



Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 22-Jul-2016 | Report No: PIDISDSC17197



BASIC INFORMATION

A. Basic Project Data

Country Central Asia	Project ID P159220	Parent Project ID (if any)	Project Name Central Asia Regional Links Program - Phase 3 - Kyrgyz Republic (P159220)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date Feb 20, 2017	Estimated Board Date Sep 01, 2017	Practice Area (Lead) Transport & ICT
Lending Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency Ministry of Transport and Roads	

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Financing (in USD Million)

Financing Source	Amount
Borrower	12.00
International Development Association (IDA)	31.00
IDA Grant	29.00
Total Project Cost	80.00

Environmental Assessment Category

B-Partial Assessment

Concept Review Decision

Track II-The review did authorize the preparation to continue

Other Decision (as needed)

Transfer of clearance functions to Practice Manager TBD

B. Introduction and Context

Country Context

Regional Context: The Central Asia region, including the Republics of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, is undergoing a rapid transformation. While economic growth in the five republics has been fueled by strong exports since the 2000s, it is at a two-decade low, owing to the large and sustained decline in commodity prices, wide-ranging spillovers of Russia’s recession, and the slowdown and rebalancing of China’s economy. Fiscal and external balances have deteriorated and financing costs have risen. Although currency weakening and fiscal easing have helped to mitigate the impact of these shocks, inflation and financial sector vulnerabilities have increased, in some cases exacerbated by policy uncertainty. Supporting economic activity in the near term while ensuring debt sustainability over the medium term is expected to boost economic prospects, improve competitiveness and create jobs.



A review of Central Asia's trade links with the rest of the world shows, broadly speaking, that the region exports primary products, in particular oil and gas, and some manufactured goods in return for imports of manufactured goods, machinery, and transport equipment¹. However, there is considerable diversity among the individual countries. Thus, fuel exports predominate by far in Kazakhstan and Turkmenistan. In contrast, manufactured exports are relatively more important in Tajikistan (mostly processed aluminum) and to a lesser extent, in the Kyrgyz Republic and Uzbekistan. While the majority of exports from the Central Asian countries are intensive in natural resources and unskilled labor, a significant proportion of exports from the Kyrgyz Republic and Uzbekistan are intensive in skilled labor and capital. At the same time, the share of services in Gross Domestic Product (GDP) is rising sharply in all five countries, accounting for between 35 percent (Turkmenistan) and 55 percent (Kyrgyz Republic and Kazakhstan).

Despite the widening gap in economic development between countries, the Governments in the region face similar development challenges to connect peripheral areas with regional and global economic centers of activities. While Central Asia is one of the least globally connected regions of the world, some disadvantages of being landlocked can be at least partially alleviated by developing institutional and physical infrastructure which connects to regional and global markets. This however requires closer regional cooperation among the countries of Central Asia and with countries neighboring the region. Temporary closure of all border crossing points at the Kazakh-Kyrgyz border in the past has reportedly resulted in a disruption of economic activity. For example, the Government of the Kyrgyz Republic estimates a decline in exports of about US\$0.4 billion (or 5 percent of 2010 GDP), notably affecting the agricultural, clothing and construction material industries when the Kazakh border was unilaterally close in April 2010².

Increasing connectivity of people and businesses to local and global services, markets and opportunities across borders is a priority of current policies and investments of the governments of the Central Asian Republics. This agenda is also at the core of the support intended by the World Bank and other development partners. Support towards these objectives has been underway for several years, for example via investments in connector infrastructure and upgrades of energy networks. Efforts to rehabilitate six strategic transport corridors in the Central Asia region have been spelled out in the on-going Transport and Trade Facilitation Strategy and Action Plan for 2008-2017 and endorsed by Central Asia Regional Economic Cooperation (CAREC). Within CAREC, medium-term priority projects in the transport sector to be implemented during the period from 2011-2015 have obtained financing in the amount of US\$15.5 billion from development partners and governments. Additionally, within the framework of CAREC, countries of Central Asia are working together on improving border crossing facilities under the Asian Development Bank (ADB) -financed Regional Improvement of Border Services (RIBS) Project (approved in April 2013).

Country Context Landlocked, largely mountainous, with a multi-ethnic population of about 5.8 million and a Gross National Income (GNI) per capita of US\$1,250 in 2014 (Atlas methodology), the Kyrgyz Republic is a lower middle income country and one of the poorest countries in the Europe and Central Asia region where workers' remittances represent by far the most important financing flow in the country's balance of payment³. Due to its elevation and topography, barely 7 percent of the land is arable, the rest consisting of glaciers, mountains, and pastureland or steppe that support livestock grazing⁴. The Kyrgyz economy's rate of growth has been volatile reflecting its reliance on a few sectors (gold production concentrated in Kumtor mine as well as re-exports) as well as numerous domestic and external shocks, including two revolutions since 2005. As productivity lags, growth continues to rely on large-scale capital spending and an abundant supply of labor. Despite progress in improving infrastructure and energy reliability, significant gaps remain as poverty is high (about 80 percent of the population lives below US\$5 a day), with large differences in development across regions. Still nascent institutions, frequent changes in government, a challenging business environment as well as a sizable informal economy⁵ further hamper economic development.



In this country context, diversifying the economy and maximizing benefits from the Eurasian Economic Union (EEU) accession is of high priority to the government of the Kyrgyz Republic. However, the asymmetry in the economic size of the EEU member states⁶ makes it more difficult to reap the full benefits of the customs union and enhanced economic integration. As a result, the Kyrgyz government has been identifying measures to mitigate short-term negative effects, including securing transition periods to EEU common external tariff (CET) rates up to 2019 for about 1,500 products (including food products, cars, and machinery) out of about 6,400 commodities, for which the Kyrgyz's current tariffs are lower. Also, the government has been modernizing the existing test laboratories to meet the EEU sanitary and veterinary requirements. In connection with EEU membership, the Kyrgyz Republic has obtained a Russian grant of US\$200 million to help it meet the EEU requirement of customs and border controls as well as a pledge of US\$1 billion through the Russian-Kyrgyz Development Fund (RKDF). The latter is expected to mitigate the short-term negative impact of EEU accession by contributing to growth⁷.

Going forward, real GDP in the Kyrgyz Republic is projected to be between 3.1 (2017) and 6.0 (2020)⁸, expected to be largely driven by efficiency of public spending, diversification of the economy and development of the private sector. Growing regional integration and improved infrastructure are seen to support the growth of the country's vibrant, but largely informal, trade and transit sector. The current government's National Sustainable Development Strategy (NSDS) 2013-17 focuses on investments that further integrate the country with markets in other Central Asian countries, Russia and China while supporting local development, including the development of trade and tourism, especially in Issyk-Kul Region (Oblast). The NSDS recognizes that achieving sustained economic development in the Kyrgyz Republic will require improvements in connectivity by addressing supply-side constraints in relation to growth potential of sectors such as tourism, transport, agro-processing and cross-border commerce. The development of the transit transport capacity of the country is seen as a priority, in particular the so-called "Central Asia Road" which starts at the border with the Republic of Tajikistan, passes through the newly constructed North-South alternative road and exists at Karkyra border crossing point with Kazakhstan providing the shortest route to Siberia. Improvement of the Tyup-Karkyra border crossing road link with Kazakhstan, aviation safety and international and domestic air traffic expansion are listed in the priority action plan of NSDS.

International tourism and agribusiness for export have important growth prospects for jobs, economic development and diversification of the economy and reduction of poverty levels in the country which fluctuate around a rate of 32 percent each year. While there are some data limitations, tourism is estimated to contribute to only 4.8 percent of GDP, with over US\$ 20 million in foreign direct investments into the country and about 3.075 million visitors (2013), 95 percent from Central Asia (mainly Kazakhstan) and Russia, mostly visiting Lake Issyk-Kul, the second largest mountain lake in the world. While international experts estimate the sector's growth potential to be six-fold due to the country's position on the Silk Road, its unique mountainous landscapes and resorts, rich cultural heritage, winter sports and thermal spa resources. The job generation of the sector and its linkages to other economic activities such as agribusiness has high potential, yet is underdeveloped. , the 2015 Travel and Tourism Competitiveness Index of the World Economic Forum (WEF) confirms low sector competitiveness with a rank of 116 out of 141 countries. The agriculture sector remains the primary activity for employment in rural areas (on average 46 percent of the working force), including Issyk-Kul Regions where the indicator is 50 percent. The agricultural sector and in particular the development of agribusiness for export is of high priority for the Government, as established in the National Sustainable Development Strategy and in its National Export Strategy where fruits and vegetables, dairy products, meat products are the top 3 goods for export.

Sectoral and Institutional Context

Increasing connectivity of people and businesses to local and global services, markets and opportunities across the borders requires removing physical and institutional bottlenecks on the supply side. While the government has made efforts to improve

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the main road network in the country, with particular emphasis on the north-south axis linking the Republic of Tajikistan with Kazakhstan and further on Russia through Batken, Osh, Kazarman to Balykchy, the state of the infrastructure is generally poor (see Annex 1: Map). International air connectivity is still limited and concentrated in a few destinations with about 40 percent of all international seats belong to air services from Bishkek and 40 percent from Osh. About 80 percent of all international seat supply is allocated to Russian destinations (Moscow, Novosibirsk, Ekaterinburg, St. Petersburg), 12 percent to Turkey (only Istanbul), and China, India and UAE, among others, with less than 5 percent. Meanwhile, supply to regional destinations is limited, with Central Asian countries accounting for about 9 percent of the international seat supply.

The part of the network that remains to be rehabilitated is the Issyk-Kul ring road as well as the road link from Tyup to Karkyra border crossing point with Kazakhstan which has estimated average annual daily traffic (AADT) of about 1,000-1,500 vehicles in summer but is closed during winter (October-May)⁹. Part of the former is currently rehabilitated using funds from the Government's budget while additional financing is being discussed with China Exim Bank. Those links are included in the six strategic road corridors which carry the majority of the traffic and form about 4,163 kilometers (international roads) of the republican road network under the jurisdiction of the Ministry of Transport and Communications (MOTC). Several development partners, including the World Bank are providing support to the road sector focusing on sustainability and maintenance¹⁰.

In addition to addressing physical bottlenecks of the road network, air connectivity is in need of improvement due to long distances as well as climatic conditions as it represents the most reliable connection, especially in winter. Out of the 4 international airports in the country (Manas, Osh, Karakol, and Tamchy), the two located in Issyk-Kul Region (Karakol and Tamchy) require rehabilitation and upgrading as set out in the "Strategy for the Development of Civil Aviation, 2013-2020. After 2000, the organizations in charge of the operation and management of the aviation sector were unbundled into airports, air navigation and civil aviation. The Civil Aviation Agency under the MOTC is responsible for policy making, regulations, air safety, and technical inspection and licensing. Manas Joint Stock Company (JSC) is 80 percent owned by the government and is managing all airports in the country (11 airports, including the 4 international airports). An independent entity (Kyrgyzaeronavigatsia) is entrusted with the provision of air navigation system (ANS) services. Whereas some upstream markets are operated under monopolistic conditions (e.g. ground handling), all charges and fees for airport, navigation and also ground handling services are monitored and regulated by the Antimonopoly Agency. A new Air Code with the support of international donors has recently been enacted, yet new bylaws (Aviation Rules) are still to be implemented. The country has adopted a flexible approach towards liberalization of 5th freedom rights, in an attempt to attract foreign carriers.

Aviation safety remains a critical constraint for air connectivity. The European Aviation Safety Agency (EASA) performs, among other things, frequent safety checks on airlines that operate in European airports. Kyrgyz carriers have been blacklisted by the EU, meaning that no commercial airline registered in the country is allowed to fly into EU airports. The International Civil Aviation Organization (ICAO) also performs periodic audits to determine if civil aviation authorities are able to enforce international safety standards. ICAO's recent Universal Safety Oversight Audit (USOA), conducted in February 2016, exposed significant deficiencies in the Civil Aviation Agency's oversight and enforcement capabilities in safety related matters. In order to address this problem, institutional strengthening and capacity building actions to support CAA will be required, together with legislative and regulatory changes. Removing the country from the blacklists will contribute to grow not only regional connectivity, but also the hospitality industry.

Despite the laudable achievements and progress in improving transport infrastructure reliability, the investments have not always reached full potential of further market integration and economic development at the regional level. A more comprehensive approach addressing supply-side constraints of key sectors of regional importance is needed, such as for example international tourism and agribusiness for export. Institutional and policy measures to improve market access and sector productivity are manifold. The low competitiveness of the Kyrgyz Republic in the Travel and Tourism Competitiveness Index of the WEF (2015) indicates several supply-side constraints for tourism to develop further, including (i) inconsistent availability and quality of

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tourism infrastructure such as lodging, food and beverage businesses, local transport and touring facilities/amenities; (ii) limited success in attracting FDI, which not only brings capital but industry know-how and best practices; (iii) high cost and limited access to finance especially for SMEs; (iv) low level of skills, training and standards for skilled positions such as in accommodation accounting and operations areas, food preparation and sanitation, and mountain/historical site guides, (v) lack of sector statistics reflecting supply and demand and related economic activity gaps in a standardized reporting format; and (vi) inadequate marketing, promotion and capacity to collaborate effectively and gain benefits in these areas such as through regional Silk Road tourism initiatives with UNWTO¹¹. Within this framework, an initiative to harmonize visa regimes for travelers (such as one single visa for all Central Asian countries) would bring substantial regional spill over. Public sector efforts to support and promote the national tourism sector are led by the Department of Tourism in the Ministry of Culture, Information and Tourism (MCIT)¹².

While the accession to the EEU should have set some investment incentives in motion, a series of supply-side constraints have perpetuated underinvestment by market agents and primary producers in agribusiness. In order to improve export competitiveness of agricultural goods, such constraints to primary producers¹³ need to be tackled in tandem to the more systemic market failures (e.g. insufficient access to finance). As a first priority, the establishment of internationally certified laboratories (public as well as private) will help improve quality and overcome trade barriers¹⁴. Secondly, the country will have to adapt its production (and institutions in support of that production) to the shifting market parameters. In support of agro-export objectives, both soft and hard trade infrastructure will need to be provided by a range of government institutions, including the Ministry of Agriculture, the State Inspectorate on Veterinary and Phytosanitary Safety, the Ministry of Economy and its Investment Promotion Agency amongst others.

Issyk-Kul Region is particularly reliant on agricultural production, which employs approximately 50-60 percent of the population (compared to the 32 percent national average). At the same time agricultural commercialization in Issyk-Kul Oblast has historically been characterized by commodity type trading. The potential for high value agricultural produce has attracted several foreign private investors who are at various stages of considering and/or implementing their ventures. These investors are seeking to partner with local associations and producers, which will act as suppliers to the anchor investments. To date, an analysis of agricultural produce is needed to reveal the globally strategic business segments where the best opportunities for investment exist. Agricultural enterprises also still lack experience and capacity to engage in international markets as can be observed through some substantial price differentials for agricultural products across even small geographies. These price differentials reveal a lack of tradability for these products, which are in part due to the lack of cold chain, imperfect market information, a lack of coordination between low-capacity market actors, high freight forwarding costs, tariffs and non-tariff barriers. Agricultural output organizers (e.g., agri-processors, aggregators and traders) in Issyk-Kul Region have limited experience in marketing produce outside the immediate geography. Most producers are not able to even make it so far as the market in Bishkek. Steps to improve the capacity of agribusiness to market their product, to access finance and to mitigate risks faced by firms, banks, and middle-men are needed to improve the productivity of the sector.

Relationship to CPF

The proposed Third Phase of the CARs program (CARs-3 project) is in line with the current Country Partnership Strategy (CPS FY 14-17), which supports improving national and regional connectivity, promoting financial and private sector development, increasing the efficiency and competitiveness of agri-business. A recent Performance and Learning Review of the current CPS



proposes several adjustments to the CPS, such as: a) promoting private sector-led growth through renewed emphasis on competitiveness; b) making the most of EEU membership, and c) promoting regional cooperation initiatives. The proposed approach of CARs-3 project is fully in line with the current CPS and all 3 adjustments proposed to it. The proposed CARs-3 project is expected to be delivered as part of the new CPS (FY18-20) which is at the initial stages of preparation.

C. Proposed Development Objective(s)

The development objective of the proposed Third Phase of the Central Asia Regional Links Program (CARs-3) is to increase regional connectivity of Issyk-Kul Oblast by removing physical and institutional bottlenecks to expand market opportunities for trade and tourism.

Key Results (From PCN)

Progress towards achievement of the Project Development Objective will be measured through the following key indicators: a) Volume of traffic, both passenger and freight through Karkyra border crossing point (BCP) as a result of: (i) improved road infrastructure; and (ii) turning Karkyra BCP into a year-round multi-lateral BCP; b) Number of tourists arriving to Issyk-Kul Region by air through Karakol and Tamchy airports; c) Compliance with corrective action plan agreed with ICAO to improve aviation safety; d) Tourism revenue contribution for the Issyk-Kul Gross Regional Product; e) Exports (agro-business) from Issyk-Kul oblast by destination as well as (f) a road safety audit for road sections to be rehabilitated under the proposed project. Additionally, as described below (Project Context), periodic surveys on the experience of tourists are expected to be undertaken as part of project activities. If feasible a related indicator could track satisfaction disaggregated by gender.

D. Concept Description

The Central Asia Road Links Program (CARs) is a regional, multi-phase program developed as a result of collaborative efforts initiated by respective governments in the Central Asia region. The program's objective is to increase transport connectivity between neighboring countries in Central Asia along priority cross-border transport links whilst supporting improvements in transport operations and maintenance practices. The proposed Third Phase of the CARs program (CARs-3 project) will prioritize transport connections between Issyk-Kul Oblast in the Kyrgyz Republic and Almaty Oblast in Kazakhstan and onwards to Russia, China and other neighboring countries, thereby supporting the creation of an integrated economic region across borders. Improvements in transport operations and maintenance practices under the proposed CARs-3 project will focus on international safety standards in the aviation sector as well as a road safety audit (potentially complemented by activities to be financed under a GRSF grant); thereby complementing CARs-1 project activities (see Annex 2 for program overview).

The proposed CARs-3 project will go beyond the objectives of the CARs program to include improvements in the competitiveness of key sectors of regional importance, namely international tourism and agribusiness for export. As such it is multi-sectoral in nature, addressing some of the main constraints for further integration of Issyk-Kul oblast with neighboring regions (Almaty) and countries as well as supporting sustainability and safety measures in the sector. The proposed project is expected to have significant local benefits in terms of economic activation in the Oblast with substantial regional spillovers, in particular Almaty Oblast given existing ties in terms of trade as well as tourism. It is also seen by the Government as a demonstration pilot project in the area of tourism and agribusiness with lessons to be learned for other regions in the country. The components of the proposed CARs-3 project will focus on the Kyrgyz Republic and are proposed to include:

Component 1: Rehabilitation of connector transport infrastructure of regional importance (estimated cost US\$ 65-70 million)



This component is proposed to finance improvement of road infrastructure along Tyup-Karkyra road section and aerodrome infrastructure and equipment at Karakol and Tamchy international airports and related consultants' services (construction supervision). In particular, it is proposed to finance: (a) **Rehabilitation of about 37 km of road section along Tyup-Karkyra road section** (kms 39.6-76) to the Kyrgyz-Kazakh border, including installation of fiber optic ducts to "share infrastructure" and therefore improve broadband connectivity with Kazakhstan. At present, tourists and goods with destination to/from Almaty are travelling through Bishkek, a 680 km long journey. The route via Tyup-Karkyra road section joining the Western Europe-Western China International Road Corridor in the Republic of Kazakhstan is less than 300 km reducing journey time substantially. Based on the upcoming results of the piloting of Service Level Agreement in Batken Oblast under CARs-1 project, it is proposed to implement SLA method under the proposed CARs-3 project to improve road maintenance practices in the project area. Snow and wind barriers and potentially an elevated road formation (in particular from km70-76) will be considered during the finalization of the designs in order to ensure climate resilience and to reduce winter maintenance costs along Tyup-Karkyra required to snow removal. 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. In addition, an application for a grant from the Global Road Safety Facility (GRSF) is planned to be prepared to provide additional assistance to MOTC along road safety dimensions of education, enforcement and emergency response¹⁵. (b) **Rehabilitation of Karakol International Airport** to a minimum operating condition, and, contingent on the results of a detailed feasibility study, expand the runway's current bearing capacity and length as well as air navigation solutions and air traffic control (ANS/ATC) facilities and equipment; and (c) Construction of a **new passenger terminal and associated landside works for Tamchy Airport**. While Karakol airport traffic remains negligible (less than 1,000 passengers per year), Tamchy airport traffic grew from 443 passengers in 2008 to 5,000 in 2014 (and 10,000 in 2015) – or 52 percent compound annual growth rate (CAGR). At the same time, the number of tourists visiting Issyk-Kul Region quadrupled from 483,000 to about 2 million (2008-2014). Infrastructure (runway strip taxiways 1 and 2 and an apron) as well as air navigation systems and air traffic control (ANS/ATC) facilities and equipment at Karakol airport is in need of rehabilitation and upgrading as it currently only serves general aviation traffic and small charter aircraft. In Tamchy airport, the second airport in Issyk-Kul Oblast, recent efforts have been taken to complete two out of the three phases of reconstruction which will allow the aerodrome to expand its operating hours to 24 hours and allow landings under adverse weather. A third modernization phase will encompass the construction of a new passenger terminal, as the current one can only be expanded partially – for which financing options are being sought.

Component 2: Institutional and Policy Measures for Better Market Access and Competitiveness (estimated cost US\$ 5-10 million)

This component is proposed to finance various measures in aviation, international tourism, and agri-business to improve market access and increase competitiveness. Financing for the accomplishment of institutional and policy measures could be sought through traditional investment lending (such as technical assistance and institutional capacity components) and/or through results-based financing. If the latter is chosen, the activities will ideally be complemented by technical and capacity support components, preferably financed by grant funds. In particular, it is proposed to finance: (a) Support towards the **enactment of Aviation Rules and derived regulations; training of inspectors in critical safety areas and acquisition of IT tools** (digitizing of procedures, personnel records, and for accident investigation purposes) for monitoring and oversight purposes; (b) Support towards **Small and Medium Enterprises (SMEs) in the area of agri-business for exports and international tourism in accessing enabling inputs**. In particular, this could include funds for Business Development Services (BDS) that would assist eligible SMEs to develop business plans for accessing funds (either subsidized credit being offered by the RKDF or others, or an IDA-backed credit line for SMEs potentially using a Partial Credit Guarantee or the IFC's Risk Sharing Facility); (c) Support towards **developing a quality controlled brand for the region**. Activities may particularly focus on the operational roll-out of international lodging/services classification (stars system for accommodation) and certification systems for products (organic food products, halal certification system); (d) Support towards a **workforce readiness and skills development program for tourism SMEs and/or exporters of agricultural produce** in the Issyk-Kul Region. Such a program would help improve skills in how to conduct cross-



border transactions, utilize logistics providers to deliver on time and with quality for exporters and improve services in the tourism sector; and (e) Support towards **sector performance measurement and establishment of service quality in tourism**, including active participation in UN World Tourism Organization (UNWTO) as part of the Silk Road regional tourism development initiative. This would support the development of adequate service quality policies, standards and systems to track and monitor tourism’s economic activity with a view to attract investments, informing promotion and fueling sustainable growth. Periodic surveys on the experience of tourists (lodging certification system and quality or the user-friendliness of airports) will provide information for decision-makers and help monitor improvements¹⁶.

Component 3: Project Management (US\$1 million)

This component is proposed to finance project management costs of the implementing agency related to staffing, consultancies and equipment costs, monitoring and evaluation, training and financial management including internal and external financial audits.

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SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The proposed CARs-3 project is located close to Lake Issyk-Kul, which is the second-largest alpine lake in the world. Its saline water does not freeze even during winter when temperatures are around -25°C or even lower. Issyk-Kul Region, which in area makes up around 20 percent of the Kyrgyz territory has a population of less than 500,000, the vast majority of whom live around the lake’s shores in particular in the cities of Balykchy near the lake's western end, and Karakol near its eastern end. The first nature reserve in Kyrgyzstan, Issyk-Kul State Reserve was established in 1948 to protect unique nature landscapes and waterfowl at Issyk Kul Lake. The lake is also a Ramsar site of globally significant biodiversity and forms part of the Issyk-Kul Biosphere Reserve. The lake is also believed to contain highly endemic fish biodiversity and some of the species are seriously endangered.

Considering the proposed project scope, the impacts of activities under component 1 are generally limited to mostly rehabilitation of existing infrastructure (aside from the new terminal within airport premises), the project ESIA will cover all project activities with special attention paid to potential indirect impacts. The severity of potential 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, and (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. Other activities under component 2 are yet to be detailed during project preparation. In relation to the installation and operation of air navigation solutions, air traffic control and enactment of rules and regulations, the project will adopt standards of good international industry practice for safety and environmental protection. If component 2 involves any financing of SMEs, the project will prepare an ESMF commensurate with the level of risk and develop a negative list to ensure screening of environmental and social impacts of supported SME activities against category A-type activities.

B. Borrower’s Institutional Capacity for Safeguard Policies

The Ministry of Transport and Communications (MOTC) with support from the Investment Project Implementation Group (IPIG) are currently implementing CARs-1 project. Therefore, they have prior experience to address environmental and social safeguard issues and prepare Environmental Impact Assessments (EIAs) and Resettlement Policy Frameworks (RFPs) and Resettlement Action Plans, as well as capacity in implementation of such plans. The IPIG has one environmental safeguards consultant and one social development consultant. Their professional qualification and practical experience in addressing environmental and social safeguard issues are considered to be adequate to handle safeguard policy under the project. The EIA with EMP will be prepared by the MOTC for the proposed project.

C. Environmental and Social Safeguards Specialists on the Team

Javaid Afzal, Rebecca Emilie Anne Lacroix

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
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Environmental Assessment OP/BP 4.01	Yes	The project will apply the following instruments: (i) ESIA (including ESMP) for component 1 activities, (ii) TOR for the aviation rules and regulations which are recommended to reference the World Bank Group Environment, Health and Safety Guidance, and (iii) potentially ESMF for SME support facility (to be confirmed).
Natural Habitats OP/BP 4.04	TBD	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	TBD	The necessity will be assessed after sub-component on support to SME will be finalized.
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	Yes	<p>While most of the road rehabilitation works will take place within the existing right-of-way, some of the proposed investments at Karakol airport may require land acquisition and, consequently, triggering of OP 4.12. An initial screening for impacts of all proposed investment sites (as of April 2016), indicated the following:</p> <p>Tyup-Karkyra border crossing road link: The proposed investment concerns rehabilitation of a road section within the existing right-of-way (RoW) only. Screening of the entirety of the road section indicated that there seems to be no affected structures within the RoW and no cultivated or grazing land would be impacted. The few businesses (kiosks) located along the way would benefit from increased traffic. It would also improve access to services for the two villages along the way, particularly during the winter months. The land the road passes through is mostly pasture land used for grazing (cattle, sheep and horses). Increased traffic might pose increased risks and would need to be mitigated with signage, speed limitations and other road safety measures.</p> <p>Other Connector Transport Infrastructure: The proposed investments at Tamchy airport concern construction of the new passenger terminal and associated landside work. The investments would take place within the fully fenced area of the airport and no land acquisition or impacts associated with OP 4.12 are therefore anticipated. Karakol airport is currently only used sporadically. The proposed investments concern several options, including the</p>

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extension of the runway for use by larger commercial aircrafts. While the current airport is fully fenced in and presents no risk of informal occupancy, a potential expansion and/or relocation of the runway would require land acquisition. Initial discussions indicated this may impact a nearby road and irrigation canal, as well as some adjacent irrigated land, including the acquisition of about 15 hectares of land which is reportedly owned by the municipality (40%), by the adjacent rayon with use by individuals (50%) and a vocational school (10%). The land is supposedly poorly irrigated and not suitable for cultivation. Visual inspection indicated the land is used for crops and fodder.

Based on the initial screening, should the investments extend beyond the fenced in, state-owned, land of Karakol airport, land acquisition would be required. Provided technical designs for the Karakol runway are ready prior to appraisal, the Borrower will need to prepare a site-specific Resettlement Action Plan. Should technical designs not be ready for appraisal, the Borrower will prepare a Resettlement Policy Framework, and prepare a Resettlement Action Plan, if applicable, once designs are ready. As part of project preparation, additional information on the specific status of the impacted land around Karakol airport would have to be collected.

To identify any impacts covered under OP 4.12 beyond the airport at Karakol, screening will be carried out by the MOTC/IPIG during preparation and implementation stages, as part of the preparation of the EIA.

Safety of Dams OP/BP 4.37	No
Projects on International Waterways OP/BP 7.50	No
Projects in Disputed Areas OP/BP 7.60	No

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Jan 16, 2017



Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

Safeguard-related studies such as the Environmental Impact Assessment and Resettlement Policy Framework are due by Decision Meeting (January 2017).

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APPROVAL

Task Team Leader(s):	Cordula Rastogi
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Approved By

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