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Report No: PAD1963

INTERNATIONAL DEVELOPMENT ASSOCIATION  
PROJECT APPRAISAL DOCUMENT  
ON A  
PROPOSED CREDIT  
IN THE AMOUNT OF SDR 19.70 MILLION  
(US\$27.50 MILLION EQUIVALENT)  
AND A PROPOSED GRANT  
IN THE AMOUNT OF SDR 19.70 MILLION  
(US\$27.50 MILLION EQUIVALENT)  
TO THE  
KYRGYZ REPUBLIC  
FOR THE THIRD PHASE OF THE  
CENTRAL ASIA REGIONAL LINKS PROGRAM (CARS-3)

SEPTEMBER 18, 2018

Transport Global Practice  
EUROPE AND CENTRAL ASIA

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective August 31, 2018)

Currency Unit = Kyrgyz Som (KGS)

KGS69.020 = 1 US\$

US\$0.015 = KGS 1

Currency Unit = Special Drawing  
Rights (SDR)

SDR0.714 = 1 US\$

US\$1.401 = 1 SDR

## FISCAL YEAR

January 1 - December 31

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## ABBREVIATIONS AND ACRONYMS

AADT	Average Annual Daily Traffic	IPIG	Investment Project Implementation Group
ADB	Asian Development Bank	ISA	International Standards on Auditing
ANS	Air Navigation System	JICA	Japan International Cooperation Agency
ATC	Air Traffic Control	JSC	Joint Stock Company
ATM	Air Traffic Movement	KAI	Kyrgyz Aviation Institute
BCP	Border Crossing Point	KWPF	Korea World Bank Partnership Facility
BGI	Business Growth Initiative	MfD	Maximizing Finance for Development
BP	Bank Policy	MoCIT	Ministry of Culture, Information and Tourism
CAA	Civil Aviation Agency	MoTR	Ministry of Transport and Roads
CAREC	Central Asia Regional Economic Cooperation	MSR	Maritime Silk Road
CARs	Central Asia Regional Links	NCB	National Competitive Bidding
CARs-1	CARs – Phase 1	NPV	Net Present Value
CARs-2	CARs – Phase 2	NSDS	National Sustainable Development Strategy
CARs-3	CARs – Phase 3	OP	Operational Policy
CARs-4	CARs – Phase 4	PAD	Project Appraisal Document
CBA	Cost-Benefit Analysis	PBA	Performance-Based Allocation
CBTA	Cross-Border Transport Agreement	PDO	Project Development Objective
CCTV	Closed-circuit television	POM	Project Operational Manual
CE	Citizen Engagement	RAP	Resettlement Action Plan
CIS	Commonwealth of Independent States	RF	Results Framework
CPS	Country Partnership Strategy	RKDF	Russian-Kyrgyz Development Fund
DMO	Destination-level Management Organization	RPF	Resettlement Policy Framework
EASA	European Aviation Safety Agency	SDR	Special Drawing Rights
EBRD	European Bank for Reconstruction and Development	SLA	Service Level Agreement
EC	European Commission	SME	Small Medium Enterprise
EEU	Eurasian Economic Union	SNIP	Design Standards
EIA	Environmental Impact Assessment	SOE	Statement of Expenditures
EIRR	Economic Internal Rates of Return	SOP	Series of Projects
EMP	Environmental Management Plan	SORT	Systematic Operations Related Risks
ESIA	Environmental and Social Impact Assessment	SREB	Silk Road Economic Belt
EU	European Union	SSC	Significant Safety Concern
FM	Financial Management	SSP	State Safety Program
GDP	Gross Domestic Product	SWISS	Swiss Embassy
GIZ	Die Deutsche Gesellschaft für Internationale Zusammenarbeit	TTFS	Transport and Trade Facilitation Strategy
GNI	Gross National Income	TIKA	Turkish Cooperation and Development Agency
GRSF	Global Road Safety Facility	TOR	Terms of Reference
FM	Financial Management	TRACECA	Transport Corridor Europe-Caucasus-Asia
ICAO	International Civil Aviation Organization	TSA	Tourism Satellite Accounts
ICB	International competitive bidding	TSCC	Transport Sector Coordinating Committee
IDA	International Development Association	UN	United Nations
IDB	Islamic Development Bank	UNESCO	United Nations Educational, Scientific and Cultural Organization
IFAC	International Federation of Accountants	UNIDO	United Nations Industrial Development Organization
IFC	International Finance Corporation	UNWTO	United Nations World Tourism Organization
IFR	Interim Financial Report	USAID	US Agency for International Development
IMF	International Monetary Fund	USOAP	Universal Safety Oversight Audit Programme
INDC	Intended Nationally Determined Contributions under the 2015 UNFCCC Paris Agreement	WEF	World Economic Forum
IPF	Investment Project Financing		



**BASIC INFORMATION**

Country(ies)	Project Name	
Kyrgyz Republic, Kazakhstan, Tajikistan	Third Phase of the Central Asia Regional Links Program (CARs-3)	
Project ID	Financing Instrument	Environmental Assessment Category
P159220	Investment Project Financing	B-Partial Assessment

**Financing & Implementation Modalities**

<input type="checkbox"/> Multiphase Programmatic Approach (MPA)	<input type="checkbox"/> Contingent Emergency Response Component (CERC)
<input checked="" type="checkbox"/> Series of Projects (SOP)	<input type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Disbursement-linked Indicators (DLIs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made Disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	

Expected Approval Date	Expected Closing Date
05-Oct-2018	30-Nov-2024

Bank/IFC Collaboration

No

**Proposed Development Objective(s)**

The project development objective of the proposed Third Phase of the Central Asia Regional Links Program (CARs-3 Project) is to increase regional connectivity and support sustainable tourism development in Issyk-Kul Oblast.

**Components**



Component Name	Cost (US\$, millions)
Regional Connections, Associated Facilities and Equipment in Issyk-Kul Oblast	46.00
Aviation Safety and Service Provision	4.50
Sustainable Tourism Development in Issyk-Kul Oblast	3.50
Project Management and Implementation	1.00

**Organizations**

Borrower:	Ministry of Finance
Implementing Agency:	Ministry of Transport and Roads

**PROJECT FINANCING DATA (US\$, Millions)****SUMMARY**

<b>Total Project Cost</b>	55.00
<b>Total Financing</b>	55.00
<b>of which IBRD/IDA</b>	55.00
<b>Financing Gap</b>	0.00

**DETAILS****World Bank Group Financing**

International Development Association (IDA)	55.00
IDA Credit	27.50
IDA Grant	27.50

**IDA Resources (in US\$, Millions)**

	Credit Amount	Grant Amount	Total Amount
Kyrgyz Republic	27.50	27.50	55.00
National PBA	17.50	17.50	35.00
Regional	10.00	10.00	20.00



<b>Total</b>	<b>27.50</b>			<b>27.50</b>			<b>55.00</b>	
<b>Expected Disbursements (in US\$, Millions)</b>								
<b>WB Fiscal Year</b>	2019	2020	2021	2022	2023	2024	2025	
<b>Annual</b>	0.00	2.00	6.00	8.00	10.00	12.00	17.00	
<b>Cumulative</b>	0.00	2.00	8.00	16.00	26.00	38.00	55.00	

**INSTITUTIONAL DATA**

**Practice Area (Lead)**

Transport & Digital Development

**Contributing Practice Areas**

Macroeconomics, Trade and Investment, Social, Urban, Rural and Resilience Global Practice

**Climate Change and Disaster Screening**

This operation has been screened for short and long-term climate change and disaster risks

**Gender Tag**

**Does the project plan to undertake any of the following?**

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

Yes

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

Yes

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

Yes

**SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)**

**Risk Category**

**Rating**

1. Political and Governance

● High

2. Macroeconomic

● Substantial

3. Sector Strategies and Policies

● Moderate



4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● High
7. Environment and Social	● Substantial
8. Stakeholders	● Moderate
9. Other	● Moderate
10. Overall	● Substantial

**COMPLIANCE****Policy**

Does the project depart from the CPF in content or in other significant respects?

Yes  No

Does the project require any waivers of Bank policies?

Yes  No

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	✓	
Performance Standards for Private Sector Activities OP/BP 4.03		✓
Natural Habitats OP/BP 4.04	✓	
Forests OP/BP 4.36		✓
Pest Management OP 4.09		✓
Physical Cultural Resources OP/BP 4.11	✓	
Indigenous Peoples OP/BP 4.10		✓
Involuntary Resettlement OP/BP 4.12	✓	
Safety of Dams OP/BP 4.37		✓
Projects on International Waterways OP/BP 7.50		✓
Projects in Disputed Areas OP/BP 7.60		✓



**Legal Covenants**

Sections and Description

Institutional Arrangements

The Recipient shall, through MOTR, not later than one (1) month after the Effective Date, establish and thereafter maintain two working groups to provide technical support for matters concerning tourism and aviation during Project implementation, with responsibilities acceptable to the Association and set forth in the Project Operational Manual.

Sections and Description

Institutional Arrangements

The Recipient shall, through MOTR, not later than one (1) month after the Effective Date employ or contract the services of a financial management specialist under terms of reference and with qualifications and experience satisfactory to the Association.

Sections and Description

Institutional Arrangements

The Recipient shall, through MOTR, not later than one (1) month after the Effective Date upgrade the accounting software for the Project’s financial reports in a manner acceptable to the Association.

Sections and Description

Institutional Arrangements

The Recipient shall, through MOTR, not later than one (1) month after the Effective Date adopt and publish the Project Operational Manual (POM), in form and substance satisfactory to the Association, and thereafter carry out the Project in accordance with the POM. Except as the Association shall otherwise agree in writing, the Recipient shall not to amend, waive, suspend or abrogate any provision of the POM.

Sections and Description

Annual Work Plans

The Recipient shall through Ministry of Transport and Roads, prepare, in accordance with terms of reference acceptable to the Association, and furnish to the Association no later than December 1 of each calendar year during the implementation of the Project, a work plan containing all activities proposed for inclusion in the Project for the next calendar year.

**Conditions**

Type

Effectiveness

Description

Institutional Arrangements

The Recipient shall, through MOTR, not later than one (1) month after the Effective Date adopt and publish the Project Operational Manual (POM), in form and substance





satisfactory to the Association, and thereafter carry out the Project in accordance with the POM. Except as the Association shall otherwise agree in writing, the Recipient shall not to amend, waive, suspend or abrogate any provision of the POM.

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## I. STRATEGIC CONTEXT

### A. Regional and Country Context

1. **With a population of over 70 million, the Central Asia region<sup>1</sup> has historically been acting as a crossroads for the movement of people, goods and ideas** through borders and trade and transportation hubs between Europe, Western Asia, South Asia and East Asia along the Silk Route. Regional integration is an important catalyst to reduce trade costs and increase participation in regional and global value chains, offering opportunities for economic transformation. This is particularly true for landlocked countries as their continentality has impact on their economic development<sup>2</sup>.
2. **The full benefits from the region's strategic location at the intersection of trade and travel routes have yet to materialize.** Significant reserves of mineral resources, potential of water and hydropower resources as well as rich natural and cultural resources are seen to be competitive assets of the countries which could be better utilized to drive long term growth in a sustainable manner. As of 2015, China has replaced Russia as the main trading partner of the region, yet its importance as a bilateral partner is much higher particularly for the smaller economies in the region.
3. **Due to their geography and landlockedness, Central Asian countries are heavily dependent on neighboring countries,** resulting in disproportionately higher costs to access markets and opportunities. While infrastructure gaps are seen as one of the most significant binding constraints for private-sector led development and investment in the region, their coordination across borders as well as supporting facilitation measures for cross-border flow (through for example, streamlining and harmonization of documentation requirements or attaining globally accepted safety standards) are equally important.
4. **For a small open economy, such as the Kyrgyz Republic, integrating regionally and tapping into external demand is key to ensuring robust and resilient growth.** However, net exports have contributed negatively to growth in recent years. Goods and services export growth in U.S. dollar terms averaged 12 percent over 2000-16, albeit with a significant deceleration (to 4.1 percent) over 2008-16. This growth in export was triggered by the rise in gold prices as well as exports in services, the share of which in total exports rose from 11 percent in 2000 to 34 percent by 2016, largely driven by construction, tourism and information and communication technology (ICT). This led to a decrease in the value of otherwise exported goods, leaving services and construction as the main contributors of overall growth.
5. **The Kyrgyz Republic foresees improved prospects for stable growth and greater national cohesion from its membership to the Eurasian Economic Union (EEU)<sup>3</sup>.** To this end, the government has been modernizing the existing quality infrastructure (testing laboratories) to meet EEU sanitary and veterinary requirements in its livestock and food sector. To help meet EEU requirements of customs and border controls, the country has obtained a grant from Russia (US\$200 million) as well as a pledge of US\$1 billion through the

<sup>1</sup> Consisting of five republics (Kazakhstan, Kyrgyz Republic, Republic of Tajikistan, Turkmenistan and Uzbekistan).

<sup>2</sup> Estimated to be in the magnitude of a 30 percent decrease in trade and a 1.5 percent decline in economic growth compared to littoral countries.

<sup>3</sup> The treaty establishing the EEU was formally signed by Belarus, Kazakhstan and Russia. Agreements to enlarge the EEU to Armenia and Kyrgyz Republic were signed on October 9 and December 23, 2014 respectively.



Russian-Kyrgyz Development Fund (RKDF)<sup>4</sup>. Additionally, transition periods to EEU common external tariff (CET) rates have been set up until 2019 for about 1,500 products (including food products, cars and machinery) out of about 6,400 commodities, for which the Kyrgyz current tariffs are currently lower.

6. **Access to markets and opportunities for farmers and service providers however remains limited, particularly for agricultural exports.** In rural areas where poverty is prevalent, lower market accessibility represents major constraints on trade in perishable produce, thus limiting potential benefits from domestic and regional trade and depressing agricultural productivity growth<sup>5</sup>. Domestically, poor infrastructure and service delivery is a barrier to rural economic growth and employment generation which has overwhelmingly occurred in the informal sector. In 2015, for example more than 9 out of 10 new jobs were created by individual informal entrepreneurs and farmers.

7. **The agricultural sector is the top priority for the Government, as established in the National Sustainable Development Strategy (NSDS) and the National Export Strategy, where fruits and vegetables, dairy products, and meat products are among the top three goods for export.** To achieve its goals for export competitiveness of agricultural goods, some of the constraints of the sector need to be tackled. Poor irrigation systems (which cause huge water losses of about 40 percent, lack of agri-business equipment (notably including a cold storage infrastructure), and absence of food laboratories for certification of quality become the factors that hinder the exploitation of full agribusiness potential and are prominent trade barriers.

8. **The problem of disparity in prices remains acute, despite the rise of food production.** Prices of agricultural products and processed products during the period of reforms lagged prices for logistical resources by 4-5 and 1.5 times, respectively. Hence the reduction of trade costs becomes inevitable for the development of the sector. Finally, as the agriculture sector is made up largely of small farmers, it suffers from many of the constraints to growth that affect other sectors, such as the lack of access to finance, deficient skills, and micro risks.

9. **While the agricultural sector has been, and will remain critical to rural household income, the tourism and hospitality services sector is expected to play a central role in the new growth model of the country,** according to the recent government's program "Trust, Unity, Creation" (2018). Of the five million visitors to the Kyrgyz Republic in 2016, it is estimated that at least 1.2 million were tourists, mainly coming from Kazakhstan (70 percent), Russia (15 percent) as well as Europe (11 percent). While there are some data limitations, tourism is estimated to contribute to around 4.8 percent of Gross Domestic Product (GDP), with over US\$20 million in foreign direct investments into the country (2013). Globally, the Travel and Tourism Competitiveness Index 2017 of the World Economic Forum (WEF) confirms low sector competitiveness, ranking the country overall at 115 out of 136 countries, and last in Eurasia<sup>6</sup>.

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<sup>4</sup> The latter is expected to mitigate the short-term negative impact of EEU accession by contributing to growth. The priorities of the fund include infrastructure investment for the implementation of technical regulatory compliance in the agribusiness, garments and textile, and services sectors.

<sup>5</sup> The export costs associated with the country's regulation-induced border compliance, for example are estimated at US\$485 (2016 Doing Business Report).

<sup>6</sup> Eurasia is defined as Russian Federation (43), Georgia (70), Azerbaijan (71), Kazakhstan (81), Armenia (84), Ukraine (88), Tajikistan (107) and Kyrgyz Republic (115).



10. **Due to the country's natural and cultural resources, international experts estimate that tourism has the potential to grow six-fold, in particular in the Issyk-Kul Region.** This is driven by the increasing international interest in the region's differentiated niche destinations, in particular around the Issyk-Kul Region (Oblast) featuring the second largest mountain lake in the world (Lake Issyk-Kul) located in the Tian Shan mountain range. The Issyk-Kul Oblast, the second largest in the country (43,735 km<sup>2</sup>) bordering the Republic of Kazakhstan and the People's Republic of China is dependent on the production of the Kumtor gold mine<sup>7</sup> and tends to be characterized by low agricultural productivity<sup>8</sup>. It has limited integration with regional markets.

11. **Leveraging infrastructure investments in combination with selected technical support will be a necessary precondition to realize the development of tourism (as well as agribusiness) in the Issyk-Kul Oblast.** With the scaling back of production in Kumtor (scheduled for early to mid-2020s), tourism (and agriculture) will become the main driving force for job creation, economic growth and development in the Issyk-Kul region. While recognizing that regional integration and connectivity play an important role in the facilitation of agricultural trade as well as tourism services, poor or no direct access to markets and hubs in Kazakhstan, Russia, China and Europe make it difficult to reap the benefits of the full development potential of the region. Underdeveloped transport and services infrastructure (128<sup>th</sup> out of 136), substandard travel and tourism policy and enabling conditions (109<sup>th</sup> out of 136) and obstacles in the enabling environment (75<sup>th</sup> out of 136) are mentioned as the key binding constraint, according to WEF's Travel and Competitiveness Index (2017).

12. **Reaping the benefits of the region's unrealized economic potential requires coordination in cross-border regional connections, aligning with international standards and practices and drawing on industry know-how.** Significant opportunities are present, especially in the eastern part of the Oblast in and around Karakol, which is the administrative capital of the region where agricultural activities, winter tourism and year-round alpinism are concentrated<sup>9</sup> as well as on the northern lakeshore of Cholpon Ata, where summer tourism with 182 resorts is concentrated. Improvements are expected to have a significant employment generation effect, as the tourism industry currently provides mainly seasonal income, to some extent prone to informality. Despite current constraints in road and air connectivity<sup>10</sup> to reach Karakol, winter tourism as well as mountaineering has seen a steady growth<sup>11</sup>.

## B. Sectoral and Institutional Context

13. **Regional integration, connectivity and the interaction between physical connections and operational constraints play an important role in the facilitation of tourism services as well as in agricultural trade.** Particularly relevant for a landlocked country with an export-oriented growth strategy, building productive infrastructure assets and improving service delivery and safety standards will positively impact the

<sup>7</sup> Kumtor's contribution to the GDP (7 to 11 percent in 2009 to 2013), industrial output (around 50 percent), exports (33 to 50 percent) and general government budget (5-10 percent) makes it the largest enterprise in the Kyrgyz Republic, directly or indirectly affecting virtually all aspects of economic and social development of the country.

<sup>8</sup> In particular in cereals, potatoes, fruits and vegetables, meat and honey.

<sup>9</sup> Over 7,000 m Pobedy Peak and Khan-Tengri Peak are famous training sites for alpinists all over the world.

<sup>10</sup> 7 hours from Bishkek by road, 3 hours from Tamchy airport, poor infrastructure of Karakol airport with safety concerns.

<sup>11</sup> As shown in the development of hotels and guesthouses in and around Karakol which grew from just a few to around 140 over the period of 2011-2016.



competitiveness of firms and will foster market opportunities. While the government has made efforts to improve the key transportation network in the country- road - with particular emphasis on the north-south axis linking the Republic of Tajikistan with Kazakhstan and further to Russia, the state of the infrastructure is generally poor across the country, especially at the national and regional level. Internationally, the country ranks 113 out of 138 countries on the Infrastructure Index of the WEF's Global Competitiveness Index 2016-17, or 130 out of 138 when looking at just transport infrastructure.

14. **The Issyk-Kul region can be accessed through three different modes of transport - air, road and rail - while the latter is mainly used for moving bulk commodities from mines to Bishkek and onwards.** Entry points to the region for passengers and goods are mainly by roads and airports. All three transport modes are severely constrained by the poor state of their infrastructure, which require rehabilitation and upgrading as set out in the government's strategies, including the "Strategy for the Development of the Civil Aviation, 2013-2020". Almaty, Kazakhstan's largest metropolis and a major economic center and hub, is the closest international market for Issyk-Kul region's agricultural products. Almaty is also a major transport hub that serves tourists and passengers in the region. Currently, travel from the Karakol region to Almaty, requires travelling 680 kilometers via Bishkek, although the physical distance between the two are only approximately 280 kilometers.

15. **The cross-border link through the Karkyra Border Crossing Point (BCP)<sup>12</sup> with the Republic of Kazakhstan<sup>13</sup>, can reduce the journey time significantly to about less than 400 kilometers<sup>14</sup>.** With an estimated average annual daily traffic (AADT) of about 1,000 – 1,500 vehicles in summer this road link historically served as the main transportation artery for agricultural products from Karakol to Almaty (and onwards to Russia) as well as the main entry point for tourists. After the collapse of the Soviet Union, borders appeared, road maintenance became limited and road condition deteriorated, downgrading the Karkyra BCP to a seasonal crossing which has been open only during the summer season since 2010. While the road link not only substantially reduces travel times to Almaty Oblast, it also opens new and more direct links to China as the distance from Karkyra BCP to Khorgos BCP, the main border crossing between China and Kazakhstan is only 200 kilometers. Khorgos is also one of the main gateways from China to Central Asia under the Belt and Road initiative of the government of China.

16. **The rehabilitation of the adjacent road section in Kazakhstan from the Karkyra BCP to Kegen (18 kilometers) is expected to be completed in 2018 and is being financed by the Government of Kazakhstan.** The Karkyra BCP, a priority customs border post of the EEU, is expected to be upgraded with financing from the EEU in order to move towards 24/7 operations year-round. Additionally, and given the climatic conditions of the region and the potential for extreme weather events, the design, operation and maintenance of transport infrastructure must take into account climate change vulnerability, including a specific vulnerability assessment as well as additional road maintenance equipment for snow removal. In accordance with the government's Road Sector Strategy (approved in 2015), the Ministry of Transport and Roads (MOTR) has embarked on the first stage of the reform process to consolidate road maintenance units and gradually move

<sup>12</sup> The Tyup to Karkyra Road joins the Almaty-Khorgos road section of the Western Europe-Western China International Road Corridor of the Republic of Kazakhstan

<sup>13</sup> Building part of the north-south axis connecting the country and the Republic of Tajikistan with Kazakhstan and further to Russia and China.

<sup>14</sup> This road links forms part of the Central Asia Transit Corridor announced by the government in 2015 linking Tajikistan (Kairagach BCP, road sections rehabilitated under CARs-1 project) and continues through the new north-south axis (alternative route through Kazakhstan) ending in Karkyra BCP with Kazakhstan where it connects to the Western Europe-Western China Highway in Kazakhstan.



towards a client-contractor relationship for which sixteen legislative acts have been drafted to formalize the changes. Moreover, and given that the road link is cross-border, a “shared infrastructure” approach will also facilitate the diversification of fiber-optic communication lines to Issyk-Kul Oblast.

**17. Good governance and efficient asset management in the transport sector are equally critical to ensure the provision of safe, sustainable and resilient transportation services to users.** The safety concerns of the transport infrastructure in the Issyk-Kul (and across the country) stem from several main reasons: lack of safety compliance in the aviation sector, poor maintenance of road infrastructure, and road safety record as well as climate change vulnerability. The country is not only vulnerable to climate change and natural disasters (2<sup>nd</sup> ranked as the most vulnerable to climate change in the Central Asia region), it only has partially introduced road asset management systems (but still lacks resources and technical know-how). The country is ranked 2<sup>nd</sup> in the Commonwealth of Independent States (CIS) region in terms of road accident fatalities (with an annual estimated cost of US\$250 million) and has major shortcomings in terms of international aviation safety standards and recommended practices, according to the International Civil Aviation Organization’s (ICAO) recent Universal Safety Oversight Audit Programme (USOAP) conducted in February 2016.

**18. The blacklisting of Kyrgyz carriers by the European Union (EU), which prohibits commercial airlines registered in Kyrgyz Republic to fly into EU airports, also requires attention.** The impending Significant Safety Concerns (SSCs) confirmed after the last ICAO safety Audit, have a direct impact on connectivity. Addressing the SSCs issued by ICAO requires financial resources and capacity building to ensure that the Civil Aviation Agency (CAA), the technical regulator under the MOTR can fully comply with its oversight and enforcement functions. This is required as per the obligations contracted by the State under the Chicago Convention, that includes safety Standards (enshrined in ICAO Annexes 1 to 19) each country must abide by. Compliance with ICAO Standards is mandatory for contracting States, regardless of the characteristics of its airline markets, and falls under the responsibility of safety regulators - in this case the Civil Aviation Agency of Kyrgyz Republic.

**19. The immediate issue for the CAA is to address the weaknesses found in the last ICAO Audit,** that is to: (i) introduce training plans and programs compliant with ICAO standards; (ii) enhance the qualifications of CAA personnel; and (iii) upgrade the agency’s record keeping capabilities for monitoring and oversight functions. The CAA does not have qualified operations inspectors knowledgeable (e.g. with a type rating) on modern large jet aircrafts which they are supposed to certify or oversee. Given its budgetary limitations, the CAA has delegated functions to inspectors who are affiliated with air operators; this represents a conflict of interest.

**20. Interventions proposed by the project build upon previous efforts to improve the governance and efficiency of the air transport sector.** A recently adopted Air Code (2015) came into force in March 2016. The institutional setup of the aviation sector follows a clear separation of functions, including that between regulation and operations, as mandated by ICAO. Other governance reforms were introduced in the early 2000s, separating infrastructure operators into distinct entities. Ownership and operation of eleven airports (four international and seven domestic) are entrusted to JSC Manas International Airport<sup>15</sup>. Kyrgyzaeronavigatsia is the Air Navigation Service Provider in the country, a state enterprise financially

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<sup>15</sup> Manas is owned by the State Property Fund of the Kyrgyz Republic (79 percent), the Social Fund of the Kyrgyz Republic (8.5 percent), as well as by other legal and private persons. Manas does not receive direct or indirect (non-reimbursable) transfers from the State budget and depends on aeronautical and non-aeronautical revenues. Fifty percent of all profits are to be returned to the State budget.



independent from the government's budget, yet functionally subordinated to the MOTR. Some airport and air navigation charges are monitored and regulated by the Kyrgyz Antimonopoly Agency.

21. **The poor road network conditions, aviation safety concerns, and the legal and institutional framework constitute binding physical, operational and enabling environment constraints to the development of the Issyk-Kul region and the country.** The government's tourism development program 2020, overseen by the Tourism Department within the Ministry of Culture, Information and Tourism (MoCIT) highlights the need to overcome isolation, improve tourist service infrastructure, and provide adequate access to sites of natural and historical significance. The implementation of related measures within a specific geographic area (such as an oblast) in a comprehensive and integrated manner requires coordination and resources, especially if the country aims to maximize the benefits of the development of the sector in a sustainable and regionally integrated manner<sup>16</sup>. Another constraint faced by Kyrgyz Republic to fully tap into its tourism potential is its lack of capacity to make evidence-based decisions and promote investment with reliable tourism related data. Reports on tourism and travel related statistics on supply and demand in a standardized format are non-existent. This lack of data leads to limited success in unlocking private solutions in tourism (where appropriate) to bring not only financing but also industry know-how and best practice.

### C. Higher Level Objectives to which the Project Contributes

22. **The CARs-3 Project is the Third Phase of the Central Asia Regional Links (CARs) program, a series of projects (SOP) in multiple countries (borrowers).** The Central Asia Road Links (CARs) SOP is the result of a collaborative effort initiated by client governments in the Central Asia region and is financed by the International Development Association (IDA). The overall objective of the SOP is to increase cross-border connectivity and enhance integrated regional development to revitalize historically active economic exchanges in Central Asia and beyond along the Silk Route. In an effort to bring transformational impact in the region, the SOP builds synergies with other regional initiatives by multilateral and/or bilateral development partners, e.g., the Central Asia Regional Economic Cooperation (CAREC) program led by the Asian Development Bank (ADB), the EEU, and China's Belt and Road Initiative.

23. **The program, of which Phase 1 and Phase 2 are under implementation, has evolved from having a single focus on cross-border transport connectivity towards comprehensive integrated regional development, improving regional connectivity and creating market opportunities.** The objectives of Phase 1 (CARs-1 Project, US\$45 million equivalent) and Phase 2 (CARs-2 Project, US\$45 million equivalent) are to increase transport connectivity between Tajikistan and Kyrgyz Republic along priority cross-border road links in the populated Fergana Valley, and to support harmonization and improvements in road operations and asset management practices in the countries. Phase 1 and 2 are scheduled for completion in the next two years.

24. **The new generation of projects, namely Phase 3 (CARs-3) and a proposed Phase 4 (CARs-4, Tajikistan, initiation phase) strive to address regional integration in a more comprehensive approach encompassing both physical and economic connectivity among neighboring countries, while also unlocking economic**

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<sup>16</sup> E.g. World Tourism Organizations' (UNWTO) Silk Road Programme which is aimed at maximizing benefits of tourism development for local Silk Road Communities, while stimulating investment and promoting the conservation of the route's natural and cultural heritage.





**opportunities by promoting local integrated development in a spatially identified area.** As such, Phase 3 and Phase 4 aims to increase the physical cross-border links of regional importance in the region, while reducing operational constraints (roads and aviation safety) and creating market opportunities for the development of trade and tourism at the regional (oblast) level to reap the benefits of the full development potential of the oblast. This is expected to revitalize the historically active economic exchanges in Central Asia and beyond along the Silk Route.

25. **Focus on local integrated development and improvement of regional connectivity in Issyk-Kul Oblast will contribute to the creation of job opportunities for further growth and poverty reduction.** Regional GDP growth is volatile and depends heavily on Kumtor gold mines and the Issyk-Kul economy remains highly undiversified with agriculture and tourism being main contributors. Both a large share of working age population (around 60 percent of the oblast population) and limited jobs create significant pressure on the labor market and stimulate internal and external migration, with more than 80 percent of labor migrants going to Russia. Internal migration to Issyk-Kul Oblast has strong seasonality and significantly increases during summer, as internal migrants come to the region to seek job opportunities during the tourist season. Seasonality affects employment rates, particularly for employees working in services related to tourism and agricultural workers, resulting in irregular incomes for poor households. Improved year-round connectivity and access to markets and tourism services, including TSCs and support to diversification of services (geoparks) is expected to contribute to job creation and poverty reduction in the Oblast.

26. **The CARs-3 Project is aligned with the FY 2019-2022 World Bank Group Country Partnership Framework (CPF) for the Kyrgyz Republic, scheduled to be presented to the World Bank's Board of Executive Directors in November 2018.** The CPF has three focus areas: (i) build foundations for inclusive growth and job creation through private sector development, (ii) support transformative investments to enhance growth potential and (iii) build a more resilient economy. The proposed CARs-3 Project is not only a transformative investment that is expected to enhance growth potential but will also contribute to building the foundations for inclusive growth and job creation (through private sector development) as well as building a more resilient economy with the aim of reducing extreme poverty and promote shared prosperity through support for improved governance and job creation.

27. **The CARs-3 Project will contribute to the achievement of key priorities of the Kyrgyz Republic National Sustainable Development Strategy (NSDS) for 2018-2040 and the Government's Program "Trust, Unity, Creation".** NSDS 2018 – 2040 continues to recognize that achieving sustained economic development in the Kyrgyz Republic requires addressing binding constraints in terms of physical infrastructure, regulatory and enabling environment in sectors that are expected to contribute to the country's economic growth, such as tourism and trade (mainly agribusiness) and potentially unlock private solutions where appropriate. Taking advantage of the country's strategic location is at the forefront of its development endeavor. At the same time, the advancement of ICT solutions has been given highest priority through the "Taza Koom" 2018-2040 program some of which is also included in the priority action plan of the Security Council of the Kyrgyz Republic. Finally, the government of the Kyrgyz Republic sees CARs-3 as a demonstration project in the area of regional integration, spatial and sustainable development, as well as connectivity with lessons to be learned for other regions in the country.



## II. PROJECT DEVELOPMENT OBJECTIVES

### A. PDO

28. The PDO of the CARs-3 Project is to increase regional connectivity and support sustainable tourism development in Issyk-Kul Oblast.

### B. Project Beneficiaries

29. **The project beneficiaries include the residents of the region whose livelihood is directly or indirectly linked with the agriculture and the tourism sectors, as well as tourists, haulers and traders from neighboring countries using upgraded facilities and improved transport environment financed through CARs-3.** The direct beneficiaries include (i) the residents of Issyk-Kul Oblast, who are informally or formally employed in the tourism sector (of which 59.4 percent are women); (ii) the residents of Issyk-Kul Oblast, whose livelihood depends on exporting of agricultural products to neighboring Kazakhstan and beyond, working in the agricultural sector (of which 50 percent are women); (iii) the Oblast population<sup>17</sup>, who are the users of road and aviation transport; (iv) CAA staff who are trained (approximately 18 women out of total 55); and (v) trainers and students trained from the KAI (approximately 50 women out of 75 trainers, 232 women out of 756 trainees). Indirect beneficiaries are expected to be about 1.3 million people, including visitors from Kazakhstan, Russia and Europe as well as others who are travelling to the region by automobile, truck, bus, or airplane. The wider economic benefits from the project derive from other mechanisms where changes in connectivity patterns increase consumer welfare and enhance production and trading patterns in the Issyk-Kul region. The percentage of females in the total direct beneficiary population is 40 percent, and the percent of urban population is 15 percent.

30. **Government counterparts<sup>18</sup> will benefit from the project through:** (i) improvement of the road infrastructure that are the state assets; (ii) climate change vulnerability informed designs of road sections that will be done through on-job-training for local road designers; (iii) numerous measures on improvement of aviation safety that are the responsibility of the CAA; (iv) development of a strategic program and masterplan for sustainable tourism development in the Issyk-Kul Oblast, given its environmental significance as a Biosphere Reserve; and (v) piloting comprehensive community-led local area development in two districts in Issyk-Kul oblast.

### C. PDO-Level Results Indicators

31. **The achievement of the PDO will be measured through the following key PDO indicators:**

- a. Number of vehicles passing through Kyrgyz-Kazakh Karkyra border crossing point. This will measure the regional connectivity aspect of the PDO in terms of reducing physical road bottlenecks.
- b. Compliance with aviation safety standards measured by USOAP reaches global ICAO average. This will measure the regional connectivity aspect of the PDO in terms of increasing aviation safety.
- c. Satisfaction with sustainable tourism development. This will measure the sustainable tourism

<sup>17</sup> Agriculture is the largest employment activity and employed 36.4 percent of the total employed population in 2015 in Issyk-Kul Oblast.

<sup>18</sup> Ministry of Transport and Roads, its Civil Aviation Agency and Aviation Institute; Department of Tourism under the Ministry of Tourism, Culture and Sports; Representation of the Government in Issyk-Kul Oblast; and the Ministry of Internal Affairs.



development aspect of the PDO from four dimensions of sustainable tourism: institutional, economic, ecological and socio-cultural.

32. **Achievements of the overall CARs program could be measured through a regional analysis of the wider economic impacts of the phases of the program, including second order effects on other countries.** As such, it would be more than just the sum of each phase and could be designed based on the methodology pioneered under the economic analysis for each phase. Overall program performance and results (SOP-level indicators) will be measured by aggregating the following project-level indicators of each phase: (i) volume of traffic through the border crossing point increased by at least 10 percent; (ii) market accessibility index improved; and (iii) kilometers of roads rehabilitated.

### III. PROJECT DESCRIPTION

#### A. Project Components

33. The CARs-3 Project will finance activities related to removing physical bottlenecks with neighboring countries, in particular the Republic of Kazakhstan, and addressing sector specific constraints to create market opportunities for the development of regional trade (agriculture) and tourism in Issyk-Kul Oblast. The project comprises of three components, which are outlined in the following paragraphs:

34. **Component 1. Regional Connections, Associated Facilities and Equipment in Issyk-Kul Oblast (Estimated total cost – US\$46.00 million).** This component will support the establishment of a reliable road connection to Kazakhstan via the Karkyra BCP and access to tourism sites, through *inter alia*:

- a. **Rehabilitation of about 52 km of road section in Issyk-Kul Oblast, including and within close proximity of the road linking Tyup with the Karkyra border crossing, as well as construction road-side facilities and links to access San-Tash Tamerlane historical monument.** The infrastructure to be rehabilitated will serve regional agricultural trade as well as tourism, and includes 37 km from Tyup to Karkyra border crossing with Kazakhstan (km 39.6-76) and its continuation to the tourist camp in the Kyrgyz Republic and Republic of Kazakhstan (about 15 km). The technical design standards will be based on updated designs (under preparation) and align with the standards on the road section in Kazakhstan from Kegen to Karkyra BCP (which is currently under rehabilitation). It will also include a short 500 meter dirt road to the cultural heritage site of San-Tash Tamerlane to be complemented by the tourist service center under Component 3. Snow and wind barriers and potentially an elevated road formation (in particular km 70-76) will be considered during the finalization of the designs in order to ensure climate resilience and to reduce winter maintenance costs along Tyup-Karkyra BCP. A road safety audit will be undertaken as part of the design work for the road section to ensure the safety of all road users, e.g., pedestrians, vulnerable groups and drivers.
- b. **Provision of road maintenance equipment, in particular snow removal equipment to ensure year-round operation of the road linking Tyup to the Karkyra border crossing point.** In order to ensure year-round operation of the Tyup-Karkyra BCP road, the purchase of necessary road maintenance equipment is necessary. Given the prevalence of exceptionally harsh snowfalls (in particular km 70-76), GPS-linked road maintenance equipment will be acquired, such as rotary



snow blowers, snow plough, and dump trucks. The equipment will be transferred to the balance sheet of the Road Maintenance Unit responsible for the Oblast<sup>19</sup>.

- c. **Provision of consultants' services for work supervision.** An experienced international consulting firm will be hired for construction supervision.

35. The above activities will benefit from a climate change vulnerability assessment (supported by a grant from the Global Facility for Disaster Reduction and Recovery) and will also encompass a “shared infrastructure” approach to facilitate diversification of fiber-optic connection of Issyk-Kul Oblast with Kazakhstan. It is expected that CO<sub>2</sub> emissions will increase by about 2,624 tons compared to the before project baseline due to an expected increase in traffic. However, it is estimated that the net CO<sub>2</sub> emissions (the net emissions with and without project scenario) will not increase, as some traffic will be diverted from Karakol-Bishkek-Almaty route to Karakol-Tyup-Kegen route, which is much shorter. The likely CO<sub>2</sub> emissions reduction will also come from increased average speed as a result of the improved road pavement.

36. Among the various initiatives aimed at ensuring road asset preservation and sustainability of investments. MOTR is currently considering a separation of Client – Supplier relations in the road sector. Issyk-Kul Oblast is under consideration as the pilot region for Supplier (State Enterprise) functions. This pilot aims to increase the autonomy and self-financing functions of the Oblast to improve road asset management and road maintenance. The provision of road equipment under the proposed Project in combination with the already installed weigh-in-motion system for axle load control is a necessary element for moving further with the reform agenda to increase the efficiency of road sector governance.

37. This component may complement other potential investments in the Issyk-Kul Oblast, in particular the Ring Road around Issyk-Kul Lake, currently under discussion between the government and development partners in an effort to leverage IDA resources and crowd in additional financing while ensuring that project financing stays within the required grant element as set by the International Monetary Fund and strictly observed by the Ministry of Finance. Rehabilitation of the Issyk-Kul Ring Road, which has international importance due to its proximity to Kazakhstan and China, is included in the Government Program “Trust, Unity, Creation” 2018-2023 as an integral part of achieving the objective to exit from the current transport deadlock. Rehabilitation works of the northern part of the Ring Road from Balykchy to Korumdu are on-going.

38. Potential complementary investments comprise rehabilitation of the eastern and southern sections of the Issyk-Kul Ring Road, e.g., Korumdu-Karakol, 114 km (proposed to be financed by the Islamic Development Bank and the Arab Coordination Group) as well as Karakol-Bokonbaevo-Balykchy (220 km) for which financing is currently being sought. Accordingly, the government is preparing the pre-feasibility study for the southern section of the Issyk-Kul Ring Road and has requested the Bank to lead discussions with development partners in order to leverage finance for the remaining gaps. The Korea World Bank Partnership Facility (KWPF) is providing grant support and expertise from Korea to finance engineering designs, cost estimates, environmental, social and economic impact assessments for the southern part of the Issyk-Kul Ring Road. An Investors' Forum is expected to be held in 2019 (see paragraph 59).

39. **Component 2: Aviation Safety and Service Provision (Estimated total cost – US\$4.5 million).** Addressing aviation safety and service provision would help the CAA to reach ICAO's international safety standards and recommended practices, as well as to overcome the current blacklist of Kyrgyz carriers by the

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<sup>19</sup> Contracting out road maintenance works to the private sector has been attempted by the ADB-financed pilot project, but without success due to lack of private contractors. This is particularly due to the fact that routine maintenance and in particular winter maintenance is based on very long experience in local terrain and climatic conditions.



EU, enhance local carriers' growth opportunities and ultimately increase the country's level of connectivity, a result that would benefit both local residents and international visitors.

40. In this context, component 2 will support strengthening safety and service provision of the aviation sector through, *inter alia*:

- a. **A review of the Aviation State Safety Program (SSP)** to, *inter alia* identify CAA's institutional and capacity challenges for compliance with ICAO standards and recommended practices, mainly the Agency's lack of funding and staffing capabilities to conduct its oversight duties per international standards and the Kyrgyz Air Code.
- b. **Provision of technical assistance in drafting aviation bylaws.** This will enhance the legislative base for aviation activities in the country, in line with international practices and ICAO Standards. The latest ICAO Audit revealed several areas in need of an overhaul that currently lack detail or fail to provide the founding elements of a modern oversight system. Resolving these gaps will improve the effective implementation of safety provision in the Kyrgyz Republic.
- c. **Training safety inspectors and other staff of CAA** with the aim to solve key deficiencies flagged in the last USOAP Audit that contributed to the issuance of a Significant Safety Concern (SSC) by ICAO and ultimately to EU's blacklisting of Kyrgyz carriers. The implementation of oversight obligations, related to inspector qualifications underperform vis-à-vis the global average. Thus, training of CAA personnel, with a special emphasis in flight operations and dangerous goods, will reduce this gap across all audit area. Moreover, increasing inspector qualifications is required as per the Corrective Action Plan submitted to ICAO that monitors the country's improvements towards removing the impending SSC.
- d. **Provision of software and equipment to upgrade CAA's record-keeping capabilities.** This activity aims at improving the Agency's certification and surveillance capabilities, providing a digital environment to perform personnel licensing, flight operations and airworthiness oversight duties, as well as to maintain CAA employee training records. The last ICAO audit revealed deficiencies and inconsistencies in the current record-keeping systems of CAA. The provision of hardware and specialized software to address this bottleneck will drive the effective implementation of safety obligations in different areas, and reduce the gap vis-à-vis global averages.
- e. **A review of the educational program of the Kyrgyz Aviation Institute (KAI), capacity building, and acquisition of testing software for aviation personnel and a flight training device, and repair of the Aviation Institute's Facilities.** The ICAO Audit revealed that the KAI, as an Aviation Training Organization (ATO) responsible for certifying airmen, cabin crews and maintenance technicians was not in full compliance with ICAO Standards. An overhaul of the Institute's curricula, instruction material, educational resources and internal guidance documentation is required. Capacity building efforts are needed to re-train and improve the abilities of the Institute's academic staff. Improving KAI's adherence to international standards and enhancing its human and material resources will help to close the gaps identified by ICAO. To properly conduct certification of aviation personnel, KAI would require testing software to assess the proficiency of candidates. Providing the Institute with a flight training device will allow student pilots to fulfill instrument training requirements as mandated by the ICAO Annexes. In addition, improving physical facilities of the Aviation Institute will create a conducive environment for knowledge transfer and improve the attractiveness of KAI's offering to national and international students; these students can ultimately be employed by the industry upon graduation.



41. The project foresees a comprehensive assessment of the sector, as well as regulatory, institutional reform and capacity building measures for key stakeholders, including educational institutions such as the KAI. The goal of improving aviation sector governance is to ensure an institutional framework with clear roles and responsibilities, as well as capacity building of sector specialists and staff retention, particularly in the area of aviation and flight safety.

42. **Component 3: Sustainable Tourism Development in Issyk-Kul Oblast (Estimated total cost – US\$3.5 million).** The component comprises activities focusing on support towards developing the tourism sector in Issyk-Kul Oblast in a sustainable manner. Tourism sector's competitiveness is closely linked to its sustainability, in particular through improved information for decision-making (including a set of indicators), upgraded facilities as well as involvement of local communities.

43. Component 3 will support the development of sustainable tourism in Issyk-Kul Oblast through, *inter alia*:

- a. ***Development of a Sustainable Tourism Strategy and Masterplan, including application on a pilot basis of Tourism Satellite Accounts (TSA) for Issyk-Kul Oblast.*** This activity will fill the existing information gap to inform decision makers on sustainable tourism development in Issyk-Kul Oblast. The strategy and program will not only focus on the balance between environmental, economic, and socio-cultural considerations of tourism development but also on trade-offs between public and private sector involvement, including investments. TSA, a standard statistical framework developed by the World Tourism Organization, will be implemented on a pilot basis in Issyk-Kul Oblast and the underlying data will become available to cover, for example, inbound, domestic tourism and outbound tourism expenditures, production accounts of tourism industries, as well as employment.
- b. ***Rehabilitation and/or construction of about five publicly-owned tourist service centers (TSCs).*** Service infrastructure for tourism along major travel routes within the Issyk-Kul Oblast is sparse and often does not meet internationally accepted standards. Existing TSCs will be rehabilitated and/or new ones will be constructed in five pre-identified locations, which are in close proximity to the following tourism landmarks: (i) the Eko Post at the entrance to the town of Balykchy; (ii) the Hippodrome in Cholpon Ata-Bosteri towns; (iii) the cultural heritage site of San-Tash Tamerlane along the Tyup-Karkyra BCP road (iii) the city of Karakol; and (iv) the entrance of Kadji Sai town, along the southern part of the Issyk-Kul Ring Road. The type of construction/upgrading works of each center will be subject to its location and expected flow of tourists, and may include tourism information desks, wash-toilet facilities, Wi-Fi points, parking lots, security/first aid points, souvenir point/shop, and cafés/restaurants.
- c. ***Providing support for the establishment and development of community-based geoparks development in Tyup and Aksuu districts, the two eastern districts of Issyk-Kul Oblast.*** These two districts, which are located in the eastern part of the region, have been selected to pilot community-led tourism development based on the UNESCO geopark approach focused on the principles of nature protection, education and sustainable development of local communities. Potential branding of the area as a UNESCO Global Geopark is envisaged in the future.

44. Based on industry know-how and best practice, these activities will be closely linked with tourism offerings in the Central Asia region. A key focus of the proposed Sustainable Tourism Strategy, as well as



initiatives towards community-led tourism, will be to integrate gender sensitive approaches which enable women to take up planning and implementation roles in sustainable tourism development. Two-way engagements with beneficiaries are envisaged, given that communities of these two districts will be directly involved in the design, implementation and oversight of geopark development in line with UNESCO geopark concept. Complementary activities include support from the KWPF for the development of a long-term regional comprehensive development plan for Issyk-Kul Oblast and local area development plans.

45. Upon completion of rehabilitation and/or construction of the five TSCs which are owned by the Department of Tourism, their operation is encouraged to be outsourced to an operator under a public-private partnership scheme with performance indicators set by the Department of Tourism and Issyk-Kul Oblast Administration. The geopark concept development and promotion will also be led by the Department of Tourism, with support from Issyk-Kul Oblast Administration. It is envisaged that external experts from the UNESCO-led Geopark Global Network will be involved, especially at the early stages of identification and development, to support local communities and government efforts.

46. **Component 4: Project Management and Implementation (Estimated total cost – US\$1.00 million) will support project management and implementation**, including *inter alia*: the provision of goods, consultants’ services and training, as well as incremental operating costs (including a financial audit).

## B. Project Cost and Financing

47. **The lending instrument for the CARs-3 Project in the Kyrgyz Republic is Investment Project Financing (IPF).** The total cost of the Project is US\$55 million, inclusive of taxes, charges and import duties. The sources of funds for this IDA credit/grant are the national IDA allocation and the regional IDA allocation made available in Special Drawing Rights (SDR). The national IDA financing is in the amount of US\$35 million equivalent (50 percent grant and 50 percent credit) with a 6-year grace period and 38 years to maturity. The terms for regional IDA financing in the amount of US\$20 million equivalent are the same as for national IDA terms. Co-financing from the government is not anticipated. The table below summarizes project costs and financing by component.

Project Components	Total Cost	Regional IDA	National IDA
Regional Connections, Associated Facilities and Equipment in Issyk-Kul Oblast	<b>46.00</b>	20.00	26.00
Aviation Safety and Service Provision	<b>4.50</b>	0.00	4.50
Sustainable Tourism Development in Issyk-Kul Oblast	<b>3.50</b>	0.00	3.50
Project Management and Implementation	<b>1.00</b>	0.00	1.00
<b>Total Costs</b>	<b>55.00</b>	20.00	35.00

## C. Lessons Learned and Reflected in the Project Design



48. **The proposed project design reflects that regional integration and connectivity play an important role in the facilitation of agricultural trade as well as tourism development.** Recognizing the need to link investments in removing physical bottlenecks with addressing sector specific constraints that limit private-sector led development and investment, CARs-3 takes into consideration lessons learned from previous projects and international experience on multi-sectoral interventions, sustainability dimensions (especially climate-change), and Maximizing Finance for Development (MfD). Given the multi-sectoral nature of the project, careful attention has been paid to its implementation arrangements in order to increase their effectiveness while maximizing ownership and sustainability of project outcomes. Based on lessons learned in the Kyrgyz Republic, the project will be implemented by a single implementing agency, the MOTR and its International Project Implementation Group (IPIG) and will be overseen by the Sectoral Working Groups (SWG). The Department of Tourism within the MoCIT will provide technical support for activities under Component 3 of the Project.

49. **To ensure sustainability of the investments, the project is also focusing on building operational and institutional capacity of the relevant agencies, as well as on the retention of trained staff.** This not only relates to the training provided to local engineers and MOTR on climate change vulnerability assessment for the infrastructure to be built, but also on building capacity of the CAA as well as undertaking an institutional review, to improve current safety practices as well as to increase efficiencies and governance. For capacity building and training provided to CAA personnel, specific clauses will be included in the contracts of trained personnel to ensure that specialists critically important for aviation safety (such as safety inspectors) will be retained at the CAA after the training. To ensure readiness at effectiveness, the development of technical specifications and terms of reference as well as advance procurement has already started with support from all agencies involved. The lessons learned from CARs-1 Project regarding road maintenance practices will be applied to CARs-3 Project.

50. **Project activities do not directly facilitate the involvement and/or investment of the private sector; however, Project outcomes will lead to private investment in the tourism and aviation sectors over the medium term.** Project will enhance the enabling environment of the tourism and agricultural sector as well as increase CAA's capacity to regulate the aviation sector more effectively. Under Component 3, tourism management decision-making based on data and analysis of the tourism sector (including trade-offs around roles of the public and private sector) are expected to facilitate attracting private investment in the Issyk-Kul region. Moreover, the PPP arrangements encouraged for the operation of the publicly-owned tourism services centers have the potential to introduce private sector provision of services based on industry know-how and lessons learned from around the world. Finally, MfD-related activities in the aviation sector are being scoped in the country. Generally, these can be referred to as possible introduction of airport PPPs and airline financing, to be supported by IFC.

## IV. IMPLEMENTATION

### A. Institutional and Implementation Arrangements

51. **MOTR will have the overall responsibility for the implementation of the CARs-3 Project.** The World Bank IPIG within the MOTR will be responsible for the day-to-day administration of project activities, which comprise, *inter alia*: (i) financial management, including planning and budgeting, accounting, financial





reporting, internal controls, funds flow and disbursement and auditing; (ii) management of environmental and social safeguards aspects; and (iii) procurement and contract management for all components. The adoption of a Project Operational Manual (POM) will be a dated covenant for the project.

52. **Two Working Groups will be permanently established, one for tourism and the other for aviation to ensure coordinated decision-making and specialized technical inputs during project implementation.** The Working Groups will include: (i) CAA under the MOTR for the aviation safety component; and (ii) the Department of Tourism under the MoCIT and the Issyk-Kul Oblast Administration for the tourism component. In this context, the Issyk-Kul Oblast Administration, headed by the Issyk-Kul Governor, will play an important coordination role. Tender Commissions will be established for the procurement of certain works, goods and selection of consultants' services to include representatives from sectoral agencies. The Department of Tourism within the MoCIT will provide technical support for activities under Component 3 of the Project.

53. **Regional coordination would be exercised at the policy level and at the operational level.** At the policy level, the Transport Sector Coordinating Committee (TSCC) within CAREC would be the platform to discuss policy-related issues, such as good governance and efficient asset management in the transport sector, including transport safety and logistics. At the operational level, interactions between the respective implementing agencies would be supported through financing provided by the Bank on project management and implementation.

## B. Results Monitoring and Evaluation

54. **MOTR will have overall responsibility for monitoring and evaluation of project outcomes, through IPIG which has dedicated staff to monitor results.** IPIG will prepare semi-annual progress reports with contributions from other stakeholders and forward these to IDA within 45 days from the end of the reporting period. These reports will detail physical progress and progress in respect of the monitoring indicators from the Results Framework. They will also contain a summary of the status of implementation of the EMPs and RAPs.

55. **IPIG will also prepare and furnish to the Bank annual work plans no later than December 1 of each calendar year during the implementation of the project.** These annual work plans will include: (i) a detailed timetable for the sequencing and implementation of proposed project activities; (ii) types of expenditures required for such activities and a proposed financing plan; (iii) training activities that may be required under the project; and (iv) reference to each safeguard document applicable and the proposed approach to ensure their timely preparation and implementation.

## C. Sustainability

56. **The Kyrgyz government's commitment to achieve the objectives of the Project will be a key determinant for its sustainability.** The government's commitment is demonstrated through the NSDS and the Government's Program "Trust, Unity, Creation" which highlight the importance of the project's outcomes to the country's development and effort to reduce poverty. In addition, the Macroeconomic Council which is headed by the Prime Minister of the country, has approved the project. To ensure the value of the road investments is maximized, the government has already embarked on the rehabilitation of other segments of Tyup-Karkyra BCP road and has completed construction of several sections, using government funds (e.g., km 0-39.6 of Tyup-Karkyra Road as well as Balykchy-Korumdu Road section which is part of the transit route via



the North-South road link). Further, the Bank is already providing financing for the Integrated Dairy Productivity Improvement Project in the Issyk-Kul region, which aims at enhancing dairy animal productivity and milk quality in farms. The project financed road link to Kazakhstan will complement the on-going project by improving access to markets.

57. **Under the road sector reform agenda, the MOTR intends to move towards commercialization in road sector governance starting from Issyk-Kul and Chui Oblasts**, by converting the road maintenance departments into self-sustained units. The Project will build on on-going activities under the CARs-1 project in improving road maintenance practices and apply the lessons learnt to ensure sustainability. Technical sustainability will be achieved by preparing designs based on a climate change vulnerability assessment and improved technical solutions for infrastructure resilience. Digital solutions using axle load sensors and inductive loops installed in the road surface through weigh-in-motion systems, piloted under CARs-1 Project along Bishkek-Balykchy Road, will complement the CARs-3 Project and support measures to prevent further deterioration of road conditions.

#### D. Role of Partners

58. **Potential synergies with other multilateral and bilateral development partners as well as the private sector are manifold.** Given IMF debt sustainability requirements, the IDA financing terms (including the grant element) allow the government to attract financing from other development partners on lower or non-concessional terms. Leveraging the IDA grant element, the government is currently discussing the possibility of obtaining financing for the rehabilitation of several sections of the Issyk-Kul Ring Road from Korumdu to Karakol (proposed to be financed by the Islamic Development Bank and the Arab Coordination Group) as well as the southern section of the Ring Road from Karakol to Balykchy. The Bank has been supporting the government to crowd in resources and in coordinating with other development partners to develop a transport sector financing strategy for the Issyk-Kul Oblast that is fiscally, environmentally and socially sustainable.

59. **The government of Korea through the KWPF is supporting the Project through the provision of grant financing as well as Korean expertise for integrated regional development and feasibility studies in the Issyk-Kul Oblast.** This includes a Bank-executed Trust Fund (US\$1.9 million) for the development of a long-term comprehensive development plan for Issyk-Kul Oblast and Local Area Development Plans, support for an Investors' Forum, as well as the preparation of preliminary engineering designs and cost estimates, environmental, social and economic impact assessments for the southern section of the Ring Road from Karakol to Balykchy.

60. **The Project builds on the earlier work of USAID in the aviation sector (legislative base) and expects to unlock complementary private sector solutions where appropriate.** The drafting of aviation rules is a direct follow up of the earlier support provided by USAID which resulted in the adoption of the new Air Code in August 2015. Potential synergies with the private sector are currently being discussed in particular with respect to the development of local air carriers and the potential for the financing of leasing or purchase of aircraft. The Bank is supporting the government to advance appropriate private sector solutions, including through IFC. While the financing of airport infrastructure for regional airports (such as Karakol airport) is not expected to be financially attractive to the private sector, potentially the operation and management of larger international airports in the country may be. Technical support provided through the Project will support the government in negotiations with the private sector.



61. **Synergies have been established with multilateral and bilateral development partners as well as the private sector (including USAID, Japan International Cooperation Agency, the ADB, the Swiss State Secretariat for Economic Affairs, the KRDF as well as IFC) on sustainable tourism development.** USAID, as the most active development partner in tourism has supported a variety of direct sector strengthening initiatives<sup>20</sup> as well as support for public and private sector collaboration. In addition, 89 road posts promoting tourism were installed in the Issyk-Kul region. TIKKA (Turkish Cooperation and Development Agency) is an active donor in the tourism sector as well, and has: supported the reconstruction of important cultural heritage sites in Bishkek (the history museum and Ala Too square); sponsored the celebration of the Nomad Games in September 2016; and the central tourism website for Kyrgyzstan, Discover Kyrgyzstan. SECO has also recently undertaken an assessment of sustainable tourism in the Kyrgyz Republic. Additional examples of tangential tourism support are ADB's microcredit project for women, which includes support to tourism linked activities and JICA's "One Village, One Product" program for increasing skills and merchandising channels for locally produced crafts and artisanal food products. The KRDF is rolling out a US\$400 million in concessional credit to individual Kyrgyz investors (for values above US\$1 million). IFC is supporting investment climate reforms and other reforms designed to create markets along target value chains, including tourism.

## V. KEY RISKS

### A. Overall Risk Rating and Explanation of Key Risks

62. **The Systematic Operations Risk-Rating Tool (SORT; see Data Sheet) assessed the Project's overall implementation risk as substantial** based on the assessment of the risks relating to: (i) political and governance risk; (ii) fiduciary risk; (iii) macroeconomic risk; (iv) institutional capacity for implementation and sustainability; and (v) environmental and social risk. Overall, the rewards of engaging with the client despite substantial overall risk are expected to be a stabilized political and administrative system in the sector, and an economy on the path to sustained growth and closer inclusion. This will help stabilize the region that is facing external risks and will bring the benefits of trade and regional integration to the country as well as the region and beyond. The use of a communications strategy will help to mitigate risks, as well as further engage communities and Project beneficiaries.

63. **Political and Governance Risk is rated High.** The Kyrgyz Republic has a highly volatile political environment where changes in government are frequent. The past and the current governments have demonstrated strong commitment to Project preparation and implementation; however, the multi-sectoral nature of the project institutional arrangements is likely to be affected by political instability. Specifically, political developments may lead to the frequent turnover of Tender Committee members, which may delay Project procurement and subsequent implementation of Project activities. This risk will be managed by working closely with and training IPIG staff, who will ensure continuity in Project knowledge.

64. **Risks related to the macroeconomy are substantial; moderate risks remain for sector strategies and technical design of projects.** The country's macroeconomic effectiveness is limited given weak transmission mechanisms against the backdrop of low monetization of the economy, high dollarization, and a shallow financial system. The sub-optimal fiscal policy coupled with a macroeconomic policy with limited effectiveness

<sup>20</sup> Including the development of a brochure on "10 reasons to explore Kyrgyzstan" and destination level initiations through the Business Growth Initiative (BGI) business competition program. Additionally, USAID also undertook a technical review of the country's tourism statistics collection and notes specific opportunities to develop collection and dissemination systems aligned with UNWTO global guidelines.



have resulted in a macro-fiscal environment that is ineffective in mitigating economic volatility. Development policy operations envisaged under the CPF with their accent on fiscal adjustment, together with IMF-supported programs, are intended to deal with economic risks. Long-standing engagement and support by the Bank in the transport sector will counter risks related to sector strategies and have been reflected in the technical designs of the Project.

**65. Fiduciary risk is rated high, mainly due to high risk relating to Procurement.** The Kyrgyz Republic is in the bottom third on most internationally recognized governance and transparency indicators. Fiduciary risk is high specifically due to the following factors: (i) officials involved in Project procurement through the Tender Committees may not be familiar with Bank procurement procedures; (ii) political developments may lead to the frequent turnover of Tender Committee members; (iii) potential procurement delays<sup>21</sup>; (iv) low levels of competition<sup>22</sup>; (v) inadequate contract management and lower-than required quality of procured equipment and civil works; and (vi) perceived high level of corruption as measured by Transparency International. These risks will be mitigated through the following measures: (i) the Project team will arrange for relevant procurement training to be provided for staff directly involved in procurement and also for members of tender committees; (ii) careful procurement planning based on the market analysis and realistic scheduling; (iii) advanced preparation of technical specifications or terms of references; (iv) careful procurement packaging to foster competition; (v) wide and advance advertisement; and (vi) proactive search for qualified suppliers, contractors or consultants.

**66. Institutional Capacity for Implementation and Sustainability Risk is rated Substantial.** Given the multi-sectoral nature of the Project, successful implementation will require strong coordination among several agencies, including the MOTR/IPIG, the CAA, as well as the Tourism Department within MoCIT. While MOTR/IPIG have exposure to Bank policies and procedures, the other agencies have not had the same exposure. The above risks are expected to be managed by several proposed measures, including: (i) establishment of sectoral working groups (tourism, aviation), which will be facilitated by the government; (ii) recruitment of a reputable construction supervision consultant for road rehabilitation works; (iii) development of clear criteria and mechanism for performance assessment and monitoring of Project progress; (iv) hiring of necessary additional individual consultants with prior experience in donor-supported projects to provide implementation support to MOTR and other related agencies (tourism and aviation); (v) development of various citizen engagement and communications activities; and (vi) increased implementation support by the Bank.

**67. Environmental and Social Risk is rated Substantial.** Most potential environmental impacts can be mitigated by good construction and housekeeping practices; however, two endangered and three vulnerable species (according to the Red List of Threatened Species) inhabit the vicinity of the Project area. Additionally, some of the Project interventions are located in close proximity to historic sites, as described in paragraph 96. These risks will be managed by strict compliance with the national laws on environment as well as Bank policies, and close monitoring of Project sites. Site-specific ESMPs will have a specific section on PCR management including measures to ensure preservation of known PCRs and strengthening institutional capacity for their management (e.g. methods for asset protection such as access infrastructure, fencing, and signage). Social benefits are stated to be significant and land acquisition is expected to be avoided. Thus, social risk is moderate.

<sup>21</sup> Variation orders under the on-going CARs-1 Project have not exceeded 15 percent of original engineer's cost estimates.

<sup>22</sup> This data has been obtained from the regional maintenance department and will be subject to validation by the design consultant.



## VI. APPRAISAL SUMMARY

### A. Economic and Financial Analysis

68. **The Project's complexity requires several layers of economic analysis**, including: (i) an economic analysis measuring the economic costs and benefits to different categories of users/ beneficiaries; (ii) a switching values analysis by analyzing the marginal contribution derived from the Project, including measuring differential between scenarios; as well as (iii) an assessment of the potential medium-to-long term wider benefits (poverty and income per capita) adapted from economic geography.

69. **Cost-Benefit and Switching Analysis for road rehabilitation.** The economic analysis was conducted using the Highway Development and Management Tool (HDM-4), which stimulates life-cycle predictions of road deterioration, road works effects and their costs and road user costs, and provides economic decision criteria for road construction and maintenance works. The HDM-4 analysis projects by computing costs and benefits of different investment options in terms of savings in road maintenance costs, vehicle operating costs and travel time costs. The comparison is between the "do something" scenario (Project case) and the "do nothing" scenario (without Project case) over the analysis period. The economic analysis covers 30 years and assumes that works will be fully completed within three years (for road rehabilitation).

70. The economic analysis was conducted for the road sections to be rehabilitated, including and within close proximity of the road linking Tyup with the Karkyra border crossing point. Currently, the roads to be rehabilitated are in poor to very poor condition with an estimated roughness varying between 6.2 and 11.7 IRI, m/km. The roads are mostly inaccessible during winter, requiring road users to take the detour through Bishkek or bearing exponentially higher costs to operate their vehicles. Current traffic data was obtained from traffic surveys by the regional maintenance units. Normal growth is driven by economic development best represented by growth in Gross Domestic Product. The IMF's GDP growth forecast for the Kyrgyz Republic from 2017-2022 (on average 4.3 percent) has been used as a starting point for the development of the best estimate growth forecast for the national economy. An elasticity of 1.05 for car and passenger traffic has been adopted together with a conventional value of 1.0 for goods vehicles.

71. The return on the investment for the overall Project (using switching values and differential analysis such as "upgrade" and "rehabilitate" as compared with "do nothing alternative") is satisfactory with an overall Economic Internal Rate of Return (EIRR) of about 18 percent, a positive Net Present Value/ Cost Ratio of 3.2 at a discount rate of 12 percent. This includes accounting for the opening of the road year-round. A severe worst-case scenario with construction costs increased by 10 percent<sup>23</sup> and traffic growth rates benefits decreased by 10 percent still shows a reasonable return for the project with an EIRR of 12.6 percent. Switching values analysis shows that construction costs would have to increase by 25 percent for the project EIRR to be reduced to 12 percent. Vehicle operating costs savings represent 40 percent of Project benefits, while travel time savings represent 60 percent.

72. Assumptions made under the HDM-4 analysis include: (i) road section characteristics, i.e., asphalt mix on granular base pavement, carriageway width varying varies from 4-5 to 8 m, variable shoulder widths, a seasonal traffic flow pattern between 400-500 AADT on local roads to 2,000 AADT on main roads<sup>24</sup>; (ii) traffic

<sup>23</sup> Variation orders under the on-going CARs-1 Project have not exceeded 15 percent of original engineer's cost estimates.

<sup>24</sup> This data has been obtained from the regional maintenance department and will be subject to validation by the design consultant.



increase has been averaged to 3 percent annual increase after the Project; (iii) vehicle fleet consisting of cars, heavy trucks, medium buses, medium trucks, minibuses and pick-ups; and (iv) maintenance standards, i.e., crack sealing, patching, overlay open graded, and improvement standard (upgrading) at a minimum cost of US\$600,000/km and the effect of having free flow traffic (not seasonal) after the intervention.

73. **A preliminary assessment of the potential medium-to-long term wider benefits (poverty and income per capita) was undertaken based on a simple model.** The assessment of the potential medium-to-long term wider benefits relates to the question on how to translate improvements in regional connectivity into aggregated economic benefits at the oblast level based on economic geography, which takes into account medium-term effects of agglomeration when relating changes in connectivity to changes in poverty levels and income per capita. Due to paucity of data and data quality, a full model cannot be developed. However, this approach, based on the concept of market access is acceptable as the changes brought by the Project are large scale and transformational for the region, including travel time savings by road of six hours to Almaty and twelve hours to Urumqi. The simplified model used and adapted from economic geography accessibility concept includes on the left-hand side income per capita or poverty level and on the right-hand side market accessibility and international connectivity variables (road and air). The market accessibility formula depends on the travel times between regions and region size, through a classical LogSum formula.

74. While market accessibility within the Kyrgyz Republic discriminates well beyond the populated areas around Bishkek and Osh and regions more peripheral, there is a weak relationship between market access and income or poverty. However, other effects are probably to be taken into account to fully account for the relationship. For example, population patterns and migration may mean that districts close to big cities may be relatively poor despite being close. In contrast, the two regional connectivity parameters (road and airport connectivity) are rather well in line with income and poverty with significant elasticities (established even for such a small number of observations). Based on the above and expected changes, the impact of the Project is expected to result in a reduction of poverty in Issyk-Kul Oblast by 7.5 percent (or from 22.5 to 17.7 percent) and a relative increase in income per capita by 8 percent. Third country effects are second order and subtle to estimate.

75. **An analysis was conducted on the incremental greenhouse gas (GHG) emissions resulting from the Project using the Bank's GHG accounting tool as part of the appraisal.** In general, CO<sub>2</sub> emissions are expected to increase by 3.5 percent over the evaluation period. It is expected that CO<sub>2</sub> emissions will increase by 2,634 tons in the "with the Project" scenario against "without the Project" scenario, or from 73,518 tons to 76,142 tons of total CO<sub>2</sub> emissions. However, the assumption is that total CO<sub>2</sub> emissions will not increase, as in addition to newly generated traffic, some existing traffic will be diverted from Karakol-Bishkek-Almaty route to the Karakol-Tyup-Kegen route, which is almost two times shorter. It is also expected that with the improved road pavement, the average speed will increase, leading to a decrease in fuel consumption per vehicle-km, thus CO<sub>2</sub> emissions from vehicles should be reduced. The marginal increase in CO<sub>2</sub> emissions with the Project has negligible impact on the economic justification of the Project. In monetary terms, the estimated net emission cost will increase by US\$206,600 over the evaluation period. Taking into consideration the economic justification of the Project, as well as that the slight increase in CO<sub>2</sub> emissions is not due to newly generated traffic, the net emission cost increase is negligible.

## B. Technical

76. **Existing pre-feasibility studies cover the existing investigation of several road sections, within and around Karakol and Tyup, including those leading to Karkyra BCP and further on to the tourist base in Kyrgyz**



**Republic and the Republic of Kazakhstan.** Current geometric characteristics of the road sections match the requirement of Category III/IV according to SNIP KR32-01:2004 (carriage width up to 12 meters, shoulder width up to 2.50 meters, each). The conditions of the sections to be financed under the Project are poor to very poor with a roughness index (IRI) varying from 7 to 12, with extensive potholes, cracks, raveling, and edge breaks, which require immediate intervention. The adopted intervention strategy (to be reflected in the detailed designs under preparation) for Tyup-Karkyra BCP section (37 km) consists of the rehabilitation of the sections and aligning them with the technical parameters of the road in Kazakhstan (from Karkyra BCP towards Kegen) as well as with Issyk-Kul ring road, designed under Category III/IV. Snow and wind barriers and potentially an elevated road formation (in particular km 70-76) will be considered in order to ensure climate resilience and reduce winter maintenance costs. Access roads will be rehabilitated based on technical design Category IV. A road safety audit will be undertaken as part of the design work to ensure safety of all road users, e.g., pedestrians, vulnerable groups and drivers. The proposed interventions are considered the least cost options.

**77. Climate Co-Benefits.** The Project provides climate adaptation co-benefits that contribute to the achievement of the World Bank's Corporate and Country climate finance commitments. The Kyrgyz Republic is considered as one of the most vulnerable countries to climate change in the ECA region. There is a record of increase in natural disasters in recent years, affecting socio-economic infrastructure. The climate change vulnerability assessment of the Project road sections will inform design and technical solutions to improve resilience of infrastructure to better cope with increasing precipitation, potential landslides, river erosion and snowdrift. In case of a disaster in and around the project area, potential emergency response measures will be addressed jointly with the proposed Bank-financed Enhancing Resilience in Kyrgyzstan Project (ERIK) which supports strengthening government capacity to respond to disasters, as well as reduce the adverse financial impacts of natural hazards on the recipient's budget and population. In addition, the development of the Sustainable Tourism Strategy and Program for Issyk-Kul region will take into consideration environmental protection and climate change.

### **C. Financial Management**

**78. The FM assessment for the Project was conducted** in accordance with the Financial Management Manual for World Bank Investment Project Financing Operations that became effective on March 1, 2010 and was revised on February 10, 2017. Overall FM arrangements at IPIG for the Project implementation are adequate and meet the minimum requirements of the Bank's Policy and Directive on Investment Project Financing. With regard to the FM Covenants to be included in the Disbursement and Financial Information Letter (DFIL), the following should be noted: (i) interim unaudited financial report (IFRs) formats have been agreed with IPIG and they will be submitted to the Bank within 45 days after the end of the calendar quarter; and (ii) the Project's annual audited financial statements are to be submitted to the Bank within six months after the end of the audit period. Additionally, within one month from Project effectiveness, IPIG will employ a financial management specialist and update Project accounting software to include the functionality for automatic generation of Project financial reports.

**79. The audit reports for the Bank-funded Project currently being implemented by IPIG are timely received in a timely manner** with no overdue audit reports, have clean (unmodified) audit opinions, and there are no significant internal control or accountability issues identified that would have an impact on the implementation of this Project. Details of the FM assessment including the formats of the (IFR), are included



in the POM. The Project will receive disbursements from the Bank through advances using statements of expenditure (SOEs), direct payments, reimbursements and special commitments. Details with respect to disbursements will be included in the DFIL and risk ratings are described in paragraph 65.

#### **D. Procurement**

80. Procurement under the project will be carried out in accordance with both “Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers”, dated January 2011 (revised July 2014) and “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers”, dated January 2011 (revised July 2014) and the provisions stipulated in the Financing Agreement. The World Bank “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credit and Grants” dated October 15, 2006 and revised in January 2011 and as of July 1, 2016, will also apply.

81. **The procurement plan covering the procurement activities expected under the project components has been agreed with the Bank.** It will be updated from time to time or at least once a year and each update will be subject to the Bank’s prior review. The initial procurement plan and subsequent updates will be published on the Bank’s external website in line with Bank’s requirements. All records pertaining to award of tenders, including bid notification, register pertaining to sale of bid documents and receipt of bids, bid opening minutes, bid evaluation reports and all correspondence pertaining to bid evaluation, communication sent to/with the Bank in the process, bid securities, and approval of invitation/evaluation of bids would be retained by the respective Agencies and will also be uploaded in the Systematic Tracking of Exchanges in Procurement (STEP). All Terms of Reference for the Project – independent of whether the specific procurement package is subject to the Bank’s prior or post review – and all updates of the Procurement Plan are subject to the Bank’s review and approval.

82. **The MOTR has the overall responsibility for procurement, while IPIG will carry out contract management.** This is identical to the arrangements and responsibilities under the on-going Bank-financed CARs-1. An update of the capacity assessment of the MOTR and IPIG to implement all procurement activities for the project was undertaken in September 2017 and reviewed the organizational structure, functions, staff skills and experiences, and adequacy for implementation of the project. As a result of considerable experience with prior and on-going Bank-financed projects, the MOTR and IPIG were assessed to be basically conversant with Bank procedures. Risk ratings and mitigation measures are described in paragraph 64.

#### **E. Social (including Safeguards)**

83. **Overall, the social benefits resulting from the Project are expected to be significant.** The Project area (Issyk-Kul oblast) has great potential to enable enhanced agribusiness, tourism, trade and economic links between the Kyrgyz Republic, the Republics of Kazakhstan and Tajikistan, as well as Russia and China thereby contributing to further social and economic integration of the region.

84. **Gender. There are large gender gaps in the labor force participation in the Kyrgyz Republic:** only 48 percent of females 15 years and above are involved in the labor force as compared to 76 percent of males in the same age category<sup>25</sup>. There is a pronounced occupational gender segregation in the labor market: most

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<sup>25</sup> World Bank Gender Data Portal, 2017.





of the employed women are concentrated in traditionally ‘female’ sectors of the economy, e.g. health and education, whilst a few are employed in sectors such as transport: only 5.2 percent of all employees in transport, storage and communication are female<sup>26</sup>. These figures are not surprising, as there remains a strong gender imbalance in certain fields of study, which influences labor market outcomes: females constitute 83.6 percent of students enrolled in higher education programs while about 25 percent of females are enrolled in engineering and construction programs. Women’s labor force participation in tourism and agriculture sectors is relatively high: 44 percent and 59 percent of all employees in the agriculture and tourism sectors, respectively, are women.

**85. Gender gap in employment in Issyk-Kul region is one of the largest in the country:** only 37 percent of women are employed in the region as compared to 63 percent for men<sup>27</sup>. The main economic sectors producing value added in the region are agriculture and services (including tourism), in addition to the Kumtor gold mine. Nearly half of the businesses in the hotel and tourism sector are owned by women. The high-level dependence of women’s livelihoods on tourism and agricultural sectors reinforces the importance of wider economic benefits the project will deliver to Issyk-Kul residents, especially to women.

**86. Given the prominence of women in the services sector in Issyk-Kul Oblast (e.g., growing, selling and preparing food and managing guest houses) an expansion of the tourism industry, as well as improvement of road transport, is likely to have beneficial impacts on female employment opportunities and female-managed businesses.** More specifically, the project will bolster female entrepreneurs through targeted outreach and awareness building of community-led initiatives, such as geopark development. Gender targeted engagement and consultation activities will take place when preparing the Sustainable Tourism Strategy to reflect gender specific interests, as well as to include specific approaches that address the constraints faced by women in the tourism sector. The project will monitor the number of women participating in geopark development in Tyup and Aksuu districts, with a target of 50 percent participation by women.

**87. Only 5.2 percent women are employed in the transport sector.** To address the high gender gap in the aviation sector, the project encompasses activities to increase the number of women trained within CAA’s training plan, which will increase the responsibility and accountability of women employed in the CAA (18 women out of 55 total staff). Moreover, to ensure the sustainable increase of women in the aviation sector labor force the project will train women (along with men) from the KAI (232 women out of 757 trainees and 40 women out of 75 trainers).

**88. The Results Framework includes sex-disaggregated indicators to monitor gender impact.** The Project design has been informed by numerous consultations carried out with the CAA, the KAI, the Tourism Department and the Issyk-Kul Oblast administration.

**89. The Project will engage beneficiaries through general and targeted outreach.** The effective Grievance Redress Mechanism (GRM) established under CARs-1 will be extended to the Project and includes pro-actively reaching out to communities to inform them about the Project and the GRM, and addressing questions, comments and concerns in a timely manner, which is monitored in the Results Framework. A more targeted engagement will take place through the development of the sustainable tourism strategy that requires the consultation of a range of stakeholders, including entrepreneurs and civil society in the spirit of UNESCO

<sup>26</sup> National Statistical Committee, 2016, Women and men in the Kyrgyz Republic, 2011-2015.

<sup>27</sup> Above.



Global Geoparks<sup>28</sup>.

90. **Land acquisition is expected to be avoided and impacts are expected to be minimal.** The proposed Project interventions are expected to take place on public land and within the existing rights-of-way and footprint. However, there is a possibility that works may require land for borrow pits, contractor works (operations area) and or a slight widening of the existing road or extension of the tourist information centers. Until the detailed designs are finalized, it will not be known whether or not any of these activities will occur, and if so, whether they will trigger OP/BP4.12. Therefore, the Recipient has prepared the Resettlement Policy Framework (RPF), which is acceptable to the Bank.

91. **Consultation and disclosure.** The draft RPF was disclosed in country on November 3, 2017 and in person consultations were organized with key stakeholders during November 9-11, 2017. The final RPF was disclosed in country ([www.piumotc.kg](http://www.piumotc.kg)) and on the Bank's Infoshop on February 21, 2018. As detailed technical designs are being completed during implementation, the IPIG Social Specialist will carry out social screening of all sub-Project sites to identify any impacts covered under OP/BP4.12. If, during Project implementation, it is determined that OP/BP4.12 is triggered, Resettlement Action Plan(s) will be prepared. All civil works contracts will include provisions to address environmental and social mitigation and monitoring during works. Labor influx is expected to be minimal given the scope of works and risks assessed and managed in accordance with OPCS Guidelines on temporary labor influx. A conflict filter was applied to the Project that indicated low to moderate risk in the Project area. Social risk rating is described in paragraph 67.

92. **Labor Influx and Gender-Based Violence (GBV).** The Project will follow the new Good Practice Note and guidelines on GBV and labor influx specifically for the road sector. Codes of conduct are to be followed which set clear boundaries for acceptable and unacceptable behaviors of all individuals and companies (including the contractor, consultants, sub-contractors, and their workforces) and specify sanctions, including for any incidents of GBV or sexual exploitation and abuse. During implementation, a GBV Risk Assessment, using the GBV Risk Assessment Tool developed by the Transport Global Practice, will be undertaken. To further monitor and address the risks, implementation support missions will focus on ensuring the project implementing agencies' capacity to prevent and respond to GBV.

93. **The Project will keep a focus on the quality of overall citizen engagement** through activities related to community-led development. The Project will pay special attention for capacity building of IPIG and related officials in maintaining priority for citizen engagement during Project implementation so as to attain wider impact at the community level. A beneficiary engagement information exchange mechanism will be developed to intensify links between citizen monitoring and information flows, reinforce constructive engagement, dialogue, strengthen women's voice and accountability, and build mechanisms to better reach marginalized groups, such as women and low-income citizens, specifically for activities included in Component 3.

## F. Environment (including Safeguards)

94. **The Project has been assigned the Environmental Category B – Partial Assessment in accordance with**

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<sup>28</sup> Although formal establishment of geoparks is a more long-term endeavor, the engagement will draw upon the UNESCO process. UNESCO Global Geoparks are established through a bottom-up process involving all relevant local and regional stakeholders and authorities in the area (e.g. land owners, community groups, tourism providers, local people, and local organizations). This process requires firm commitment by the local communities, a strong local multiple partnership with long-term public and political support, and the development of a comprehensive strategy that meets communities' goals while showcasing and protecting the area's geological heritage.



**the Bank's Operational Policy OP/BP4.01.** Most potential environmental impacts can be mitigated by good construction and housekeeping practices. The severity of potential environmental impacts is expected to be moderate and mostly limited to the construction period: (i) air pollution and noise from trucks and other construction machinery, and asphalt and batching plants; (ii) soil disturbance during earthmoving and material (gravel/sand/soil) extraction; (iii) tree-cutting and loss of other vegetation; (iv) generation and disposal of construction and domestic solid waste (from construction camps); (v) construction camp management (which will be temporary with only minor and localized negative effects); and (vi) borrow area management.

95. **In the Project's larger context, there are potentially other indirect, long-term adverse environmental impacts on the Issyk-Kul region, the Issyk-Kul Biosphere and the Lake.** After the rehabilitation of infrastructure (roads), traffic (light and heavy) is expected to increase, bringing tourists as well as cargo to the region, from the Kyrgyz Republic and through the Republic of Kazakhstan to China. The CARs-3 Project sites are in close vicinity of historic monuments (such as the stones of Temirlane) as well as the Issyk-Kul biosphere, which supports unique biodiversity. Two endangered and three vulnerable species (according to the Red List of Threatened species) are found in the protected areas and natural habitats close to the Project area. Some Project interventions, for example along the Tyup-Kegen road link are situated in close proximity to historic sites, as described in paragraph 97. Environmental risk rating is substantial and is described in paragraph 67.

96. **The Project will be implemented by MOTR through IPIG, which has a dedicated Environmental Specialist in place.** The IPIG Environmental Specialist will carry out environmental monitoring of all sub-project sites as well as ensure compliance with the national laws on environment as well as Bank policies, such as OP/BP4.01, OP/BP4.04 and OP/BP4.11. As the CARs-3 Project is multi-sectoral and includes subcomponents on aviation and tourism, preparation and implementation of environmental safeguards requires significant input and coordination from other agencies, which do not have prior experience in Bank safeguard policies.

97. **The Natural Habitat OP/BP 4.04 and Physical Cultural Resources (PRC) OP/BP 4.11 are triggered.** OP/BP 4.04 is triggered to ensure that any interventions in natural habitats and the areas in their immediate vicinity consider potential impacts and are fully harmonized and supportive of the habitat conservation goals. Site-specific ESMPs will be developed for sub-projects and will explain how conservation principles should be integrated into the design of each infrastructure rehabilitation project. OP/BP 4.11 is triggered as some of the project interventions (such as the Tyup-Kegen Road link) are located in close proximity to historic sites (such as the stones of Temirlane) which are registered as monuments of republican significance (the highest category in the monument and historic sites list in the country). Site-specific ESMPs will have a specific section on PCR management plan including: measures to ensure preservation of known PCRs and strengthening institutional capacity for their management (e.g., methods for asset protection such as access infrastructure, fencing, and signage).

98. **Consultation and Disclosure.** The MOTR has prepared a Draft Environmental and Social Impact Assessment (ESIA) and submitted it to the Bank on February 6, 2018 and subsequently on March 19, 2018, addressing comments from the Bank. In-person consultations with key stakeholders in Issyk-Kul region were held on April 24, 2018. The final draft ESIA was received by the Bank on April 26, 2018 and incorporated the minutes of consultation. The draft ESIA was disclosed in country on May 18, 2018 through MOTR's website ([www.piumotc.kg](http://www.piumotc.kg)) and at the Bank's Infoshop on May 17, 2018. The draft ESIA will be updated once the detailed designs are completed. The Environmental and Social Management Plan (ESMP) will be part of the civil works contracts and their implementation will be monitored by the MOTR and its IPIG.

## G. World Bank Grievance Redress



99. **Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project, as defined by the applicable policy and procedures, may submit complaints to existing project-level grievance redress mechanisms (GR) or the WB's Grievance Redress Service (GRS).** GRM should have specific procedures for GBV including confidential reporting with safe and ethical documenting of GBV cases. The implementation support missions will review that the GRM receives and processes complaints to ensure that the protocols are being followed in a timely manner, referring complaints to an established mechanism to review and address GBV complaints. The GRS ensures that complaints received are promptly reviewed to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred or could occur because of non-compliance with World Bank policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), one can visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, one can visit <http://www.inspectionpanel.org>.



**VII. RESULTS FRAMEWORK AND MONITORING**

**Results Framework**

COUNTRY: Central Asia

Third Phase of the Central Asia Regional Links Program (CARs-3)

**Project Development Objective(s)**

The project development objective of the proposed Third Phase of the Central Asia Regional Links Program (CARs-3 Project) is to increase regional connectivity and support sustainable tourism development in Issyk-Kul Oblast.

**Project Development Objective Indicators**

Indicator Name	DLI	Baseline 2019	End Target 2025
<b>Increase regional connectivity</b>			
Number of vehicles passing through the Karkyra border crossing point (Number)		7,000.00	8,500.00
<b>Increase regional connectivity</b>			
Compliance with aviation safety standards and recommended practices measured by USOAP reaches global ICAO average (Percentage)		47.00	55.00
<b>Support sustainable tourism development in Issyk-Kul Oblast</b>			
Change of community satisfaction with sustainable tourism (Percentage)		0.00	10.00



**Intermediate Results Indicators by Components**

<b>Indicator Name</b>	<b>DLI</b>	<b>Baseline 2019</b>	<b>End Target 2025</b>
<b>Regional Connections, Associated Facilities and Equipment in Issyk-Kul Oblast</b>			
Kilometers of roads rehabilitated in Issyk-Kul Oblast (Kilometers)		0.00	52.00
<b>Regional Connections, Associated Facilities and Equipment in Issyk-Kul Oblast</b>			
Road maintenance equipment in use (Yes/No)		No	Yes
<b>Aviation Safety and Service Provision</b>			
Software and hardware is in use by CAA for record-keeping (Yes/No)		No	Yes
<b>Aviation Safety and Service Provision</b>			
Percentage implementation of CAA training plan as measured by ICAO USOAP (Percentage)		0.00	85.00
Percentage of women participating in CAA training plan (Percentage)		2.00	15.00
<b>Aviation Safety and Service Provision</b>			
Facilities and curriculum improvements are made to the Kyrgyz Aviation Institute (Yes/No)		No	Yes
<b>Aviation Safety and Service Provision</b>			
Flight training device operational (Yes/No)		No	Yes
<b>Sustainable Tourism Development in Issyk-Kul Oblast</b>			
Sustainable Tourism Strategy for Issyk-Kul Oblast developed (Yes/No)		No	Yes
<b>Sustainable Tourism Development in Issyk-Kul Oblast</b>			
Tourism Satellite Accounts established for Issyk-Kul Oblast (Yes/No)		No	Yes



Indicator Name	DLI	Baseline 2019	End Target 2025
<b>Sustainable Tourism Development in Issyk-Kul Oblast</b>			
Number of beneficiaries participating in community-led tourism development in Tyup and Aksuu districts (Number)		0.00	500.00
Number of women beneficiaries participating in community-led tourism development in Tyup and Aksuu districts (Number)		0.00	250.00
<b>Sustainable Tourism Development in Issyk-Kul Oblast</b>			
Number of Tourist Service Centers constructed or rehabilitated (Number)		0.00	5.00

**Monitoring & Evaluation Plan: PDO Indicators**

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Number of vehicles passing through the Karkyra border crossing point		Mid-term and at the end of the project	State Customs Service	The total number of vehicles crossing through the Karkyra Border crossing each calendar year in both directions (from Kyrgyz Republic to Kazakhstan and from Kazakhstan to Kyrgyz Republic).	MOTR and its IPIG with support from the State Customs Service
Compliance with aviation safety standards and recommended practices measured by		Mid-term and at the	Civil Aviation Agency, ICAO	The percentage compliance of critical	MOTR and its IPIG with support from the Civil



USOAP reaches global ICAO average		end of the project		elements is based on a comprehensive checklist (satisfactory/not satisfactory) developed by ICAO, covering all elements of the safety oversight system as recorded in the audit protocol of the USOAP in the given year.	Aviation Agency
Change of community satisfaction with sustainable tourism		Baseline and end of the project	Surveys of Residents	Surveys to be conducted on randomly selected residents (sample size: 1,000 residents) in all major tourism zones around the Issyk-Kul lake during both peak and non-peak tourism periods (summer and winter). Surveys must ask the respondents' gender. Resident satisfaction could be measured using a 7-point Likert scale (1: strongly disagree; 2: disagree; 3: disagree somewhat; 4: neutral; 5: agree somewhat; 6) agree; 7) strongly agree) in the questionnaire,	MOTR and its IPIG with support from the Tourism Department





				<p>asking 8–10 survey items (economic, institutional, ecological and socio-cultural statements) to measure each dimension of tourism sustainability. Survey instruments should be consistent for baseline and project years. Survey results will be the average of the two measurements (winter and summer).</p>	
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**Monitoring & Evaluation Plan: Intermediate Results Indicators**

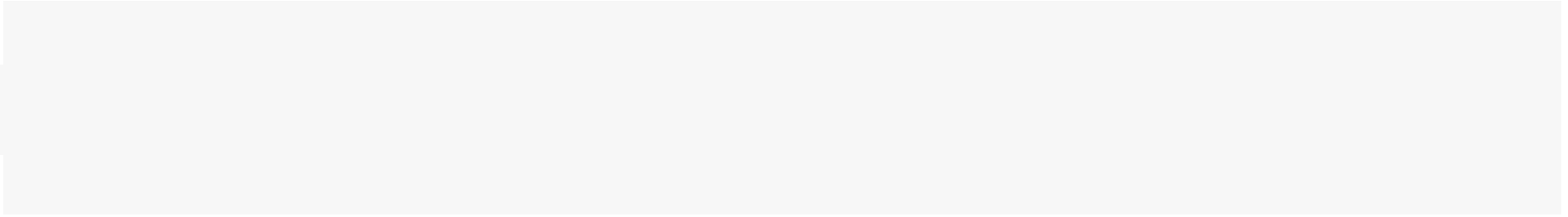
Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Kilometers of roads rehabilitated in Issyk-Kul Oblast		Annual	Project Progress Reports	Data will be collected from Monthly Supervision Reports, recording the current status of civil works implementation.	MOTR and its IPIG
Road maintenance equipment in use		Mid-Term and at the end of the project	Project progress report	Handing over of the road maintenance equipment means as recorded in the balance sheet of the	MOTR and its IPIG



				responsible agency.	
Software and hardware is in use by CAA for record-keeping		Mid-Term and end of the Project	Civil Aviation Agency	N/A	MOTR and its IPIG with support from Civil Aviation Agency
Percentage implementation of CAA training plan as measured by ICAO USOAP		Baseline and End of Project	ICAO USOAP	This is based on the ICAO Audit which establishes ICAO standards implementation rate of the country.	MOTR and its IPIG with support from Civil Aviation Agency
Percentage of women participating in CAA training plan		Baseline and end of the Project	ICAO USOAP	This is based on the ICAO Audit which establishes ICAO standards implementation rate of the country.	MOTR and its IPIG with support from the Civil Aviation Agency
Facilities and curriculum improvements are made to the Kyrgyz Aviation Institute		Baseline and end of the Project	Kyrgyz Aviation Institute	N/A	MOTR and its IPIG with support from the Kyrgyz Aviation Institute
Flight training device operational		At the end of the project	Project progress reports	N/A	MOTR and its IPIG with support from the Kyrgyz Aviation Institute
Sustainable Tourism Strategy for Issyk-Kul Oblast developed		Mid-Term and end of the Project	Department of Tourism and Issyk-Kul	N/A	MOTR and its IPIG with support from the



			Oblast Administration		Department of Tourism
Tourism Satellite Accounts established for Issyk-Kul Oblast		At the end of the project	Project progress reports	N/A	MOTR and its IPIG with support from the Department of Tourism
Number of beneficiaries participating in community-led tourism development in Tyup and Aksuu districts		At the end of the project	Project progress reports	Collection of data from Issyk-Kul Local Administration (Tyup and Aksuu Districts) on the number of residents participating in the development process of community-led geoparks.	MOTR and its IPIG with support from the Department of Tourism and Issyk-Kul Oblast Administration
Number of women beneficiaries participating in community-led tourism development in Tyup and Aksuu districts		At the end of the Project	Project progress reports	Collection of data from Issyk-Kul Local Administration (Tyup and Aksuu Districts) on the number of residents participating in the development process of community-led geoparks.	MOTR and its IPIG with support from the Department of Tourism and Issyk-Kul Oblast Administration
Number of Tourist Service Centers constructed or rehabilitated		Annual	Project progress report	N/A	MOTR and its IPIG with support from the Department of Tourism





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