

ASIAN DEVELOPMENT BANK

TA 6024-REG: REGIONAL COOPERATION IN TRANSPORT PROJECTS IN CENTRAL ASIA

MINUTES OF THE SECOND ROADS WORKING GROUP CONFERENCE

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ABBREVIATIONS

ADB	Asian Development Bank
ECID	East and Central Asia Infrastructure Division
ECO	Economic Cooperation Organization
PRC	Peoples Republic of China
RETA	Regional Technical Assistance

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1. PROCEEDINGS

1.1 ORGANIZATION

1. The Second Roads Working Group Meeting (WGM) for Regional Cooperation in Transport Projects in Central Asia (TA 6024-REG) was held in the Pinara Hotel in Bishkek, Kyrgyzstan, on February 25-26, 2003.

2. The WGM was attended by 32 people. Eighteen delegates were from the three participating countries, namely Uzbekistan, Kyrgyzstan, and the Peoples Republic of China (PRC). Two delegates attended as observers from Tajikistan. Five officials from ADB as well as five members of the Regional Technical Assistance (RETA) Consulting Team were also present. The full list of delegates is presented in Annex 2.1. All participants played active roles in the conference proceedings.

3. The WGM discussions were held in three languages, English, Russian and Chinese. Simultaneous translation was provided during the plenary sessions and sequential translation during the smaller working group sessions.

4. The overall organization of the WGM was handled by the team of RETA consultants. The conference formed an integral part of the RETA project as it created a forum to discuss the findings and recommendations presented in the Road Interim Report.

1.2 CHAIRMANSHIP

5. The WGM was chaired by Deputy Prime Minister/Minister of Transport and Communications of the Republic of Kyrgyzstan, Mr. K. Jumaliev.

1.3 AGENDA

6. The agenda for the conference is presented in Annex 2.2. The agenda was quite closely adhered to throughout the conference, with some exceptions noted below.

7. In particular, the working group discussions were prolonged, to allow more time for delegates to express their viewpoints. Also, the final plenary session was prolonged to allow the drafting of a Declaration acceptable to all delegates.

8. ADB private discussions with visiting delegates planned for Day 3 of the WGM were not held, as all Delegates found sufficient time and opportunity to exchange views with the ADB representatives during the main event.

1.4 DOCUMENTATION

9. Pre-WGM reference documentation was provided to delegates including trilingual copies of the most relevant sections of the Project Road Interim Report (Chapters 7 and 8). Likewise tri-lingual copies of the slide presentations of the consultant's team were provided to delegates before the opening of the conference.

10. It is noted that full copies of the project Road Interim Report had been issued to the participating countries on January 12, 2003, allowing enough time for delegates to acquaint themselves with the findings and recommendations of the report.

1.5 PRESENTATIONS AND DISCUSSIONS

1.5.1 Day 1

1.5.1.1 Pre-Conference Meetings

11. These were held in separate private sessions between the ADB representatives and each visiting delegation, as well as between the host nation (Kyrgyzstan) and the PRC delegation.

1.5.1.2 Plenary Session

12. The plenary session was opened by Mr. Jeffrey Miller, the ADB Task Manager for the RETA. Welcoming addresses were made by the Chairman, Mr. J. C. Alexander, Country Director of ADB, Mr. Satish Rao, Director of East and Central Infrastructure Division of the ADB, and by Mr. Michael Sims, Team Leader for the RETA Consultants.

13. Introductory remarks were then made by each of the four country delegations that were in attendance. All delegations expressed their interest in the theme of the conference and their satisfaction that the ADB was supporting realization of improvements to this regional transport corridor.

14. The RETA consulting team then concluded the introductory session by reminding the delegates of the significance of this WGM in the overall project program, and presenting essential elements of the Road Interim Report findings and recommendations. These included a coverage of:

- ◆ The proposed technical improvements and cost estimates;
- ◆ The forecast traffic;
- ◆ The financial implications and methods for cost recovery; and
- ◆ Facilitation of cross-border traffic.

15. The first day of the WGM ended with questions from the participants to the consulting team on the materials presented, followed by finalizing the arrangements for the working group sessions for the second day of the WGM.

1.5.2 Day 2

1.5.2.1 Working Groups and Plenary Conclusion

16. The second day of the conference commenced with a very brief plenary session for organizational purposes, before the delegates divided themselves into two main working groups, to deliberate on the two themes of:

- ◆ Financing of the rehabilitation as well as operations and maintenance of the road corridor; and
- ◆ Cross border agreements to facilitate traffic.

17. Delegates were provided with proposals from the Road Interim Report (Chapters 7 and 8) to initiate discussions in the two working groups. Summary discussion points were prepared for both working group discussions and translated into Chinese and Russian. These were distributed to the members of the working group before the discussions started. These proposals and preliminary texts were debated, elaborated on, and modified to more closely approach the common viewpoints of the different delegates, and the level of decisiveness that they felt appropriate to the moment.

18. The final plenary session of the conference, was in reality a sequence of plenary and sub-plenary sessions, to allow delegates to formulate the wording of a final conference Declaration, which would be presented to appropriate ministries in their respective countries as recommendations. The Declaration was translated into the three conference languages. Nuances of language and the limitations of the authority of the delegates to speak on behalf of their respective governments were brought up on several occasions during the conference, but particularly during finalization of the texts of the Declaration.

19. Chairman Mr. Jumaliev read out the Declaration to the participants during the concluding plenary session of the WGM, to which delegates had expressed no further objections.

20. The conference ended with expressions of appreciation and congratulations by all visiting delegates to the host nation, on the successful organization of the conference, and by the host nation to the visiting delegates on their constructive engagement in the subject matters of the WGM.

21. Salient points raised in the working groups and in the final plenary session follow. They are not intended to be an exhaustive record of all the points raised by all of the delegates during the conference.

1.5.2.2 Notes on the Working Group Discussions on Financing of the Reconstruction and Maintenance of the Road Corridor

22. The Working Group started with the distribution of the financing discussion points to the delegates in three languages. These discussion points are presented in Annex 2-5. The discussion then started with an introduction by Mr. Satish Rao of ADB of the four financing alternatives presented in the Road Interim Report and their applicability to the rehabilitation of Osh – Erkesh Tam Road Project. After further discussions it was agreed that Financing Alternative (FA) #1, phased ADB financing, was not appropriate as it would take a long time to complete the rehabilitation works. Kyrgyz delegates also confirmed that FA #2 was not feasible as Kyrgyz Republic would not be able to borrow all the required financing for the rehabilitation works in a single phase. It was emphasized that due to Kyrgyz Republic's borrowing constraints, any assistance to be provided by Uzbekistan and PRC should be in the form of construction works and/or grants.

23. Based on these initial understandings, the discussion then focused on developing a project implementation agreement, which was based on a combination of FA #3 and FA #4. The possibility of dividing the project into two separate phases – rehabilitation and operations – was discussed. Under this approach, a Project Implementation Unit (PIU) would be established under the Kyrgyz Republic Ministry of Transport and Communications to coordinate the rehabilitation stage. A Supervisory Board would also be established to supervise the PIU activities. This Board would have proportionate representation from the three countries depending on their contribution. A Corridor Executive Management Agency (CEMA) would then be established for the operations and maintenance of the road corridor. Two options were discussed for the operation stage. First option included transforming the Supervisory Board established during the rehabilitation stage into CEMA. The second option consisted of establishing a new entity in Kyrgyz Republic while modifying the scope of the Supervisory Board to oversee CEMA's activities.

24. In terms of cost recovery, the Kyrgyz Government requested that a corridor access fee system is implemented rather than a toll system. The delegates also requested that different cost recovery scenarios, such as 20 years versus 30 years, full versus partial cost recovery, should be evaluated.

25. At the end of the working group session, the delegates agreed to present these various options to the appropriate ministries in their respective governments. In the meantime, the RETA Consultants will undertake additional financial analysis and develop project implementation arrangement requirements based on the discussions held.

1.5.2.3 Notes on the Working Group Discussions on Cross Border Agreements to Facilitate Traffic

26. The Working Group examined in details each of the draft Protocols presented in Chapter 8 of the Road Interim Report. It was accepted that these texts had the status of suggestions by the project Consultant team to amend the existing Tri-Partite framework agreement between Uzbekistan, Kyrgyzstan, and PRC, which had been in effect since 1998. Delegations expressed the opinion that the existing (1998) agreement should remain valid and be further improved.

27. The texts in the Interim report were modified by the Working Group delegates. The resultant modified texts had the status of suggestions or drafts, to be taken back by each delegation to their respective countries, for consideration by the appropriate authorities within each country.

28. Draft Protocol 4.1 Harmonization of Customs Procedures was the most extensively modified of any of the texts discussed. One of these modifications was to simplify the text and add broader authority by referring to the Kyoto Convention. Whatever the three government's attitude to the Kyoto Convention was then determinant of their attitude to this draft.

29. The Kyrgyz delegate proposed an additional clause to the text, concerning high risk goods and the need for customs escorts.

30. The Uzbekistan delegate proposed a new set of standards for vehicle weights and dimensions to annex to the (1998) agreement. The present annex to that agreement concerning vehicle weights and dimensions has itself only ever had the status of a draft. The standards proposed by the Uzbek delegate have been accepted in CIS countries and are very similar to European Union standards. The Kyrgyz and Tajik delegates supported these new standards. The PRC delegate agreed to submit them for consideration by the appropriate authorities in PRC.

31. Delegates strongly resisted the suggestion by the consultant to abandon the present permit system, as proposed in Protocol 5.4.1 Permits. However, they did express acceptance of the desirability of eventually abandoning permits. The text was modified to reflect this. Delegates accepted the suggestion of Protocol 5.4.1 Empty Vehicles

32. An ADB representative at the Working Group requested earnest consideration by the delegates of abandoning the permit system.

33. Further small changes were proposed to other parts of the texts of draft amendments, from the Road Interim Report.

34. Delegates generally expressed the wish for more trade and traffic to be encouraged by more open borders, such as would be allowed by the amendments to the (1998) agreement, and by extending the application of the agreement well beyond its present confines of the Tashkent – Osh – Kashgar corridor. This included consideration of an eventual request for adherence to the agreement by Tajikistan.

2. ANNEXES

2.1 ANNEX – LIST OF DELEGATES

Delegates	Title or Position
PRC (4)	
Yao Licheng	International Department, Ministry of Finance
Sun Yonhong	Road Department, Ministry of Communications
Yan Yan	International Department, Ministry of Communications
Tan Fang	Department of Control and Supervision, Customs General Administration
Uzbekistan (2)	
Topalidi Valery	Director, Association of International Road Carriers of Uzbekistan
Sodikov Ibroghim	Consultant
Tajikistan (2)	
Ashurov Abdurahim	First Deputy Minister of Transport
Sharipov Abdulmashid	Head of the Road Department, Ministry of Transport
Kyrgyzstan (12)	
Jumaliyev Kubanychbek	Vice-Prime-Minister / Minister of Transport and Communications
Mamaev Kubanychbek	First Deputy Minister of Transport and Communications
Ismailov Murat	Deputy Minister of Finance
Miyarov Marat	Head of the Road Department, Ministry of Transport and Communications
Kazakbaev Bakyt	Advisor of the External Policy planning Dpt. Ministry of Foreign Affairs
Djumaliev Djamilya	Senior Specialist PIU, Ministry of Transport and Communications
Akhmatov Sultan	Senior Specialist, Division for Monitoring & Evaluation of Projects, MoF
Niyazbekov Temir	Head of External Economic Department, MOTC
Serkebaev Murat	Deputy Chief of the Customs Control Department
Rakhmatulin Renat	PIU, Ministry of Transport and Communications
Mukambetov Sanjar	Head of Investment Department, Ministry of Finance
Abdykerimov Kanat	Expert of the Trade, Industrial and Construction Sectors and Communications. Prime Minister's Office
ADB (5)	
Satish Rao H.	Director, Infrastructure Division East and Central Asian Department (ECID)
Alexander J. C.	Country Director KYRM
Miller J Jeffrey	Senior Project Economist, ECID
Tomoyuki Fujino	Project Specialist (Roads), ECID
Tian Valery	Project Implementation officer
Organizers (8)	
Sims Michael	Tera-Tractebel Team Leader
Kennedy Thomas	Tera-Tractebel Transport Economist
Ishenaliyev Rustam	Tera-Tractebel Highway Engineer
Kurtay Miray	Tera, Senior Technical Director
Tkachev Nikolay	Accountant and Cashier of the Conference
Chinaliev Ryskulbek	Conference Organizer
Gorbova Katerina	Conference Organizer
Shakirova Diana	Simultaneous Translator

2.2 ANNEX – CONFERENCE AGENDA



REGIONAL COOPERATION IN TRANSPORT PROJECTS IN CENTRAL ASIA SECOND ROADS WORKING GROUP CONFERENCE BISHKEK, FEBRUARY 25-27, 2003

Day 1

Pre-Conference Meetings

Separate preparatory meetings between visiting country delegations, and the ADB delegation, will be held as follows. Would country delegates kindly rendezvous with the ADB delegates in the main entrance lobby of the Pinara Hotel, at the following times:

- 9:30 The delegation of the Republic of Uzbekistan
- 10:30 The delegates of the People's Republic of China
- 11.30 The delegates of the Republic of Tajikistan

Main Conference

- 14:00 **Welcoming Address**
 - Chairman, Deputy Prime Minister/Minister of Transport and Communications of the Republic of Kyrgyzstan, Mr. K. Jumaliev
- 14:15 **Presentation by ADB**
- 14:45 **Presentations and Comments on the Project Road Interim Report**
 - Delegation from the Peoples' Republic of China
 - Delegation from the Republic of Uzbekistan
 - Delegation from the Republic of Kyrgyzstan
 - Observers from the Republic of Tajikistan
- 15:45 **Coffee Break**
- 16:15 **Presentations by RETA Consultants**
 - Summary of the Consultant's Road Corridor Development and Management Proposals - Mike Sims
 - Traffic Forecasts and Economic Evaluation - Tom Kennedy
 - Financial Evaluation and Proposed Financing Method - Miray Kurtay
 - Draft Supplements to Cross Border Agreements – Mike Sims
- 17:30 **Discussion of Program for Day 2**
 - Discussion directed by Mr. K. Jumaliev, Chairman (each country to present their comments/ideas on RETA Consultant Presentations).
 - Request for Delegates to designate participants in the two working groups
- 18:00 **Closing of Plenary session**
 - Mr. K. Jumaliev, Chairman
- 19:30 **Banquet at the Pinara Hotel for conference delegates**

Day Two

09:00

Assembly of Delegates

- Addresses by the Chairman, Mr. K. Jumaliev, the ADB Task Manager, and the RETA Consultant Team Leader to commence second day proceedings

09:30

Task Group #1

- Prepare Draft Recommendations regarding financing of the Road Corridor

Task Group #2

- Prepare Draft Recommendations regarding Cross Border Agreements

12:30

Lunch

14:00

Task Group Presentations and Open Discussion

- Chaired by Mr. K. Jumaliev, Chairman

15:30

Coffee Break

16:00 (according to readiness) **Finalization and Approval of Conference Recommendations**

16:30 (according to readiness) **Closing Remarks**

- Delegation from the Republic of Kyrgyzstan
- Delegation from the People's Republic of China
- Delegation from the Republic of Uzbekistan
- Observers from the Republic of Tajikistan
- Asian Development Bank
- RETA Consultants

Day 3 (Thursday 27th February)

The ADB delegation will make itself available for private discussions with visiting delegates, at the Pinara Hotel during the day following the closure of the main working group conference. If visiting country delegates wish to avail themselves of this opportunity, they are requested to make an appointment directly with an ADB representative.

2.3 ANNEX – DECLARATION

REGIONAL COOPERATION FOR TRANSPORT PROJECTS IN CENTRAL ASIA SECOND ROADS WORKING GROUP CONFERENCE OSH – ERKESH TAM ROAD CORRIDOR Bishkek, February 25 – 26, 2003

DECLARATION

The Second Road Working Group Conference delegates considered the Consultant's detailed elaboration of the five recommendations made during the First Working Group conference held in Bishkek in November 2002, under an Asian Development Bank (ADB) funded Regional Technical Assistance (RETA).

The delegates agreed on the possibility of joint participation in the rehabilitation of the Osh – Erkesh Tam Road Corridor Project. This participation could be in the form of construction works, and/or grants. The Kyrgyz delegation proposed an allocation plan for the construction of the road by sections. The Uzbek and PRC delegations agreed to present the Kyrgyz proposal to their respective governments for further consideration.

The delegates noted that cost recovery would be pursued under the project. The Kyrgyz delegation noted that an access fee could be charged for cross-border and traffic engaged in commercial business on the Osh – Erkesh Tam Road Corridor. The PRC delegation considers that the forms of cost recovery should be based on the actual financing of the parts of this project.

Several proposals for project management were discussed. This would include the establishment of a Project Implementation Unit (PIU) to ensure efficient execution of the project, a Supervisory Board and/or Corridor Executive Management Agency.

The delegates discussed the draft Transport Agreements contained in Chapter 8 of the Road Interim Report, subject to certain amendments. The amended agreements are attached to this Declaration. The delegates agreed to present the Amended Draft Agreements to their respective governments, in preparation for their final formulation and acceptance, by higher government levels.

The next step would be a Ministerial level meeting, or other type of meeting, based on further review of the project by the concerned parties.

2.4 ANNEX – DRAFT PROTOCOLS

DRAFT CROSS BORDER TRANSPORT PROTOCOLS, AS AMENDED AT THE SECOND ROADS WORKING GROUP CONFERENCE, BISHKEK, 25th-26th FEBRUARY 2003

EXISTING AGREEMENTS

A certain number of regional road transport agreements, that could be considered relevant to the project corridor, already exist. These are summarized in the following table.

Existing Road Transport Agreements

Date	Details	Status
1995-03-09	Multi-Lateral Agreement between Kazakhstan, PRC, Kyrgyzstan, Pakistan on Road Transit	Inactive
1996-09-26	Bi-lateral Agreement between Kyrgyzstan and Uzbekistan	Implemented
1999-11-15	ADB Cross Border Agreement Almaty-Bishkek Road	Ratified
1998-02-19	Tri-Partite Agreement on Transport on the Andijan-Osh-Erkesh Tam-Kashgar Road	Implemented
1998-05-09	ECO Transit Transport Framework	Inactive
1998-09-08	TRACECA Multi-Lateral Agreement	Being developed
1998-09-22	Regulations and a Protocol for the Tri-partite Agreement	Implemented
1999-01-27	Loan Agreement between Uzbekistan and Kyrgyzstan linked to the Tri-partite Agreement	Repudiated

The Tri-partite agreement between Uzbekistan, Kyrgyzstan and PRC of 1998, and its accompanying Protocols and Regulations is the means by which road transport is conducted along the project corridor, under a permit system. Essentially it operates as a bilateral agreement between Kyrgyzstan and PRC, while Uzbek-Kyrgyz road transport is conducted under the bilateral agreement between the two countries of 1996.

Whatever the formal conditions of the trilateral agreement, Kyrgyz vehicles, even with a permit, are allowed to travel only to Sumhana, a trans-shipment point located inside PRC, approximately 7 kilometers from Erkesh Tam. Goods are trans-shipped at Sumhana from Kyrgyz to Chinese trucks. Chinese trucks, however, are permitted to travel freely within Kyrgyzstan without restriction, under the permit system.

At present there is no transit traffic between Uzbekistan and PRC through Kyrgyzstan along the project road.

DRAFT PROTOCOLS

The first Roads Working Group conference made five Recommendations to guide the project Consultants in suggesting amendments or supplementary accords to the existing framework of agreements. The resultant texts proposed by the Consultants were discussed in detail at the Second Working Group conference. The suggested draft texts resulting from these discussions, are shown on the following pages, in shaded double-outlined boxes.

Recommendation One

The Andijan-Osh-Erkesh Tam-Kashgar road is an important infrastructure supporting the regional

trade and development in Peoples Republic of China, Kyrgyz Republic, and Uzbekistan (the "Tripartite States") and other neighboring countries. In the common economic and social interests of the three countries, rehabilitation of the Osh-Erkesh Tam road should proceed as quickly as possible. A tripartite intergovernmental commission should be established between the Tripartite States for implementation of the Osh-Erkesh Tam Road Project. The tripartite commission should be established as soon as possible.

Protocol 1: Tri - Partite Commission

In response to Recommendation 1 of the First Roads Working Group Conference Bishkek; 5-6 November 2002, the tri-partite states agree to establish the Tri-Partite Commission, by July 2003. The Commission will comprise:

A Supervisory Board, comprising a Commissioner from each of the three countries. The Commissioners will be Ministers, or persons designated by the Cabinet of Ministers, of their respective countries. The supervisory board will be the highest decision making authority of the Commission.

A Corridor Executive Management Agency (CEMA), comprising at least three senior executive officers, one from each country.

The CEMA will manage the development and operation of the road including:

- co-ordination of the financing of the project by national, cross-border, and supra-national agencies
- arrange governmental approval in their home countries of the definitive inter-state protocols and cross border agreements necessary for the project realization and operation
- co-ordinate procurement of the technical services and works necessary to build and to operate the road
- protect the interests of the road users and the community living along the road corridor and generally promote the free flow of traffic along the corridor

A Corridor Commercialization Group, comprising representatives of truckers associations, chambers of commerce, non-governmental organizations.

The senior executive officers of the CEMA will be:

- ◆ highway managers, such as deputy Ministers or heads of highway agencies,
- ◆ officers from the Ministry of Finance
- ◆ regional or provincial government officers responsible for regional development
- ◆ managers from the state or private sector responsible for road transport

One senior executive officer of the management agency will be designated the Chief Executive Officer of the Commission, by the supervisory board. He or she will retain overall responsibility to the Commissioners for the realization of the agency's functions

One senior executive officer of the management agency will be designated the Financial Coordinator of the Commission, by the supervisory board. He or she will be responsible for the Commission's financial co-ordination role.

One senior executive officer of the agency will be designated the User and Community Representative. His or her role is crucial to the success of the project. He or she will represent the interest of road users and the communities living along the road corridor. He or she will also, initially, be responsible for "commercialization" or "marketing" of the route. Primary liaison will be with the road transport industry, and the communities, and local authorities.

The degree of responsibility of the Financial Officer will be dependent on the extent to which other countries participate financially in the rehabilitation of the road.

The structure and role of the Tri-Partite Commission is schematized as follows:

Tri-Partite Commission

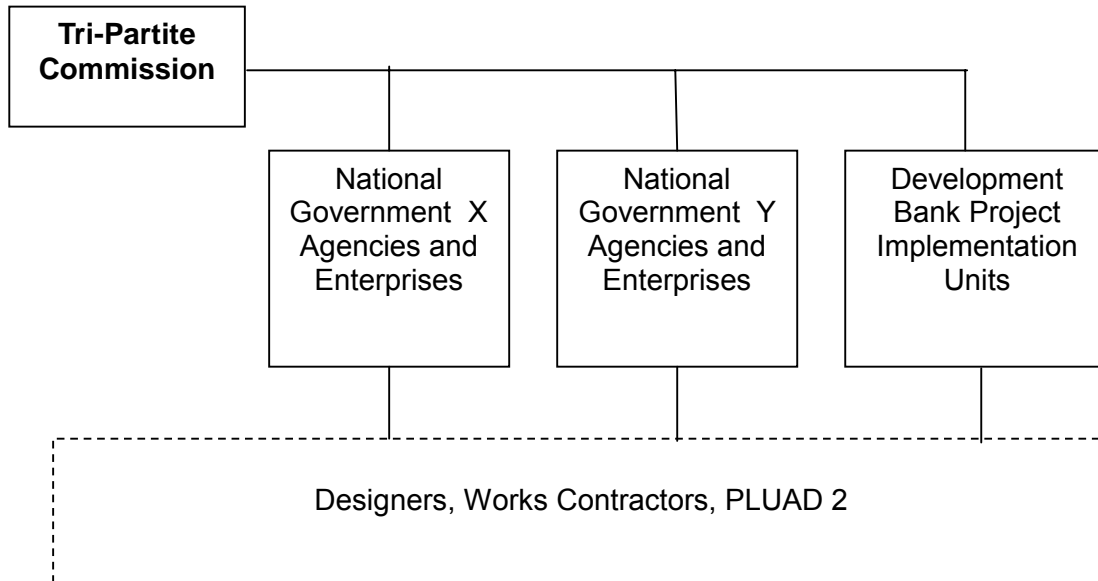
Commission Structure	Functions	Composition
Supervisory Board	Highest decision making authority of the Commission. Meet once a year, appoint the senior executive officers, and review the technical and financial arrangements for the corridor improvement and operation. All decisions of the supervisory board will be reached unanimously.	A Commissioner from each of the three countries. The Commissioners will be Ministers, or persons designated by the Cabinet of Ministers, of their respective countries.
Corridor Executive Management Agency (CEMA)	Using whatever powers are designated by the Supervisory Board, the Agency will be responsible for: Technical co-ordination and control of the project realization and operation Financial co-ordination of tolls, and control (ensure transparency) Furtherance of the interests of road users and the community living along the road corridor (ensure full usage and free flow of traffic)	Chief Executive Financial Coordinator Road User and Community Representative
Commercialization Group	Actively promote the corridor, far and wide, as an efficient link for transport, and desirable location for trade, industry, and tourism.	The Road User and Community Representative together with truckers associations, chambers of commerce, non-governmental organizations

The Chief Executive will be a full time position, the others part time. The CEMA will meet quarterly or on more frequent ad-hoc occasions, as required, to fulfill its role.

The intention is that the administrative costs of the CEMA be kept low. They will be funded from the toll revenues.

Present related governmental structures for the realization, and operation of roads projects are well established, and will be utilized as appropriate. Taking into account that these structures are different in each country, and quite complex, the external interfaces of the tri-partite commission might be represented as¹:

¹ PLUAD = Производството на Линиища Управление Фвтомобилъ.....Linear Operations Department of Automobile Roads, effectively, a roads maintenance department.



The Tri-Partite Commission will not directly contract for works or services. It will negotiate the detailed requirements and schedules with the governmental agencies concerned, and those agencies will contract the works or services, in accordance with their own procurement rules. The PLUAD2 (Производствои Линийищу Упралерие Фвтомобиль, or Linear Operations Department of Automobile Roads) is the existing roads maintenance department, based in Osh.

We have attempted to present a Commission structure that is flexible, that can mutate to manage regionally integrated road financing models that are at present undecided, and that uses immediately available institutional resources. If the tri-partite states so wished, the CEMA could be “incorporated” as a legal entity, with all that entails in terms of ability to enter into contracts and to manage bank accounts. Probably this would require legislative enactment. It is difficult to set up such an entity immediately. Attempting to do so could delay any progress.

Recommendations Two and Three

We reproduce the two recommendations below for reference.

Recommendation Two -

The following two alternative financing models presented at the First Working Group Conference will be further examined to determine the most efficient and practical options including the following most acceptable alternatives:

- *Alternative a): Establishment of a tripartite corridor management agency responsible for securing financing for the implementation of the Osh-Erkesh Tam Road Project.*
- *Alternative b): Cost sharing between the three countries.*

Recommendation Three –

Cost recovery should be directly from the users of the road, through user charges. These models or a combination of them should be considered in conjunction with the alternatives evaluated above. Based on this analysis, recommendations will be developed about the types and levels of user charges and will be submitted for approval to both tripartite commission (if established) and at the second working group meeting.

There are no antecedents to these Recommendations in the existing the Agreement on International

Road Transportation between the Governments of the Kyrgyz Republic, the Republic of Uzbekistan and the People's Republic of China. There was a separate financing agreement between Uzbekistan and Kyrgyzstan, but both parties now view this agreement as defunct.

The question of the establishment of a tripartite corridor management agency has been dealt with under Recommendation One. Very detailed options have been developed in Section 7, concerning cost sharing and the types and levels of user charges. The choice between these options is a matter of policy for the governments concerned. Drafting of an agreement awaits better definition of the financing option eventually adopted.

Recommendation Four

The Agreement on International Road Transport between the Governments of Kyrgyzstan, Uzbekistan and PRC, signed in February 1998, concerning traffic on the Tashkent-Kashgar route should promote best international standards in transport. The following areas of concern were raised by delegates, for consideration in review of agreements or for Protocols, by the consultants:

Concern 1 – harmonization of customs agreements on four countries (including Tajikistan)

Concern 2 – Road safety

Concern 3 – Technical standards

Concern 4 – Trans-shipment at Sumhana on the Kyrgyz-Chinese border, because of limited allowed operating distances for non-Chinese vehicles

Concern 5 – Harmonization of vehicle insurance

Concern 6 – Visas, cost and ease of obtaining them

Concern 7 – Availability of services along the route

Concern 8 – Transit fees

Protocol 4.1 Harmonization of Customs Procedures

Whereas: Article VII of the Agreement on International Road Transportation between the Governments of the Kyrgyz Republic, the Republic of Uzbekistan and the People's Republic Of China, states that "In order to facilitate the movement of goods, the customs authorities of the Contracting Parties shall devise uniform customs procedures through mutual consultations."

The following protocol applies this principle:

Protocol 4.1.1: Harmonization of Customs Procedures - Documentation

The Contracting Parties therefore undertake to:

- (i) limit the number of documents to those required by the Kyoto Agreement, and to be defined in detail later;
- (ii) provide translation of all documents used for cross-border traffic into English, Chinese, and Russian;
- (iii) harmonize commodity codes and descriptions with those commonly used in cross-border trade;
- (iv) The customs services of the parties will mutually recognize the documents of the other parties

Protocol 4.1.2 Exemption from Physical Customs Inspection, Bond Deposit, and Escort

- (a) The Contracting Parties undertake to exempt cargoes in international transit from: (i) routine customs physical inspection at the border, (ii) customs escorts in the national territory, and (iii) the deposit of a bond as a guarantee for the customs duties. The national legislation of the contracting parties shall be applied on a non-discriminatory basis (between countries), to simplify transit. The contracting parties shall have the right to require that high-risk commodities, and commodities subject to excise duties, be escorted by customs officers while in transit.
- (b) For the above purposes, the Contracting Parties undertake to institute a transit and inland customs clearance regime, such as the TIR.

The above text 4.1.1 corresponds closely to Article 30 Documentation and Procedures, and Article 31 Notification of Change in Documentation and Procedures, of the ECO Agreement of 9TH May 1998, signed and ratified but not applied by the ECO countries, including Kyrgyzstan and Uzbekistan, and to Article 30, Documentation and Procedures, of the Agreement prepared under ADB sponsorship for countries of the Greater Mekong Sub-Region (referred to hereinafter as the GMK Agreement).

Parts of the above text correspond with Article 7 of the GMK Agreement, with the addition of the specific mention of the TIR regime.

Protocol 4.2 Road Safety

Whereas Article XV of the Regulations on the Implementation of the International Road Transportation Agreement concluded between the Governments of the Kyrgyz Republic, the Republic of Uzbekistan and the People's Republic of China, states that: "In case of traffic accident with vehicle of one of the Contracting Parties on the territory of other Contracting Parties this Party will render the necessary support and immediately inform on accident the competent authorities of the contracting Party, to which the vehicle belongs to".

The Contracting parties shall take all measures necessary for the safety of traffic and environmental protection along the transit routes.

The Contracting parties shall provide all possible assistance in the event of traffic accidents in their territories involving foreign vehicles especially when passengers, dangerous and perishable goods are involved.

The above text corresponds with Article 10 Safety of Transit Traffic of the ECO Agreement.

Protocol 4.3 Technical Standards

Whereas Article IX of the Agreement on International Road Transportation between the Governments of the Kyrgyz Republic, the Republic of Uzbekistan and the People's Republic Of China, states that "The Contracting Parties shall respectively take the responsibility for the construction and maintenance of the road section in its own territory along the routes agreed upon in order to meet with the requirements of international road transportation", and

Whereas Article VII section 2 of the Regulations on the Implementation of the International Road Transportation Agreement concluded between the Governments of the Kyrgyz Republic, the Republic of Uzbekistan and the People's Republic of China, states that: "

The maximum dimensions of the vehicles and applied road requirements of each Contracting Party should meet the attached "Standard", and the attached standard corresponds to international norms, but there is no mention in the Agreement or Regulations concerning Road worthiness Certification.

The Contracting Parties agree as follows:

4.3.1 Design and Technical Characteristics of the Road

The Contracting Parties shall maintain, rehabilitate and reconstruct the Andijan - Kashgar road in accordance with appropriate standards in force at the territory of the States of the Contracting Parties.

4.3.2 Mutual Recognition of Certificates of Road Worthiness

The Contracting parties shall recognize certificates of road worthiness issued by other Contracting Parties and which shall correspond to the Convention on Road Traffic, 1968. The Contracting Parties undertake to institute regular inspection of their vehicles.

4.3.3 Technical Standards of Vehicles

The attached standards adopted by the Committee of Independent States (CIS), are to be considered as the valid standards for vehicles.

The above text 4.3.1 corresponds with the first paragraph of Article 5 of the Almaty – Bishkek Road Agreement between Kyrgyzstan and Kazakhstan. The above text 4.3.2 corresponds with Article 21 of the ECO Agreement.

Protocol 4.4 Trans-shipment on the Kyrgyz – Chinese Border

Whereas Article III of the Agreement on International Road Transportation between the Governments of the Kyrgyz Republic, the Republic of Uzbekistan and the People's Republic Of China, states that “The border posts, routes and procedures for international carriage of passengers and goods by road will be agreed upon by the competent authorities of the Contracting Parties. The routes initially opened are attached as Annex. The Annex shall be an indivisible part of this Agreement”.

and the said Annex states that;

“The routes which the Contracting Parties agree to initially are as follows:

Tashkent – Andijan – Osh – Erkesh Tam – Kashi.

The Contracting Parties shall with the least delay carry out the construction and maintenance of the road section in the territory of each Contracting Party.”

and,

Whereas: Article III of the Regulations on the Implementation of International Road Transportation Agreement concluded between the governments of the Kyrgyz Republic, the Republic of Uzbekistan and the People's Republic of China, states that:

“Passenger and freight automobile transportation will be carried out via the following cross border posts and following routes:

1. Passenger and freight automobile transportation will use the following cross border posts: in PRC – Erkesh Tam; in Kyrgyz Republic – Erkesh Tam and Dostuk; in Uzbekistan – Dustlik.
2. Passenger and freight transportation will use the following routes: Tashkent – Andijan – Osh – Erkesh Tam – Kashgar and respectively Kashgar – Erkesh Tam – Osh – Andijan – Tashkent.
3. Any modification or new addition to the above-stated cross border posts and the routes as may be necessary are to be prepared by the separate approvals of competent authorities of the contracting Parties.
4. Any of the Contracting Parties, if events warrant termination of transport communications, due to the special circumstances or disasters and other force-major situations (such as epidemics, flood, earthquakes and others), can change or stop traffic via these approved routes, and will notify the other parties.”

and,

Whereas in reality, trans-shipment at Sumhana on the Kyrgyz-Chinese border is practiced:

The Contracting Parties confirm that the Agreement of 19th February 1998, and the Regulations of 22nd September 1998 in principle allow continuous free movement of vehicles registered in any of the Contracting Party states, on the routes delimited in clauses 1 and 2 above, without trans-shipment of freight or passengers at any border crossing, or at any other point, between Tashkent and Kashgar.

The Contracting Parties declare their intention to examine the reasons for the present practice of trans-shipment, and to declare at the next Working Group meeting what, if any, conditions need to be satisfied, either internally, or multi-laterally, for the practice to be abandoned.

Trans-shipment is considered a serious addition to transport cost, time, unpredictability and inconvenience. As such it suppresses transport volume along the corridor, and reduces the viability of this road improvement project.

It appears to the Consultant that the existing Agreement allows free flow of vehicles all along the designated axis without trans-shipment, and that in this respect no additional text is vitally necessary in the present Agreement. However, other reasons unknown to us must exist for prohibition of free traffic flow up until the present time. The way forward may be, for the Parties to examine the reasons for the present practice of trans-shipment, and to declare what if any conditions need to be satisfied, either internally, or multi-laterally, for the prohibition on through traffic to be abandoned.

Protocol 4.5 Harmonization of vehicle insurance

Whereas Article XIII of the Regulations on the Implementation of the International Road Transportation Agreement concluded between the Governments of the Kyrgyz Republic, the Republic of Uzbekistan and the People's Republic of China, states that: "Carriers undertaking international passenger and freight transportation under this Agreement, beforehand should obtain insurance, according to the legislation of their own countries, for responsibility of carriers in the case of causing damage to third parties.

The Contracting Parties confirm that insurance policies issued in the home countries of vehicles using the corridor will be considered as valid in the corridor, in all of the contracting states.

The Contracting Parties undertake to promote for the region an international motor vehicle third party insurance equivalent to the UN ECE "Green Card" system.

The international green card motor vehicle insurance system dates back more than fifty years. Its geographic range has extended to more than forty states, from Europe as far as the Urals, and to certain Middle Eastern countries. The objectives of the green card system are:

- ◆ To facilitate the movement of vehicles across international borders by the use of an internationally acceptable document proving the existence of insurance (the Green Card or International Insurance Card).
- ◆ To ensure that the parties involved in accidents with foreign registered vehicles are protected by adequate insurance.

Article XIII of the present Agreement poses no hindrance to trade or traffic. It does however leave the parties to an accident involving a foreign visiting vehicle in a rather ambiguous position, with possible cross-border claims on a foreign insurance company, working under very different legislative regimes. This could require cumbersome negotiation or the intervention of local authorities or courts to resolve the situation. To avoid situations of that kind, systems such as the "Green Card" are set up by the international community, under UN agencies and monitoring.

Protocol 4.6 Visas

Whereas the preamble to the Agreement on International Road Transportation between the Governments of the Kyrgyz Republic, the Republic of Uzbekistan and the People's Republic Of China, states that the governments of the Kyrgyz Republic, the Republic of Uzbekistan and the People's Republic of China (hereinafter referred to as the Contracting Parties), recognize the need to promote international road transportation among the contracting states and desiring to maintain, develop and strengthen the existing friendly relations:

The Contracting Parties undertake to grant visas to nationals of the other Contracting Parties engaged in transport operations, and who are subject to visa requirements.

In general, the established intention to carry out legitimate transport operations along the corridor, will be considered sufficient grounds to grant a visa, at reasonable cost and without excessive administrative procedures, but commensurate with the legislations of the Contracting Parties.

The Contracting Parties recognize that it would be desirable to issue visas to corridor travelers in Kashgar, Osh, and Andijan, as and when the demand justifies the opening of consulates, as well as at borders for drivers.

Protocol 4.7 Roadside Facilities

Whereas Article XVI of the Agreement on International Road Transportation between the Governments of the Kyrgyz Republic, the Republic of Uzbekistan and the People's Republic Of China, states that "Issues which are not covered by this Agreement shall be settled by mutual consultations among the Contracting Parties";

The Contracting Parties undertake to promote the availability of modern roadside facilities that include:

- fuel stations
- hotels and restaurants
- vehicle recovery and repair services
- medical and sanitary facilities
- telecommunication links
- road maintenance facilities

35. The foregoing text forms Article 9 of the Almaty-Bishkek Road Agreement

It may be noted that the Consultant's recommendations for the first phase of investment in the improvement of the road infrastructure (see Section 5-8), include maintenance and communications equipment. This is intended not only to improve maintenance of the road infrastructure, but as a secondary benefit, to facilitate vehicle recovery and to allow faster response by the relevant services, in the event of serious road accidents and breakdowns.

Recommendation 4, Concern 8 – *Transit fees*, has been dealt with in Protocol 2 preceding. Article

Recommendation Five

A general improvement in communications between traders, and between transporters, would stimulate traffic on the project road. The consultants were asked to develop the following suggestions from delegates, for government procedures to facilitate private sector trade and communications.

Suggestion 1 – Open feeder roads to maximize the opportunities for truck owners to obtain two-way cargoes

Suggestion 2 – Allow the reciprocal opening of freight – forwarders and other transport operators offices in each others countries

Suggestion 3 – Avoid protectionist rules which prevent truck owners from obtaining two-way cargoes

Suggestion 4 – Generally consider means to alleviate all present physical and non-physical hindrances to the fullest development of the Tashkent-Osh-Erkesh Tam-Kashgar transport corridor.

Protocol 5.1 Opening of feeder roads.

Whereas Article III of the Agreement on International Road Transportation between the Governments of the Kyrgyz Republic, the Republic of Uzbekistan and the People's Republic of China,
and

Whereas: Article III of the Regulations on the Implementation of International Road Transportation Agreement concluded between the governments of the Kyrgyz Republic, the Republic of Uzbekistan and the People's Republic of China,

Both concern road transport on the Tashkent – Osh – Erkesh Tam – Kashgar axis
and

Whereas Article XX of the Agreement on International Road Transportation between the Governments of the Kyrgyz Republic, the Republic of Uzbekistan and the People's Republic Of China, states that “The present Agreement is open to other states, which can join with the concurrence of all the Contracting Parties.”

The Contracting Parties declare their intent to extend the allowable routings progressively and within the framework of this Agreement, firstly and in the immediate future:

- to permit open access for vehicles to serve other regional origins and destinations located in Tashkent – Kashgar corridor,

and secondly

- to work out a timetable to extend the geographic scope of the Agreement to the whole of the concerned countries, excepting zones that any country may exclude, for whatever internal reasons it may have to do so.

Furthermore *the Contracting Parties declare* their intent to earnestly consider an extension of the Agreement on International Road Transportation between the Governments of the Kyrgyz Republic, the Republic of Uzbekistan and the People's Republic of China, to include the Republic of Tajikistan, subject to receiving a formal request from that country.

Protocol 5.2 Opening of transport operators offices

Whereas Article XVI of the Regulations on the Implementation of the International Road Transportation Agreement concluded between the Governments of the Kyrgyz Republic, the Republic of Uzbekistan and the People's Republic of China, states that: “Each of the Contracting Parties will facilitate for the carriers of other Contracting Parties the establishment of local representation offices. This shall be in accordance with the legislation of the country where the office is to be located.”

The Contracting Parties confirm that transport operators, carriers, or freight forwarders, or other intermediaries, duly permitted in their home countries for the cross-border transport activity that they intend to carry out, may open offices at opportune locations in the other Contracting Party states, wherever there is an active market for cross-border transport services.

Protocol 5.3 Obtaining of two-way cargoes

Whereas the preamble to the Agreement on International Road Transportation between the Governments of the Kyrgyz Republic, the Republic of Uzbekistan and the People's Republic Of China, states that the governments of the Kyrgyz Republic, the Republic of Uzbekistan and the People's Republic of China (hereinafter referred to as the Contracting Parties), recognize the need to promote international road transportation among the contracting states and desiring to maintain, develop and strengthen the existing friendly relations...

The Contracting Parties declare that vehicles delivering goods in the country of another Contracting Party may solicit a return load to export from that country. They may wait for an indefinite period for such a load to be offered, at convenient secure locations (so-called TIR parks) designated by each of the Contracting Parties for that purpose. They may travel to pick up a return load at the place or places where it may lie, and then export it, by the shortest route

Protocol 5.4 Alleviation of Physical and Non-Physical Hindrances

5.4.1 Permits

Whereas the preamble to the Agreement on International Road Transportation between the Governments of the Kyrgyz Republic, the Republic of Uzbekistan and the People's Republic Of China, states that the governments of the Kyrgyz Republic, the Republic of Uzbekistan and the People's Republic of China (hereinafter referred to as the Contracting Parties), recognize the need to promote international road transportation among the contracting states and desiring to maintain, develop and strengthen the existing friendly relations...

And

Whereas Article II of the Agreement on International Road Transportation between the Governments of the Kyrgyz Republic, the Republic of Uzbekistan and the People's Republic Of China, states that "The international carriage of passengers and goods by road among the Contracting Parties shall be undertaken by vehicles registered in the Contracting Parties. The system of international road transportation permit shall be implemented for the vehicles approved for international road transportation"

and

Whereas Article V of the Regulations on the Implementation of the International Road Transportation Agreement concluded between the Governments of the Kyrgyz Republic, the Republic of Uzbekistan and the People's Republic of China, states that: According to the Article II of the Agreement:

1. The competent authorities of the Contracting Parties will issue the International Transportation Permits for the vehicles of other Contracting Parties traveling through their territory. The transporters of the Contracting Parties during the transportations, stipulated by the Agreement, are obliged to have the Permit for international transportation issued by the competent authorities of their Country.
2. The Agreement on the Permits system for international transportations will be concluded by the competent authorities of the Contracting Parties.
3. The sample of the Permits for international transportations is applied below (Appendix I).

And

Whereas Article 3 of the (bi-lateral) Agreement on International Road Transportation between the Government of the Kyrgyz Republic and the Republic of Uzbekistan states that "Nonscheduled passenger transportation between the both countries as well as the transit on their territories will be carried out without any permits"

and

Whereas Article 4 of the (bi-lateral) Agreement on International Road Transportation between the Government of the Kyrgyz Republic and the Republic of Uzbekistan states that "freight transportation between both countries as well as the transit on their territories will be carried out without permits"

And

Whereas permit systems are not applied in other parts of the World where economic growth is a priority

And

Whereas a significant increase in international road transportation is possible when the physical road improvements are carried out

The Contracting Parties agree that the permit system will become an unacceptable hindrance to international road transportation among them and in consequence *they agree* to work towards abandonment of the permit system. At that time Article II of the Agreement on International Road Transportation between the Governments of the Kyrgyz Republic, the Republic of Uzbekistan and the People's Republic Of China, can be modified simply to state that

"The international carriage of passengers and goods by road among the Contracting Parties shall be undertaken by vehicles registered in the Contracting Parties and approved for international road transportation, without specific permits except for vehicles or loads not conforming with this Agreement and its Regulations" .

5.4.2 Empty Vehicles

Whereas Article VII section 4 of the Regulations on the Implementation of the International Road Transportation Agreement concluded between the Governments of the Kyrgyz Republic, the Republic of Uzbekistan and the People's Republic of China, states that: "Empty vehicles belonging to one of the Contracting Parties should not enter the territory of other Contracting Parties. However, Chinese empty

vehicles, which come back from Uzbekistan via Kyrgyz Republic and Uzbek empty vehicles, which come back from PRC via Kyrgyz Republic, are not to be classified under the empty vehicles category.”

The Contracting Parties agree that the consignors of goods for cross border transport should be free to negotiate with all transporters duly authorized to carry out cross border operations under Article VII of the Agreement. To allow this freedom of negotiation, all interdiction of passage to empty vehicles is abandoned.

Any hindrances to free negotiation of transport operations between traders and transport operators stifle competition, wholly or partially. Subsequently higher cost operators are reserved a share of the market, manufacturers, traders and consumers pay higher prices, and cross border traffic is less than it might be. The region would be ill-advised to place itself under a competitive disadvantage relative to other parts of the international trading system.

At the Second Roads Working Group conference, the Asian Development Bank representative recommended earnest consideration of the abandonment of the permit system by the concerned countries.

ANNEX TO PROTOCOL 4.3.3 Technical Standards of Vehicles
Overall dimensions and weights of vehicles (CIS - Russia, Kazakhstan, Tajikistan, Kyrgyzstan; very similar to EU Standards)

Length	
The type of the vehicle	The maximum allowed length, m
Goods vehicle	12.0
Bus	12.0
Trailer	12.0
Articulated bus	18.0
Articulated good vehicle	20.0
Width	
The type of the vehicle	The maximum allowed width, m
All type of vehicles	2.55
Superstructures of conditioned vehicles	2.60
The height dimension	
The type of the vehicle	The maximum allowed height, m
All type of vehicles	4.0
Permissible maximum weight of a vehicle	
Type of vehicle	The maximum allowed weight, t
Goods vehicle	
Two-axle goods vehicle	18.0
Three-axles goods vehicle	24.0
Three-axle vehicle with one steering axle consisting of twin tyres fitted with air suspension or equivalent	32.0
Vehicle forming part of a vehicle combination	
Two-axle trailer	18.0
Three-axle trailer	24.0
Vehicle combinations	Applicable for transit through Uzbekistan only
Articulated vehicles with four axles consisting of a two-axle truck and a two-axle semi-trailer, if the distance between the axles of the semi-trailer:	
o is 1.3m or greater but not more than 1.8m	36.0 36.0
o is grater than 1.8m	38.0 38.0
Two-axle truck with three-axle semi-trailer	38.0 40.0
Three-axle truck with two-axle semi-trailer	38.0 40.0
Three-axle truck with three-axle semi-trailer	NA 40.0
Two-axle truck with single-axle trailer	NA 28.0
Two-axle truck with two-axle trailer	36.0
Two-axle truck with three-axle trailer	42.0
Three-axle truck with two-axle trailer	42.0
Three-axle truck with three-axle trailer	44.0
Three-axle truck with four-axle trailer	44.0
Buses	
Two-axle buses	18.0
Three-axle buses	24.0
Three-axle articulated buses	28.0
Four-axle articulated buses	28.0

Permissible maximum axle weights	
Axle configuration	The maximum allowed axle weight, t
Single axles <ul style="list-style-type: none"> ○ single non-driving axle ○ single driving axle with twin tyres 	 10.0 10.0
The sum of the axle weights per tandem axle of trailers and semi-trailers fitted with twin tyres must not exceed, if the distance between the axles is: <ul style="list-style-type: none"> ○ 0.5 m to 1.0 m ○ 1.0 m to 1.3 m ○ 1.3 m to 1.8 m ○ 1.8 m or more 	 12.0 14.0 16.0 18.0
The sum of the axle weights per tandem axle of trailers and semi-trailers fitted with single tyres must not exceed, if the distance between the axles is: <ul style="list-style-type: none"> ○ 0.5 m to 1.0 m ○ 1.0 m to 1.3 m ○ 1.3 m to 1.8 m ○ 1.8 m or more 	 11.0 13.0 15.0 17.0
The sum of the axle weights per tri-axle of trailers and semi-trailers fitted with twin tyres must not exceed, if the distance between the axles is: <ul style="list-style-type: none"> ○ 0.5 m to 1.0 m ○ 1.0 m to 1.3 m ○ 1.3 m to 1.8 m ○ 1.8 m or more 	 16.5 19.5 22.5 25.5
The sum of the axle weights per tri-axle of trailers and semi-trailers fitted with single tyres must not exceed, if the distance between the axles is: <ul style="list-style-type: none"> ○ 0.5 m to 1.0 m ○ 1.0 m to 1.3 m ○ 1.3 m to 1.8 m ○ 1.8 m or more 	 15.0 18.3 21.0 24.0
The sum of the axle weights per tandem axle of goods vehicle and buses fitted with twin tyres must not exceed, if the distance between the axles is: <ul style="list-style-type: none"> ○ 0.5 m to 1.0 m ○ 1.0 m to 1.3 m ○ 1.3 m to 1.8 m ○ 1.8 m or more ○ same fitted with air or equivalent suspension 	 12.0 14.3 16.0 18.0 19.0
The sum of the axle weights per tandem axle of goods vehicle and buses fitted with single tyres must not exceed, if the distance between the axles is: <ul style="list-style-type: none"> ○ less than 1.0 m ○ 1.0 m to 1.3 m ○ 1.3 m to 1.8 m 	 11.0 13.0 15.0
All vehicles	
The weight borne by the driving axle or driving axles of a vehicle or vehicle combination must not be less than 25% of the total laden weight of the vehicle or vehicle combination.	

2.5 ANNEX – FINANCING WORKING GROUP DISCUSSION POINTS

(as handed to participants before the conference)

INTRODUCTION

36. The following issues are recommended for further discussion by Working Group #1: Project Financing. Depending on the results of this Working Group meeting, some or all of these issues can be included as Second Road Working Group Conference Resolutions.

37. Financing Alternative (FA) #1, which is phased Asian Development Bank (ADB) financing, is not preferred by the three countries as it will take approximately six years to complete the rehabilitation of Osh - Erkesh Tam road under this alternative. Furthermore, as it would require only bi-lateral financial discussions between Kyrgyzstan and the ADB, it is not being given further consideration within this Working Group.

38. Financing Alternative #2, which is upfront (single-phase) ADB financing, might not be feasible given Kyrgyz Republic's borrowing constraints. It is also not definite at this point whether ADB financing would be available to cover the whole rehabilitation costs. Therefore, it is recommended that FA #2 is dropped from further consideration by the Working Group.

39. Financing Alternative #3, which is cost and resource sharing between Kyrgyz Republic (KR), People's Republic of China (PRC), and Uzbekistan, is a viable alternative for the financing of the Osh – Erkesh Tam Road Corridor and should be further discussed among the three countries. Some key issues that are relevant to the implementation of FA #3 are presented in Section 2.

40. Financing Alternative #4, which involves establishing the tri-partite Corridor Executive Management Agency (CEMA) with financial and operational management functions, is also a viable alternative for the development of the Osh – Erkesh Tam Road Corridor and can be further discussed among the three countries. However, this Financing alternative requires considerable further negotiation between the countries, compared to the other three alternatives. For this reason, it might take longer to implement. Some key issues that are relevant to the implementation of FA #4 are presented in Section 3.

41. Given the three countries desire to complete the road rehabilitation project as soon as possible, it might be a better idea to initially consider FA #3 as it is relatively simpler to implement compared to FA #4. Since majority of the issues that needs to be addressed are similar between these two alternatives, FA #3 can be used as a starting point for the implementation the project and then a Corridor Executive Management Agency can be established after the completion of the rehabilitation works for the financial and operational management of the Osh – Erkesh Tam Road Corridor.

42. Regardless of whether FA #3 or FA #4 is considered by the Working Group members, there are major issues common to both alternatives and should be resolved before their implementation. These issues include:

◆ **How will the rehabilitation costs shared between the three countries?**

In FA #3, the cost sharing can be in the form of financial or in-kind contribution, or other methods acceptable to three governments. In FA #4 the cost sharing will be in the form of equal equity investment by three countries, with KR's equity investment to be provided by an ADB loan.

◆ **How will the revenues be shared between the three countries?**

In FA #3 this can be accomplished through cash payments, shadow tolls (time-limited versus monetary limit) or other methods acceptable to three governments. In FA #4, revenues can be kept in CEMA to be utilized for ongoing operations, maintenance, and debt repayment.

◆ **How will the operations and maintenance (O&M) costs and debt/equity investment covered?**

In FA #3, actual O&M expenses can be calculated for each country based on their usage of the road and these can be deducted from the estimated financial gains accumulated by each country. Or this can be in the form of equal contributions to the KR agency responsible for the O&M of the road corridor by the three countries. In FA #4, the CEMA will be responsible for financing and managing all O&M activities. It should be decided under this alternative, however, what kind of returns will be provided to the three countries in return for their equity investment as well as whether the ADB loan repayment will be the responsibility of CEMA.

◆ **What kind of an organizational structure needs to be put in place to ensure that the funds are spent properly and the road corridor is operated effectively?**

In FA #3, this can be done in the form of a Project Implementation Unit (PIU), which will have equal representation by each country. This PIU can manage and coordinate the rehabilitation works between the three countries to ensure transparent financing of the rehabilitation works and efficiency in implementation. As previously mentioned, FA #3 can be used as a starting point for the establishment of CEMA, which can be accomplished before the completion of the rehabilitation works. Then CEMA can take over the O&M of the road corridor. In this case, significant work needs to be done to identify the organization structure requirement for CEMA to effectively manage the finances and management of the corridor.

◆ **What level of cost recovery is required and the resulting toll rates to be utilized along the corridor?**

What kind of a toll structure needs to be implemented - i.e. a simple or a differentiated toll structure, which takes into account domestic versus international registered vehicles. Will all vehicles be charged or just commercial traffic? This is a critical issue as toll revenues will play an important role in determining the Osh – Erkesh Tam road's competitiveness as a transit corridor and will be the major source of income for cost recovery.

FA #3 DISCUSSION POINTS

43. In addition to the considerations mentioned above, additional issues will need to be resolved before the implementation of FA #3:

- ◆ If a PIU is deemed appropriate, a detailed organizational structure will need to be developed, with powers appropriate to the form of financial and project management responsibilities which it is expected to exercise;
- ◆ Identification and execution of required bilateral/trilateral agreements and possible changes in domestic legal and policy framework to carry out the rehabilitation project implementation;
- ◆ If it is decided that the CEMA will be established at the completion of the rehabilitation works, an appropriate organizational structure needs to be identified. Required

changes in each country's legal and regulatory framework will also need to be identified and appropriate actions taken to establish the CEMA;

- ◆ If the CEMA is not established at the completion of the rehabilitation works, it needs to be decided whether the PIU will be kept or the responsibilities will be transferred to an existing KR agency for the O&M of the road corridor;
- ◆ Regardless of whether the CEMA is established or not, allocation of O&M responsibilities will need to be clearly defined, i.e. who will be responsible for road maintenance, traffic enforcement, accident and emergency response, etc.;
- ◆ Clear definition of financial responsibilities after the completion of the rehabilitation works will need to be defined, i.e. how are the tolls collected and distributed, how will the O&M costs be divided between the three countries; and
- ◆ Other issues to be identified that are relevant for project implementation under this FA.

FA #4 DISCUSSION POINTS

44. FA #4 is also a viable alternative for the financing of the Osh – Erkesh Tam Road, but it will require significant additional start-up work compared to the other three financing alternatives. Some issues to be considered include:

- ◆ The feasibility of establishing a Corridor Executive Management Agency, which would be an independent entity with separate finances and operational responsibilities and would involve equal representation from the three countries;
- ◆ Based on the experiences gained during the project implementation stage, the identification and execution of required additional bilateral/trilateral agreements and possible changes in domestic legal and policy framework to establish the CEMA;
- ◆ Clear definition of operational responsibilities of CEMA, i.e. toll collection, road maintenance, etc.
- ◆ Developing operational arrangements with other appropriate agencies for services that are required but will not be provided by CEMA, such as traffic enforcement, customs and immigration, accident and emergency response, etc.;
- ◆ Clear definition of financial responsibilities of CEMA to ensure a transparent process and that the road corridor is operated and maintained effectively;
- ◆ Agreement on how debt repayment and possible return on equity will be achieved;
- ◆ Potential for private sector participation for various CEMA functions, such as toll collection, maintenance contracts, etc.; and
- ◆ Other issues to be identified that are relevant for project implementation under this FA.