

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA36541

Project Name	Urban Development Project (P151416)
Region	EUROPE AND CENTRAL ASIA
Country	Kyrgyz Republic
Sector(s)	Sub-national government administration (20%), Public administration- Other social services (30%), Solid waste management (20%), General water, sanitation and flood protection sector (30%)
Theme(s)	Other public sector governance (10%), Urban planning and housing policy (10%), City-wide Infrastructure and Service Delivery (80%)
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	22-Oct-2015
Date PID Approved/Disclosed	10-Nov-2015
Estimated Date of Appraisal Completion	15-Dec-2015
Estimated Date of Board Approval	15-Mar-2016
Appraisal Review Decision (from Decision Note)	

I. Project Context

Country Context

The Kyrgyz Republic with a GNI per capita of around USD 1,200 in 2013 remains one of the poorest countries in the Eastern Europe and Central Asia (ECA) region. From 2002 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 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 and 2011, economic growth was inclusive with consumption among the Bottom 40 percent (B40)'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 price 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. In May 2015 the Kyrgyz Republic became a member of the Eurasian Customs Union (CU)

comprising Russia, Kazakhstan, Belarus, and Armenia. However, despite benefits from access to larger markets, the short-term effects on growth and trade of accession to the CU are expected to be mixed. Looking forward, economic growth and poverty reduction will most likely be affected by the current economic situation in Russia that affects remittances to the Kyrgyz Republic.

According to the 2009 National Census, about 35 percent of the Kyrgyz Republic's total population of about five million lives in urban centers. As with most countries with low urbanization levels, the Kyrgyz Republic's urban population is growing fast, with annual growth rates of around 2.2 percent. The rapid growth of urban areas in the Kyrgyz Republic presents big challenges as cities need to expand their infrastructure and services to absorb newcomers, while ensuring that current infrastructure and service levels are maintained for the existing population. This requires having both the financial resources to expand and maintain urban infrastructure and services and the institutional capacity to plan and manage urban population growth. Urbanization is also generally linked to the passage from lesser-productive (i.e., agriculture) to higher-productive sectors (i.e., services, industry). In the case of the Kyrgyz Republic, estimates suggest that urban areas are 4.8 times more productive than rural areas. As such, urbanization, if well-managed, can play a central role in the economic growth of the country.

Sectoral and institutional Context

The country is facing significant challenges in providing quality municipal services exacerbated by the quickly growing urban population. Municipalities which are responsible for the provision of basic services such as water supply, solid waste collection, street lighting, and social infrastructure (i.e., schools), have been unable to provide quality services to the quickly growing urban population. Piped water supply service outside of the capital is intermittent and commonly disrupted by chronic or seasonal water shortages or by distribution of non-compliant or unsafe water. Solid waste collection coverage is inadequate – between 25-50 percent of the population in smaller towns receive regular service compared to about 96 percent of the population in Bishkek and 60 percent in Osh. Waste collection equipment is outdated and inefficient with lengthy downtimes for repairs, and the sanitary conditions at communal collection sites are poor. In addition, there are important legacy challenges derived from the infrastructure constructed during Soviet times. The majority of municipal buildings were constructed without regard to energy efficiency leading to higher operating costs and low levels of comfort in extreme weather and have low resilience to seismic events. On average, it is estimated that around 20-30 percent of the heat demand in urban buildings in the Kyrgyz Republic remains unmet every year due to the high heat loss of buildings and unreliable, insufficient, or unaffordable heat supply. Additionally, a recent study revealed that more than 80 percent of schools and kindergartens in the country have low seismic safety ratings. Across all urban services, since the fall of the Soviet Union, infrastructure has suffered from decades of under-maintenance as municipalities have been unable to raise enough revenues to cover operation and maintenance (O&M) costs and lack enough resources to cover capital improvements. As an example, the investments needed to rehabilitate and expand the water supply and sanitation sector alone were estimated at USD 2.2 billion by 2030, which vastly exceeds current financing.

Across all public services, service gaps are concentrated among the poor and the Bottom 40 (B40), and present a deteriorating trend. 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; 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. The 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 water supply and sanitation services in the country.

There are important institutional capacity gaps that are limiting urban areas in reaching their potential. Such limitations are present at the level of the national and local governments. At the national level, urban planning continues to follow the approach of traditional Soviet-era master planning, where national planning officers develop rigid master plans for Kyrgyz towns which are unrelated to market demand and local conditions. Beyond that, a combination of rapid rural to urban migration in post-transition years and the collapse of government-supplied housing resulted in government handouts of un-serviced land in the periphery of main urban center to in-migrants for housing construction. More recently, land management practices continue to favor the expansion of urban settlements following low-density patterns. This sprawled type of development has important consequences for the cost of expanding services to the growing population and may lock Kyrgyz cities into a resource-intensive development path. Unmanaged sprawl is also taking place at hazardous locations exposed to mudslides and floods. Such new developments at the outskirts of towns are prevalent not only in large cities like Bishkek, Osh, and Jalal-Abad, but in smaller towns as well. At the local level, municipalities and service providers often lack both the human skills and management tools to improve their financial performance and operational efficiency. As an example, many smaller towns in the country continue to rely on non-electronic billing and collection systems and manual, paper-based asset management systems. Furthermore, many service provision entities continue operating with outdated practices as they have had little exposure to contemporary practices, some of which have been successfully implemented in neighboring countries (e.g., demand-side water management measures in Tajikistan).

II. Proposed Development Objectives

The PDO of the project is to improve the quality of municipal services and pilot energy efficiency and seismic resilience retrofits of urban infrastructure in participating towns.

III. Project Description

Component Name

Component A: Urban Development

Comments (optional)

This component will finance activities aimed at improving service provision in four participating towns: Kerben, Sulukta, Balyckchy and Toktogul. Participating towns are selected and prioritized based on their (i) municipal service access gaps; (ii) population and population growth; (iii) geographical distribution; (iv) level of poverty; and (v) existing donors' involvement in the sector. The component will have two sub-components:

Sub-component A1: Municipal Services will finance activities for the upgrading and/or expansion of municipal infrastructure in the areas of water supply, solid waste management, and street lighting.

Sub-component A2: Safe and Energy Efficient Social Infrastructure Pilot will focus on improving the seismic safety and energy efficiency of social infrastructure.

Component Name

Component B: Institutional Strengthening

Comments (optional)

This component will support the Government's broad-based urban policy reform agenda at the

national level with specific interventions at the local level aimed at strengthening service provision capacity in participating towns. At the national level, the project will support the Government's broad-based urban policy with a focus on existing urban planning practices and the development of a roadmap to improve urban and spatial development in the Kyrgyz Republic. 20. At the local level, activities will include a number of activities, among which the procurement and installation of financial management and planning tools and technical assistance and training for the institutional strengthening of participating towns.

Component Name

Component C: Implementation Support

Comments (optional)

This component will support implementation of the project including contracting of local experts to assist the implementation unit and participating towns in the implementation of the project investment activities; the maintenance of the Monitoring and Evaluation System (M&E) to continuously monitor and evaluate the performance and results of the project; the project-related operating costs; and an annual audit of project accounts.

IV. Financing (in USD Million)

Total Project Cost:	14.40	Total Bank Financing:	12.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
BORROWER/RECIPIENT			2.40
International Development Association (IDA)			6.60
IDA Grant			5.40
Total			14.40

V. Implementation

The UDP will be implemented over a period of four years commencing in September 2016, the planned date of effectiveness of the IDA Grant and IDA Credit. The Mid-Term Review (MTR) will be conducted no later than September 30, 2018. The key counterparts for the proposed project are the Ministry of Finance (MoF), SAACCS, participating towns, and utilities of participating towns. All parties have agreed that the Community Development and Investment Agency (Agentstvo Razvitiya I Investirovaniya Soobschtv Kyrgyzkoi Respubliki – ARIS) would be responsible for project preparation and implementation given its long experience with Bank-financed operations and capacity in following Bank procurement, financial management and safeguard procedures. ARIS will carry out project implementation in close cooperation with the participating towns and key project counterparts.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
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

Comments (optional)

VII. Contact point

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