



Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 19-Dec-2021 | Report No: PIDA32729

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

Country Kyrgyz Republic	Project ID P175587	Project Name Second Regional Economic Development Project	Parent Project ID (if any)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date 14-Dec-2021	Estimated Board Date 21-Mar-2022	Practice Area (Lead) Urban, Resilience and Land
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency Community Development and Investment Agency (ARIS)	

Proposed Development Objective(s)

To contribute to improved access to basic municipal services, strengthened competitiveness of selected agriculture value chains, and increased SME activities in the Batken Region.

Components

- Component 1: Supporting municipal infrastructure, basic public services, and capacity building
- Component 2: Strengthening Agriculture Competitiveness
- Component 3: Promoting local economic development through the Small Grants Program
- Component 4: Contingent Emergency Response Component (CERC)
- Component 5: Operational Support

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

Total Project Cost	50.00
Total Financing	50.00
of which IBRD/IDA	50.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**



International Development Association (IDA)	50.00
IDA Credit	25.00
IDA Grant	25.00

Environmental and Social Risk Classification

Substantial

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **The Kyrgyz Republic is a land-locked, mountainous country of 6.6 million people with considerable economic potential given its rich natural endowments and strategic location.** Relative to its Central Asian neighbors, the Kyrgyz Republic enjoys a more liberal political regime and a lighter state footprint in the economy. The country’s strategic geographic location gives it full access to the Eurasian Economic Union (EEU) while sitting at the crossroads of the large Chinese, South Asian and Russian markets. Its rich, largely unexploited natural endowments hold great potential for significantly expanded agriculture and tourism activities.

2. **Prior to the pandemic, the Kyrgyz Republic economy had been growing steadily¹. Yet, the economic paradigm was insufficiently dynamic to sustainably address poverty and generate inclusive growth in the medium- to longer-term.** The main drivers of economic growth have been gold extraction on the one hand, and worker remittance on the other. This growth model has enabled the economy to grow at an average rate of 4.3 percent over the 2016-2019 period. 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. Although the agriculture sector contribution has also declined from 17 to 12 percent of GDP from 2010 to 2019, agriculture value added per worker has increased, averaging 7 percent annual growth per year over the same period, indicating exits by the least productive parts of the sector. Services have been expanding, but they remain low-productive in nature and show small gains, if any, in total factor productivity. Progress on poverty reduction has been uneven since 2009—effectively plateauing and even reversing among urban households. Despite a poverty rate of 20.1 percent in 2019, a large proportion of the population is clustered just above the poverty line, with a high risk of falling into poverty due to shocks and insufficient safety nets.

3. **The Kyrgyz Republic remains as one of the poorest countries in Central Asia and COVID-19 has created a further set of challenges.** Due to COVID-19 pandemic and policies to limit its spread, the Kyrgyz economy remains in a deep recession following a contraction of 8.6 percent in 2020. The Gross National Income per capita

¹ <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2020&locations=KG&start=2015>



was US\$1,160 in 2020, which is slightly above the threshold for Lower Middle-Income Country status. The country has a population of about 6.6 million with over 60 percent living in rural areas. The COVID-19 crisis threatens to undo the gains in poverty reduction achieved over the past few years, and a high proportion of the population risks falling back into poverty. The COVID-19 crisis has adversely impacted labor income and remittances, and this, combined with inflation, leaves large segments of the population exposed to the economic consequences of the pandemic. The poverty rate was 20 percent in 2019², and a further 65 percent of the population was considered vulnerable to poverty. The poverty rate in the Kyrgyz Republic increased by 11 percentage points from 20.1 percent in 2019 to 31 percent in 2020, pushing an additional 700,000 people into poverty – a very large absolute increase for a population of 6.6 million³. The country is going through a third wave of the COVID-19 pandemic. With a slow rate of mass vaccination (14.5 percent of the total population since the start of vaccination) and a failure to follow stringently social distancing and sanitary requirements by the majority of the population, the daily cases of newly infected have started to increase since March 2021 (around 45 cases, measured as 7-day moving average) and peaked to 353 cases in May 2021. The total number of infected people since the outbreak of the pandemic has reached 105,111 and death tolled 1,815 people as of May 31, 2021. Global economic factors and especially the economic slowdown in Kazakhstan and Russia will exacerbate the economic shock from COVID-19 to the Kyrgyz economy. The pandemic has already affected food prices, the availability of medicines and medical supplies, employment and the remittance flow. This latter point is particularly important given the economy's dependence on remittances (27 percent of the Gross Domestic Product (GDP)).

4. **The Kyrgyz Republic is highly exposed to natural hazards and affected by climate and disaster risks** and ranks as the third most vulnerable country to the effects of climate change in the ECA region. It is classified as the most seismically-dangerous territory in Central Asia (96.7 percent of the population live under a high seismic risk), the annual average population affected by earthquakes in the country is about 200,000 and the annual average affected GDP is about US\$200 million. The fatalities and capital losses caused by more intense, less frequent events can be substantially larger⁴ 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), landslides caused by rainfall patterns, terrain slope, geology, soil, land cover and earthquakes that make localized landslides a frequent hazard phenomenon, and wildfires⁵. Heat stress may represent a serious risk to human life during peak summer temperatures, with a high likelihood that temperatures will more regularly exceed 40°C, particularly in lowland regions such as the Fergana Valley⁶. The economy and households are highly vulnerable to climate change because of both the low adaptive capacity of the economy and the high climate-sensitivity of its growth drivers. Growth opportunities are firmly linked to environmental resources, particularly in agriculture and tourism as well as hydropower, extractives and forestry. The Third National Communication to the United Nations Framework Convention on Climate Change identifies agriculture, energy and water sectors as the most vulnerable to climate change. The government is keenly aware of the need to complement its growth and poverty reduction initiatives with efforts to address the key challenges in social and environmental sustainability and

² National poverty rate

³ World Bank. 2021. One Year Later in the Kyrgyz Republic's Battle Against COVID-19.

⁴ 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 Jalalabad affected about 11,000 people.

⁵ [Think Hazard / Kyrgyz Republic](#)

⁶ [Climate Risk Profile | Kyrgyz Republic](#)



exposure to disaster risks, including managing the transition from a predominantly rural to an increasingly urban society and economy.

5. **The 2018 Strategic Country Diagnostic (SCD) also highlights the challenges deriving from climate change, which is expected to significantly affect agricultural growing conditions, including impacts from rising temperatures, increasing variability of precipitation and the likely overall reduction in surface water due to increased evapotranspiration and glacial melt.** The changes will likely increase aridity, affect access to irrigation water sources and accelerate desertification, which is already a significant concern and affects up to half the land in the country. Increases in temperatures, including temperature extremes, along with existing or worsening drought incidence can significantly affect yields, with high impact on sugar beets, wheat, and maize, the latter two of which are particularly sensitive to rainfall timing. Additionally, increasing temperatures and changing rainfall patterns can affect hydro-power production and contribute to increased outbreaks of agricultural diseases and pests, such as locusts. Climate change impacts on agriculture could decrease food security and slow improvement in poverty levels, particularly in rural areas. Long term changes to water availability and irrigation resources will affect the expected 68 percent of all cropland, which is irrigated.

6. **With respect to gender inequality targets, the Kyrgyz Republic fares better than most of its comparators, but challenges remain in some areas.**⁷ Scores on international gender indexes are relatively high for education and health but low for civic empowerment and some aspects of economic participation and opportunities, such as labor force participation and earned income. According to the Country Partnership Framework (CPF) 2019-2022 women are less likely to be employed and, when employed, they earn on average 30 percent less than men. The employment gap is particularly significant for women aged 20–34, who are most likely to leave formal employment to care for young children and infants. Data show gender segregation in the types of employment undertaken. Women predominate in the following sectors: health and social services—with 83.6 percent of the labor force being female; education—80.6 percent; and hotels and restaurants—58.4 percent. In contrast, highly paid technical sectors are dominated by men. Men account for 84.4 percent of employees in the mining industry; 90.5 percent in the production of gas, electricity, and water; 89.3 percent in the transport and communication sector; and 96.5 in the building industry. The predominance of women in lower-paid sectors is reflected in the considerable gender wage differential, with women receiving on average just 74.3 percent of men’s earnings in 2012, and 75.3 percent in 2016. Aggregate unemployment figures remain high, and traditionally women comprise the majority of the unemployed. In the post Covid period the nationwide difference in employment rates between males and females have increased, including Batken.

7. **Women face a range of barriers to their entrepreneurship and employment opportunities in agriculture.** Women are significantly involved in crop production. Most female rural entrepreneurs cultivate plant, vegetables, and tobacco (90 percent compared with 52 percent of men’s businesses).⁸ Women are also engaged in greenhouse cultivation of medicinal plants, vegetables, flowers, and seedlings for sale to local households. Although women are active in production, they are less visible in post-production stages for commercial purposes. Similarly, even though Kyrgyz women have an important role in animal husbandry, men are customarily viewed as the owners of livestock. Female-headed households are less likely to own livestock than male-headed households (41 percent as opposed to 56 percent). Human and financial capital constraints hindering women’s entrepreneurship and employment opportunities include a lack of technical skills, business knowledge, and

⁷ The Country Partnership Framework (CPF) for the Kyrgyz Republic (FY19–22) (Report No. 130399-KG, discussed by the Board on November 13, 2018).

⁸ Food and Agriculture Organization (FAO). 2016. National Gender Profile of Agricultural and Rural Livelihoods - Kyrgyz Republic. Available at: <http://www.fao.org/3/a-i5763e.pdf>



limited access to financial service. Women tend to have less access to agricultural extension services and information on marketing opportunities for products. Women do not seem to have access on a regular basis to advice and expertise provided by an agricultural extension and advisory program.

8. **Focusing on women’s economic participation** when promoting local economic development helps ensure women have the necessary resources, opportunities, protections, and skills to achieve their full potential. Improving supporting conditions, factors of employment, and an enabling environment for women to engage in paid work and enhancing women’s participation in the workforce is essential to narrow the gender gap in employment. A mounting body of evidence, including the Bank’s 2011 report on gender, confirm that access to SME finance is limited for women-led businesses. Female entrepreneurs only have access to short-term loans (a minimum of US\$500 to a maximum US\$10,000) and lack of collateral limits women’s access to bank finance. Furthermore, when looking at the indicator on *Borrowed to start, operate, or expand a farm* Findex found that only 5 percent of women borrow money to start a business as compared to men 9 percent. Also, only 7 percent of women *saved to start, operate, or expand a farm or business as* compared to 12 percent of male. Kyrgyz Republic country gender assessment of 2019 shows that women attempting to negotiate with male loan officers have reported encountering gender biases, including being told to bring their husbands if they wish to apply for a loan (ADB 2005; Ibraeva, Moldosheva, and Niyazova 2011). Research indicates that many women tend to use microfinance institutions (MFIs), which offer less credit for shorter terms, rather than borrowing from commercial banks. In addition, women are often restricted to micro and small businesses, taking up smaller loans than men. A 2016 study on MFIs found that 86 percent of female clients borrow less than US\$1,100 and only 2 percent borrow over US\$2,000. Women are also more likely than men to borrow as a group (FAO 2016) and are often not equipped with the information and knowledge needed to set up Small and Medium Enterprises (SME) (ADB 2005).⁹

Sectoral and Institutional Context

9. **Regional and spatial analysis, conducted by the Bank in 2019, have identified southern regions as the most lagging in the country.** The country’s large urban-rural and intraregional disparities in the incidence of poverty highlight the economic dualism in the country and remote and mountainous regions bearing the highest burden of poverty. To help the Government address the issues of regional disparities, **in March 2020, the Bank approved US\$60 million of International Development Association (IDA) financing¹⁰ for the Regional Economic Development Project (RED-1) designed to support one of the country’s key lagging regions – Osh** – and to enhance its economic development through targeted interventions in the selected economic sectors. The selection of Osh as the pilot region for the first regional economic development operation was based on a regional and spatial analysis, which showed Osh as one of the key lagging regions despite its abundant assets and potential.

10. **This same analysis also identified Batken region as the second lagging region characterized by high poverty and vulnerability.** Batken’s Gross Regional Product per capita in 2019 was only 40 percent of the national average and only neighboring Osh oblast was lower. The unemployment rate at the regional level remains the highest in the country at 10 percent and expected to grow in 2021 due to the COVID-19 pandemic, as more migrants are expected to return to their homes. Infrastructure and the provision of basic municipal services also puts Batken among the poorest regions. As of 2019, out of the country’s seven regions, Batken had the country’s

⁹ ADB: [Kyrgyz Republic Country Gender Assessment Report 2019](#)

¹⁰ RED-1 is financed from US\$ 30 million equivalent IDA credit and US\$30 million equivalent IDA grant



highest poverty rate amounting to 32.6 percent, while the national average was 20.1 percent. Batken's already high poverty level would be even higher without remittances. As a 2019 study showed¹¹, remittances have provided an essential safety net in Batken, as the regional poverty rate would be around 50 percent without remittances. This confirms the populations extreme vulnerability to poverty and heavy dependence on remittances. More sustainable poverty reduction will require local economic growth which results in sustainable and socially inclusive development. The poor need greater access to services, water and sanitation, employment, credit, and markets for produce.

11. **Batken is facing similar challenges as the Osh region, including low skilled labor, low level of enterprise development, low market accessibility and low level of development of relevant economic institutions, infrastructure and services.** As of 2019, nearly 80 percent of households lack access to safe drinking water and almost the entire population lacked access to safe sewage systems. Other public services, such as schools and kindergartens also remained a challenge. Analysis of accessibility shows that the main cities - Isfana, Batken, and Kadamjay - are isolated from, rather than integrated with each other, thus limiting the positive role they can play in terms of linking to rural areas, linking to each other, and linking to the rest of the country.

12. **While the system of settlements in the Batken region consists predominantly of smaller cities, towns, and villages, Batken is one of the fastest growing regions by population in the Kyrgyz Republic.** The region contains three districts with 31 ayil okmotu (regional self-governance), two township administrations, one city administration, and 189 rural settlements. Between 2009 and 2018, the population in the region grew by 20 percent and according to the National Statistics Committee amounted to 537,300 in 2020¹², of which 24 percent is the urban population. Population growth is expected to continue given a large number of younger people along with a high fertility rate. In particular, a bulge of working-age population, which already accounts for roughly 60 percent of population across all regions, including Batken, is expected given the large number of females within the fertile window in urban areas.

13. **The growing population in the region offers a great opportunity for development, but it also signifies increased demand for employment, infrastructure and basic urban services.** The demand for infrastructure and services 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.

14. **Furthermore, the Batken region has experienced conflicts with adjoining countries most recently in April 2021 - resulting in casualties and destructions in public and private infrastructure in the border areas of the Batken region - further hindering the development of this lagging region and emphasized additional development challenges.** The official estimates found that 36 people died, 156 were injured (including military and medical personnel), 220 facilities (including 136 houses, 15 social facilities, 27 gas stations, and 42 shops were destroyed) and there are between 60,000 – 70,000 people affected in 20 villages of the Batken region. The armed clashes led to forced displacement from the Batken region to other locations in the country, although with the stabilization of the situation, most have returned. Infrastructure and property destruction have been

¹¹ RED-1 Regional Development Analysis (2019)

¹² <http://www.stat.kg/ru/statistika-po-regionam/>



estimated at a loss of US\$ 15 million. Against this background, the COVID-19 pandemic added even greater stress to this lagging region, threatening to reverse a decade of advancements in poverty reduction and development.

15. **Batken is part of the Ferghana Valley whose agri-food products have considerable market potential¹³.** Fresh fruits and vegetables are the most common Kyrgyz agricultural exports, comprising around 14 and 41 percent respectively of the US\$260 million agri-food exports of the country. There has been increased demand for high-value agricultural products and food, driven by rising incomes of population 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.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The Project Development Objective (PDO) is *to contribute to improved access to basic municipal services, strengthened competitiveness of selected agriculture value chains, and increased SME activities in the Batken Region.*

Key Results

PDO indicators reflect the theory of change and are aimed to measure the achievement of the intended project objectives. The proposed PDO indicators are:

1. People provided with improved urban living conditions (CRI, Number),
2. Increase in the sale of agricultural products by the Project beneficiaries (Percentage), and
3. Operational SMEs supported under the Small Grants Program (Number)

¹³ Kyrgyz Republic: Developing Agri-food Value Chains, WB, 2018.



D. Project Description

16. Consistent with the Government's priorities, the proposed project will build on the experience of the ongoing RED-1 and expand horizontally to the west from the Osh Region to the Batken Region. It will help the Government to support regional economic development and address the issues of climate resilience through three key dimensions: (i) enhanced basic municipal infrastructure and services in Batken, Isfana and Kadamjai urban centers in support of local business and improved living conditions for the local communities, including support to recover infrastructure damaged during the recent armed clashes in April 2021, (ii) support provided to the farmers and producers living in the rural areas to enhance their economic performance resulting in strengthened agriculture competitiveness; (iii) improved capacity in starting and executing business activities and incremental financial support for turning business ideas into business activities. Aligned with the PDO of the project, the proposed RED-2 components are as follows:

17. **Component 1: Supporting municipal infrastructure, basic public services, and capacity building (US\$24 million).** This component will follow the GRID principles to identify critical constraints in an evidence-based manner as proposed by the RISE approach. Following the GRID principles will help prioritize investment packages to improve municipal infrastructure and associated municipal services to meet the basic living standards in the selected towns and address the anticipated climate related risks and impacts; that will also include activities to help reconstruct public facilities and spaces affected by the recent armed clashes in April 2021 with a total anticipated cost of up to US\$ 5-10 million. The types of project-supported climate resilient infrastructure could include: (i) sewerage and water supply, stormwater and drainage systems, (ii) municipal and regional roads, sidewalks, and street lighting to improve access to key municipal services and markets; (iii) schools and kindergartens; (iv) other municipal assets such as parks and public spaces of high interest to the community. All intervention under this component will be led by climate related assessment to identify potential climate related impacts, risks and include relevant adaptation measures to make infrastructure climate resilient and, as a result, deliver reliable municipal services. That will be taken into account in the corresponding designs and further applied for execution of the civil work contracts through the use of the corresponding construction technologies and climate resilient materials. The project investments will also look into the introduction of possible climate change mitigation measures, including through the use of energy saving technologies leading to reduced building emissions, nature-based solutions and promotion of green infrastructure. Furthermore, all public buildings and spaces supported under the project will integrate appropriate measures to make these facilities accessible for people with disabilities.

18. This component will also support the Public-Private Cooperation (PPC) initiative to promote private investment attraction in the targeted sectors and locations. This initiative was first introduced in the ongoing RED-1 and aims at creating enabling environment for business development for medium and large-scale businesses. This initiative may finance public infrastructure to attract private investment across the region, where private sector entities are willing to invest but require complementary public infrastructure to make their investment viable (e.g., public infrastructure within vicinity of the investments, road/sidewalk, water/sanitation, etc.). Investments under this initiative will be limited to the determined ratio (e.g. 1 to 4) of the investments provided by the private sector. The PPC initiative will build on the screening and selection process, which was identified as part of RED-1 and will be specified in the Project Operations Manual developed by the Project Implementing Entity (PIE) and acceptable to the Bank. The public infrastructure financed under PPC initiative will be designed with due consideration of climate related impact and risks, and include related climate change adaptation measures, with use of the corresponding designs, technologies and materials, and application of the energy saving technologies, nature-based solutions, improved water management, etc., to contribute to climate change mitigation.



19. To address the issues of territorial and investment planning and development, seismic resiliency and energy efficiency, this component will also support the respective capacity-building activities and technical assistance that would strengthen the role of local, regional and central governments. Areas for possible support under this component would result in improved (i) integrated and sustainable urban and spatial planning based on the GRID principles through the use of digitalization and global good practices and following best practices of climate change mitigation and adaptation; and (ii) capital investment planning, budgeting, asset management, operation and maintenance of local infrastructure and the local and regional levels, and inter- and intra-agency coordination. The scope will be further defined based on the discussions for needs identification with the local, regional and national stakeholders.

20. **Component 2: Strengthening Agriculture Competitiveness (US\$21 million).** This component will comprise two sub-components.

21. **Sub-Component 2.1: Improving basic public agricultural services (US\$3.0 million).** This sub-component will improve the infrastructure and services that underpin agri-food marketing and trade in Batken with a focus on strengthening capacity for sanitary and phytosanitary (SPS) control, food quality, and basic services. The sub-component will upgrade the Ministry of Agriculture's (MoA) facilities located in Batken city and region relating to the functions of safety and quality of agriculture and food products, complementing on-going investments to upgrade SPS capacity to align with EEU and WTO standards. This will include financing for laboratory equipment and facilities upgrading at border control points and upgrading sampling capacity at the district/rayon level. The component will also provide targeted investment to upgrade training capacity and equipment on agricultural export markets requirements, food safety regulations, Hazard Analysis Critical Control Points (HAACP), and modern food processing technologies. A detailed feasibility assessment for upgrading existing facilities will be conducted in the first year to detail technical specifications and required infrastructure upgrades. The sub-component will also support training and capacity building around food safety requirements for domestic markets and export promotion.

22. **Sub-component 2.2: Strengthening Agri-Food Clusters (US\$18.0 million).** This sub-component will facilitate the development of select agri-food clusters with the aim of improving production and productivity among small agricultural producers within the selected clusters, strengthening partnerships between market actors within a cluster (agri-businesses and small agricultural producers), and putting in place the needed infrastructure for trade and logistics within clusters. The project will use a competitive selection process to identify investments sub-projects that target investments that build agri-business partnerships and increase production/processing volumes for domestic or export markets.

23. Sub-projects would have an objective to develop "productive partnerships" across multiple producer groups in and across a value chain – including farmers, collectors, processors, traders, and exporters. Each productive partnership will be expected to target a specific market opportunity; be managed by a lead farmer group, producer organization or cooperative; identify an investment program targeting critical constraints; and include *bona fide* market opportunities with identified buyers/partners. Each partnership will be governed by a framework agreement, and signed by the lead producer group and the buyer/aggregator or processing enterprise and any other relevant participant. Partnerships could be based on contractual arrangements or other less formal arrangements, with TA support provided as part of the partnership to develop appropriate governance arrangements.

24. Financing for activities within a partnership will target two types of investment:

- a. Public services and infrastructure critical to improving the functioning of the value chain targeted in the partnership. This could be technical assistance and training for producers and other services around



quality assurance, pest and disease control and food safety improvements and public infrastructure rehabilitation. Public infrastructure could include irrigation, access road repairs, electricity infrastructure, and other agriculture related infrastructure including wholesale markets or trade and logistics related infrastructure developed under Public-Private Partnership (PPP) arrangements.

- b. On-farm investments for producers that introduce the adoption of innovative technologies (particularly climate resilient or resource efficient technologies) including appropriate equipment, new crop or livestock varieties and farm inputs (including climate resilient crop varieties); and post-harvest facilities (such as facilities for storage, washing, grading, packing, pre-cooling, cold storage) for specific producer groups. On-farm investments will be co-financed by beneficiaries and subject to the Ministry of Finance's (MoF) requirements.

25. The sub-project development process will be guided by a set of feasibility studies or assessments that will inform the development of business plans and detailed sub-project proposals. In particular, the project will finance three assessments immediately following effectiveness: (a) a value chain assessment that will identify high potential value chain opportunities and agri-business linkages; (b) a drip irrigation/groundwater feasibility study to guide investments in drip irrigation; and (c) a PPP feasibility assessment for potential trade and logistics centers on MoA owned sites in Batken region. Technical assistance will be provided to potential sub-project beneficiaries to mobilize participation and prepare business plans and partnership proposals.

26. Both public and on-farm investments will prioritize where possible climate proofing and climate resilience through adaptation or mitigation technologies such as promotion of climate smart varieties, improved water management, more optimal input use, livestock management practices that reduce emissions, and energy efficient equipment at both the production and post-harvest stages. Where possible contributions to reduction in GHG emissions will be pursued in livestock production systems, which represent a major source of GHG emissions in the agriculture sector. The project anticipates that drip irrigation will be heavily promoted and could include expansion of new orchards using drip irrigation technology. In order to stimulate adoption of climate smart technologies, beneficiaries will be exposed and sensitized to new technologies as part of the sub-project proposal development process.

27. A productive partnership may define an investment program including both types of investment (public and on-farm) or only one. The sequence of implementation of activities will be determined by the specific sub-project partnership proposal. Public investments will be 100 percent project financed. On farm investments will be governed by additional agreements signed with beneficiaries. In the case of larger agri-business participants in the partnership (for example, processors or trade and logistic centers), cooperation will be in line with best practice principles for public-private cooperation and participants will be required to develop formal supply chain linkages to producers within the partnership.

28. The detailed criteria for selection of the value chain and the productive partnership will be defined in the Productive Partnerships Manual, which will constitute a condition of disbursement for sub-projects. Key criteria for selection include existence of a market or buyer, potential for job creation or engagement of many small-scale farmers, sustainable comparative advantage or competitiveness, inclusion of women and youth. The selection and award process will also include a feasibility study that will inform the development of business plans and detailed proposals. Given that many farmers are women, productive partnerships are expected to generate positive impacts for women and the criteria for selection will prioritize those demonstrating inclusion of youth, women and vulnerable groups.

29. **Component 3: Promoting local economic development through the Small Grants Program (US\$2 million).** To boost local economic development through improved business practices, the project will support SME development



through a training and small grants program. The small grants program will aim at supporting the launching of new enterprise activities and diversification and expansion of services offered by SMEs. The program will follow a phased approach, where the selected participants will undergo a robust training program, among others, on how to start and execute a business, how to address climate related risks and incorporate energy efficient technical solutions and any other green infrastructure ideas in their business plans. Those who successfully complete the training program will be eligible to apply for grant financing. This component will build on the success of this initiative introduced under the ongoing RED-1 and will be built on its experience, including the application of a Small Grants Handbook developed and used for the corresponding component under RED-1.

30. To address the issues of women’s low participation in the labor force and access to finance, the Small Grants Program will give preferences to women, as follows: (1) in the training program, female applicants will be given a priority at the selection stage as well. This will give women an opportunity to gain practical knowledge and skills in doing business; (2) when evaluating business-plans for financing, women applicants will be given additional points. The same approach will be used for youth to promote young entrepreneurs at the local level and socially vulnerable groups, as defined by the Small Grants Handbook. The summary of Identified Gender Gap, Actions, and Expected Results and Indicators is included in Annex 2, paragraph **Error! Reference source not found.**

31. The Small Grants Program will be guided by a Small Grants Handbook, which will be prepared by the PIE. Disbursement under this component will be subjected to the adoption of the Handbook, acceptable to the Bank, by the PIE.

32. **Component 4: Contingent Emergency Response Component (CERC).** This zero-dollar component is to improve the Kyrgyz Republic’s capacity to respond to disasters. Following an eligible crisis or emergency, including climate related disasters, the recipient may request the Bank to reallocate project funds to support emergency response and reconstruction. This component would draw from the uncommitted credit/grant resources under the project from other project components to cover emergency response. An emergency eligible for financing is an event that has caused or is likely imminently to cause, a major adverse economic and/or social impact to the Borrower, associated with disaster.

33. The CERC will be guided by a CERC Manual, which will be prepared by the PIE. Disbursement under this component will be subjected to the adoption of the Manual, acceptable to the Bank, by the PIE.

34. **Component 5: Operational Support (US\$3 million).** This component will support project implementation, including the project’s monitoring and evaluation system, communication strategy, application of environmental and social instruments, training, and financing of incremental operating costs of the PIE.

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

Summary of Assessment of Environmental and Social Risks and Impacts



35. The project will have mostly positive environmental and social benefits as the interventions for rehabilitation of urban and public infrastructures will substantially improve living conditions, water supply, sanitation, solid waste management, and reduce pollution, which will have significant effects on the health of the population and environment of cities in the region. Moreover, agri-food-related activities would create new jobs and, respectively, more employment and increased income, improving the business environment, introducing advanced agricultural technologies and techniques, and contributing to poverty reduction and food safety.

36. The project recognizes the following standards as relevant: ESS1, 2, 3, 4, 5, 6, 8, and 10. The project's environmental and social risks are both Substantial, resulting in an overall risk rating of Substantial. Small-medium scale and localized risks and impacts are expected from the rehabilitation/ upgrading of municipal infrastructure and basic public services as well as the development of agri-food clusters among small agricultural producers, which will include on-farm irrigation rehabilitation and expansion of drip irrigation technology into newly cultivated lands. Such risks and impacts include (i) increased pollution due to generation of waste; (ii) generation of dust, noise, and vibration due to the movement of construction vehicles and machinery; (iii) associated risks due to improper disposal of construction waste and asbestos; (iv) operational or accidental spills of fuel and lubricants from the construction machinery; (v) disturbance and pollution of the natural ecosystem and biodiversity; (vi) an increase in traffic; (vii) occupational and community health and safety issues; (viii) temporary/permanent physical and/or economic displacement; (ix) exclusion of vulnerable groups; (x) impact on physical, cultural heritage; (xi) soil pollution, erosion, compaction, and loss of production capacity; (xii) surface and groundwater pollution; (xiii) health hazard due to increased exposure to dangerous agrochemicals; (xiv) security risks due to tensions with neighboring countries. Apart from the above, a key challenge/ risk relates to the exclusion and marginalization of vulnerable groups – small-scale farmers, youth, and women. Ensuring inclusion and that there will be no elite capture, in general, and in particular, under the third component – Small Grants Program – is a significant challenge for the project. Managing the land acquisition process and 'ensuring inclusion' depends upon the institutional capacity and the implementation of the Environmental and Social instruments. The PIE has limited experience with the ESF requirements from implementing RED-1, which has become effective in December 2020. The PIE will establish a new team to implement RED-2. The team will include an environmental specialist, a social specialist, and an OHS specialist at the Bishkek office, and an environmental specialist and a social specialist at a satellite office in Batken. The PIE team will receive a full ESF training session after recruitment.

37. Due to the diverse range of activities financed under the Project, most of which will not be identified until after implementation begins, the Project is taking a framework approach. The following instruments and actions are prepared/completed before Appraisal: (i) Environmental and Social Management Framework (ESMF) that includes a template for the development of site-specific Pest Management Plans (PMP) and a specific section on Contingency Emergency Response Component (CERC); (ii) Resettlement Policy Framework (RPF); (iii) Stakeholder Engagement Plan (SEP); (iv) Labor Management Procedures (LMP); (v) Environmental and Social Commitment Plan (ESCP). Other instruments to be prepared during project implementation include site-specific Environmental and Social Impact Assessments (ESIA)/ Environmental and Social Management Plans (ESMP); Security Management Plan (SMP) if needed based on the results of Security Assessment.

38. The Borrower's Environmental and Social Commitment Plan specifies the main responsibilities and actions to be undertaken by PIE to ensure project compliance with the Bank's ESSs and in particular: (a) conducting environmental and social screening for all project activities via ESMP/ESMP Checklist covering the above aspects; (b) applying the ESMF and RPF to all project activities, including the need to prepare site specific ESMPs and Resettlement Action Plans; (c) reporting on environmental and social performance of all activities on a biannual reports; (d) ensuring transparency in providing project environmental, social actions and ensuring all ESIA and/or ESMPs are disclosed and publicly consulted with all



interested parties; (e) maintaining through the whole period of project implementation human capacity to ensure project activities ESIA and ESMP supervision and monitoring and providing adequate reporting to the implementing entity and to the Bank; (f) preparing and adhering to the Environment, Social, Health and Safety Code of Conduct by contractors; and (g) implementing and reporting on (i) Stakeholders Engagement Plan; (j) Labor Management Plans (LMP); and (k) Grievance Mechanism.

E. Implementation

Institutional and Implementation Arrangements

39. The project's implementation arrangements are as follows:

- (a) To ensure high-level coordination and flow of information and timely decision making on strategic and programmatic aspects, the Project will build on the current structure of RED-1 and will be overseen by a **Steering Committee (SC)**, formed with participation of the Deputy Minister or director level representatives from various relevant line ministries and government agencies (eg. Cabinet of Ministers, President's Office, Ministry of Finance (MoF), Ministry of Economy and Commerce (MoEC), Ministry of Agriculture (MoA), State Agency for Architecture, Construction and Communal Services, and the Plenipotentiary Representative of the Government in the Batken region). The MoEC will chair the SC.
- (b) **MoEC** will be the **Project Coordination Ministry** responsible for overall project coordination. MoEC will also coordinate effective implementation of the Project through its Regional Development Policy Department, with the Deputy Minister having the overall responsibility for facilitating smooth and high-quality project implementation. As such, MoEC's responsibilities will include reviewing annual work plans (prepared by PIE), providing relevant technical inputs, especially those at a strategic and policy level or on issues related to economic promotion.
- (c) **MoA** will be responsible for setting priorities and objectives for the agricultural activities under the Project, and for identification and endorsement of investments under Component 2. MOA will participate in the selection, evaluation and monitoring of investments under Component 2.
- (d) **Community Development and Investment Agency (ARIS)**, currently the PIE under RED-1, will be the **PIE** responsible for all fiduciary (eg. procurement, financial management, preparation of annual reports, budgets etc.) and environmental and social (e.g., assessments, document preparation and embedding safeguard specialists in local and regional government to carry out supervision, monitoring and compliance) functions for RED-2. ARIS will also be responsible for key technical aspects of the Project (eg. preparation of technical assessments and ESF documents, design and tender documents, organization of evaluation, consultations). ARIS will have a core team based in Bishkek, consisting of key technical personnel required for the Project implementation. With their technical, environmental and social staff in Batken, ARIS will closely coordinate with the regional and local governments and ensure smooth implementation of the Project in terms of technical, environmental, social aspects.
- (e) MoA and ARIS will sign the Cooperation Agreement in form and substance satisfactory to the Bank.
- (f) **The Regional and Local Governments** in the Batken Region will actively participate in project implementation. Representatives of ARIS, located in their regional offices, will ensure effective coordination with regional and local governments for project specific activities. *Inter alia*, the local



municipalities will be in charge of monitoring implementation of the Project activities, public safety and public health by appointing a representative. The representative will facilitate civic engagement and communication with the citizens and project affected people, conduct community meetings, participate in tender evaluation committees, facilitate local inputs to proposals and ensure both horizontal and vertical coordination for cross-sector activities. Finally, the representatives of the local and regional governments will be presented in the Productive Partnerships Selection and Small Grants Selection Committees, established under the Project. In addition, the Regional Government will provide an office space in Batken to promote good coordination with and implementation of the Project by the PIE staff, as needed.

- (g) **The Productive Partnerships Selection Committee**, under Component 2, will be established through a MoA decree and chaired by MoA. The committee will comprise representatives of MoEC, MoF, representatives of regional and local governments and members of the civil society, as further detailed in the Productive Partnerships Manual. The Committee for Productive Partnerships shall be responsible for evaluating and approving the applications for the Targeted Investments Subprojects program based on recommendations from a technical team that serves as Secretariat to the Committee and includes independent evaluation of proposals, and overseeing the implementation of the Targeted Investment Subprojects program under Component 2. The adoption of the manual by MoA, and ARIS will be a disbursement condition for Component 2.
- (h) Similarly, **the Small Grants Program Committee**, established under Component 3 through a MoEC decree will be responsible for evaluating and approving the applications for the Small Grants Program and overseeing the implementation of the Small Grants Program. It will comprise members from MoF, MoEC, MoA, ARIS, two members of the CSO sector from the Batken region, the Batken Governor's Office, and at least three city-level representatives from the region. The Committee's mandate, roles and responsibilities, as well as the grants screening, selection, awarding, reporting and all other details will be described in the Small Grants Handbook, acceptable to the Bank, developed by ARIS. The adoption of the handbook by ARIS will be a disbursement condition for Component 3.
- (i) The specific roles and responsibilities of all the parties set out above shall be described in detail in POM, which shall be developed by the PIE and furnished for the Bank for no objection. The approved POM will be an effectiveness condition for the Project.

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