



# Project Information Document (PID)

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Concept Stage | Date Prepared/Updated: 02-May-2019 | Report No: PIDC26887

**BASIC INFORMATION****A. Basic Project Data**

Country Kyrgyz Republic	Project ID P167428	Parent Project ID (if any)	Project Name Local Integrated Development Project (P167428)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date Oct 01, 2019	Estimated Board Date Feb 05, 2020	Practice Area (Lead) Social, Urban, Rural and Resilience Global Practice
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency Ministry of Economy	

**Proposed Development Objective(s)**

The PDO is to support the GoKR to improve local and regional infrastructure and assets, strengthen market linkages and enhance institutional capacity in the participating regions and cities.

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

<b>Total Project Cost</b>	45.00
<b>Total Financing</b>	45.00
<b>of which IBRD/IDA</b>	45.00
<b>Financing Gap</b>	0.00

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

International Development Association (IDA)	45.00
IDA Credit	22.50
IDA Grant	22.50



Environmental and Social Risk Classification

Substantial

Concept Review Decision

Track II-The review did authorize the preparation to continue

Other Decision (as needed)

## B. Introduction and Context

### Country Context

- 1. The Kyrgyz Republic economy has grown at a robust pace between 2000 and 2016; however, the current economic paradigm may be insufficiently dynamic to address poverty sustainably and generate inclusive growth in the medium- to long-term.** Since the turn of the century, the main drivers of economic growth have been gold extraction<sup>1</sup> on the one hand, and worker remittance<sup>2</sup> on the other. This growth model has enabled the economy to grow at an average rate of 4.5 percent over the 2000-2016 period. However, exports in relation to GDP have stagnated at around 45 percent. This reflects a long process of de-industrialization as evidenced by declining traditional manufacturing activity and a failure to diversify into products or services embodying higher technological content. The agriculture sector contribution has also declined from 17 to 14 percent of GDP from 2010 to 2016, while productivity declined overall in the last decade. Services have been expanding, but they remain low-productive in nature and show small gains, if any, in total factor productivity.
- 2. At the same time, Kyrgyz Republic has experienced an increase in regional disparities over the past decade.** Although the country has seen a steady increase in the average Gross Regional Product (GRP) per capita since 2006, the gap between the poorest and the richest regions has widened. This is particularly visible starting in 2010. While in 2010 the richest region had a GRP per capita 4 times higher than the poorest region, by 2015, the richest region has a GRP per capita 6 times higher than the poorest region<sup>3</sup>. Similar trends have been observed in other economic and social indicators.
- 3. Geography has shaped the nature of the country's economic activities, as well as contributed to wide disparities within the regions.** 95 percent of the territory is covered by mountains and valleys, making it difficult to improve connectivity, and deliver infrastructure and basic public services. Thereby, resulting in people and places not well-connected, generating leading and lagging regions without fully leveraging urbanization and structural transformation in the last decades. Improving connectivity and market accessibility, is therefore, critical for improving economic growth and enhancing livability in the regions.
- 4. The country is faced with numerous key developmental challenges that would need to be addressed:**
  - a. Headcount poverty remains relatively high** with nearly a quarter of the population living below the international poverty line of US\$3.2 per capita. A still larger proportion of households is clustered

<sup>1</sup> Gold exploitation provides roughly 10% of GDP but highly reliant on one large gold mine.

<sup>2</sup> This has provided for many years over 30% of GDP, and after a blip in Russian economy, remittances provided 35% of GDP in 2017.

<sup>3</sup> As a reference in the EU leading (mainly metropolitan) regions have, on average, 2.3 times the GDP per capita of the poorest region in their country – (Farole et al. 2017).



just above the poverty line, making them vulnerable to poverty in the face of even small shocks, such as food price increases. Growth in recent years appears to have been pro-poor but very modest improvements are observed in welfare among the bottom 40 percent coupled with falling incomes for the upper 60 percent.

- b. ***Continued regional disparities are also manifested in the urban-rural divide***, which is further exacerbated by risks such as youth unemployment and marginalization, along with the growing specter of religious radicalization. Disparities have direct impacts on aggregate economic efficiency. Many low income - low growth regions not only have failed to keep pace but also struggle to make productive use of the resources available to them. This has consequences not only for the lagging region itself but also on a country's growth potential<sup>4</sup> overall. Furthermore, increasing regional disparities often pose a threat to social and political cohesion. Thus, concern for regional convergence and/or demand for targeted 'place-based' approaches is justified both from an economic perspective and from a political one.
- c. ***A large proportion of Kyrgyz households are heavily dependent on livelihoods that are inextricably linked to environmental vulnerabilities***. The economy and households are highly vulnerable to climate change, both because of the low adaptive capacity of the economy and the high climate-sensitivity of its growth drivers. Growth opportunities are firmly tethered to environmental resources, particularly in agriculture<sup>5</sup>, tourism, hydropower, extractives and forestry. This implies the need for a strategic and holistic approach to natural resource management to effectively safeguard the Kyrgyz Republic's sources of competitive advantage.
- d. ***Kyrgyz Republic is highly exposed to natural hazards and affected by climate and disaster risks***: Classified as the most seismically-dangerous territory in Central Asia (96.7 percent of the population live under high seismic risk), the annual average population affected by earthquakes in the country is about 200,000 and the annual average impact on GDP is about \$200 million. The fatalities and capital losses caused by more intense, less frequent events can be substantially larger<sup>6</sup> than the annual averages. The country is also exposed to frequent flooding (annually, about 80,000 people are affected with about US\$60 million lost in potential GDP). The challenge, therefore, is to enhance preparedness to deal with the impacts of climate change and other country-specific environmental vulnerabilities, especially those affecting the poor.
- e. ***Governance remains a defining challenge for the Kyrgyz Republic with uneven progress over the past decade***. Relative to other low- and middle-income countries (LMICs) and even to low-income countries in the Worldwide Governance Indicators, the Kyrgyz Republic falls well behind average performance in key dimensions, including rule of law, control of corruption, and political stability.

## Sectoral and Institutional Context

1. **The Government has identified supporting regional development as one of the key policy areas to pursue in the coming decades**. This was demonstrated through a Decree by President of Kyrgyz Republic, declaring the Year of 2019 as the "Year of Regional Development and Digitalization", recognizing the critical need to develop the regions as a continuation of the Government's efforts from the past year on regional development (№ 2 from 10.01.2018). One of the main goals of the 2019-2040 National Sustainable

<sup>4</sup> Farole, Rodriguez-Pose, and Storper, 2011

<sup>5</sup> Currently, 26 of the population is dependent on agriculture.

<sup>6</sup> For example, an earthquake with a 0.4 percent annual probability of occurrence (a 250-year return period event) could cause nearly 8,000 fatalities and \$4 billion in capital loss (about 60 percent of GDP). Floods in 1998 and 2005 each caused over \$3 million in damage. More recently, in 2012, flooding in Osh, Batken and Jalalbad affected about 11,000 people.



Development Strategy (NSDS) is to support economic prosperity, and regional development is one of its key pillars. To achieve this, the Government aims to create more opportunities for regions to reach their potential, including by using regional cities (or growth poles) as growth engines. The recently approved Regional Development Concept (2018-2022), “Unity. Trust. Creation”<sup>7</sup> provides further guidance on the Government’s vision to support the development of its various regions by identifying 20 regional cities.

2. **Kyrgyz Republic has a timely opportunity but short window to boost urbanization.** With currently fewer than 34% of population living in cities and towns, the country has not been able to reap the benefit of urbanization to meet its potential economic growth (in terms of its GDP per capita). Assuming a population growth at the same rate, 50% of the population could be living in urban areas by 2045<sup>8</sup> and Kyrgyz’s cities and towns will have to accommodate more than 2 million additional people. This presents a huge potential to better yield agglomeration spill-over effects and for the country to become more competitive in the Central Asian region. Improving the efficiency of urban growth and expansion, creating livable and greener cities and ensuring better integration and coordination in the delivery of municipal services and infrastructures, would be essential to address spatial inequalities, increase efficiency of public expenditures at regional and local level in order to meet the objectives of the Government. Growing urban markets also present opportunities for agriculture and rural areas, but these depend on farmers’ capacity to scale-up or aggregate production and comply with sanitary standards. Improvements in agricultural efficiency are also crucial to maintain food quality and affordability and improve the welfare of the population.
3. **While the growing population offers a great opportunity for Kyrgyz, it signifies increased demand for employment, infrastructure and basic urban services.** The demand for infrastructure and service is further challenged by the aging infrastructure inherited from the old soviet system, low capacity of the current service delivery system to keep up with the growth, energy inefficiencies and high costs in relation to housing, public buildings and municipal services, low level of tariffs and cost recovery, heavy reliance on public funds and limited capacity to leverage public investments to mobilize private capital. A lack of reliable municipal services and infrastructure is one of the main obstacles to nurture private sector development.
4. **Remittances, rather than urbanization and structural transformation, drove poverty reduction for some regions in the country**<sup>9</sup>. In regions of Batken and Osh, the poverty rates increase by 16.6% and 14.3% respectively, based only on income without considering remittances. Poverty rates for Jalal-Abad and Osh city are nearly 40% and 30%, respectively, without remittances. This confirms extreme vulnerability to poverty, as they are heavily dependent on remittances. Creating local economic opportunities and strengthening domestic job markets, is therefore critical to reduce reliance on remittances and vulnerability to poverty.
5. **Of potential non-traditional growth sectors, tourism represents an underexploited opportunity and has large room for improvement.** Kyrgyz is featured by leading outlets as a top emerging destination (for example by the Lonely Planet as a top 5 travel destination for 2019). The total tourism contribution to GDP is currently low at 0.7 percent but has experienced a year-on-year average growth rate of 4.24 percent from 2015 to 2018. Of the 5 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). The sector is identified as one of the four priority sectors for economic development of the country

<sup>7</sup> Approved by the Decree Jogorku Kenesh of the Kyrgyz Republic, April 20, 2018, No. 2377-VI

<sup>8</sup> LIDP Regional and Spatial Analysis (as part of LIDP preparation, 2019). The team undertook analytical work to understand regional disparities at a national level, by adopting a regional development framework for subnational regions in Kyrgyz Republic, comprising of four pillars: (i) urbanization and demographic; (ii) economy and labor force; (iii) connectivity and living standards; and (iv) natural disaster risks and resilience.

This was done to identify regions in need of most development needs to be considered under LIDP, by better understanding strengths, weaknesses, opportunities, and risks associated with each region.

<sup>9</sup> LIDP Regional Development Analysis (2019)



in the NSDS. However, Kyrgyz is ranked 118th out of 145 countries in the World Economic Forum Travel & Tourism Competitiveness Index 2017, far behind regional competitors such as Kazakhstan (81th) and Tajikistan (107th). According to the same Index in 2017, the key issues that hamper competitiveness are lack of prioritization/sector strategy, lack of international openness, poor connectivity, and lack of enabling conditions (regulatory barriers and access to finance).

6. **On the other hand, the Kyrgyz agri-food products have considerable market potential<sup>10</sup>.** Fresh fruits and vegetables are the most common Kyrgyz agricultural exports, comprising around 14 and 41 percent respective of the US\$260 million agri-food exports of the country. Kyrgyz has some of the best pasture lands in the world, home to a significant and varied herd and representing a significant potential for niche exports to demanding markets. There has been increased demand for high-value agricultural products and food, driven by rising population incomes in Kazakhstan, China and Russia. However, most Kyrgyz agri-food enterprises are small-scale producers (many informal), including those that export. They are generally not competitive, struggle to access markets and technology and face difficulties in attracting investments and creating jobs. Hence, three key strategies to improve the situation are expanding markets, linking farmers with markets and improving the enabling environment.
7. **Rural connectivity is crucial to improve poverty reduction and facilitate regional growth.** Agriculture, forestry and other rural producers lack adequate access to information, technical and financial services and markets. High transaction costs make market linkages costly and risky for companies downstream. Value chains tend to be short and shallow, with little connectivity between actors at different levels. Inclusion is difficult, with many smallholders focused subsistence or in farming as a safety net underlying migration and multi-local livelihood strategies.
8. **A large gender divide, especially in terms of employment rate, wage difference and work opportunities is highly evident.** For example, in Jalal-Abad region, women's average wage level is only at 68 percent of men. This wage gap has also widened over time in all regions except Naryn and Osh oblasts. Improving supporting conditions, factors of employment and an enabling environment for women to engage in paid work, enhancing women's participation in the work force, and civic and political activity is essential to close the gender gap and reducing disparity in wages.

#### Relationship to CPF

9. **The project is consistent with the current World Bank Group Country Partnership Framework (CPF) for Kyrgyz Republic (2019-2022) and supports multiple Focus Areas and Objectives**, including Focus Area 2: Raise productivity and build connectivity and Focus Area 3: Enhance economic opportunities and resilience (and explicitly Objective 8 to support regional development). This is expected to be achieved by supporting the government in: (i) developing the regional and spatial analysis to inform policies and potential interventions in its various regions, and (ii) by piloting regional development initiatives in two regions and cities under the Project. The Project would target activities focusing on improving local economy and opportunities for local income generation, enhancing accessibility, and improving key infrastructure and services, as well as institutional capacity to ensure their delivery. All this would also in turn, support the realization of the private sector-driven objectives of Focus Areas 1: Strengthen foundations for inclusive private sector-led growth by creating a better enabling environment for private sector development.

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<sup>10</sup> Kyrgyz Republic: Developing Agri-food Value Chains, WB, 2018.





### C. Proposed Development Objective(s)

The PDO is to support the GoKR to improve local and regional infrastructure and assets, strengthen market linkages and enhance institutional capacity in the participating regions and cities. Through these, the project will support economic and regional development in an integrated manner and in a spatially identified area, and furthering creation of job opportunities for growth and poverty reduction.

#### Key Results (From PCN)

10. PDO indicators will capture improved infrastructure services and accessibility in the participating regions and localities as well as enhanced institutional capacity of government entities (pending agreement on specific areas of institutional development). In line with the new Bank Corporate Result Indicators (CRIs), key indicators will be measured by (i) the cumulative number of people provided with improved living conditions (such as through improved infrastructure and services), (ii) cities with improved livability, sustainability and/or management (such as through improvements on neighborhoods, public spaces, tourist sights, resilience, and/or urban environmental conditions), and (iii) farmers and rural producers reached with agricultural assets or services and linked to higher-value markets. Special attention will also be paid to gender-focus and resilience based on analysis conducted and data generated under the project, to include results indicators on these aspects.

### D. Concept Description

1. **The Local Integrated Development project responds to the request by the Government of Kyrgyz Republic to support their regional development efforts as outlined in the Regional Development Strategy (2019-2022)** around four priorities and three cross-cutting themes. The Strategy seeks to significantly boost economic development through simultaneous efforts in four priority areas, namely: (i) closing infrastructure gaps; (ii) creating a more attractive investment environment (including through sound macroeconomic policies, investment promotion initiatives and tax reform); (iii) implementing PPP solutions and improving public assets management; and (iv) strengthening and deepening the financial sector.
2. **Consistent with the Government's priorities, the proposed project is envisioned as a multi-sectorial project and will include core investments in local and territorial development as well as support to agriculture, transport, water, and private sector development as relevant.** Project interventions will identify a tailored package of investments/activities aimed at: (i) boosting each regions' unique economic potential and eliminating binding constraints, while supporting the (ii) convergence of living standards; and (iii) strengthening the local capacity to provide municipal infrastructure and services.
3. **The project will focus support on two pilot regions, Osh and Batken ,and include Osh city as well as potentially other identified growth poles<sup>11</sup> within the two regions.** Based on the regional and spatial analysis (summary findings attached as Annex 1), the pilot regions selected - Osh and Batken, are the key lagging ones and share common challenges in terms of low GDP per capita, low skilled labor, low market accessibility and low level of infrastructure and services. Special attention will be paid to: (i) enhance public infrastructure and services for urban areas and connectivity to rural production areas to enhance integration with regional and global markets; (ii) create enabling environment for economic sectors and private business through targeted and strategic investments; and (iii) identify and enhance opportunities for local economic and livelihood development.

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<sup>11</sup> In addition to Osh City, the other identified growth cities according to the Government's Regional Development Concept (2018-2022) include Isfana, Batken and Kadamjay in Batken region, and Uzgen, Kara-Suu and Sary-Tash in Osh region.



4. **The priority investments in selected pilot regions and cities are being identified through a participatory process engaging national, regional and local level stakeholders.** Key considerations include the needs and gaps of the participating regions and localities, as well as the ability of the investments to maximize development impact and exploit synergies with existing and planned World Bank operations and as well as those supported by the Government, other development partners and the private sector.
5. Aligned with the PDO of the project, the proposed project components are as follows:

- a. **Component 1: Supporting regional accessibility, infrastructure and basic services.** This component will identify and prioritize packages of infrastructure and services in the Osh and Batken regions that address critical deficiencies in (i) urban-rural connectivity (and access from rural production areas to key markets), and (ii) infrastructure and services and to meet the minimum living standards. For example, these could include sewerage, water supply, drainage system, roads and transport linkage improvements.
- b. **Component 2: Catalytic investments to improve economic competitiveness of selected urban centers or clusters.** This component will finance transformative investments in: (i) economic competitiveness infrastructure in the priority sectors of tourism and agro-industry; (ii) urban amenities that will improve livability of growth poles to attract and retain residents, and (iii) supportive technical assistance to better plan, manage and sustain these assets.

For example, Osh City still has much potential to build on its budding tourism sector, tapping on both local and regional tourists to visit the many natural and cultural attractions in the city. Improvements could be done through more systematic and strategic planning and development (eg. developing and expanding tour circuits and service offerings, or through integrated package of improvements to touristic sights and clusters), as well as better asset management. Such improvements would also benefit the local community through increased demand for complementary services such as in the accommodation, food and beverage and retail sectors. In terms of complementing the agro-industrial development, measures could be taken to facilitate the integration of producers (farmers, SMEs) into dynamic value chains, such as through attracting investors to the regions, facilitating productive alliances or PPPs, credit lines for producers and technical assistance support. Other potential investments include improving economic infrastructure eg. markets, bus stations, terminals etc. and community and social facilities eg. parks, public spaces, community and youth centers, sports facilities etc.

- c. **Component 3: Institutional and capacity strengthening for long-term sustainability.** This component will support capacity building activities that would strengthen the role of the local, regional and central governments in integrated regional development. Areas for possible support under this component would include: (i) integrated and sustainable urban and spatial planning; (ii) local and regional management by authorities (municipal finance, capital investment planning, budgeting, asset management, O&M of local infrastructure, coordination etc.); (iii) tourism strategies and management or related enabling policies and mechanisms; (iv) private sector participation and job creation; (v) technology and digital improvements and initiatives<sup>12</sup>; (vi) citizen participation and engagement; (vii) "Green growth" and resilience to reduce climate change impacts etc. The scope will be defined based on further discussion and needs identification with the local, regional and national stakeholders.

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<sup>12</sup> In particular taking advantage of digital opportunities (Taza Koom and Digital CASA).





Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

#### Summary of Screening of Environmental and Social Risks and Impacts

Most of ESSs will be applied to the current project as it might generate a series of impacts and risks related to various environmental and social issues.

**Note** To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document.

### CONTACT POINT

#### World Bank

Chyi-Yun Huang, David Tuchsneider, Tengiz Gogotishvili  
Senior Urban Development Specialist

#### Borrower/Client/Recipient

Ministry of Finance

#### Implementing Agencies

Ministry of Economy  
Avtandil Alybaev Alybaev  
Deputy Minister  
aalybaev11@gmail.com



**FOR MORE INFORMATION CONTACT**

The World Bank  
1818 H Street, NW  
Washington, D.C. 20433  
Telephone: (202) 473-1000  
Web: <http://www.worldbank.org/projects>

**APPROVAL**

Task Team Leader(s):	Chyi-Yun Huang, David Tuchschnieder, Tengiz Gogotishvili
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**Approved By**

Environmental and Social Standards Advisor:		
Practice Manager/Manager:		
Country Director:		