

## **PROJECT DOCUMENT**

### **Republic of Tajikistan Dushanbe-Uzbekistan Border Road Improvement Project**

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## **CURRENCY EQUIVALENTS**

(Exchange Rate Effective as of 31/05/2016)

Currency Unit = Tajikistani Somoni (TJS)  
US\$ 1.00 = TJS7.87

Fiscal Year  
January 1 – December 31

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
AIIB	–	Asian Infrastructure Investment Bank (the Bank)
CAREC	–	Central Asia Regional Economic Cooperation
EBRD	–	European Bank for Reconstruction and Development
EIRR	–	economic internal rate of return
ESAP	–	Environmental and Social Action Plan
GDP	–	gross domestic product
IMF	–	International Monetary Fund
km	–	kilometer
MOT	–	Ministry of Transport
PIU	–	project implementation unit

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## Project Summary Sheet

### Republic of Tajikistan Dushanbe-Uzbekistan Border Road Improvement Project

Project No.	000002																				
Client Borrower(s) Implementation Agency	Republic of Tajikistan Ministry of Transport																				
Sector(s) Subsector	Transport Roads and Highways																				
Project Objectives/ Description	The objective of the Project will be the enhancement of the connectivity and mobility along the Tajikistan segment of the Asian Highway Network and the Central Asia Regional Economic Cooperation Corridor 3. The Project will rehabilitate and upgrade the 5 km section between Avicenna Roundabout and West Gate of the Dushanbe-Uzbekistan border road.																				
Project Implementation Period (Start Date and End Date)	From December 2016 to December 2020																				
Project cost and Financing Plan	<p>Total project cost: USD105.9 million</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="3" style="text-align: center;"><b>Financing Plan</b></th> </tr> <tr> <th style="text-align: left;"><b>Source</b></th> <th style="text-align: center;"><b>Amount (USD million)</b></th> <th style="text-align: center;"><b>Share of Total (%)</b></th> </tr> </thead> <tbody> <tr> <td>Asian Infrastructure Investment Bank</td> <td style="text-align: center;">27.5</td> <td style="text-align: center;">26.0</td> </tr> <tr> <td>European Bank for Reconstruction and Development</td> <td style="text-align: center;">62.5</td> <td style="text-align: center;">59.0</td> </tr> <tr> <td>Government of Tajikistan</td> <td style="text-align: center;">15.9</td> <td style="text-align: center;">15.0</td> </tr> <tr> <td><b>Total</b></td> <td style="text-align: center;"><b>105.9</b></td> <td style="text-align: center;"><b>100.0</b></td> </tr> </tbody> </table>			<b>Financing Plan</b>			<b>Source</b>	<b>Amount (USD million)</b>	<b>Share of Total (%)</b>	Asian Infrastructure Investment Bank	27.5	26.0	European Bank for Reconstruction and Development	62.5	59.0	Government of Tajikistan	15.9	15.0	<b>Total</b>	<b>105.9</b>	<b>100.0</b>
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AIIB Loan (Size and Terms)	The Asian Infrastructure Investment Bank (AIIB) loan of USD27.5 million will have a 15-year term (including a grace period of 3 years) at AIIB's standard interest rate for sovereign-backed loans with an average maturity of 9.25 years, a commitment charge of 0.25% per year, a front-end fee of 0.25%, and a semiannual equal amortization scheme.																				
Co-financier(s) (If any)	European Bank for Reconstruction and Development (EBRD): USD62.5 million.																				
Conditions for Effectiveness and Disbursement (If any)	Effectiveness of the EBRD Loan Agreement and of the Project Co-financing Agreement.																				

Key Covenants	The Government has assured AIIB and EBRD that implementation of the Project shall conform to all applicable AIIB and EBRD policies, including those concerning anticorruption measures, environmental and social measures, and other safeguards, procurement, consulting services, and disbursement, as described in the loan documents. The Government has agreed with AIIB and EBRD on certain covenants for the Project, which are set forth in the loan agreements with AIIB and EBRD.
Environmental and Social Category	Category B
Key Legal Agreements	Loan Agreements of the Bank and EBRD, and the Project Co-financing Agreement between the Bank and EBRD

## I. STRATEGIC CONTEXT

### A. Country Context

1. Tajikistan is the second smallest country in Central Asia in terms of territory, and one of the poorest. The civil war that erupted following independence in 1991 caused severe damage to its economy. The war ended in 1997 and the country began the path to recovery. Tajikistan has since made significant progress. Economic growth reached 6.7% in 2014. Despite a challenging external environment, gross domestic product (GDP) continued to grow by 6.0% in 2015. While GDP growth is projected to fall moderately in 2016, it is forecast to recover gradually over the medium term.
2. Nevertheless, the country's economy remains vulnerable to external shocks because of its narrow economic base and a heavy reliance on remittances by labor migrants, with most of them working in the Russian Federation. According to the National Bank of Tajikistan, the value of remittance inflows (in US dollars) were sharply reduced by 35%-40% in 2015 due to the recession in the Russian Federation, combined with slowing growth in Tajikistan's other major trading partners, including China, Kazakhstan, and Turkey. The volatility of the external account has led to a decline in Tajikistan's foreign-exchange reserves. Somoni, the national currency, depreciated by 24% against the US dollar in 2015. The public debt as percentage of GDP is about 30%, and the Government of Tajikistan (the Government) is taking actions and the country's debt situation remains manageable.
3. Despite the substantial progress in poverty reduction in recent years, more than 35% of Tajikistan's population still lives below the poverty line and about half of the population earns only USD41 a month. Unemployment is high at almost 40%. Income disparities among regions remain large and food security is low. Key challenges facing the country include a lack of reliable power supply, inadequate transport connectivity, unstable food security, and low levels of private sector investment. The Government is formulating a new national development strategy for 2016–2025, which will reflect the post-2015 Millennium Development Goals.

### B. Sectoral and Institutional Context

4. As Tajikistan is about 3,000 kilometers (km) away from the nearest seaport, its transport costs are among the world's highest. Moreover, the country's railway network is fragmented and its air transport is limited, so the economy is highly dependent on the road network, which accounts for more than 90% of total traffic. The Ministry of Transport is responsible for management, operation, and maintenance of national roads. However, the road sector experiences daunting challenges. Road connectivity is inadequate and road conditions are deteriorating with almost 60% of roads in poor conditions because of insufficient maintenance, overloading, and a harsh climate. Road standards, including design, construction, and maintenance, are outdated and management of the road network remains centralized. These issues must be addressed to enable the road sector to make greater contributions to the economy in Tajikistan.
5. The Government has made efforts on reform and development in the transport sector. With the formulation of the National Transport Plan in November 2014, the Government gives priority to transport infrastructure investment and reforms. With assistance of the multilateral development banks,<sup>1</sup> several

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<sup>1</sup> The Asian Development Bank, European Bank for Reconstruction and Development, Islamic Development Bank, and the World Bank.

national roads have been rehabilitated, funding levels for road maintenance have increased, performance-based road maintenance contracts have been adopted, tolling on the Dushanbe-Khujand-Chanak highway has been introduced, and the institutional capacity of the Ministry of Transport has been strengthened.

6. The road from Dushanbe, Tajikistan's capital, to the border with Uzbekistan, approximately 62 km in length, is part of the Asian Highway Network and the Central Asia Regional Economic Cooperation Corridor 3 (CAREC Corridor 3). This corridor runs across Central Asia in the north-south direction, linking the Russian Federation to the Gulf and serving as a main conduit for regional trade. Tajikistan also depends on the corridor for trade, investment, and jobs. Improving the Dushanbe-Uzbekistan border road is essential to promoting economic growth in Tajikistan and trade in Central Asia.

7. The Asian Development Bank (ADB) and the European Bank for Reconstruction and Development (EBRD) started co-financing for improving the Dushanbe-Uzbekistan border road in 2010. ADB approved a grant of USD120 million in 2010 for the 57 km section up to the border with Uzbekistan and its section was completed in late 2015. EBRD approved a loan of USD35 million to rehabilitate the 5 km urban section in Dushanbe in 2012, but implementation has delayed because of the protracted process of detailed design preparation and approval by the Government.<sup>2</sup> The detailed design on the EBRD section was completed in December 2015 incorporating four multilayered interchanges. As a result, the investment cost has increased significantly from originally estimated USD35 million to USD90 million mainly because of the need to accommodate expanding traffic flow through multilayered intersections and road safety requirements in line with the Dushanbe City Master Plan. Thus, the Government has requested co-financing from the Asian Infrastructure Investment Bank (AIIB) and EBRD for this section (the Project).

### **C. Rationale for the Project**

8. Connectivity is crucial for trade expansion and economic growth. The Project road, the last missing section of the Asian Highway Network and the CAREC Corridor 3 in Tajikistan's territory, was built 30 years ago and is in poor condition. Moreover, it is an urban section and severe traffic congestion occurs frequently, and is thus impeding the efficiency and safety of traffic. The Project will help increase national and regional trade, reduce traffic congestion, and improve road safety. It is a Government priority and is consistent with AIIB's mandate of investing in infrastructure and promoting regional cooperation.

## **II. THE PROJECT**

### **A. Project Objectives and Key Indicators**

9. The objective of the Project will be the enhancement of the connectivity and mobility along the Tajikistan segment of the Asian Highway Network and the CAREC Corridor 3. The key indicator of the Project will be a rehabilitated and upgraded 5 km section between Avicenna Roundabout and West Gate of the Dushanbe-Uzbekistan border road.<sup>3</sup>

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<sup>2</sup> The delay was due to (i) the re-tender of the final design consultant as the first tender was unsuccessful, and (ii) additional components added to the design in line with the Dushanbe City Master Plan approved in July 2013.

<sup>3</sup> The Project's Monitoring and Evaluation Framework is in Appendix 1.

## B. Project Design and Components

10. The Project has a road rehabilitation and reconstruction work component and a consultancy service component for international consultants to provide construction supervision. The detailed engineering design of the road work component has been completed. The scope will include (i) constructing a 3-level traffic interchange and related pedestrian under-passes at 82nd roundabout; (ii) building a 3-level traffic interchange at Avicenna roundabout; (iii) constructing two 2-level traffic interchanges at key local road crossings; (iv) widening the Project road to dual 4 lanes; (v) improving adjacent intersecting roads; (vi) reconstructing pavements; and (vii) constructing several pedestrian underpasses.

## C. Project Cost and Financing Plan

11. The Project is estimated to cost \$105.9 million (Table 1).

**Table 1: Project Investment Plan (USD million)**

Item	Amount
<b>A. Base Cost</b>	
Road Rehabilitation and Reconstruction	78.4
Supervision Consultant	0.8
Project Management	0.3
Resettlement	0.5
Value Added Tax	15.9
<b>Subtotal (A)</b>	<b>95.9</b>
<b>B. Contingencies<sup>a</sup></b>	<b>9.0</b>
<b>C. Financing Charges during Implementation<sup>b</sup></b>	<b>1.0</b>
<b>Total (A+B+C)</b>	<b>105.9</b>

<sup>a</sup> Physical contingency was estimated at 3.4% and price contingency was estimated at 9.6%.

<sup>b</sup> Financing charges refer to the front-end fees from the AIIB and EBRD loans.

Sources: Estimates of the Asian Infrastructure Investment Bank and European Bank for Reconstruction and Development.

12. The Government has requested AIIB to co-finance the Project, together with EBRD. The financing plan comprises (i) a sovereign-backed loan of USD27.5 million from AIIB, (ii) a sovereign-backed loan of USD62.5 million from EBRD;<sup>4</sup> and (iii) USD15.9 million from the Government. The financing plan is in Table 2.

**Table 2: Project Financing Plan**

Source	Amount (USD million)	Share of Total (%)
Asian Infrastructure Investment Bank	27.5	26.0
European Bank for Reconstruction and Development	62.5 <sup>a</sup>	59.0
Government of Tajikistan <sup>b</sup>	15.9	15.0
<b>Total</b>	<b>105.9</b>	<b>100.0</b>

<sup>a</sup> Comprising Tranche 1 in the amount of USD35.0 million approved in 2012 and Tranche 2 in the amount of USD27.5 million approved on May 4, 2016.

<sup>b</sup> The Government's contribution is in the form of value-added tax.

Sources: Estimates of the Asian Infrastructure Investment Bank and European Bank for Reconstruction and Development.

<sup>4</sup> Comprising Tranche 1 in the amount of USD35.0 million approved in 2012 and Tranche 2 in the amount of USD27.5 million approved on May 4, 2016.

13. The loan from AIIB will have a 15-year term (including a grace period of 3 years) at AIIB's standard interest rate for sovereign-backed loans with an average maturity of 9.25 years, a commitment charge of 0.25% per year, a front-end fee of 0.25%, and a semiannual equal amortization scheme.

14. EBRD will be the lead co-financier and will administer the Bank's loan on behalf of the Bank, including procurement, some disbursement-related services, environmental and social compliance, and project monitoring and reporting. A Project Co-financing Agreement between the Bank and EBRD will be signed. The Bank's operational, procurement, and environmental and social policies permit the Bank to apply another co-financier's policies in its projects when those policies meet certain requirements. EBRD's policies are satisfactory for these purposes and on that basis EBRD will be administering the Bank's loan and applying EBRD's policies and procedures.

#### **D. Institutional and Implementation Arrangements**

##### ***(a) Implementation Management***

15. The Project will be implemented over 4 years from December 2016 to December 2020. The loan closing date will be June 30, 2021.

16. The Ministry of Transport (MOT) of Tajikistan will be the Project executing agency. MOT has experience working with ADB and EBRD, and has an adequate capacity to implement the Project. The project implementation unit (PIU) under MOT will be responsible for day-to-day management of the Project. The PIU, which has implemented several road projects financed by ADB, has suitable qualified staff. The PIU will be further assisted by (i) the consultants funded from the loans and EBRD's technical cooperation grants on procurement, and (ii) the Lender's Monitor engaged by EBRD on project cost control.

##### ***(b) Procurement***

17. All contracts financed by AIIB under the loan will be procured through worldwide eligibility procurement procedures in accordance with EBRD's procurement policy and procedures, which are consistent with AIIB's Procurement Policy. As requested by MOT, AIIB has approved advance contracting. MOT has been advised that approval of advance contracting does not commit AIIB to finance the Project. There are two civil works contracts under the Project: Contract 1, which covers the construction of the 3-level traffic interchange and related pedestrian underpasses at 82nd roundabout and will be financed by the EBRD loan, is under tender evaluation. Contract 2, which covers the construction of other roundabouts and rehabilitation of the Project road, and will be jointly co-financed by the loans of AIIB and EBRD, is expected to start tendering in mid-2016.

##### ***(c) Fund Flow arrangements and Disbursements***

18. EBRD will provide disbursement review services for AIIB. EBRD will (i) review each drawdown application from MOT to verify that the amount requested by MOT is eligible for AIIB financing, and (ii) will notify AIIB through the Drawdown Notice that the drawdown application is in proper order and that it has determined that the amount requested is eligible for AIIB financing under the Project. Upon receipt of a Drawdown Notice from EBRD, AIIB will make necessary payments in accordance with the provisions of the Loan Agreement.

## **E. Monitoring and Evaluation of Project Results**

19. MOT will monitor and evaluate the progress of the Project and prepare Project reports. EBRD will review the Project reports on behalf of AIIB and will advise AIIB of the status of Project implementation. AIIB may participate in EBRD's project review missions, whenever necessary. Within one year of the Project completion, EBRD will prepare a project completion report to evaluate the Project results. EBRD will share all its project monitoring and evaluation reports with AIIB.

## **F. Loan Conditions and Covenants**

20. AIIB and EBRD will have matching conditions of effectiveness for the two sets of loan documents, which is customary for jointly co-financed projects, relating to the effectiveness of the other co-financer's loan agreement and to the effectiveness of the Project Co-financing Agreement.

21. The Government has assured AIIB and EBRD that implementation of the Project shall conform to all applicable AIIB and EBRD policies, including those concerning anticorruption measures, environmental and social measures, and other safeguards, procurement, consulting services, and disbursement, as described in the loan documents. The Government has agreed with AIIB and EBRD on certain covenants for the Project, which are set forth in the loan agreements with AIIB and EBRD. These include time-bound sector reform covenants on (i) preparation of a road sector institutional reform study and a Road Standards Review, followed by adoption of a road sector financing strategy; and (ii) establishment of a new standard for road construction and maintenance and of new road maintenance equipment units.

# **III. PROJECT ASSESSMENT**

## **A. Technical**

22. The detailed engineering design of the Project, which started in 2014 and was completed in December 2015, was prepared based on the new Dushanbe City Master Plan, the more rapid increase in traffic on the Project road than originally projected, and additional road safety requirements. The detailed design is fully in line with the national highway standards and the Project is technically viable. With assistance of the supervision consultant, MOT will closely monitor the performance of civil work contractors during implementation to ensure that the Project is built in line with the designed standards.

## **B. Financial Analysis**

23. The Dushanbe-Uzbekistan border road will not be a toll road upon Project completion. While the overall funding levels for road maintenance in Tajikistan remain lower than those required, the Government has increased maintenance funding in recent years and is committed to continue doing so in the future. By co-financing the Project, AIIB has joined EBRD and other multilateral development banks on the discussions with the Government about the need to continued increases in funding for road maintenance.

## **C. Economic Analysis**

24. An economic evaluation for the entire 62 km of the Dushanbe-Uzbekistan border road (including the Project) was conducted by EBRD. The economic internal rate of return (EIRR) for the entire road is at 22.9%. Despite an increase in the total project cost, the Project's EIRR has not decreased proportionally because the actual traffic has increased more rapidly than the traffic projected at the time of the Feasibility Study (33,000-50,000 vehicles per day in January 2016 compared with 18,000 vehicles

projected in 2010). The Project's EIRR is at 10.3%, compared with 12.7% calculated in 2012.

#### **D. Fiduciary and Governance**

25. **Anti-corruption.** AIIB is committed to preventing fraud and corruption in its financed projects. AIIB's Policy on Prohibited Practices was explained and discussed with the Government. The Government is committed that its personnel and other representatives involved in the Project adhere to the highest ethical standards during the implementation of the Project. To this end, the Government will require that each of these persons shall not engage in any Prohibited Practice in connection with the loan. Detailed policy requirements and supplementary measures are specified in the loan agreements with the Bank and EBRD.

26. **Financial Management.** MOT has received assistance from ADB for improving the financial management systems in the transport sector. The financial accounting, auditing rules, and internal control system in MOT generally follow accepted international practices. Under the Project, MOT will maintain a sound financial management system. EBRD will assist MOT in managing procurement and maintaining the accounting systems, financial controls, and independent audit arrangements through the provision of technical cooperation grants.

#### **E. Environmental and Social**

27. The Bank has decided to use EBRD's Environmental and Social Policy (2008) (EBRD ESP) since (i) it is consistent with the Bank's Articles of Agreement and materially consistent with the provisions of the Bank's Environmental and Social Policy and relevant Environmental and Social Standards; and (ii) the monitoring procedures that EBRD has in place to ascertain compliance with the EBRD ESP are appropriate for the Project. Under the EBRD ESP, the Project has been assigned Category B, as the potential impacts are expected to be site specific, readily identified and addressed through mitigation measures that were defined in an Environmental and Social Action Plan (ESAP). Due to design changes, the Project has been subject to a series of environmental and social studies, including a most recently updated ESAP issued in March 2016.

28. The Project will require temporarily displacing 9 business units and potentially two informal businesses/market stalls due to the need to acquire land for construction at a trolley-bus turning bay. The existing Livelihood Restoration Framework of the ESAP will address the need to provide relocation assistance, and potentially economic assistance for the displaced businesses, together with arrangements for monitoring the implementation of the agreed requirements.

29. The West Gate and Avicenna Monument and adjacent structures are to be demolished. Although these are not protected monuments, this change has been discussed with the Ministry of Culture and arrangements will be agreed for the re-siting of the Avicenna Monument at a new location. The ESAP includes a requirement for the relocation of the monument in line with national requirements.

30. The Project design also includes provisions primarily to improve road safety, including the introduction of additional pedestrian underpasses. Due to the location of this road section, EBRD will seek opportunities to provide technical support and road safety awareness to the local community.

31. The updated ESAP includes mitigation and monitoring measures that will address the identified potential environmental and social impacts, and its implementation will be monitored by the supervision consultant. The updated ESAP was disclosed by MOT and EBRD on May 6, 2016, and on AIIB's website on May 9, 2016.

## **F. Risks and Mitigation Measures**

32. The overall project risk is rated as “medium”. Major project risks are (i) the concern about debt sustainability in Tajikistan, and (ii) implementation delays. The International Monetary Fund (IMF) has been closely consulted on Tajikistan’s debt sustainability situation. IMF has advised that, despite the recent increase in the public debt as percentage of GDP to about 30%, the Government is making efforts and the debt situation remains manageable in Tajikistan. With regard to project implementation, the detailed engineering design has been completed. EBRD will assist MOT through technical assistance to expedite the procurement process and will appoint a “lender’s monitor” to strengthen project cost control. These measures will mitigate the potential implementation delay risk. Overall, the project risk is manageable. The Project area does not involve any international waterway or disputed area.

**Appendix 1: Monitoring and Evaluation Framework**

Project Output Indicators	Baseline (2016)	Target Values				Data Collection and Reporting		
		2017	2018	2019	2020	Frequency	Data Collection Instruments	Responsibility for Data Collection
The section between Avicenna Roundabout and West Gate of the Dushanbe-Uzbekistan border road rehabilitated and upgraded (unit: kilometer)	0	0	0	0	5	Annually	Project Implementation Report	Ministry of Transport