

# Project Concept Note

## I. Project Information

### Section 1.01. General Project Information

**Project name:** *Bishkek-Osh Road Rehabilitation, Phase IV.*

**The sector, in which the Project will be implemented:** Road sector.

**Project type:** upgrading, rehabilitation.

**States, on whose territory the Project will be implemented, including Fund member states:** the Kyrgyz Republic (hereinafter referred to as the KR).

**Investment site location and place of registration:** Chuisk and Jalal-Abad oblasts of the Kyrgyz Republic.

### Section 1.02. Project summary description.

#### Summary description of Project objectives and substance

The Project involves allocation of resources of the EurAsEC Anti-Crisis Fund (hereinafter referred to as the ACF) jointly with the Asian Development Bank (hereinafter referred to as the ADB) to the Ministry of Finance of the Kyrgyz Republic in the form of an investment loan to be transferred then to the Project Company.

The borrowed funds are planned to be spent on upgrading the following sections of Bishkek-Osh international automobile road: Bishkek to Kara-Balty (60 km) and Madaniyat to Jalal-Abad (70 km). Bishkek-Osh international automobile road is the only road connecting northern and southern regions of the Kyrgyz Republic. The road surface of these sections is badly worn down and needs upgrading. In the view of the significant increase of the traffic rate, the road's capacity is declining and the accident risk is increasing.

#### Expected Project implementation outcomes:

- Improved capacity and safety level;
- Creating conditions for unimpeded flow of cargo and passenger transport;
- Strengthened ties between northern and southern regions of the Kyrgyz Republic;
- Improved access to markets, reduced logistics costs;
- Strengthened system of road management;
- Ensuring a favorable environment for residents of the settlements located close to the road.

### Section 1.03. Level of Project preparation.

In 2009-2011, the ADB opened 3 credit lines to the Kyrgyz Republic totaling US\$ 140 million in the framework of upgrading 483 km out of 655 km of Bishkek-Osh international automobile road. International development institutions, such as the Islamic Development Bank and the Japan International Cooperation Agency (JICA) participated in co-financing upgrading of this road. As a result, 539 km (82 %) of Bishkek-Osh automobile road are upgraded. At the moment, the sections needing upgrading are the ones from Bishkek to Kara-Balty (60 km) and from Madaniyat to Jalal-Abad (70 km). The current status of these sections does not allow for ensuring the required level of road safety that may lead to road accidents. In the view of the stable increase in the traffic

flow and strategic importance of Bishkek-Osh automobile road for the economy of the Kyrgyz Republic, there is a need for urgent reconstruction of the two sections.

To update the Project FS, the Ministry of Transport and Communications of the Kyrgyz Republic has received technical assistance from the ADB, and the Consultant will start working in the framework of this technical assistance in December 2012.

#### **Section 1.04. Structure of Project financing.**

**Full Project cost:** US\$ 120 million.

**Composition of Project investments:** presented with a break-down by spending items in table 1.

Table 1. Composition of Project investments, '000 US\$

<b>Spending item</b>	<b>Amount</b>
General construction expenses	93,000
Consultation services	3,000
Project management	2,000
Road management system	3,000
Road safety program	5,000
Incidental expenses	12,000
Financial costs	2,000
Total	120,000

**Full Project cost with a breakdown by sources of financing:** presented in table 2.

Table 2. Sources of Project financing, '000 US\$

<b>Source of financing</b>	<b>Amount</b>	<b>Share</b>
Asian Development Bank	50,000	42%
EurAsEC Anti-Crisis Fund	50,000	42%
Government of the Kyrgyz Republic	20,000	16%
Total	120,000	100%

#### **Terms of ACF financing:**

The requested ACF financing limit: US\$ 50 million;

Total maturity, including the grace period: 20 years;

Interest rate: 1 (one) % annual;

Front-end commission: 1% of the ACF loan amount;

Currency of financing: US dollars;

Grace period: 5 years;

The principal amount will be repaid in line with a schedule to be prepared if the Project is approved;

The grant element calculated based on the IMF methodology is 39.38 %;

The terms of the ACF loan are consistent with the terms of financing provided by the Asian Development Bank.

**Areas of ACF financing:** The ACF loan will be used to finance general construction expenses and consultation services.

**Availability of written agreements of the Project Company with investors, including tentative ones, the list and substance of available agreements in signed documents:** The ADB's consent to finance the Project. The ADB has included the Project into its medium-term program of financing.

### **Section 1.05. State support to the Project**

The Project is implemented in accordance with the Road Sector Development Strategy of the Kyrgyz Republic. The co-financing of the Project on the part of the KR Government is planned in the amount of 16 %.

### **Section 1.06. Economic and financial projections for the Project.**

The economic and financial projections will be specified in the Project feasibility study (FS).

### **Section 1.07. Project environmental impact**

The rate of environment pollution by automobile transport directly depends on the road conditions for operating road vehicles. The level of pollution by automobiles depends not only on the technical condition of the vehicles, but on the road conditions, i.e. the road technical status and transport operating conditions.

To protect the environment, maintain the ecological balance, and recover the deteriorated quality of the environment in the area of work performed and the quality of citizens' life, the Project preparation is based on the ADB environmental safety policies. A detailed social and environmental impact assessment will be performed in the framework of the Project FS preparation.

### **Section 1.08. Security.**

The loan is provided to the KR Government in accordance with an international agreement. The liabilities under the loan are sovereign liabilities of the KR. The KR has no overdue liabilities related to external debt repayment and service.

## **II. Project Company Information**

### **Section 2.01. General information about the Project Company.**

**Official name of the company in accordance with constituent documents (full and abbreviated), with the organizational legal form specified:** Ministry of Transport and Communications of the Kyrgyz Republic as the implementation unit.

**Information on its registration as a legal entity:** Certificate of state re-registration GPR series No 0086168 dated February 4, 2009; registration number: 9111-3300-U-e; code under the General

Classifier of Enterprises and Organizations: 00036512; taxpayer identification number: 02606199510088;

**Location (*de jure* and *de facto* address), grounds for ownership of premises at *de facto* address (if *de facto* address differs from *de jure* one):**

42 Isanova st., Bishkek

**Form of ownership:** State.

**Branch of activity:** the Ministry of Transport and Communications of the Kyrgyz Republic is an executive government authority implementing government policies and managing the sectors of automobile, railway, electrical, air, and water transport, roads and railways, communication and computerization, radio and television broadcasting (hereinafter referred to as the road and transport, communication, and computerization sector).

**History of Project Company formation, period of company operation, experience in the segment**

The Ministry of Transport and Communications of the Kyrgyz Republic was created in 1991 based on a Decree of the President of the Kyrgyz Republic

The Project Company, being the implementation unit, implements all investment projects in public road upgrading on the territory of the Kyrgyz Republic. For the purposes of project administration, there is an Investment Project Implementation Group functioning under the Project Company; it has the necessary staff and equipped office facilities.

## **Section 2.02. Composition of Project Company shareholders.**

100% state ownership

## **Section 2.03. Key financial indicators of the Project Company's activity.**

Reports on the activity of the Project Company are submitted in accordance with Law of the Kyrgyz Republic No 78 dated June 11, 1998 *On Key Principles of the Fiscal Law in the Kyrgyz Republic*.

The overall budget of the Ministry of Transport and Communications of the Kyrgyz Republic for 2012 is KGS 7,421,322 thousand, of which:

- Development budget: KGS 5,254,477.4 thousand;
- Current budget: KGS 2,007,870.4 thousand;
- Special funds: KGS 158,974.2 thousand.

Minister of Finance of the Kyrgyz Republic

Olga V. Lavrova

Authorization document for the signatory: Decree of the President of the Kyrgyz Republic No 181 dated September 6, 2012