

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC22283

Project Name	Urban Development Project (P151416)
Region	EUROPE AND CENTRAL ASIA
Country	Kyrgyz Republic
Sector(s)	Sub-national government administration (25%), Urban Transport (25%), Solid waste management (25%), General water, sanitation and flood protection sector (25%)
Theme(s)	City-wide Infrastructure and Service Delivery (90%), Other public sector governance (10%)
Lending Instrument	Investment Project Financing
Project ID	P151416
Borrower(s)	Government of Kyrgyz Republic
Implementing Agency	ARIS
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	23-Feb-2015
Date PID Approved/ Disclosed	22-Mar-2015
Estimated Date of Appraisal Completion	15-Dec-2015
Estimated Date of Board Approval	15-Mar-2016
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Kyrgyz Republic with a GNI per capita of around US\$1,200 in 2013 remains one of the two poorest countries in the Eastern Europe and Central Asia (ECA) region. Its population of 5.7 million is young and growing rapidly at 2 percent per year. Prior to the Global Financial Crisis, the country experienced a period of rapid economic growth – with up to 9 percent growth rates - and a remarkable decline in poverty levels, between 2002 and 2008, from 62.6 to 32.0 percent. The economy slowed down in 2009 and 2010 but recently recuperated to pre-crisis growth levels. Between 2006-2011, economic growth was inclusive with consumption among the Bottom 40 (B40) percent's income growing at a faster pace than the average. Despite this, economic growth remains volatile due to frequent internal and external shocks including natural disasters, social unrest and food prices increases. These have in recent years reversed the poverty reduction trend. In 2013, it

was estimated that around 38 percent of the population lived in poverty and 2.8 percent lived in extreme poverty. Looking forward, economic growth and poverty reduction will most likely be affected by the current economic situation in Russia that affects remittances to Kyrgyzstan.

Sectoral and Institutional Context

Rapid urban growth accompanied by the growth of semi-informal settlements: It is estimated that 42 percent of the Kyrgyz population lives in urban areas. Urban population growth – at around 2.2 percent in the past years - is the highest in the region, after Tajikistan, and comparable to those observed in other countries in the Middle East and North Africa and South Asia regions. According to the National Census half of the urban population is concentrated in Bishkek, the capital city, and Osh, the main city in the South. The other half is scattered among twenty-three smaller towns with populations ranging from 9,000 to 70,000. To control the effects of growing migrations on urban development, Kyrgyz authorities began in the early years of independence allocating agricultural land in the periphery of urban centers to migrants for housing construction in semi-informal settlements, called novostroiki. Creation of such novostroiki continued throughout the 1990s and early 2000s at a relatively moderate scale, but accelerated significantly after 2005. Today Bishkek has about fifty such settlements with a population, estimated between 125,000 and 200,000. Osh has eight, with a population of more than 50,000. Novostroiki have also grown in peri-urban areas of small and medium size cities, such as Batken and have become the predominant way of urbanization.

Developing these novostroiki was instrumental in preserving a reasonably ordered urban environment and averting the emergence of slum-like neighborhoods but did little to provide minimally acceptable living conditions to their residents – who are generally poor – or to ensure their integration into the urban environment. In addition the low-density development observed in novostroiki is leading to a sprawled-type development which will have long-term consequences to the costs of providing municipal services and in the energy intensity of these cities.

The country is facing an important challenge in providing municipal services which is exacerbated by the quickly growing urban population: Municipalities, which are responsible for the provision of basic services such as water supply, solid waste collection, municipal roads and public lighting, have been unable to expand services to the quickly growing urban population or ensure adequate quality of existing services. For instance, access to Water Supply and Sanitation WSS remains inadequate in poor peri-urban neighborhoods (novostroiki) and modern sanitation is hardly developed outside the main cities. Existing WSS infrastructure is in poor condition and very inefficient (non-revenue water stands at 77 percent, metering stands at 33 percent). Tariffs are kept very low, regardless of cost-recovery needs. Solid waste collection services are also of poor quality. Collection coverage differs between large and smaller towns, and rural areas. While about 96% of the population in Bishkek receives regular service, coverage in Osh is estimated at 60%, and that in smaller towns is between 25-50%. Collection equipment and facilities are outdated with lengthy downtime for repairs, the sanitary conditions at communal collection sites are poor, environmental norms and compliance at disposal sites are below the minimum internationally acceptable standards. Illegal dumping is widely spread. The waste tariffs are low and in 2009 represented only 0.1% of household expenditures of the three poorest deciles. In comparison, the broadly accepted benchmark for waste services is around 1 to 1.5% of disposable income. The system is financed mostly out of general municipal revenue and since local governments are fiscally constrained, they rely on external assistance for capital investments.

There are significant financing gaps and capacity limits to improve municipal infrastructure: Despite efforts in improving municipal service delivery, basic infrastructure is generally in very poor condition and securing satisfactory level of service would require a considerable increase in the level of investments. At the national level, investments needed to rehabilitate and expand current WSS systems were estimated at USD 2.2 billion by 2030, which vastly exceeds current financing . In addition, local governments face important constraints in increasing their own source revenues and have a limited role in public investments. In 2013, subnational capital investment was quite low at 0.4 percent of GDP out of total public sector investment of about 5-7 percent of GDP 2011-13 . The capacity of municipalities and utilities remains limited, in particular outside the main cities, and needs to be strengthened to improve the efficiency, the quality and financial sustainability of service delivery.

Significant gaps in municipal service provision are concentrated among the poor and the B40: For example, while 71 percent of the upper 60 percent living in urban areas have individual water connections, only 33 percent of the bottom 40 percent, do. The situation in the case of solid waste collection and disposal is similar. While only 9 percent of the upper 60 percent living in urban areas burn or bury their solid waste, 26 percent of the bottom 40 percent do . Moreover, the gaps in access and associated coping costs (i.e. fetching and boiling water) are disproportionately concentrated among the poor. A recent study estimated at USD 116 million the annual economic impact of inadequate coverage and quality of WSS services in the country .

Improving the energy efficiency of municipal infrastructure is of particular importance given its high energy intensity and the need to free resources for other development priorities: The Kyrgyz Republic ranks among the ten most energy intensive countries in the ECA region and experienced a significant increase in power consumption in recent years, in particular during winter months. While the public sector accounts for only 10% of the total electricity consumption, its consumption grew by more than 37% in 2009-2012. This increase is partially driven by the low energy efficiency of the municipal infrastructure; the majority of public buildings in the Kyrgyz Republic were constructed during the Soviet era without any regard to energy efficiency, are poorly maintained due to the lack of sufficient budgets and often under-heated due to the high losses and dilapidated condition of the heating infrastructure. A recent Urban Heating Assessment identified energy efficiency as one of the most economically viable options to meet public heat demand and indicated that energy consumption in public buildings could be reduced by around 30% through basic energy efficient retrofits. Improving the energy efficiency of municipal infrastructure, such as public buildings, street lighting and water supply could help reducing energy consumption and costs, improve comfort levels in schools and hospitals, and cost-efficiently reduce Green House Gases GHG emissions. In addition, investing in improving energy efficiency will free resources that could be used by fiscally constrained local governments for other development priorities.

In the recent years some progress has been made in the country towards advancing the energy efficiency agenda. An Energy Efficiency performance law for new buildings was put in place in February 2012 and the first energy efficient school was constructed as part of a pilot project developed by UNDP with Global Environmental Facility GEF funds. In addition, a number of donors (EBRD, GIZ) have programs aimed at improving the energy efficiency of residential buildings and industries but these are solely targeted towards the private sector. Therefore, an important financing gap remains in the municipal infrastructure sector. Finally, a National Energy Savings Program is expected to be approved in March, 2015. Under this program all municipalities will need to develop energy savings action plans.

The Bank has a long history of engagement in the municipal services sector: This includes the recently closed Small Towns Infrastructure and Capacity Building Project STICBP, the Bishkek and Osh Urban Infrastructure Project BOUIP and BOUIP – Additional Financing. The previous projects aimed at improving municipal infrastructure, such as water supply, street lighting, roads and social infrastructure, and building capacity across cities in Kyrgyz Republic. The BOUIP - AF project, expanded the work done under STICBP and BOUIP, and is expected to close in December 2015. Due to this long and successful engagement, the Government has requested the Bank to continue supporting the sector and that, on a pilot basis, Energy Efficiency is taken into consideration for the expansion and/or rehabilitation of municipal infrastructure. The proposed Urban Development Project (UDP) scope was discussed in detail with different Government counterparts, all of which expressed strong support for the project.

Relationship to CAS

The proposed UDP is included in the current Country Partnership Strategy (CPS) for Kyrgyz Republic (FY2014-2017) of June 2013 (Report No. 78500-KG). The project is linked to the third area of engagement of the CPS and the country development goal which seeks to 'ensure sustainable urban development and communal services'. The PDO is in line with the country's development goal as it aims to improve access to basic services such as water supply and sanitation, solid waste management and other urban infrastructure with provisions for energy efficiency

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The PDO of the proposed project is to improve (i) access and quality of municipal services and (ii) the energy efficiency of urban infrastructure in participating municipalities. This will be achieved through mobilizing financial resources (i) to improve access and quality of municipal services such as water supply, sanitation, solid waste management, and municipal roads, (ii) to improve the energy efficiency of existing urban infrastructure such as municipal social infrastructure buildings (i.e. schools, etc.), street lights and municipal mechanical equipment, and (iii) to strengthen the capacity of participating municipalities and utilities to plan and deliver local services.

Key Results (From PCN)

The achievement of the objectives will be measured by the following anticipated results:

- Number of people in urban areas provided with access to improved water sources under the project (core indicator);
- Number of people in urban areas provided with access to improved sanitation under the project (core indicator);
- Number of people in urban areas provided with access to regular solid waste collection under the project (core indicator);
- Number of people in urban areas provided with access to all-season roads within a 500 meter range under the project (core indicator);
- Projected lifetime energy savings (MwH) (core indicator);
- Number of project beneficiaries (gender disaggregated), (core indicator);
- Percentage of beneficiaries satisfied with project activities (gender disaggregated).

III. Preliminary Description

Concept Description

The Proposed Project will consist of the following components:

Component A: Urban Development. The project will finance investments aimed at improving service provision in participating municipalities. The project is expected to focus on 3-4 cities. The selection of these cities will be made in consultation with Government and sector stakeholders and will take into account: (i) municipal service access gaps, (ii) population and population growth change, (iii) conflict areas and geo-graphical distribution, (iv) poverty concentration in urban areas, and (v) donors' involvement in the sector. The selection criteria for investments within each city will be defined during project preparation but special attention will be made to assure the coverage of poor and underserved urban areas such as Novostroiki. Technical supervision for the development of the above mentioned investments will also be financed through this component. Designs and associated safeguards documents will be prepared with support from ECADev Trust Fund mobilized for this purpose.

Sub-component A1: Municipal Services. This sub-component is expected to finance sub-projects for the upgrading and/or expansion of municipal infrastructure in the areas of water supply, sanitation, solid waste management, basic social infrastructure and municipal roads.

Sub-component A2: Energy Efficient Municipal Infrastructure. This sub-component will focus on improving the energy efficiency of municipal infrastructure in participating municipalities. It is expected to include investments such as switching to more energy efficient street lighting options and reducing the energy intensity of existing water and sanitation networks. In addition this sub-component will include a pilot aimed at improving the energy efficiency of public buildings – through building retrofit - such as schools and health centers. The Tool for Rapid Assessment of City Energy (TRACE) as well as Climate Action for Urban Sustainability (CURB) tool, which allow identifying priorities for reducing energy consumption based on their savings potential and costs, could be used for the prioritization of investments across the different municipal sectors and to support the development of the municipal energy savings action plans as required under the National Energy Savings Program. Investments made under this component will yield not only energy savings but will contribute to the reduction of GHG emissions and mitigation of Climate Change.

Component B: Institutional Strengthening. This component will finance (i) the procurement and installation of financial management and planning tools required to improve the managerial capacity of municipalities and to reduce commercial losses by utilities and; (ii) targeted technical assistance to municipalities and utilities towards improving their technical and managerial capacities. This activity will reflect findings and priority areas identified by a review carried as part of preparation (with ECADev funds) of current practices in municipal finance, city management, public investment programs (PIPs). The project is also expected to provide a platform for the policy dialogue on urban growth and the growth of semi-urban settlements (Novostroiki) and will be complemented by a separate grant funded through GFDRR which aims at strengthening disaster resilience through urban planning. Institutional support funds under this component could potentially be available to more municipalities than those that will undertake investments under Component A and Component B.

Component C: Implementation Support. Resources to support the implementing unit include: (i) contracting of local experts to assist the implementation unit and participating municipalities in the

implementation of the project investment programs; (ii) the maintenance of the Monitoring and Evaluation System M&E, created under the BOUIP project, to continuously monitor and evaluate the performance and results of the project; (iii) the project related operating costs of the implementing unit including consulting fees, in-country travel expenditure and mandatory contributions to the Kyrgyz Social Fund; (iv) training of staff and other persons associated with project implementation; and (v) annual audit of project accounts.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12	x		
Safety of Dams OP/BP 4.37			x
Projects on International Waterways OP/BP 7.50	x		
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	13.20	Total Bank Financing:	12.00
Financing Gap:	0.00		
Financing Source			Amount
BORROWER/RECIPIENT			1.20
International Development Association (IDA)			6.60
IDA Grant			5.40
Total			13.20

VI. Contact point

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