some provisions for road geometric and pavement design are excessive, resulting in unnecessarily high construction and maintenance costs. Road safety considerations are not adequately incorporated in the design standards. The standards should be reviewed and modernized in line with the latest technology and international best practices.

11. **Road safety.** Road safety is a growing concern in Uzbekistan as the rapid growth in numbers of motorized vehicles has led to a dramatic increase in road accidents. Road accidents have become a leading cause of death, especially among men. On average, 2 fatalities occur for every 10 accidents. Uzbekistan records 1,430 fatalities per 1 million vehicles, which is high by international standards.¹⁰ Poor road conditions and traffic rule violations, particularly of speed limits, are major causes of the high fatality rate.

12. **ADB sector work.** ADB has been Uzbekistan's lead development partner in the transport sector since 1998. From 2005 to 2015, ADB approved seven loans for road projects totaling \$983 million, of which two loans were successfully completed, and five are being implemented under two CAREC Corridor 2 road investment programs. The government has asked ADB to continue to support the rehabilitation of CAREC Corridors 2 and 6. The project responds to this request.

13. **Lessons.** The project design incorporates lessons from previous and ongoing road projects. Key lessons are that (i) road engineering and designs should be consistent with internationally recognized design and construction standards, (ii) a strong project management unit (PMU) is indispensable for successful project implementation and should be in place as early as possible in the planning stage of the project, and (iii) the PMU and RRF should enhance their capacity and streamline approval procedures to facilitate procurement and contract management.

14. **The project area.** The project will complement ongoing efforts to improve the CAREC corridors by improving the road linking the tourist centers of Karshi, Shakhrisabz, and Kitab in the Kashkadarya Province. This road connects Karshi to Samarkand in the north, another famous tourism destination in the country. The current condition of the project road is poor. Its pavement has deteriorated, the drainage system has fallen into disrepair, and several of its junctions are prone to accidents. The Kashkadarya province has become an attractive destination for national and international tourists, with the number of tourists increasing by 37%, from 24,100 in 2012 to 33,200 in 2015. The project will improve regional connectivity and transport efficiency, and create more job opportunities. In addition to civil works, the project will

⁹ These design standards date back to the road system of the former Soviet Union, which had a single network governed by the same set of administrative rules, regulations, and technical standards. Accordingly, a single design methodology, as well as identical road construction and maintenance practices, were followed in all of the former Soviet Union's constituent republics. The Soviet Union State All-Union Standard, a road design and construction standard, is still being applied in Uzbekistan.

¹⁰ The corresponding figures for Japan, Malaysia, and Singapore are below 200.

finance implementation support and capacity development by improving design and construction standards and by providing project management training for the national design institutes and RRF. The project is aligned with ADB's Midterm Review of Strategy 2020 action plan, as well as with ADB's country partnership strategy, 2012–2016.¹¹

B. Impacts and Outcome

15. The impacts will be increased international trade and tourism along the CAREC corridors, safer roads, and economical and efficient road planning and construction. The outcome will be improved efficiency of Uzbekistan's road sector.

C. Outputs

16. The project outputs will be:

- (i) **Upgrading of approximately 77 kilometers of highway in the Kashkadarya province.** The project will upgrade two road sections, approximately 77 km in length, of the existing highway in the Kashkadarya province between Karshi, Shakhrisabz, and Kitab cities into a 4-lane concrete pavement incorporating road safety and climate change adaptation features.
- (ii) **Capacity of the RRF and national design institutes strengthened.** The project will develop the capacity of the RRF and selected national road design institutes in relation to modern road design and construction standards, and support the project management.

D. Investment and Financing Plans

17. The project is estimated to cost \$266.2 million (Table 1).

Table 1: Project Investment Plan
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Civil works	160.7
2. Implementation support ^c and institutional strengthening	12.6
3. Taxes and duties	54.1
Subtotal (A)	227.4
B. Contingencies^d	31.6
C. Financing Charges During Implementation^e	7.2
Total (A+B+C)	266.2

^a Includes taxes and duties of \$54.1 million to be financed from government resources.

^b In June 2016 prices.

^c Expenses incurred by the project management unit, including staff salaries, operating expenses, travel, training, computers, software, office furniture, vehicle, and other eligible expenditures, in line with the *Operations Manual*, Section H3/OP, para. 10. Asian Development Bank financing of these costs is justified to ensure timely availability of funds for a function critical to the overall success and timely completion of the project, as the project management unit has been set up to manage the project.

^d Physical contingencies computed at 10.0% for civil works; and 5.0% for implementation support and institutional strengthening. Price contingencies computed at 1.5% on foreign exchange costs and 10.0% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^e Includes interest and commitment charges to be financed by the government.

Source: Asian Development Bank estimates.

¹¹ ADB. 2014. *Midterm Review of Strategy 2020: Action Plan*. Manila; ADB. 2012. *Country Partnership Strategy: Uzbekistan, 2012–2016*. Manila.

18. The government has requested a loan of \$198 million from ADB's ordinary capital resources to help finance the project. The loan will have a 24-year term, including a grace period of 4 years, a straight-line repayment method, an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a commitment charge of 0.15% per year, and such other terms and conditions set forth in the draft loan agreement. Based on this, the average loan maturity is 14.25 years, and the maturity premium payable to ADB is 0.10% per year. The financing plan is in Table 2.

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (loan)	198.0	74.4
Government	68.2	25.6
Total	266.2	100.0

Source: Asian Development Bank estimates.

E. Implementation Arrangements

19. The RRF will be the executing agency in charge of project implementation. The RRF has established a PMU and appointed key staff to implement the project on a day-to-day basis. Specifically, the PMU will (i) conduct procurement and contract management; (ii) provide financial management; and (iii) undertake progress evaluation, monitoring, and reporting. The construction supervision consultants will be engaged as the engineer for the construction contract. An institutional development consulting firm will be recruited to help update the design and construction standards. The implementation arrangements are summarized in Table 3 and described in detail in the project administration manual (PAM).¹²

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	March 2017–December 2021		
Estimated completion date	31 December 2021		
Loan closing date	30 June 2022		
Management			
(i) Oversight body	Interministerial project steering committee, consisting of members from the Ministry of Economy; Ministry of Finance; Ministry of Foreign Economic Relations, Investments and Trade; and Ministry of Justice, as well as other relevant line ministries, chaired by the first deputy prime minister.		
(ii) Executing agency	Republican Road Fund, Ministry of Finance		
(iii) Implementation unit	Project management unit, Tashkent		
Procurement	Procurement of ADB-financed goods, civil works, and related services will follow ADB's Procurement Guidelines (2015, as amended from time to time).		
	International competitive bidding	2 civil works contracts	\$176 million
	Shopping	1 contract	\$34,000
Consulting services	The consultant recruitment will follow ADB's Guidelines on the Use of Consultants (2013, as amended from time to time).		
	Quality- and cost-based selection (90:10)	1 contract for construction supervision consultant (502 person-months)	\$3.5 million

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

Aspects	Arrangements		
		1 contract for institutional development consultant	\$0.5 million
	Least-cost selection	1 contract for financial auditor	\$0.1 million
	Individual consultants	1 contract for environment specialist (50 person-months)	\$0.2 million
Advance contracting	Civil works and consulting services		
Retroactive financing	Civil works, consulting services, and eligible incremental administrative costs, incurred up to 12 months before the signing of the loan, subject to the ceiling of 20% of the loan amount		
Disbursement	The proceeds of the ADB loan will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and detailed arrangements agreed between the Government of Uzbekistan and ADB.		

ADB = Asian Development Bank.
Source: ADB estimates.

III. DUE DILIGENCE

A. Technical

20. The project involves the rehabilitation of a road running over mostly flat and hilly terrain and, therefore, does not pose a particular technical challenge. An improved drainage system will mitigate climate change impacts, which is not expected to be significant. A national design consultant (Yo'l Loyiha Byurosi) completed the design, which an international consultant reviewed, making it possible to optimize most of the design features. In addition, a road safety audit carried out in accordance with international standards will make the road design safer. Specifically, the project will focus on improving road safety by widening the carriageway to four lanes (six lanes in towns), reconstructing overpasses, widening or replacing bridges, installing road furniture and safety facilities, constructing new enclosed bus stops, and restoring drainages. The project will follow the existing alignment, except for sections where very minor realignments are needed to improve sight distance and safety.

B. Economic and Financial

21. The economic and financial analysis concluded that the project is economically viable. The project is expected to generate economic benefits mainly through vehicle operating cost and travel time savings, as well as improved road safety due to the specific road safety features incorporated in the design. Together, these benefits will yield an economic internal rate of return of 14.9%, and will accrue, not only to current road users, but also to those who divert from the longer connection through Guzar. Sensitivity tests and calculations of switching values were carried out to determine the effect of variations in key project parameters. The result shows switching values of 71% with respect to construction costs and -43% with respect to benefits, meaning that the project would remain economically efficient if construction costs rose by 71% or if benefits fell by 43% from the base case values.¹³ Project viability would remain robust if no traffic diverts or accident cost savings materialize.

22. As there are no plans to collect tolls on the project road, the project will not generate financial revenues. Thus, no financial analysis was undertaken. However, the project is expected to free up government financial resources, as the designed concrete pavement surface will considerably reduce periodic and routine maintenance requirements. Precautionary measures will be taken to ensure that an adequate budget is allocated to road maintenance in

¹³ Switching value is the percentage change of an independent variable chosen to make the economic internal rate of return fall to a defined hurdle rate and the net present value to become zero. ADB has set the hurdle rate at 12%.

general and the project in particular.

C. Governance

23. **Financial management.** A financial management assessment of the RRF confirmed that it has adequate capacity to manage and maintain the required accounting systems, financial controls, and audit arrangements. Nonetheless, the risk was rated *substantial* due to the RRF's accounting method. However, this shortcoming will be mitigated by the professionalism and competence of the staff that the RRF has assigned to the PMU. Most PMU staff are experienced in financial management and procurement, and familiar with ADB's policies and reporting requirements, especially with respect to financial statements and progress monitoring reports. In addition, training workshops will be conducted to ensure that any new staff are trained in good governance practices, especially relating to financial management and procurement.

24. **Procurement** A procurement risk assessment of the RRF indicated that the project procurement risk is high considering past procurement performances, especially under ADB-financed projects, and the public procurement environment in Uzbekistan. The government has an established governance mechanism and practiced in procurement decision-making and oversight. Nonetheless project-specific adjustments will be made to improve their effectiveness. While the PMU has the capacity to undertake certain procurement functions according to ADB's procurement procedures, some tender committee members tasked to review and approve procurement transactions lack the required capacity and experience in following these procedures.

25. The main procurement management challenges for the RRF are (i) the lack of a well-established permanent procurement unit handling procurement under foreign-funded projects; (ii) multiple layers of review and approving authorities, including several committees responsible for procurement approval, such as the interministerial tender committee, working-level tender committee, and evaluation committees, with weak coordination among various department stakeholders; (iii) complex and lengthy bureaucratic systems causing project procurement and implementation delays; and (iv) the engagement of some procurement staff on contractual employment, resulting in unsustainable capacity building.

26. To mitigate these risks, the following measures are being taken: (i) improve the project governance mechanism by restructuring the procurement decision-making process and their roles and responsibilities of each stakeholders; (ii) improve the knowledge and capacity of all units and committees involved in project procurement transactions through a short briefing (for high-level committee members) and in-depth practical seminars (for lower level committee members and PMU staff) on ADB procurement procedures; and (iii) initiate advance procurement for civil works contracts with support from the consultant(s) to minimize delays.

27. ADB's Integrity Principles and Guidelines¹⁴ and ADB's Anticorruption Policy (1998, as amended to date) were explained to and discussed with the government and RRF. The specific policy requirements and supplementary measures are described in the PAM (footnote 12).

¹⁴ ADB. 2015. *Integrity Principles and Guidelines*. Manila.

D. Poverty, Social, and Gender

28. The assessment of social impacts and analysis of key stakeholders' perceptions and concerns about the project have been conducted, with positive feedback. A socioeconomic survey carried out along the project road indicated an average household size of five persons. Men and women constitute nearly equal portions of the affected population, with 51% of men and 49% of women found to be educated. Apart from business (small businesses and enterprises) and government employment, agriculture is a key source of income for the affected households. Most households in the project area have access to basic social services. Access will become easier once road conditions are improved. Although the project is classified *no gender elements*, women will form a major group of direct project beneficiaries. Benefits expected to accrue primarily to women include better access to basic economic and social services. Women in rural Uzbekistan are responsible for key family activities such as those relating to child education, childcare, health, and food. The transport burden faced by women impedes their ability to build their assets and reduce their vulnerability. In general, reducing the burden of transport will increase women's productivity and income. Highway construction and the development of long-term transit routes may increase the risk of sexually transmitted infections. The government is taking this risk seriously and has agreed upon a mitigation plan with ADB.

E. Safeguards

29. **Environment.** Based on ADB's Safeguard Policy Statement (2009), the project is classified *category B* for the environment. Likely adverse impacts will be limited to the construction stage. Such impacts may include (i) noise, dust, vehicle emissions, and vibration affecting settlements along the project road; (ii) impacts on rivers due to bridge rehabilitation and construction works; (iii) impacts due to material transportation from borrow sites; (iv) impacts of tree cutting along the project road to clear rights-of-way; (v) impacts from asphalt and concrete mixing plants and aggregate crushers; and (vi) impacts from the contractor's working camps. Impacts during the operation stage include noise and vibration due to the increase in traffic volume. Noise and vibration modeling has been conducted for sensitive receptors in both construction and operation stages. The environmental management plan (EMP) prepared as part of the initial environmental examination includes mitigation measures. The initial environmental examination was disclosed on the ADB website on 31 August 2016.

30. The PMU and RRF will be responsible for implementing the EMP. A qualified, full-time safeguard professional designated together with the supervision consultant's environment specialists will help to oversee the EMP's implementation. The project will finance the cost of implementing the EMP. The civil works contracts will include the cost of mitigation measures and environmental monitoring. The construction supervision consultant's consulting service contract will include the cost of environmental supervision. A grievance redress mechanism to handle both environmental and social safeguard issues will be established. The PMU will submit semiannual environmental monitoring reports for the ADB-financed section to ADB and relevant government authorities; these reports will be disclosed to the public on the RRF (in Uzbek or Russian) and ADB (in English) websites.

31. **Resettlement.** The project is classified *category B* for involuntary resettlement. Land acquisition was initiated in 2014, before ADB considered supporting the project. In April 2016, the RRF informed ADB that all land acquisition had been completed; on 13 May 2016, the government requested ADB to process the project as a stand-alone project; and in June 2016, ADB proceeded to conduct a resettlement due diligence study, including to determine any gaps when compared with ADB's Safeguard Policy Statement. A social due diligence report was

prepared, endorsed by the RRF, and disclosed to the public on 6 September 2016.¹⁵

32. The due diligence study established that land acquisition was initiated in 2014 by invoking the requirements of the Land Code of the Republic of Uzbekistan, 1998. Land acquisition followed the country's land legislation, which requires land for land replacement and full compensation at market price (including transaction costs) for housing and other land developments before taking possession of the assets. Affected households are paid the first 50% of their compensation while the land acquisition is still in progress, and the remaining 50% is paid after the demolition of the housing structures. Physically displaced persons are given rental assistance for 2 years, as well as shifting assistance to enable them to build replacement housing within this time frame. Affected households are given 6 months' advance notice delivered to them personally by a *khokimiyat* (district administration) official, in keeping with information disclosure and consultation regulations. The country has an established grievance redress mechanism based on the national law. Based on the due diligence study, all affected households have received the first 50% of their compensation. Payment of the remaining 50% is ongoing.

33. To ensure the payment of full compensation to all affected households, a corrective action plan was prepared and included in the social due diligence report (DDR). All affected households shall receive compensation in full before any construction commences. This is also a covenant in the loan agreement.

34. ADB will monitor and review compliance against the DDR and periodically update the same. To cover any unanticipated impacts, a resettlement framework has also been prepared. The resettlement framework includes an entitlement matrix (for the unanticipated impacts) and a requirement to prepare the appropriate resettlement plan. The resettlement framework was disclosed on ADB's website on 6 September 2016.¹⁶

35. **Indigenous people.** The country does not have communities inhabited by indigenous people as defined in ADB's Safeguard Policy Statement for operational purposes. As such, the project is classified *category C* for indigenous peoples, and requires no further action.

F. Risks and Mitigating Measures

36. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.¹⁷ The project procurement is classified *category B*. Overall, the risks are deemed manageable by adopting adequate mitigating measures, and the integrated benefits and impacts are expected to outweigh the costs of mitigation.

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Allocation of funds to maintain project road and facilities is inadequate.	ADB will help strengthen the RRF's capacity to increase the budget allocation and improve program budgeting in the road sector through continuous policy dialogues. Together with the World Bank's complementary efforts to complete the road asset management system, operation and maintenance planning and road maintenance resource consumption will be optimized.

¹⁵ Social Due Diligence Report (accessible from the list of linked documents in Appendix 2).

¹⁶ Resettlement Framework (accessible from the list of linked documents in Appendix 2).

¹⁷ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Risks	Mitigating Measures
Obsolete design and construction standards together with design deficiencies delay the review and approval of the feasibility study, design, and bidding documents.	Consultants will be engaged to review the project design in its early stages. An institutional development component will be included in the loan to update design and construction standards. The international design consultant and national designer are encouraged jointly to conduct a feasibility study and detailed design in keeping with international standards.
Knowledge of and experience using ADB procurement procedures are lacking, especially among tender committee members and new staff from the RRF and PMU.	All PMU staff involved in project procurements will be provided with an overview of ADB procurement procedures through a short briefing (for high-level committee members), and in-depth practical seminars (for lower-level committee members and PMU staff) before loan effectiveness.
Multiple layers of review and approving authorities, as well as lengthy procedures to register contracts and verify contract prices, delay procurement and implementation.	ADB will continue its dialogue with the government to simplify the approval procedure and remove the contract price verification when registering contracts for the ADB project. ADB and the government are working together to: (i) improve the project governance mechanism by restructuring the procurement decision-making process and their roles and responsibilities of each stakeholders; (ii) improve the knowledge and capacity of all units and committees involved in project procurement transactions through a short briefing (for high-level committee members) and in-depth practical seminars (for lower level committee members and PMU staff) on ADB procurement procedures; and (iii) initiate advance procurement for civil works contracts to minimize delays.

ADB = Asian Development Bank, PMU = project management unit, RRF = Republican Road Fund.
Source: Asian Development Bank.

IV. ASSURANCES

37. The government and RRF 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 PAM and loan documents. The government and RRF have agreed with ADB on certain covenants for the project, which are set forth in the loan agreement.

V. RECOMMENDATION

38. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of \$198,000,000 to the Republic of Uzbekistan for the Kashkadarya Regional Road Project, from ADB's ordinary capital resources, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 24 years, including a grace period of 4 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao
President

14 November 2016

DESIGN AND MONITORING FRAMEWORK

Impacts the Project is Aligned With: International trade and tourism increased along Central Asia Regional Economic Cooperation corridors in Uzbekistan, safer roads, and greater economy and efficiency in road planning and construction ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Efficiency of the road sector improved	a. Annual average daily traffic on the Karshi–Kitab road in Kashkadarya increased to about 14,000 vehicles by 2022 (2015 baseline: 9,408) b. Travel time between Karshi and Kitab decreased to 97 minutes by 2022 (2015 baseline: 119 minutes)	a. Periodic classified traffic counts (collected by Uzavtoyul) b. RRF completion report	Challenging economic environment might result in lower-than-expected growth in traffic
Outputs 1. Upgrading of approximately 77 km of highway in the Kashkadarya province 2. Capacity of the RRF and national design institutes strengthened	1a. By 2021, two sections approximately 77 km in length between Karshi, Shakhrisabz, and Kitab in the Kashkadarya province will be upgraded to a four-lane, concrete-paved highway incorporating road safety and climate change adaption features (2015 baseline: not applicable) 1b. By 2021, a pavement international roughness index of less than 3 m/km will be achieved on the project road (2015 baseline: 7.0 m/km) 2a. An appropriate government decree or other similar or equivalent act to approve the application and use the updated design and construction standards, developed under the project, is issued by 2021 (2015 baseline: 0) 2b. More than 50 staff from the design institute and RRF will be trained in the new design and construction standards by 2021 (2015 baseline: 0)	1a–b. RRF completion report 2a–b. Progress report	Multiple layers of review and approving authorities, as well as lengthy procedure to register contracts may delay procurement and implementation

<p>Key Activities with Milestones</p> <ol style="list-style-type: none"> 1. Upgrading of approximately 77 km of highway in the Kashkadarya province <ol style="list-style-type: none"> 1.1 Recruit construction supervision consultants by 31 March 2017. 1.2 Award civil works contracts by 31 March 2017. 1.3 Complete project by 31 December 2021. 2. Capacity of the RRF and national design institutes strengthened <ol style="list-style-type: none"> 2.1 Award consultant contract (update standards and design review) by 30 June 2017. 2.2 Complete review and update design and construction standards by 31 December 2021. 2.3 Complete training on updated design and construction standards by 31 December 2021.
<p>Inputs</p> <p>ADB: \$198 million (ordinary capital resources) Government of Uzbekistan: \$68.2 million</p>
<p>Assumptions for Partner Financing</p> <p>Not applicable</p>

ADB = Asian Development Bank, km = kilometer, m/km = meter per kilometer, RRF = Republican Road Fund.

^a Government State Committee of the Republic of Uzbekistan on Statistics. 2013. *Statistical Review of Uzbekistan*. Tashkent.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=50063-001-3>

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

Supplementary Document

12. Social Due Diligence Report