PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA60251

Project Name	Third Rural Water Supply and Sanitation Project (P154778)
Region	EUROPE AND CENTRAL ASIA
Country	Kyrgyz Republic
Lending Instrument	Investment Project Financing
Project ID	P154778
Borrower(s)	Ministry of Finance
Implementing Agency	Community Development and Investment Agency (ARIS)
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	20-Jul-2016
Date PID Approved/Disclosed	20-Jul-2016
Estimated Date of Appraisal Completion	03-Aug-2016
Estimated Date of Board Approval	30-Sep-2016
Appraisal Review Decision (from Decision Note)	The Country Director/Chair of the decision review meeting authorized the team to appraise the operation.

I. Project Context

Country Context

The Kyrgyz Republic is, with a 2014 GNI per capita of US$1,040, one the poorest Former Soviet Union countries in Central Asia. About 39 percent of its population of currently 5.7 million are considered to be living in poverty, with the rate widely varying both by region and between urban and rural areas (where the poverty rate in many areas exceeds 60 percent). Around one-third of the population lives in cities and small towns, with the population of Bishkek, the capital, reaching about 1.0 million, while the other two-thirds live in an estimated 1,900 rural villages of varying sizes. Many of them are scattered in remote and isolated mountainous areas.

The country faces substantial challenges in addressing rural poverty alleviation and development. Recent data indicates that rural (41 percent) and urban (29 percent) poverty rates are diverging, with the gap widening to more than 11 percentage points in 2013. Rural populations remain vulnerable, affected by volatile economic growth due to frequent internal and external shocks, including natural disasters, social unrest, fluctuating commodity prices and a deteriorating economic situation in Russia that affects remittances to the Kyrgyz Republic. Furthermore, it has been identified that access to safe drinking water and piped sewerage systems contributed most to multidimensional aspects of poverty. In 2008 those deprivations contributed 48 percent to overall non-monetary poverty; this share increased to 84 percent by 2012➢(providing an indication of the continued infrastructural problems faced by the population.

The Kyrgyz Republic has a three-tiered system of sub-national administration. At the top level the country is divided into seven oblasts (plus the areas of its two main cities, Bishkek and Osh). The oblasts, in turn, are sub-divided at the intermediate level into 40 rayons. The bottom level is formed by local self-government units that currently include 28 urban municipalities and 473 rural districts (Ayl-Okmotus), which are responsible for, among other services, water supply and sanitation (WSS) within their territories in accordance with the 2011 law on local self-government.

Since independence in 1991, the country has experienced a rather tumultuous political history that has hindered economic growth and, in many sectors, has slowed the development of solid administration structures and institutional systems. The ➢(Tulip Revolution➢(in 2005 resulted in the ouster of President Akaev, a fate shared in the spring of 2010 by his successor, President Bakiyev. Moreover, in summer 2010 violent and widespread riots in the south of the country resulted in numerous casualties and economic losses. In the wake of the 2010 events a new constitution was adopted by popular referendum and the country shifted from a presidential system to a parliamentary republic. Since then the country has been politically stable.

Sectoral and institutional Context

Basic public services such as water supply and sanitation have rapidly deteriorated since independence. The Kyrgyz Republic had inherited from Soviet times a relatively well developed system of water supply. Access to piped water service (i.e., potable water piped into the dwelling, plot or yard or into a public tap/standpipe) was the standard of service for Central Asia. Existing infrastructure, majority of which was built prior to 1980➢(s is now generally in poor condition and very inefficient, with losses estimated on average at 55 percent. Until 2014, there was no national (or local) budget for capital investments in WSS, except those provided by international donors on a credit or grant basis.

In addition to low public expenditure in the sector, low tariffs, low collection rates, and limited metering coverage have led to unsustainable operations, maintenance and investments. According to household surveys, even for the poorest households the expenditure on drinking water supply constitutes only 0.35 percent of income. In addition to low tariffs, collection rates are exceedingly low, with average collection ratios below 25 percent in rural areas and below 50 percent in urban areas. Furthermore, metering coverage is very limited in rural areas➢(according to the KIHS, only 1.6 percent of the rural population had water meters in 2012. Low metering leads to strong incentives to under-report usage, which further contributes to insufficient payments for water supply and low revenues of the service providers. This situation, coupled with limited human resource capacity led to a deterioration in services, which in turn further exacerbates the issues - as collection rates decreased coinciding with a decline in customer satisfaction.

Access and quality of water supply and sanitation services, particularly in rural areas remains low. Distances from a home to the nearest water source is much longer for rural households than for urban ones, which implies greater time spent by rural households transporting water for their basic needs. By 2000, a mere 40 percent of rural inhabitants were believed to have access to working water supply systems, while the remaining collected water from unprotected wells, springs, streams, or irrigation canals. According to KIHS, in 2012, not more than 5 percent of the poor rural population had in-house access to piped water. The survey also showed that rural sanitation conditions have remained very poor, with 96 percent of the rural population in 2012 relying exclusively on outdoor pit latrines. These difficult conditions are aggravated by the often harsh

climatic conditions and result in significant hardship for the rural population in general, and for women and children in particular.

Low access rates and deteriorating services are a constraint to the development process ►(particularly in rural areas. The economic impact of poor WSS►(in both urban and rural areas►(is estimated to cost the country about US$115.7 million per year (or 1.79 percent of GDP, of which half is direct financial losses). These economic costs reflect in part, the adverse effects of inadequate water services on public health and general quality of life. Among water-related diseases in the Kyrgyz Republic, the most frequent one is typhoid fever. In 2007 recorded typhoid fever and paratyphoid morbidity had increased by 40 percent and was mainly caused by inadequate access to safe drinking water. About 40►(45 percent of infectious diseases occur due to helminthiasis, while the high morbidity among the population is caused by poor personal hygiene practices as well as by poor quality of drinking water. According to data from the State Department for Sanitary and Epidemiological Supervision (SES), between 61 percent and 79 percent of children in some rural areas were infected with four primary infections►(enterobiasis, ascaridiasis, lambliasis, and hymenolepidiasis.

In recognition of these issues the Government of Kyrgyz Republic has directed financial and technical assistance from international donors towards infrastructure investments and institutional support for sector reforms. In 2001 the Bank, in concert with the Asian Development Bank (ADB) and the UK Department for International Development (DFID), funded the ►(Taza Suu►(rural water supply program. The program included the Bank►(s Rural Water Supply and Sanitation Project (RWSSP-1, US$10 million plus a DFID contribution of US$6.3 million) and ADB►(s Community Based Infrastructure Sustainable Services Project (CBISSP, US$36 million). Despite occasional diffic ulties in implementation and various shortcomings in technical designs and work execution, both projects progressed reasonably well and completed satisfactorily. As a result, in 2009, the Bank and DFID jointly agreed with ADB to put in place a follow-up program consisting of RWSSP-2 (US$13 million) and CBISSP (US$30 million) .

Together, RWSSP and CBISSP helped to partially address the needs of about 500 villages through an approach with focused on rehabilitation and upgrading of deteriorated assets. This first phase of the program also supported the creation of Community Drinking Water User Unions (CDWUUs), an alternative service delivery model. Based on lessons learnt, RWSSP-2 adopted a more focused approach, which involved construction of new water systems, to extended benefits of improved access to good quality water supply to around 83,000 people in 55 villages, allowing more than 3,900 households to obtain water supply connections on their premises. In addition, RWSSP-2 expanded support under the sanitation component for the rehabilitation of sanitation facilities in 18 schools along with complementary sanitation and hygiene education programs, together benefitting more than 5,000 children. The rural water supply program collectively supported the development of sector institutional capacity at the central level. Specifically, analytical outputs and technical assistance financed under the RWSSP-2, assisted the Government to resolve a number of ambiguities revolving around conflicting and overlapping mandates of various institutions within the sector. Thereafter, the responsibility for water supply and sanitation sector issues have clearly been concentrated within the Department of Drinking Water Supply and Wastewater Disposal (DDWSWD), in the State Committee for Architecture, Construction and Communal Services (GOSSTROY), a new department legally established in 2011.

In parallel with the stabilization of the political system, the past few years have seen a noticeable improvement in the institutional environment of the water sector. The capacity and autonomy of DDWSWD has incrementally expanded, as demonstrated through the yearly increases in allocations from the central budget . Furthermore, by early 2016 the DDWSWD had successfully completed, without donor support, water supply rehabilitation projects for 15 villages. Under the leadership of DDWSWD the strategic and policy environment has also improved and with support of RWSSP-2, a Water Supply, Wastewater Disposal and Sanitation Strategy was prepared and formally approved by the Government in September 2014. The strategy provides guidance for sector developments, which under a delegated management framework promotes: (i) a clear separation of function (policy, operation and regulation), (ii) autonomy, accountability and efficiency in service delivery, (iii) principals of full cost-recovery and financial sustainability, and (4) principals of environmental sustainability and climate resilience. The long-term strategic objectives are to achieve universal coverage of water services; to support independence through enabling self- or private-sector financing; to protect the environment and improve public health; and to create robust institutional structures and supporting mechanisms that respond to local demands for sustainable water services.

Despite this progress a number of institutional capacity constraints still remain, limiting the transition towards sector sustainability. The responsibility for water supply and sanitation service rests with local government authorities, in accordance with the 2011 law on self-government (i.e. Municipalities in small towns and Ayl-Okmotus in rural areas) ►(who are in turn enabled to contract operational services on an agreement basis (most often to CDWUU►(s in rural villages). While the decentralization of service provision appears to be well advanced a number of issues still remain in terms of enabling sustainable service delivery in rural areas. This is evident through the results of th e CDWUU operational performance analysis, carried out during preparation of the sector strategy, which indicates that only 25 percent of th e 633 existing CDWUU►(s are operating on a financially sustainable basis. Key issues identified include limited technical guidance, insufficient service and financial regulation at the local and central levels, as well as inadequate equipment, human capital, and funding for maintenance and expansion of services ►(which in effect have made it difficult for service contract operators and local authorities to sustain and increase access to quality services. In response to this issue, the ADB initiated in 2015, a technical assistance program - focused specifically on institutional structures and support mechanisms required to enable sustainable water service delivery in rural areas. This technical assistance program is on-going, but preliminary findings and recommendations have been considered in the design of RWSSP-3.

Developments in the policy and regulatory environment and institutional capacity, necessary for the promotion of sustainable rural sanitation, is less advanced. The Government►(s strategy recognizes a number of key challenges related to sanitation, it outlines general objectives, some priorities areas (including a focus on WASH at schools) and provides guiding principles. However, further analytical and technical support is required to ►(map out►(the way forward and to provide a more detailed implementation strategy to achieve sustainable results under this agenda. Specifically, this includes the development of comprehensive rural sanitation strategy which would focus on: (a) strengthening the enabling environment; (b) changing and sustaining improved sanitation behaviors; (c) building markets and industry for improved sanitation; and (d) accelerating access ►(particularly for women, girls, the poor and vulnerable groups.

The State Program for Water Supply and Sanitation Development for 2014-2024, sets out ambitious

targets for increasing access to potable water supply system and improved sanitation. In rural areas, the goal is to reach 90 percent coverage for water services and 70 percent coverage for sanitation systems by 2024. A country wide assessment, including all 1805 villages, indicates that some 651 villages require new water supply systems, while some 760 villages require substantial investments for system rehabilitation and expansion. Initial cost estimates however exceed foreseeable resources, with investment needs estimated to be in excess of US$600 million ►(for water supply alone. Capital investments required to achieve sanitation coverage expansion targets have not yet been reliably estimated and will depend largely upon the adopted approach for promoting rural sanitation development, which requires further analysis and strategic planning.

It is within this sector and institutional context that the RWSSP-3 has been defined. Accordingly, through strategic infrastructure and institutional support activities, RWSSP-3 will build upon and leverage recent advancements in the sector and lessons from previous projects to assist the Government to develop, implement and institutionalize sustainable models for improved rural water supply and sanitation services. This will involve strengthening the institutions and regulatory environment at the national level and establishing systems to support local operations (including capacity building of local government entities and CDWUUs). The project has been developed in close consultation with other donors and in response to strong demand from the Government to support the rural development agenda and is informed by poverty and sector analytics.

II. Proposed Development Objectives

The project development objective (PDO) is to assist the Kyrgyz Republic to (i) improve access and quality of water supply and sanitation services in target rural communities, and (ii) strengthen capacity of institutions in the water supply and sanitation sector.

III. Project Description

Component Name

Water Supply Investments

Comments (optional)

Component 1. Water supply infrastructure and equipment investments. This component will address the needs for rehabilitation of existing and/or construction of new water supply systems in the target areas. The component will finance goods, works and services (including engineering design and construction supervision) and will include civil and electrical/mechanical installations for water supply production (boreholes, well-fields, intakes, etc., as well as disinfection, and pumping as required), and transmission and distribution (networks, storage, meters, etc.) to households in the project areas. This component will also finance preparatory activities including detailed engineering designs for scaling up investments under the program.

Component Name

Sanitation Development

Comments (optional)

Component 2: Sanitation Development. This component will finance goods, works and services to provide strategic support for improved sanitation within the target rural communities and to enhance the Government►(s strategy for improved sanitation in rural areas. It will include, retrofitting of existing sanitary facilities in schools, kindergartens and possibly other public buildings (e.g health clinics). It will also finance a range of other activities at the national and local levels towards supporting improved sanitation. This will include the development of a set of standard designs for

latrines and septic systems for rural areas, this together with related education programs will support private household investments for these facilities.

Component Name

Institutional Strengthening

Comments (optional)

Component 3: Institutional Strengthening. Will finance strategic studies and technical assistance to the Government in making informed policy decisions for the development, modernization and reform of the WSS sector. It will also support consultancies and studies to help develop and implement (i) capacity building activities for State agencies; and (ii) capacity building activities for Community Drinking Water User Unions, local authorities, and other WSS local institutions.

Component Name

Project Management

Comments (optional)

Component 4: Project management. This component will finance the project management costs of the project management unit related to staffing, consultancies and equipment costs, Monitoring and Evaluation program, and financial management including internal and external financial audits.

IV. Financing *(in USD Million)*

Total Project Cost:	28.00	Total Bank Financing:	23.50
Financing Gap:	0.00		

For Loans/Credits/Others	**Amount**
BORROWER/RECIPIENT	4.50
International Development Association (IDA)	23.50
Total	28.00

V. Implementation

RWSSP-3 will be executed under the overall responsibility of DDWSWD, which is within GOSSTROY. Project implementation will be carried out by the Community Development and Investment Agency (Agentstvo Razvitiya Investirovanya Soobschtv Kyrgyzkoi Respubliki [ARIS]), which has a proven track record as a reliable and efficient implementing agency not only for RWSSP-2 but for several other Bank-funded projects as well. ARIS will work in close cooperation with the DDWSWD, participating Ayl-Okmotus and other key project stakeholders and counterparts. Further details of the implementation arrangements and responsibilities of the different institutions are outlined below.

DDWSWD in GOSSTROY. This department is responsible for development of both the rural and urban water supply and sanitation sectors, including policy, planning and sector coordination. The department has had relatively low levels of authority and capacity, however, over recent years it has demonstrated stability, and its ownership of the new sector strategy represents significant progress. DDWSWD➢(s role in the project is as the overall executing agency, which includes, among other activities: overall sector coordination and policy support; Government and donor liaison, participation in all procurement activities (for example, as a member of evaluation committee), identification and prioritization of sector interventions (including infrastructure investments and institutional support), and as the responsible agency of the Government, provision of support to ARIS for implementation (as required). DDWSWD will coordinate the national-level institutional-

support activities, and will be the primary beneficiary of the expected outputs from Component 3.1.

ARIS. With financing from the ECADev Grant, ARIS led the preparation of RWSSP-3 on behalf of the government and will be responsible for overall project implementation, including fiduciary and safeguards compliance. ARIS was created by Decree of the President of the Kyrgyz Republic in October 2003 as a legally and operationally autonomous institution for the purpose of managing the implementation of the IDA-supported First Village Investment Project (VIP I). It operates under the oversight of a Supervisory Board comprised of 21 representatives of the State administration, the local government sector, and civil society. ARIS has been responsible for management of other Bank projects. For purposes of the RWSSP-3➢(s implementation, ARIS will maintain a project coordinator, engineers (including international experts), a procurement specialist, a financial management/disbursement specialist, a safeguards specialist (on a half-time basis), an institutional development specialist, and a monitoring and evaluations specialist (on a half-time basis). The institutional development specialist and the M&E specialist will be jointly responsible for public engagement and communications. Other ARIS staff (for example, ARIS➢(s administrative pool) will provide backstopping support as needed.

In its position as the Implementing Agency for RWSSP-3, ARIS will be responsible for and carry out all project implementation in accordance with the POM. This will include procurement, financial management and accounting, social and environmental safeguards management, citizen engagement, monitoring and evaluation, and reporting, as well as routine communications with the Bank. DDWSWD, participating Ayl-Okmotu➢(s, CDWUUs, and other key Government counterparts will participate at various levels during implementation of relevant project activities. Technical investigations and engineering designs will be carried out by third-party firms (consultancy services), selected in accordance with the Bank➢(s procurement policies and procedures. Design review and construction supervision (including civil works contract management) responsibilities have been assigned to ARIS, who will engage international experts to reinforce their capacity. ARIS will enter into agreements with the participating Ayl-Okmotu➢(s (the Employer), to define their respective roles and responsibilities during civil works implementation.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	×	
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		×

Comments (optional)

VII. Contact point

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