



Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 17-May-2018 | Report No: PIDISDSA19055



BASIC INFORMATION

A. Basic Project Data

Country Central Asia	Project ID P159220	Project Name Third Phase of the Central Asia Regional Links Program (CARs-3)	Parent Project ID (if any)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date 12-May-2018	Estimated Board Date 11-Jul-2018	Practice Area (Lead) Transport & Digital Development
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency Ministry of Transport and Roads	

Proposed Development Objective(s)

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

Components

Regional Connections, Associated Facilities and Equipment in Issyk-Kul Oblast
Aviation Safety and Service Provision
Sustainable Tourism Development in Issyk-Kul Oblast
Project Management and Implementation

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

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

DETAILS

World Bank Group Financing



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

Environmental Assessment Category

B-Partial Assessment

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Regional and Country Context

For a small open economy, such as the Kyrgyz Republic, integrating regionally and tapping into external demand is key to ensuring robust and resilient growth. However, net exports have contributed negatively to growth in recent years. Goods and services export growth in U.S. dollar terms averaged 12 percent over 2000-16, albeit with a significant deceleration (to 4.1 percent) over 2008-16. This growth in export was triggered by the rise in gold prices as well as services exports, the share of which in total exports rose from 11 percent in 2000 to 34 percent by 2016, largely driven by construction, tourism and information and communication technology (ICT). This led to a decrease in the value of otherwise exported goods, leaving services and construction as the main contributors of overall growth.

The Kyrgyz Republic foresees improved prospects for stable growth and greater national cohesion from its membership to the Eurasian Economic Union (EEU)¹. To this end, the government has been modernizing the existing quality infrastructure (testing laboratories) to meet EEU sanitary and veterinary requirements in its livestock and food sector. To help meet EEU requirements of customs and border controls, the country has obtained a grant from Russia (US\$200 million) as well as a pledge of US\$1 billion through the Kyrgyz-Russian Development Fund (RKDF)². Additionally, transition periods to EEU common external tariff (CET) rates have been set up until 2019 for about 1,500 products (including food products, cars and machinery) out of about 6,400 commodities, for which the Kyrgyz current tariffs are currently lower.

Access to markets and opportunities for farmers and service providers however remains limited, particularly for agricultural exports. In rural areas where poverty is prevalent, lower market accessibility represents major constraints on trade in perishable produce, thus limiting potential benefits from domestic

¹ The treaty establishing the EEU was formally signed by Belarus, Kazakhstan and Russia. Agreements to enlarge the EEU to Armenia and Kyrgyz Republic were signed on October 9 and December 23, 2014 respectively.

² The latter is expected to mitigate the short-term negative impact of EEU accession by contributing to growth. The priorities of the fund include infrastructure investment for the implementation of technical regulatory compliance in the agribusiness, garments and textile, and services sectors.



and regional trade and depressing agricultural productivity growth³. Domestically, poor infrastructure and service delivery is a barrier to rural economic growth and employment generation which has overwhelmingly occurred in the informal sector. In 2015, for example more than 9 out of 10 new jobs were created by individual informal entrepreneurs and farmers.

The agricultural sector is top priority for the Government, as established in the National Sustainable Development Strategy (NSDS) and the National Export Strategy, where fruits and vegetables, dairy products, meat products are among the top 3 goods for export. To achieve its goals for export competitiveness of agricultural goods, some of the constraints of the sector need to be tackled. Poor irrigation systems causing huge water losses at about 40%, lack of agri-business equipment (notably including a cold storage infrastructure), and absence of food laboratories for certification of quality become the factors of hindering the exploitation of full agribusiness potential and are prominent trade barriers.

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

While the agricultural sector has been, and will remain critical to rural household income, tourism and hospitality services sector is expected to play a central role in the new growth model of the country, according to the recent government's program "40 steps" (2017). 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). While there are some data limitations, tourism is estimated to contribute to around 4.8 percent of Gross Domestic Product (GDP), with over US\$ 20 million in foreign direct investments into the country (2013). Globally, the Travel and Tourism Competitiveness Index 2017 of the World Economic Forum (WEF) confirms low sector competitiveness, ranking the country overall at 115 out of 136 countries, and last in Eurasia⁴.

Due to the country's natural and cultural resources, international experts estimate that tourism has the potential to grow six-fold, in particular in Issyk-Kul Region. This is driven by the increasing international interest in the region's differentiated niche destinations, in particular around the Issyk-Kul Region (Oblast) featuring the second largest mountain lake in the world (Lake Issyk-Kul) located in the Tian Shan mountain range. The Issyk-Kul Oblast, the second largest in the country (43,735 km²) bordering the Republic of Kazakhstan and the People's Republic of China is dependent on the production of the Kumtor gold mine⁵ and tends to be characterized by low agricultural productivity⁶. It has limited integration with regional markets.

³ The export costs associated with the country's regulation-induced border compliance, for example are estimated at US\$485 (2016 Doing Business Report).

⁴ Eurasia is defined as Russian Federation (43), Georgia (70), Azerbaijan (71), Kazakhstan (81), Armenia (84), Ukraine (88), Tajikistan (107) and Kyrgyz Republic (115).

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

⁶ In particular in cereals, potatoes, fruits and vegetables, meat and honey.



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

Reaping the benefits of the region's unrevealed economic potential requires coordination in cross-border regional connections, aligning with international standards and practices and drawing on industry know-how. Significant opportunities are present, especially in the eastern part of the Oblast in and around Karakol, which is the administrative capital of the region where agricultural activities, winter tourism and year-round alpinism are concentrated⁷ as well as on the northern lakeshore of Cholpon Ata, where summer tourism with 182 resorts is concentrated. Improvements are expected to have a significant employment generation effect, as the tourism industry currently provides mainly seasonal income, to some extent prone to informality. Despite current constraints in road and air connectivity⁸ to reach Karakol, winter tourism as well as mountaineering has seen a steady growth⁹.

Sectoral and Institutional Context

Regional integration, connectivity and the interaction between physical connections and operational constraints play an important role in the facilitation of tourism services as well as agricultural trade. Particularly relevant for a landlocked country with an export-oriented growth strategy, building productive infrastructure assets and improving service delivery and safety standards will positively impact competitiveness of firms and foster market opportunities. While the government has made efforts to improve the key transportation network in the country- road - with particular emphasis on the north-south axis linking the Republic of Tajikistan with Kazakhstan and further to Russia, the state of the infrastructure is generally poor across the country, especially at the national and regional level. Internationally, the country ranks 113 out of 138 countries on the Infrastructure Index of the WEF's Global Competitiveness Index 2016-17, or 130 out of 138 when looking at just transport infrastructure.

The Issyk-Kul region can be accessed through three different modes of transport - air, road and rail - while the latter is mainly used for moving bulk commodities from mines to Bishkek and onwards. Entry points for passengers and goods to the region are mainly by roads and airports. All three transport modes are severely constrained by their poor state of the infrastructure, which require rehabilitation and upgrading as set out in government's strategies, including the "Strategy for the Development of the Civil Aviation, 2013-2020". Almaty, Kazakhstan's largest metropolis and a major economic center and hub, is the closest international

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

⁸ 7 hours from Bishkek by road, 3 hours from Tamchy airport, poor infrastructure of Karakol airport with safety concerns.

⁹ As shown in the development of hotels and guesthouses in and around Karakol which grew from just a few to around 140 over the period of 2011-2016.



market for Issyk-Kul region's agricultural products. Almaty is also a major transport hub that serves tourists and passengers in the region. Currently, travel from Karakol region to Almaty, requires travelling via Bishkek and is whooping 680 kilometers although the physical distance between the two are only approximately 280 kilometers.

The cross-border link through Karkyra Border Crossing Point (BCP)¹⁰ with the Republic of Kazakhstan¹¹, can reduce journey time significantly, to about less than 400 kilometers¹². With an estimated average annual daily traffic (AADT) of about 1,000 – 1,500 vehicles in summer this road link historically served as the main transportation artery for agricultural products from Karakol to Almaty (and onwards to Russia) as well as the main entry point for tourists. After the collapse of the Soviet Union, borders appeared, road maintenance became limited and road condition deteriorated, downgrading the Karkyra BCP to a seasonal crossing which is open only during summer season since 2010. While the road link not only substantially reduces travel times to Almaty Oblast, it also opens new and more direct links to China as the distance from Karkyra BCP to Khorgos BCP, the main border crossing between China and Kazakhstan is only 200 kilometers. Khorgos is also one of the main gateways from China to Central Asia under the Belt and Road initiative of the government of China.

The rehabilitation of the adjacent road section in Kazakhstan from the Karkyra BCP to Kegen (18 kilometers) is at full implementation, expected to be completed in 2018 and financed out of the Government of Kazakhstan's budget. The Karkyra BCP, a priority customs border post of the EEU, is expected to be upgraded with financing from the EEU in order to move towards 24/7 operations year-round. Additionally, and given the climatic conditions of the region and potential of extreme weather events, the design, operation and maintenance of the transport infrastructure must take into account climate change vulnerability, including a specific vulnerability assessment as well as additional road maintenance equipment for snow removal. In accordance with the governments Road Sector Strategy (approved in 2015), the Ministry of Transport and Roads (MOTR) has embarked on the first stage of the reform process to consolidate road maintenance units and gradually move towards a client-contractor relationship for which sixteen legislative acts have been drafted to formalize the changes. Moreover, and given that the road link is cross-border, a “shared infrastructure” approach will also facilitate the diversification of fiber-optic communication lines to Issyk-Kul Oblast.

Good governance and efficient asset management in the transport sector are equally critical to ensure provision of safe, sustainable and resilient transportation services to its users. The safety concerns of transport infrastructure in the Issyk-Kul (and across the country) stem from several main reasons: lack of safety compliance in the aviation sector, poor maintenance of road infrastructure and road safety record as well as climate change vulnerability. The country is not only vulnerable to climate change and natural disasters (2nd ranked as the most vulnerable to climate change in the Central Asia region), it only has partially introduced road asset management systems (still lacking resources and technical know-how). The country is ranked 2nd in the Commonwealth of Independent States (CIS) region in terms of road accident fatalities (with an estimated cost of US\$250 million annually) and has major shortcomings in terms of international aviation

¹⁰ Tyup to Karkura Road joins Almaty-Khorgos road section of the Western Europe-Western China International Road Corridor of the Republic of Kazakhstan

¹¹ Building part of the north-south axis connecting the country and the Republic of Tajikistan with Kazakhstan and further to Russia and China.

¹² This road links forms part of the Central Asia Transit Corridor announced by the government in 2015 linking Tajikistan (Kairagach BCP, road sections rehabilitated under CARs-1 project) and continues through the new north-south axis (alternative route through Kazakhstan) ending in Karkyra BCP with Kazakhstan where it connects to the Western Europe-Western China Highway in Kazakhstan.



safety standards and recommended practices, according to the International Civil Aviation Organization's (ICAO) recent Universal Safety Oversight Audit Programme (USOAP) conducted in February 2016.

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

The most immediate issues for the CAA are designed to address directly the weaknesses found in the last ICAO Audit, which are: (i) to introduce training plans and programs compliant with ICAO standards, (ii) to enhance the actual qualification of CAA personnel, (iii) to upgrade the agency's record keeping capabilities for monitoring and oversight functions. The relation between the CAA needs and the SSC is a direct one as there are no qualified operations inspectors knowledgeable (e.g. with a type rating) on modern large jet aircrafts which they are supposed to certify or oversee. With the current budgetary limitations of CAA, delegated functions to inspectors that are at the same time affiliated with air operators represents a conflict of interest.

The interventions proposed by the Project build upon previous efforts to improve the governance and efficiency of the air transport sector. A recently adopted Air Code (2015) entered into force in March 2016. The institutional setup of the aviation sector follows a clear separation of functions, including that between regulation and operations, as mandated by ICAO. Other governance reforms were introduced in the early 2000s, separating infrastructure operators into distinct entities. Ownership and operation of 11 airports (4 international and 7 domestic) are entrusted to JSC Manas International Airport¹³. Kyrgyzaeronavigatsia is the Air Navigation Service Provider in the country, a state enterprise financially independent from the government's budget, yet functionally subordinated to the MOTR. Some airport and air navigation charges are monitored and regulated by the Kyrgyz Antimonopoly Agency.

The poor road network conditions, aviation safety concerns and legal and institutional framework constitute as the binding physical, operational and enabling environment constraints to the development of the Issyk-Kul region and the country. The government's tourism development program 2020, overseen by the Tourism Department within the Ministry of Culture, Information and Tourism (MoCIT) highlights the need to overcome isolation, improve tourist service infrastructure, and provide adequate access to sites of natural and historical significance. Yet, the implementation of related measures within a specific geographic area (such as an oblast) in a comprehensive and integrated manner requires coordination and resources, especially if the country aims to maximize the benefits of the development of the sector in a sustainable and regionally integrated manner¹⁴. Another constraint faced by Kyrgyz Republic to fully tap into its tourism potential is its lack of capacity to make evidence-based decisions and promote investment with reliable tourism related data.

¹³ Manas is owned by the State Property Fund of the Kyrgyz Republic (79%), the Social Fund of the Kyrgyz Republic (8.5%), as well as by other legal and private persons. Manas does not receive direct or indirect (non-reimbursable) transfers from the State budget and depends on aeronautical and non-aeronautical revenues. Fifty percent of all profits are to be returned to the State budget.

¹⁴ E.g. World Tourism Organizations' (UNWTO) Silk Road Programme which is aimed at maximizing benefits of tourism development for local Silk Road Communities, while stimulating investment and promoting the conservation of the route's natural and cultural heritage.



Reporting on tourism and travel related statistics on supply and demand in a standardized format are non-existent. This lack of data leads to limited success in unlocking private solutions in tourism (where appropriate) bringing not only financing but also industry know-how and best practice.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

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

Key Results

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

- a. Number of vehicles passing through Kyrgyz-Kazakh Karkyra border crossing point. This will measure the regional connectivity aspect of the PDO in terms of reducing physical road bottlenecks;
- b. Compliance with aviation safety standards measured by USOAP reaches global ICAO average. This will measure the regional connectivity aspect of the PDO in terms of increasing aviation safety;
- c. Resident satisfaction with sustainable tourism. This will measure the sustainable tourism development aspect of the PDO from four dimensions of sustainable tourism: institutional, economic, ecological and socio-cultural.

D. Project Description

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

Component 1. Regional Connections, Associated Facilities and Equipment in Issyk-Kul Oblast (Estimated total cost – US\$46.00 million). This component comprises civil works, rehabilitation of facilities, purchase of equipment and consultants' services to establish a reliable road connection to Kazakhstan via Karkyra BCP, important for regional trade (agriculture) and access to tourism sites through inter alia:

- d. ***Rehabilitation of about 52 km of road section in Issyk-Kul Oblast, including and within close proximity of the road linking Tyup with Karkyra border crossing, as well as road side facilities and links to access San-Tash Tamerlane historical monument.*** The infrastructure to be rehabilitated will serve regional agricultural trade as well as tourism and include 37 km from Tyup to Karkyra border crossing with Kazakhstan (km 39.6-76) and its continuation to the tourist camp in the Kyrgyz Republic and Republic of Kazakhstan (about 15 km). The technical designs standards will be based on updated designs (under preparation) and align with the standards on the road section in Kazakhstan from Kegen to Karkyra BCP which is currently under rehabilitation. It will also



include a 500-m short dirt road to the cultural heritage site of San-Tash Tamerlane to be complemented by the tourist service center under component 3. Snow and wind barriers and potentially an elevated road formation (in particular from km 70-76) will be considered during the finalization of the designs in order to ensure climate resilience and to reduce winter maintenance costs along Tyup-Karkyra BCP. A road safety audit will be undertaken as part of the design work for the road section to ensure the safety of all road users, e.g., pedestrians, vulnerable groups and drivers.

- e. **Provision of road maintenance equipment, in particular snow removal equipment to ensure year-round operation of the road.** In order to ensure year-round operation of the Tyup-Karkyra BCP road, the purchase of necessary road maintenance equipment particularly for winters is necessary. Given the prevalence of exceptionally harsh snowfalls (in particular from km 70-76), GPS-linked road maintenance equipment will be acquired, such as rotary snow blowers, snow plough, dump trucks etc. The equipment will be transferred to the balance sheet of the Road Maintenance Unit responsible for the Oblast¹⁵.
- f. **Provision of consultants' services for work supervision.** An experienced international consultant firm will be hired for construction supervision.

The activities will benefit from a climate change vulnerability assessment (supported by a grant from the Global Facility for Disaster Reduction and Recovery) and will also encompass a "shared infrastructure" approach to facilitate diversification of fiber-optic connection of Issyk-Kul Oblast with Kazakhstan. It is expected that CO₂ emissions will increase by about 2,624 tons compared to the before project baseline due to an expected increase in traffic. However, it is estimated that the total net CO₂ emissions (the net emissions with and without project scenario) will not be increased, as some traffic will be diverted from Karakol-Bishkek-Almaty route to Karakol-Tyup-Kegen route, which is almost two times shorter. It is also expected that with the improved road pavement, the average speed will increase thus CO₂ emissions from vehicles are likely to be reduced.

Component 2: Aviation Safety and Service Provision (Estimated total cost – US\$4.5 million). With the objective of enhancing and developing the air transport sector of the Kyrgyz Republic, addressing aviation safety and service provision comes as the most binding constraints. The accomplishment would help the CAA to reach ICAO's international safety standards and recommended practices as well as to overcome the current blacklist of the EU for Kyrgyz carriers, enhance local carriers' growth opportunities and ultimately increasing the country's level of connectivity, a result that would benefit both local residents and international visitors.

In this context, component 2 comprises works, purchase of equipment and consultants' services to strengthen safety and service provision of the aviation sector through inter alia:

- a. **A review of the Aviation State Safety Program (SSP)** to identify CAA's institutional and capacity challenges and address gaps found in the ICAO Audit, mainly the Agency's lack of funding and staffing capabilities to conduct its oversight duties per international standards and the Kyrgyz Air Code.

¹⁵ Contracting out road maintenance works to the private sector has been attempted by the ADB-financed pilot project, but without success due to lack of private contractors. This is particularly due to the fact that routine maintenance and in particular winter maintenance is based on very long experience in local terrain and climatic conditions.



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

Component 3: Sustainable Tourism Development in Issyk-Kul Oblast (Estimated total cost – US\$3.5 million).

The component comprises activities focusing on support towards developing the tourism sector in Issyk-Kul Oblast in a sustainable manner. Tourism sector's competitiveness is closely linked to its sustainability, in particular through improved information for decision-making (including a set of indicators), upgraded facilities as well as involvement of local communities.



Thus, component 3 comprises works, purchase of equipment and consultants' services to support the development of sustainable tourism in Issyk-Kul Oblast through inter alia:

- a. **Development of a Sustainable Tourism Strategy and Program, including application on a pilot basis of Tourism Satellite Accounts (TSA) for Issyk-Kul Oblast.** This activity will fill the existing information gap to inform decision makers on sustainable tourism development in Issyk-Kul Oblast. The strategy and program will not only focus on the balance between environmental, economic, and socio-cultural considerations of tourism development but also on trade-offs between public and private sector involvement, including investments. Additionally, TSA, a standard statistical framework as developed by the World Tourism Organization will be implemented on a pilot basis in Issyk-Kul Oblast and underlying data will become available to cover for example, inbound, domestic tourism and outbound tourism expenditures, production accounts of tourism industries as well as employment, among others.
- b. **Rehabilitation and/or construction of about five tourist services centers (TSCs) in Issyk-Kul Oblast.** As indicated in the Travel and Competitiveness Index of the World Economic Forum (2017) services infrastructure for tourism, located along major travel routes within the Issyk-Kul Oblast is sparse and often do not meet internationally accepted standards. Existing TSCs will be rehabilitated and/or new ones will be constructed in 5 pre-identified locations which are in close proximity to the following tourism landmarks: (i) the Eko Post at the entrance to the town of Balykchy, (ii) the Hippodrome in Cholpon Ata-Bosteri towns, (iii) the cultural heritage site of San-Tash Tamerlane along the Tyup-Karkyra BCP road, (iii) the city of Karakol, as well as (iv) the entrance of Kadji Sai town, along the southern part of the Issyk-Kul Ringroad. The type of construction/upgrading works of each center will be subject to its location and expected flow of tourists, but may include tourism information desks, wash-toilet facilities, wifi points, parking lots, security/first aid points, souvenir point/shop, café/restaurants, etc.
- c. **Development of community-led geopark development in the two eastern districts of Issyk-Kul Oblast, namely Tyup and Aksuu districts.** Two districts, located in the eastern part of the region have been selected to pilot community-led tourism development based on UNESCO geopark approach focused on the principles of nature protection, education and sustainable development of local communities. Potential branding of the area as UNESCO Global Geopark is envisaged in the future after the implementation of the activity.

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

E. Implementation

Institutional and Implementation Arrangements

The overall responsibility for the implementation of all activities under the CARs-3 Project will lay with the MoTR of the Kyrgyz Republic including fiduciary responsibility for the execution of the project. The World Bank IPIG within the MoTR will be responsible for the day-to-day administration of the project activities, which comprise of, inter alia: (a) financial management function, including planning and budgeting, accounting,



financial reporting, internal controls, funds flow and disbursement and auditing, (b) management of environmental and social safeguards aspects; and (c) undertaking all procurement and contract management activities for all components. The adoption of a Project Operational Manual (POM) will be an additional effectiveness condition for the project.

MOTR and its IPIG will also prepare and furnish to the Bank annual work plans no later than December 1 of each calendar year during the implementation of the project. These annual work plans will include (a) a detailed timetable for the sequencing and implementation of proposed project activities, (b) types of expenditures required for such activities and a proposed financing plan, (c) training activities that may be required under the project, and (d) reference to each safeguard document applicable and the proposed approach to ensure preparation and implementation of the safeguard document during the relevant year.

This multi-sectoral project linking improvements in regional connectivity with creating market opportunities for trade and tourism development requires strong coordination between various stakeholders. Therefore, two Working Groups will be permanently established, one on tourism and one on aviation to ensure coordinated decision-making and specialized technical inputs in due course of project implementation. Tender Commissions will be established for the procurement of certain works, goods and selection of consultants' services to include representatives from sectoral agencies. The Working Groups will include the following agencies: (i) CAA under the MoTR for aviation safety component, as well as (ii) the Department of Tourism under the MoCIT and the Issyk-Kul Oblast Administration for tourism component. If additional coordination is required, a supervisory board or intra-governmental committee, which includes heads/deputy heads of relevant ministries, departments and agencies could be established.

F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

Issyk-Kul region, with its capital Karakol is one of the regions in Kyrgyz Republic surrounded by Almaty Region (Kazakhstan) to the north, Chuy Region (west), Naryn Region (southwest) and Xinjiang, China (southeast). It takes its name from Lake Issyk-Kul, the second largest saline lake in the world which is surrounded by the ridges of the Tian Shan mountain system with its highest peak, including Khan Tengri located in the easternmost part of the region. Most of the population of the Issyk-Kul region lives around the lake, in particular the cities of Karakol (near its eastern end) and Balykchy (near the lake's western end). The first nature reserve in the Kyrgyz Republic, Issyk-Kul State Reserve was established in 1948 to protect the unique nature landscapes and waterfowl at Issyk-Kul Lake which is also a Ramsar site of globally significant biodiversity and forms part of the Issyk-Kul Biosphere Reserve. The lake is also believed to contain highly endemic fish biodiversity and some of the species are seriously endangered.

G. Environmental and Social Safeguards Specialists on the Team

John Bryant Collier, Environmental Safeguards Specialist
Javaid Afzal, Environmental Safeguards Specialist



Rustam Arstanov, Environmental Safeguards Specialist
Rebecca Emilie Anne Lacroix, Social Safeguards Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	The Project triggers OP4.01 and is screened as Category B under the environmental screening category. The project will rehabilitate and upgrade existing roads in Issyk-Kul Oblast; therefore, the civil works are expected to have a low to moderate impact on the biophysical environment near selected road sections and bridges based on the preparation of the Draft ESIA as well as extensive field visits conducted by the Bank team during identification and preparation. The Borrower has prepared a Draft ESIA/ESMP for: the rehabilitation and upgrade of approximately 37 km of the road between the city of Tyup in Kyrgyzstan and city of Kegen in Kazakhstan (border crossing Karkyra); the rehabilitation of about 15 km of the mountain road adjacent to the Tyup-Kegen road leading to the mountain tourist camp; the rehabilitation of a 500 meter long dirt road connecting the main road with the historical site, “the Stones of Tamerlane”; and the rehabilitation and/or construction of 5 tourist services centers (TSCs). The Draft ESIA/ESMP will be updated based on the the final design once that work is completed. The final ESMP will be incorporated into the works contracts to ensure compliance throughout project implementation. All safeguards documents will be disclosed nationally and on the World Bank external website.
Performance Standards for Private Sector Activities OP/BP 4.03	No	This policy is not applicable.
Natural Habitats OP/BP 4.04	Yes	The Natural Habitats policy is triggered owing to the existence of protected areas near the project area. The Project is located in the Issyk-Kul biosphere, which supports unique biodiversity which takes its name from Lake Issyk-Kul, the second largest saline lake in the world. Based on the IUCN Red List of



		Threatened Species, no Critically Endangered (CR), two Endangered (EN), three Vulnerable (VU) species are found in the protected areas and natural habitats close to the project area. The types of recorded and confirmed threats to identified EN and VU species are not directly linked to any type of linear infrastructure development (construction or rehabilitation). The preliminary conclusion of the draft ESIA is that the project activities will cause negligible to low impact on above mentioned habitats and species. The ESMP includes mitigation measures the contractor is expected to take to ensure protected areas and critical natural habitats remain undisturbed.
Forests OP/BP 4.36	No	The policy is not triggered.
Pest Management OP 4.09	No	The policy is not triggered.
Physical Cultural Resources OP/BP 4.11	Yes	This policy is triggered as some of the project interventions are located in close proximity to historic sites of the Kyrgyz Republic. Chance finds of cultural or archeological significance are, therefore, possible during construction, particularly on the rehabilitation of the 500 meter long dirt road connecting the main road with “the Stones of Tamerlane”. Chance find procedures are mentioned in the Draft ESIA and will be beefed up in the ESIA/ESMP based on the final design work.
Indigenous Peoples OP/BP 4.10	No	The policy is not triggered.
Involuntary Resettlement OP/BP 4.12	Yes	An RPF was prepared as it is expected that all road works will occur within existing footprint. However, there is a possibility that works may require land for borrow pits, contractor works (operations area), and or a slight widening of existing road or extension of tourist services centers. Until the final detailed design, it is not known as to whether or not any of these activities will occur, and if so, if they will trigger 4.12. Therefore, an RPF was prepared. If, during project implementation, it is determined that 4.12 is triggered, Resettlement Action Plan(s) will be prepared by the Recipient.
Safety of Dams OP/BP 4.37	No	The policy is not triggered.
Projects on International Waterways OP/BP 7.50	No	The policy is not triggered.
Projects in Disputed Areas OP/BP 7.60	No	The policy is not triggered.



KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

Safeguard issues and impacts associated with the proposed project are limited to the typical impacts associated with infrastructure rehabilitation projects.

The severity of potential environmental impacts is expected to be moderate and mostly limited to the construction period: (i) air pollution and noise from trucks and other construction machinery, and asphalt and batching plants, (ii) soil disturbance during earthmoving and material (gravel/sand/soil) extraction, (iv) tree-cutting and loss of other vegetation, (iv) generation and disposal of construction and domestic solid waste (from construction camps), (v) construction camp management (which will be temporary with only minor and localized negative effects), and (vi) borrow area management.

The roads to be rehabilitated have been identified and are known, however specific elements are not such as borrower pits, contractor camps, and parking areas for construction vehicles. These specific details are not anticipated to be identified until the Feasibility Study (FS) and Detailed Design are complete. The project has had delays in finalizing the FS and Detailed Design, which are currently being negotiated by the Government. The Client does not believe that an ESIA can be completed without final FS and design; therefore, a Draft ESIA/ESMP has been prepared incorporating information from various sources and best available information, including existing FSs, design and implementation of the government financed road section, consultation with key stakeholders, literature/desk review, and other secondary sources. Once the detailed design is complete, the Client will update and consult on the ESIA/ESMP based on that final design. The final ESIA/ESMP will be approved by the Bank and disclosed prior to commencing construction and the final ESMP will be incorporated into works contracts financed by the project.

A Resettlement Policy Framework was prepared as it is expected that all road works will occur within existing footprint. However, there is a possibility that works may require land for borrow pits, contractors works (operations area), and/or slight widening of the road or extension of tourist information centers. Land acquisition is expected to be avoided and impacts minimal. Until the final detailed design, it is not known as to whether or not any of these activities will occur, and if so, if they will trigger 4.12. Therefore an RPF was prepared. If, during project implementation, it is determined that 4.12 is triggered, Resettlement Action Plan(s) will be prepared by the Recipient.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

In the project's larger context, there are potentially other indirect, long-term adverse environmental impacts on Issyk-Kul region, the Issyk-Kul Biosphere and the Lake. After the rehabilitation of infrastructure (roads), traffic (light and heavy) is expected to increase, bringing tourists as well as cargo to the region, from the Kyrgyz Republic and through the Republic of Kazakhstan to China.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

Several alternatives were considered and are discussed in the Draft ESIA – these include: alternative routes - including the decommissioning of the existing road; alternative alignments - including a parallel road; alternative types of



transportation; and the option of "no action". Rehabilitation of the existing road is considered the most feasible option in terms of minimizing the impact of construction works on the environment and the costs, providing economic benefits, and minimizing potential adverse environmental impacts. Potential environmental and social impacts can be mitigated by countermeasures to combat the spilled pollutants, speed limits, installation of new warning signs, and other measures identified in the Draft ESIA and RAP.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

The Recipient is familiar with the Bank safeguard policies triggered by this project given its experience developed during preparation and implementation of other Bank-finance projects, including CARs-1 Project. As with CARs-1 Project, the environmental and social aspects related to the proposed investments will be implemented under the supervision of an environmental specialist and a social safeguards specialist within the International Project Implementation Group (IPIG) in the Ministry of Transport and Roads. All civil works contracts will include provisions on how to address environmental and social mitigation and monitoring aspects during works as described in the ESMP.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

During project preparation, meetings were held with concerned stakeholders including people directly affected by the project and surrounding local communities, Government Agencies (State Agency for Environmental Protection and Forestry and its departments, Issyk-Kul Biosphere Territory Directorate, Road Management Department under MOTR, Authorized Representative of the Government in Issyk-Kul oblast as well as the Ministry of Culture, Information and Tourism).

B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other

Date of receipt by the Bank 06-Feb-2018	Date of submission for disclosure 17-May-2018	For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors
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"In country" Disclosure

Kyrgyz Republic
13-Apr-2018

Comments

MOTR's website: www.piumotc.kg

Resettlement Action Plan/Framework/Policy Process

Date of receipt by the Bank 20-Feb-2018	Date of submission for disclosure 20-Feb-2018
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"In country" Disclosure

Kyrgyz Republic

20-Feb-2018

Comments

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

OP/BP/GP 4.01 - Environment Assessment

Does the project require a stand-alone EA (including EMP) report?

Yes

If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?

Yes

Are the cost and the accountabilities for the EMP incorporated in the credit/loan?

Yes

OP/BP 4.04 - Natural Habitats

Would the project result in any significant conversion or degradation of critical natural habitats?

No

If the project would result in significant conversion or degradation of other (non-critical) natural habitats, does the project include mitigation measures acceptable to the Bank?

NA

OP/BP 4.11 - Physical Cultural Resources

Does the EA include adequate measures related to cultural property?

Yes

Does the credit/loan incorporate mechanisms to mitigate the potential adverse impacts on cultural property?

Yes

OP/BP 4.12 - Involuntary Resettlement

Has a resettlement plan/abbreviated plan/policy framework/process framework (as appropriate) been prepared?

Yes

If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?

Yes

The World Bank Policy on Disclosure of Information



Have relevant safeguard policies documents been sent to the World Bank for disclosure?

Yes

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?

Yes

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?

Yes

Have costs related to safeguard policy measures been included in the project cost?

No

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?

No

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?

Yes

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APPROVAL

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