REPORT NO.: RES36757

DOCUMENT OF THE WORLD BANK

RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
FIRST PHASE OF THE CENTRAL ASIA ROAD LINKS PROGRAM
APPROVED ON APRIL 22, 2014
TO
KYRGYZ REPUBLIC

TRANSPORT
EUROPE AND CENTRAL ASIA

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I. BASIC DATA

**Product Information**

<table>
<thead>
<tr>
<th>Project ID</th>
<th>Financing Instrument</th>
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<tbody>
<tr>
<td></td>
<td>Investment Project Financing</td>
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<table>
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<tr>
<th>Original EA Category</th>
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<tr>
<td>Partial Assessment (B)</td>
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<table>
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<tr>
<th>Approval Date</th>
<th>Current Closing Date</th>
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<tr>
<td>22-Apr-2014</td>
<td>30-Sep-2019</td>
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**Organizations**

<table>
<thead>
<tr>
<th>Borrower</th>
<th>Responsible Agency</th>
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<tbody>
<tr>
<td>Kyrgyz Republic</td>
<td>Ministry of Transport and Roads</td>
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</table>

**Project Development Objective (PDO)**

**Original PDO**

The Central Asia Road Links (CARs) program is the result of a collaborative effort initiated by respective governments in the Central Asia region which has been developed as a regional, multi-phase program considered as a regional transformational project under IDA 16 and IDA 17. The program has the overall objective to increase transport connectivity between neighboring countries in Central Asia along priority cross-border road links whilst supporting improvements in road operations and maintenance practices.

The project development objective (PDO) of the First Phase of the Central Asia Road Links Program (CARs-1) is to increase transport connectivity between the Kyrgyz Republic and Tajikistan along priority cross-border road links in Batken Oblast whilst supporting improvements in road operations and maintenance practices. The road sections to be financed under CARs-1 prioritize connectivity between the Osh and Batken Oblast in the Kyrgyz Republic and Sugd Oblast in Tajikistan as they build lateral spurs from the Osh-Isfana axis to the Tajik border.

**Summary Status of Financing**

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<tr>
<th>Ln/Cr/Tf</th>
<th>Approval</th>
<th>Signing</th>
<th>Effectiveness</th>
<th>Closing</th>
<th>Commitment</th>
<th>Disbursed</th>
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I. SUMMARY OF PROJECT STATUS AND PROPOSED CHANGES

A. PROJECT STATUS.
1. The Board approved the SDR 29.3 million (equivalent to USD 45.0 million) credit and grant for the First Phase of the Central Asia Road Links Program (CARs-1) on April 22, 2014 and it became effective on December 14, 2014 with an original closing date of April 30, 2019. Implementation after preliminary delays is now progressing satisfactorily. Cumulative disbursement of the Bank credit and grant now stands at USD 25.17 million (62.06%). Progress towards achieving the PDO is rated Satisfactory while Implementation Progress is rated as Moderately Satisfactory. The project stays compliant with legal covenants, as well as Bank fiduciary and safeguard policies.

2. The project was previously restructured on March 6, 2019 when the closing date was extended by 6-months to September 30, 2019, and the allocation between categories 1 and 2 was amended.

3. The status of implementation is summarized below.
   Component 1: Rehabilitation of Priority Road Links in Batken Oblast
   • The road length was contracted under two separate (2) Lots and included improvement/rehabilitation of Class 3 and Class 4 road standards respectively. After some delays that were caused by adverse weather conditions, extraordinary rainfalls, and landslides in some unstable soil sections where adequate strengthening measures had to be installed, all works are now completed. The civil works contracts are in the Defects Liability Period (DLP).
   • Achievement of the PDO indicator “Volume of freight through Kyzyl-Bel/Guliston and Kairagach/Madaniyat border crossing points”: the actual value is 228,484 tons for a period from January to June 2019 against the target of 550,000 tons per year by the project closing. The Implementing Agency is expecting updated figures covering the whole year from the State Customs Service. However, the likely reasons of the decreasing freight volume may include the following: (i) during baseline year, the trade volume was at its highest peak during at least the last 6 years; (ii) accession of the Kyrgyz Republic to the Eurasian Customs Union (EACU) in 2015 led to the increase of customs fee along external borders of the EACU, thus increasing tariffs between the Kyrgyz Republic and Tajikistan and affecting the trade between the two countries. Only at the end of 2018 the customs fees rate between Kyrgyzstan and Tajikistan were reduced; (iii) the project road sections have just been completed and the current number cannot show direct impact of improved roads on the traffic, and (iv) series of short-term border conflicts between local population of the two countries related to uncompleted border demarcation process.

   Component 2: Improvement of Road Operations and Maintenance Practices
   • The project supported introduction of the weigh-in-motion system (WIMS) on a pilot basis to facilitate transparency in road axle load control and contribute in national revenue generation and improved customs control. On July 26, 2019 the MoTR adopted as a base document the Axle Load Control Strategy – a PDO indicator “Strategic Plan on transport control has been discussed at the regional level and approved by the MoTR”) - which was developed under the Bank support. The Kyrgyz Government extended WIMS installation along main road corridors. With
originally planned 2 pilot WIMS, to date, 7 have been procured, installed and accepted. Additionally, the Government expressed its interest in installing one (1) more WIMS using the savings made under the civil works contracts. The request was supported by the Bank subject to completion and acceptance of the same by the project closing date. The installation and acceptance works are proceeding very well and expected to be completed by the current closing date, though, there is a very low risk of delay in acceptance procedures beyond the current closing date.

- Contracts for road maintenance equipment were signed in June 2019 (6 lots, total cost US$3,293,420) with the latest delivery date of September 30, 2019 as stipulated in the contracts. To date, equipment has been delivered under 4 lots already (total cost US$ 2,140,320). On remaining 2 lots (total cost US$ 1,153,100, of which 10% advance only has been paid out), there is an emerging risk of delay in timely delivery and acceptance before the current closing date of the maintenance equipment, which is either in transit or on shipment. These delays are mainly caused by unreliability of the Supplier and slow decision making by the MoTR management. All above equipment is intended for the Osh-Batken-Isfana Road Department (OBI UAD) for routine maintenance of the road sections in sustainable condition along the Osh-Batken-Isfana road corridor (intermediate indicator “Compliance by OBI UAD with service level criteria as specified in the Service Level Agreement (SLA)”).

- A TA was completed with concrete recommendations on: (i) Analysis of Legal, Technical and Institutional Framework on Road Asset Preservation and Maintenance, (ii) Prioritization and Programming of Maintenance Work or RAMS (follow up on Road Asset Management System format developed in 2014 under the completed Bank financed “National Road Rehabilitation Project”, (iii) Monitoring of Service Level Agreement (SLA) Implementation in Osh-Batken-Isfana UAD, and (iv) Proposals for Typical Routine Maintenance and Development of Unit Rates for Typical Works. With the expected supply of the equipment and completed road sections, the government shall continue to pilot road maintenance recommendations as developed under the project.

- PDO indicator “Annual budget allocation for routine (summer and winter) maintenance for road sections in sustainable condition along the corridor under Osh-Batken-Isfana Road Department (OBI UAD)” is overachieved with actual value at US$242,489 against target US$200,000. Achievement of PDO indicator “Road users satisfied with maintenance of the Pulgon-Batken road section” is assessed on track (the last year actual value was at 49.7 against target 50). Final updated values are expected once road user survey is completed by the project closing.

Component 3: Project Management and Implementation

- Total number of IPIG approved staffing was 13 nos. To date, there are 5 vacant positions, i.e. Director, Road Engineer, Contract Administration Specialist, Finance Manager, and Environmental Specialist. Selection process remained protracted due to changes in the MoTR management. At present, Communication Officer is an Acting IPIG Director under the direct oversight of the Deputy Minister for Roads. The responsibilities of an Environmental Specialist have been assigned to the current Social Specialist who has adequate qualifications for the intended purpose. The duties of Contract Administration Specialist are co-shared between current Procurement Specialist and the Lawyer. Selection of IPIG Director was cancelled due to several complaints, and the above temporary arrangements were agreed to continue until the project closing with no new recruitment. All other activities under this component have been completed.

4. There are neither unresolved audit observations nor overdue audits under the project. The previous audit reports were found acceptable to the Bank. Arrangements for financial management under the Project, including planning and budgeting, accounting, financial reporting, internal controls, funds flow and external auditing are overall adequate and continue to be overall acceptable to the Bank.

B. Rationale for restructuring

5. Based on the current implementation progress, there are activities under ongoing road maintenance equipment contracts (under Component 2), which cannot be completed by the current closing date. These are mainly on-site
delivery and acceptance of road maintenance equipment. On June 13, 2019 the Ministry of Finance had requested another extension of 3-months till December 30, 2019. Additionally, the Government is aware of its potential financial liabilities payable (estimated amount US$ 1.04 million under road maintenance equipment contracts) in case the project closing date is not extended. Therefore, considering the project status, as assessed by the Bank in July 2019 mission, and clear commitment expressed by the Government of the Kyrgyz Republic in September 23, 2019 meeting to close the project successfully, it is proposed to extend the current closing date until November 15, 2019.

6. Considering the latest status of contracts for road maintenance equipment, an extension will: (i) allow sufficient time for error correction in the Letter of Credit, which is withholding payments to one of the equipment Suppliers, and (ii) allow in-transit equipment to be delivered to Batken, inspected, and accepted or otherwise. To ensure timely completion of the above balance activities, and, in particular, timely decision-making and actions by the MoTR management on acceptance of the equipment, before the extended closing date (November 15, 2019) (i) a detailed timebound Action Plan was discussed and agreed in a joint meeting on September 23, 2019 chaired by the Vice Prime Minister (see attached Annex 1 “Action Plan”), and (ii) the Government committed to strengthen IPIG capacity by assigning relevant specialists from other projects, in particular, fiduciary staff (finance manager and contract administration specialist) to provide additional support to IPIG since the above arrangement of contract administration cross-support by IPIG procurement and legal staff is assessed insufficient.

7. Based on the above, the task team recommends considering an extension of closing date to November 15, 2019.

8. Under the project there are substantial savings/unallocated funds for cancellation in the amount of XDR 2.7 million (as of September 24, 2019) under both Credit and Grant. These include savings under Category 1 (Civil Works) and unallocated funds under Category 2 (Goods, Non-Consulting, Consultants’ Services). The above amount needs further finalization considering extension of the closing date and outstanding payments to be done to the contractors/suppliers. The Borrower will send to the Bank an official letter requesting cancellation, which will be processed through another restructuring.

C. Proposed Changes
9. The following changes are recommended:
a. Extend the credit and grant closing date to November 15, 2019.

10. This will be the second change in the closing date and it will result in a 7.5-month cumulative extension of the original closing date.

II. DETAILED CHANGES

LOAN CLOSING DATE(S)

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<th>Status</th>
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<th>Revised Closing(s)</th>
<th>Proposed Closing</th>
<th>Proposed Deadline for Withdrawal Applications</th>
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