

PROJECT DOCUMENT

Islamic Republic of Pakistan National Motorway M-4 (Shorkot-Khanewal Section) Project

CURRENCY EQUIVALENTS

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

Currency Unit = Pakistani rupee (PKR)
US\$ 1.00 = PKR104.82

Fiscal Year
July 1 – June 30

ABBREVIATIONS

ADB	–	Asian Development Bank
AIIB	–	Asian Infrastructure Investment Bank (the Bank)
DFID	–	Department for International Development of the Government of the United Kingdom
EALS	–	Environment, Afforestation, Land, and Social Division
EIA	–	environmental impact assessment
EMP	–	environmental management plan
GDP	–	gross domestic product
LARP	–	land acquisition and resettlement plan
km	–	kilometer
NHA	–	National Highway Authority
PIU	–	project implementation unit
SPS	–	Safeguard Policy Statement
SSEMP	–	site-specific environmental management plan

President	Liqun Jin
Vice-President, CIO	D.J. Pandian
Senior Advisor to the President on Operations	Seethapathy Chander
Project Team Leader	Wang Hong, Operation Advisor
Team members	Philip Daltrop, Senior Legal Consultant Anzheng Wei, Financial Analyst

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Project Summary Sheet

Islamic Republic of Pakistan National Motorway M-4 (Shorkot-Khanewal Section) Project

Project No.	000001																					
Client Borrower(s) Implementation Agency	Islamic Republic of Pakistan National Highway Authority of Pakistan																					
Sector(s) Subsector	Transport Roads and Highways																					
Project Objectives/Description	The objective of the Project will be the achievement of an efficient and safer transport corridor between Islamabad, Faisalabad, and Multan to ensure enhanced connectivity between the various parts of Pakistan. The Project will construct 64 km of the four-lane, access-controlled national motorway M-4 connecting Shorkot and Khanewal in Punjab province.																					
Project Implementation Period (Start Date and End Date)	From June 2016 to June 2020																					
Project cost and Financing Plan	<p>Total project cost: USD273.0 million</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="3" style="text-align: center;">Financing Plan</th> </tr> <tr> <th style="text-align: left;">Source</th> <th style="text-align: center;">Amount (USD million)</th> <th style="text-align: center;">Share of Total (%)</th> </tr> </thead> <tbody> <tr> <td>Asian Infrastructure Investment Bank</td> <td style="text-align: center;">100.0</td> <td style="text-align: center;">36.6</td> </tr> <tr> <td>Asian Development Bank</td> <td style="text-align: center;">100.0</td> <td style="text-align: center;">36.6</td> </tr> <tr> <td>Department for International Development (UK)</td> <td style="text-align: center;">34.0</td> <td style="text-align: center;">12.5</td> </tr> <tr> <td>Government of Pakistan</td> <td style="text-align: center;">39.0</td> <td style="text-align: center;">14.3</td> </tr> <tr> <td>Total</td> <td style="text-align: center;">273.0</td> <td style="text-align: center;">100.0</td> </tr> </tbody> </table>	Financing Plan			Source	Amount (USD million)	Share of Total (%)	Asian Infrastructure Investment Bank	100.0	36.6	Asian Development Bank	100.0	36.6	Department for International Development (UK)	34.0	12.5	Government of Pakistan	39.0	14.3	Total	273.0	100.0
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AIIB Loan (Size and Terms)	The Asian Infrastructure Investment Bank (AIIB) loan of USD100 million will have a 20-year term (including a grace period of 5 years) at AIIB's standard interest rate for sovereign-backed loans with an average maturity of 12.75 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)	Asian Development Bank (ADB): USD100 million Department for International Development of the Government of the United Kingdom (DFID): USD34 million equivalent																					

Conditions for Effectiveness and Disbursement (If any)	Effectiveness of the ADB Loan Agreement, related DFID Grant Agreement, and the Project Co-financing Agreement between the AIIB and ADB.
Key Covenants	The Government of Pakistan (the Government) and NHA have assured AIIB and ADB that implementation of the Project shall conform to all applicable AIIB and ADB 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 and NHA have agreed with AIIB and ADB on certain covenants for the Project, which are set forth in the loan agreements and project agreements with AIIB and ADB.
Environmental and Social Category	Category A
Key Legal Agreements	Loan Agreements of AIIB and ADB, Project Agreements of AIIB and ADB, and the Project Co-financing Agreement between AIIB and ADB

I. STRATEGIC CONTEXT

A. Country Context

1. Pakistan is a lower middle-income country and is located in South Asia between the Arabian Sea and landlocked Afghanistan, Central Asia, and China, thus providing the shortest route to the seaports from these locations. Pakistan has a strong potential for development, with its rich natural resources, fertile land, and a young population.

2. Pakistan's economy has shown signs of improvement in recent years. The gross domestic product (GDP) grew by 4.0% in FY2014 and is projected to accelerate to about 4.5% in 2015/16.¹ The gross national savings rate (13.7% of GDP in FY2014) is low compared with those in other South Asian countries.² Gross fixed investment fell from 14.2% in FY2010 to 13.4% in FY2014, mainly due to a decline in public investment.³ Pakistan continues to experience macroeconomic imbalance challenges, with large fiscal deficits, high inflation, and low foreign exchange reserves.

3. Poverty remains a problem in Pakistan. Although the proportion of population earning less than USD2.0 per day fell from 73.9% in 2002 to 50.7% in 2011,⁴ half of the population still either live in absolute poverty or is vulnerable to it. Regional disparity in poverty and gender inequities are still large. The challenge to reduce poverty in Pakistan is to achieve high, inclusive, and sustained economic growth. The Government of Pakistan (the Government) is making efforts to address the major constraints to growth: macroeconomic instability; deficient infrastructure; inadequate skills of the labor force; weak governance; and uncertainty of domestic security. A national development strategy has been formulated with the target to create a globally competitive and prosperous country by 2025.⁵

B. Sectoral and Institutional Context

4. The transport sector contributes to about 10% to GDP and 6% of total employment in Pakistan. Roads dominate the transport system, accounting for more than 90% of freight and passenger traffic. Much of the country's 12,500 kilometers (km) national highway network was built before the 1950s. With the country's economy growing, the traffic demand has been increasing rapidly. However, inadequate road connectivity and poor road conditions constitute constraints to growth. To reduce the traffic load on the heavily used national highways, the Government began building high-speed, access-controlled national motorways in the 1990s. To date, around 900 km of the planned 2,800 km are operational.

5. The National Highway Authority (NHA) is responsible for national highways, including access-controlled motorways and expressways while provincial and district administrators are responsible for provincial and district roads. With assistance of the multilateral development banks,⁶ the institutional capacity of NHA has been strengthened. However, the capacities of provincial and district administrators are limited, leading to weak management, operation, and maintenance of provincial and district roads.

¹ IMF. 2015. *South Asia Regional Update (October)*. Washington DC.

² ADB. 2014. *Key Indicators for Asia and the Pacific 2014*. Manila.

³ ADB. 2015. *Country Partnership Strategy: Pakistan*. Manila

⁴ ADB. 2015. *Country Partnership Strategy: Pakistan*. Manila

⁵ Government of Pakistan, Ministry of Planning, Development & Reform. 2014. *Pakistan 2025 – One Nation. One Vision*. Islamabad.

⁶ The Asian Development Bank, Islamic Development Bank, and the World Bank.

6. Pakistan's investment and trade flows concentrate on one major north-south transport corridor, which is about 1,800 km long and runs from Torkham on the north border with Afghanistan to the seaport city of Karachi in the south. The corridor connects the main centers of the country's economic activities including Khanewal, Multan, Muzaffargarh, Lahore, Faisalabad, Islamabad, and Peshawar. It also serves as a vital trading route between the landlocked Central Asian countries and the seaports of Gwadar and Karachi.

7. The national motorway M-4, connecting Faisalabad with Multan, will be part of the north-south transport corridor. It comprises four sections: (i) the Faisalabad-Gojra section (58 km), which was built in 2014 with Asian Development Bank (ADB) assistance; (ii) the Khanewal-Multan section (57 km), which was constructed in 2015 with Islamic Development Bank funding; (iii) the Gojra-Shorkot section (62 km), on which construction works started in March 2016 with co-financing from ADB and the Department for International Development (DFID) of the Government of the United Kingdom; and (iv) the Shorkot-Khanewal section (64 km) (the Project).

C. Rationale for the Project

8. Seamless connectivity is essential for economic development and poverty reduction. A new four-lane, access-controlled national motorway M-4 will provide a faster, safer, and more cost-effective transport route between Multan and Islamabad, and will help facilitate regional trade from Central Asia to the seaports of Gwadar and Karachi. The Project will build the last remaining section of the M-4. Once it is completed, the entire M-4 will become fully operational. Therefore, the Project is anticipated to benefit the entire area of influence of the M4, which accounts for 56% of population and 59% of GDP in Pakistan. The impact of the Project will be the modernization of transport infrastructure and greater regional connectivity to support a vibrant and growing economy, as highlighted in Pakistan Vision 2025. The Project is a Government priority, and is in line with Asian Infrastructure Investment Bank (AIIB)'s mandate of financing infrastructure development and promoting regional connectivity.

II. THE PROJECT

A. Project Objectives and Key Indicators

9. The objective of the Project will be the achievement of an efficient and safer transport corridor between Islamabad, Faisalabad, and Multan to ensure enhanced connectivity between the various parts of Pakistan. The key indicator of the Project will be that 64 km of the four-lane, access-controlled national motorway M-4 connecting Shorkot and Khanewal in Punjab province is constructed and serviceable.⁷

B. Project Design and Components

10. The Project has a road construction work component, which includes earthwork; asphalt concrete pavement; construction of bridges, crossing structure (underpasses and pipe culverts), interchanges, weigh bridges, toll plaza, and service areas; roadside improvements, and safety engineering features.

C. Project Cost and Financing Plan

11. The Project is estimated to cost USD273.0 million (Table 1).

⁷ The Project's Monitoring and Evaluation Framework is in Appendix 1.

Table 1: Project Investment Plan (USD million)

Item	Amount^a
A. Base Cost^b	
Construction Work on the Shorkot-Khanewal Road Section	245.7
Subtotal (A)	245.7
B. Contingencies^c	17.0
C. Financing Charges during Implementation^d	10.3
Total (A+B+C)	273.0

^a Includes taxes and duties and land acquisition and resettlement of about USD35.0 million to be financed from government resources.

^b In December 2015 prices.

^c Physical contingencies were estimated at 5%. Price contingencies were estimated using the Asian Development Bank (ADB) cost escalation factors, including provision for potential exchange rate fluctuation and price adjustment under the civil work contract.

^d Includes estimated interest charges financed from the Asian Infrastructure Investment Bank and/or Asian Development Bank loans.

Sources: Estimates of the National Highway Authority of Pakistan, Asian Development Bank, and the Asian Infrastructure Investment Bank.

12. The Government has requested AIIB to co-finance the Project, together with ADB and DFID. The financing plan comprises (i) a sovereign-backed loan of USD100 million from AIIB; (ii) a sovereign-backed loan of USD100 million from ADB; (iii) a grant of USD34 million equivalent from DFID; and (iv) USD39 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	100.0	36.6
Asian Development Bank	100.0	36.6
Department for International Development (UK)	34.0	12.5
Government of Pakistan	39.0	14.3
Total	273.0	100.0

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

13. The loan from AIIB will have a 20-year term (including a grace period of 5 years) at AIIB's standard interest rate for sovereign-backed loans with an average maturity of 12.75 years, a commitment charge of 0.25% per year, a front-end fee of 0.25%, and a semiannual equal amortization scheme.

14. ADB will be the lead co-financier and will administer the Bank's loan (and the DFID Grant) on behalf of the Bank (and DFID), including procurement, disbursements, environmental and social compliance, and project monitoring and reporting. A Project Co-financing Agreement between the Bank and ADB 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. ADB's policies are satisfactory for these purposes and on that basis ADB will be administering the Bank's loan and applying ADB's policies and procedures. In the case of ADB's member country eligibility restriction for procurement, ADB and the Government have agreed to widen procurement eligibility to all countries for this Project, as permitted by ADB's Article of Agreement and as required by the Bank's Articles of Agreement.

D. Institutional and Implementation Arrangements

(a) Implementation Management

15. The Project will be implemented over 4 years from June 2016 to June 2020. The loan closing date will be December 31, 2020.

16. NHA will be the Project executing agency. NHA has long-term experience working with multilateral development banks including ADB and the World Bank, and has an adequate capacity to implement the Project. The project implementation unit (PIU) under NHA will be responsible for day-to-day management of the Project. The PIU, which has implemented other section projects of the M-4, has suitably qualified staff.

(b) Procurement

17. All contracts financed by AIIB under the loan will be procured through worldwide eligibility procurement procedures, which is consistent with AIIB's Procurement Policy. As requested by NHA, AIIB has approved advance contracting and retroactive financing. Advance procurement of the civil works contract is underway at the stage of tender evaluation. NHA has been advised that approval of advance contracting does not commit AIIB to finance the Project. Retroactive financing is available for up to 15% of the loan amount for eligible expenditures incurred up to 12 months before the date of signing of the Loan Agreement.

(c) Fund Flow arrangements and Disbursements

18. ADB will provide disbursement service for AIIB. A special account for the AIIB loan will be established in ADB after the loan effectiveness, and will be liquidated and replenished in accordance with detailed arrangements agreed between AIIB and ADB. ADB will review withdrawal applications and make necessary payments for eligible expenses from the special account on behalf of AIIB.

E. Monitoring and Evaluation of Project Results

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

F. Loan Conditions and Covenants

20. AIIB and ADB 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 and NHA have assured AIIB and ADB that implementation of the Project shall conform to all applicable AIIB and ADB 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 and NHA have agreed with AIIB and ADB on certain covenants for the Project, which are set forth in the loan agreements and project agreements with AIIB and ADB. In particular, the Government and NHA have agreed to (i) implement the Project in accordance with the detailed arrangements set out in the Project Administration memorandum

agreed with ADB; and (ii) the restructuring of NHA's balance sheet, based on a detailed financial plan prepared under ADB technical assistance.

III. PROJECT ASSESSMENT

A. Technical

22. The detailed engineering design of the M4, which has been completed, is based on pertinent guidelines, standards, and specifications. A road safety audit of the design was conducted and a further safety audit will be carried out after completion of the civil works to ensure that the designed standards are fully realized and in line with best international practices.

B. Financial Analysis

23. The Project road will be tolled after opening to traffic. According to ADB, the projected toll revenue will be sufficient to cover operation and maintenance costs of the Project road over the project life period, contributing an additional 2.5% to NHA's annual operation and maintenance budget. However, the toll rates in Pakistan remains low. To address this issue, ADB is assisting NHA through technical assistance grants to prepare an action plan for restructuring its balance sheet. By co-financing the Project, AIIB has joined ADB on the discussions with the Government and NHA about the need to increase tariffs for improving financial sustainability of the national motorways.

C. Economic Analysis

24. An economic evaluation of the Project was undertaken by ADB. The Project has an economic internal rate of return of 13.6%, and a net present value of PKR4.87 billion at a 12.0% discount rate. The Project is economically viable.

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 and NHA. The Government and NHA are committed that their personal and other representatives involved in the Project adhere to the highest ethical standards during the implementation of the Project. To this end, the Government and NHA 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 Project's loan and project agreements with the Bank and ADB.

26. **Financial Management.** An assessment of NHA's financial management undertaken by ADB shows that the financial accounting, auditing rules, and internal control systems in NHA generally follow accepted international practices. NHA has an adequate capacity to manage procurement and maintain the accounting systems, financial controls, and independent and competent audit arrangements. The Government's budgeted expenditures under the Project are realistic and adequate funds are available.

E. Environmental and Social

27. The Bank has decided to use ADB's Safeguard Policy Statement (2009) (ADB SPS) 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 ADB has in place to ascertain compliance with the ADB SPS are appropriate

for the Project. Under the ADB SPS, the Project has been assigned Category A for Environment, Category A for Involuntary Resettlement, and Category C for Indigenous Peoples. This categorization recognizes the need for in-depth review of environmental and social impacts and preparation of a detailed planning instrument to support involuntary resettlement and land acquisition. ADB found there are no Indigenous Peoples in the Project area. Under the AIIB Policy, the Project would have been assigned a Category A and required a similar environmental and social impact assessment and involuntary resettlement and land acquisition plan.

28. An environmental impact assessment (EIA) for the entire M-4 was prepared and approved by ADB and the Government in 2007. The EIA has been updated with the implementation of the M-4, and the updated EIA has been approved by ADB and the Government, and was disclosed on ADB's website in March 2016. The major environmental impacts are concentrated in the construction phase. Soil erosion, dust, and noise impacts are likely to be significant. Noise impacts will persist into the operational phase. ADB has provided a copy of the updated EIA to AIIB, which was disclosed on AIIB's website on April 26, 2016.

29. The Environmental Management Plan (EMP) includes measures to minimize anticipated impacts during construction and operation. Prior to construction, contractors will update the EMP, so that it becomes a site-specific environmental management plan (SSEMP). The SSEMP will be based on a risk assessment approach to select impact- and site-appropriate mitigation measures such as barriers for construction and operational noise. The supervision consultant, the Environment, Afforestation, Land, and Social Division (EALS) of NHA, and ADB will closely monitor the implementation of the SSEMP. NHA will submit semiannual environmental monitoring reports to ADB and AIIB for disclosure on the websites of both organizations.

30. The Project involves the acquisition of 622.2 acres of private land that will impact 3,429 households (23,186 displaced people), of which 2,754 will lose more than 10% of their productive land and 162 households with 1,302 members will be physically displaced. NHA has prepared and submitted to ADB the final land acquisition and resettlement plan (LARP) based on the completed detailed design, which has been disclosed by NHA and ADB. An independent land valuation study has confirmed that compensation rates for affected land are reflective of full replacement cost. Public consultation and information disclosure were undertaken during the preparation of the LARP, including with displaced people and the communities along the Project road. Consultation and information sharing will continue throughout Project implementation. ADB has provided AIIB with a copy of the LARP, which was disclosed on AIIB's website on April 26, 2016.

31. Resettlement is being managed and implemented by NHA, through the PIU, and supported by the EALS Division. The PIU has demonstrated the capacity for implementing involuntary resettlement. A functioning grievance redress mechanism has been established. A social safeguard management consultant has been mobilized to assist the PIU in completing the compensation payments, information disclosure, consultation activities, grievance redress and internal monitoring. A qualified and experienced external monitoring agency is being recruited to verify NHA's monitoring reports, monitor LARP implementation, identify issues, and recommend corrective measures.

F. Risks and Mitigation Measures

32. The overall project risk is rated as "medium". Major project risks are (i) weak financing arrangements on development and management of the road network; (ii) delayed land acquisition and resettlement activities, and (iii) project cost overruns due to increases in prices of commodities and raw materials for road construction more rapidly than budgeted. Mitigating measures have been developed

to address these risks. ADB and DFID are building NHA's capacity through technical assistance and are making an analysis of NHA's balance sheet restructuring, as part of their support for sector reforms. The Government also intends to expand the toll base, rationalize tolls, and allocate more revenue to NHA's road maintenance account. On land acquisition and resettlement activities, progress has been satisfactory to date. With assistance of the supervision consultant, NHA will strengthen management of the implementation of the land acquisition and resettlement plan and regularly submit its safeguard monitoring reports to ADB. With regard to the cost overrun risk, project cost estimates are based on the completed detailed design and the most recent unit prices of similar civil works. Adequate contingencies have been budgeted under the Project to cover any unforeseen factors. Overall, the project risks are 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 connecting Shorkot and Khanewal of the national motorway M-4 constructed (unit: kilometer)	0	0	14	20	30	Annually	Project Implementation report	National Highway Authority