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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 21.8 MILLION
(US\$30 MILLION EQUIVALENT)

AND A PROPOSED GRANT

IN THE AMOUNT OF SDR 21.8 MILLION
(US\$30 MILLION EQUIVALENT)

TO THE

KYRGYZ REPUBLIC

FOR A

REGIONAL ECONOMIC DEVELOPMENT PROJECT

FEBRUARY 20, 2020

Urban, Resilience And Land Global Practice
Agriculture and Food Global Practice
Europe And Central Asia Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective Jan 31, 2020)

Currency Unit = Kyrgyzstan Som (KGS)

US\$ 1 = KGS 69.88

US\$ 1 = SDR .07262

FISCAL YEAR

January 1 - December 31

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ABBREVIATIONS AND ACRONYMS

ABCC	Agribusiness Competitiveness Center
ARIS	Community Development and Investment Agency
CBA	Cost Benefit Analysis
CIS	Commonwealth of Independent States
CPF	Country Partnership Framework
CRI	Corporate Result Indicator
DA	Designated Account
ECA	Europe and Central Asia
EEU	Eurasian Economic Union
EIRR	Economic Internal Rate of Return
ESCP	Environmental and Social Commitment Plan
ESIA	Environmental and Social Impact Assessment
ESMF	Environmental and Social Management Framework
ESSs	Environmental and Social Standards
FIRR	Financial Internal Rate of Return
FM	Financial Management
FNPV	Financial Net Present Value
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GIZ	German Development Agency
GoKR	Government of Kyrgyz Republic
GRP	Gross Regional Product
GRS	Grievance Redress Service
HACCP	Hazard Analysis Critical Control Point
IDA	International Development Association
IFAC	International Federation of Accountants
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IPF	Investment Project Financing
IPSASB	International Public Sector Accounting Standards Board
ISA	International Standards on Auditing
LMP	Labor Management Plans
M&E	Monitoring and Evaluation
MAFIM	Ministry of Agriculture, Food Industry and Melioration
MOE	Ministry of Economy
MOF	Ministry of Finance
MOCIT	Ministry of Culture, Information and Tourism
NPV	Net present value
NSDS	National Sustainable Development Strategy
OP	Operational Policy

PDO	Project Development Objective
PFM	Public Financial Management
PIE	Project Implementation Entity
POM	Project Operation Manual
PPC	Public-Private Cooperation
PPSD	Project Procurement Strategy for Development
PRAMS	Procurement Risk Assessment and Management System
RAP	Resettlement Action Plan
QCBS	Quality- and Cost-based Selection
RFB	Request for Bids
RPF	Resettlement Policy Framework
SC	Steering Committee
SCD	Systematic Country Diagnostic
SECO	State Secretariat for Economic Affairs
SME	Small and Medium Enterprise
SOE	Statement of Expenses
SPS	Sanitary and Phytosanitary
STEP	Systematic Tracking of Exchange in Procurement
TA	Technical Assistance
TOR	Terms of Reference
UNFCC	United Nations Framework Convention on Climate Change
USAID	United States Agency for International Development
US\$	United States Dollar
VPU	Vice Presidential Unit
WBG	World Bank Group
WTO	World Trade Organization

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DATASHEET

BASIC INFORMATION

Country(ies)	Project Name	
Kyrgyz Republic	Kyrgyz Republic Regional Economic Development Project	
Project ID	Financing Instrument	Environmental and Social Risk Classification
P167428	Investment Project Financing	Substantial

Financing & Implementation Modalities

<input type="checkbox"/> Multiphase Programmatic Approach (MPA)	<input type="checkbox"/> Contingent Emergency Response Component (CERC)
<input type="checkbox"/> Series of Projects (SOP)	<input type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Disbursement-linked Indicators (DLIs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made Disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	

Expected Approval Date	Expected Closing Date
12-Mar-2020	18-Dec-2026

Bank/IFC Collaboration

No

Proposed Development Objective(s)

The Project Development Objective is to support the Recipient to enhance regional economic development through targeted interventions in the selected sectors in the Osh region.

Components

Component Name	Cost (US\$, millions)
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Improving Regional Economic Planning and Regulatory Functions	5.50
Strengthening Agri-Food Supply Chains and SMEs	25.50
Catalyzing Investments for Tourism and Urban Development	22.00
Supporting Tourism and Rural Development through Small Grants	3.00
Implementation Support and Monitoring and Evaluation	4.00

Organizations

Borrower: Ministry of Finance

Implementing Agency: Community Development and Investment Agency (ARIS)

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

Total Project Cost	60.00
Total Financing	60.00
of which IBRD/IDA	60.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**

International Development Association (IDA)	60.00
IDA Credit	30.00
IDA Grant	30.00

IDA Resources (in US\$, Millions)

	Credit Amount	Grant Amount	Guarantee Amount	Total Amount
Kyrgyz Republic	30.00	30.00	0.00	60.00
National PBA	30.00	30.00	0.00	60.00



Total	30.00	30.00	0.00	60.00				
Expected Disbursements (in US\$, Millions)								
WB Fiscal Year	2020	2021	2022	2023	2024	2025	2026	2027
Annual	0.00	0.50	1.50	6.00	14.00	18.00	19.00	1.00
Cumulative	0.00	0.50	2.00	8.00	22.00	40.00	59.00	60.00

INSTITUTIONAL DATA

Practice Area (Lead)

Urban, Resilience and Land

Contributing Practice Areas

Agriculture and Food

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	● Substantial
2. Macroeconomic	● Moderate
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● High
7. Environment and Social	● Substantial
8. Stakeholders	● Substantial
9. Other	
10. Overall	● Substantial



COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

Yes No

Does the project require any waivers of Bank policies?

Yes No

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
Cultural Heritage	Relevant
Financial Intermediaries	Not Currently Relevant

NOTE: For further information regarding the World Bank’s due diligence assessment of the Project’s potential environmental and social risks and impacts, please refer to the Project’s Appraisal Environmental and Social Review Summary (ESRS).

Legal Covenants

Sections and Description



The Recipient shall establish, no later than sixty (60) days from the Effective Date, and thereafter maintain, throughout the Project implementation period, a Steering Committee.

Sections and Description

To facilitate the carrying out of Part 2 of the Project, the Recipient shall establish through a MAFIM decree, no later than sixty (60) days from the Effective Date, and thereafter maintain, throughout the Project implementation period, a Committee for Productive Partnerships.

Sections and Description

To facilitate the carrying out of Part 4 of the Project, the Recipient shall establish through a Ministry of Economy decree, no later than sixty (60) days from the Effective Date, and thereafter maintain, throughout the Project implementation period, a Small Grants Program Committee.

Conditions

Type	Description
Effectiveness	the Project Operations Manual has been prepared and adopted by the Project Implementing Entity satisfactory to the Association.
Effectiveness	The Project Implementing Entity has hired a Project coordinator, procurement specialist, environmental safeguard and social safeguard specialists, and an engineer, all with terms of reference and qualifications acceptable to the Association.
Effectiveness	The Subsidiary Agreement has been executed on behalf of the Recipient and the Project Implementing Entity.
Effectiveness	The Cooperation Agreement has been signed between MAFIM, ABCC and the Project Implementing Entity in form and substance satisfactory to the Association.
Disbursement	No withdrawal shall be made under Category (2) until the MAFIM, with support of ABCC, and Project Implementing Entity have adopted the Productive Partnerships Manual under terms and conditions acceptable to the Association
Disbursement	No withdrawal shall be made under Category (3) until the Project Implementing Entity has adopted the Small Grants Handbook under terms and conditions acceptable to the Association.



I. STRATEGIC CONTEXT

A. Country Context

- 1. The Kyrgyz Republic is a land-locked, mountainous country of 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. Its 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. The country's economy has grown at a quick pace between 2000 and 2018 and yielded significant overall welfare gains and poverty reduction; but the momentum has slowed, and many challenges remain.** Since the turn of the century, the main drivers of economic growth have been gold extraction¹ and worker remittance,² which fueled domestic consumption. This growth model has enabled the economy to grow at an average rate of 4.5 percent over the 2000-2016 period, continuing strong at 4.7 percent in 2017, 3.5 percent in 2018 and projected at 4 percent for 2019.³ The poverty rate decreased dramatically in both urban and rural areas, from 52 percent in 2005 to 21 percent in 2009,⁴ but has been uneven since then. In 2018, 22.4 percent of the population lived below the national absolute poverty line, while 0.6 percent lived in extreme poverty. A large proportion of the population is clustered just above the poverty line, with a high risk of falling into poverty due to exposure to shocks and insufficient safety nets. Poverty also differ significantly among the regions, with the southern regions in the Fergana Valley (Batken, Jalalabad and Osh) having lower per capita income, higher unemployment, lower human development indices, and more limited access to services.
- 3. Across the country's seven regions, an increase in regional disparities has been observed in both population distribution and economic activity over the past decade.** The population in the Kyrgyz Republic is concentrated only in a few regions, with the two largest cities of Bishkek and Osh and their surrounding regions accounting for roughly 56 percent of the country's total population. Further, although the country has seen a steady increase in the average Gross Regional Product (GRP) per capita since 2006, the gap between the poorest and the richest regions has widened, particularly since 2010.⁵ Similar trends have been observed in other economic⁶ and social indicators. In part, this is due to 95 percent of the country's territory being covered by mountains and valleys, making it difficult to improve connectivity and deliver infrastructure and basic public services. While spatially uneven economic geography is a common phenomenon, a lack of integration between leading and lagging regions has hindered the Kyrgyz in spreading the benefits of agglomerations more broadly. This has resulted in severe and growing disparities not only in productivity, but also in living standards. Improving connectivity and market accessibility linking to urban centers and towns are therefore, critical for improving economic growth and enhancing livability in the regions.

¹ The economy's reliance on gold accounts for about 10% of GDP and is highly reliant on one large gold mine, Kumtor.

² Remittances is equivalent to about 30% of GDP in 2011-2016, and rising to about 35% of GDP in 2017.

³ Kyrgyz Republic Economic Update No. 9, summer 2019, World Bank.

⁴ Measured at the international \$3.2-a-day line (2011 PPP). Kyrgyz Republic Country Partnership Framework FY19-22, October 20, 2018, World Bank.

⁵ While in 2010 the richest region had a GRP per capita 4 times higher than the poorest region, by 2015, the richest region has a GRP per capita 6 times higher than the poorest region. As a reference in the EU leading (mainly metropolitan) regions have, on average, 2.3 times the GDP per capita of the poorest region in their country – (Farole et al. 2017).

⁶ Economic activity as proxied by the brightness of nighttime lights, is highly concentrated in one major mining site (Kumtor gold mine), as well as a few population centers located around relatively flat regions of the territory, such as Bishkek and its surrounding cities in the Chui valley, and Osh city, Jalal-Abad city, and the surrounding areas on the Ferghana valley. While these regions have consolidated as the growth engines of the country, others, most notably Osh, Batken and Naryn Regions in the Southern part of the country, have continued to lag.



4. **The country is highly exposed to natural hazards and disaster risks, and ranks as the third most vulnerable country to the effects of climate change in the ECA region.**⁷ A large proportion of Kyrgyz households are heavily dependent on livelihoods that are strongly exposed to environmental and climate vulnerabilities. The Kyrgyz Republic is classified as the most seismically-dangerous territory in Central Asia (96.7 percent of the population live under high seismic risk) and it is also exposed to frequent flooding (annually, about 80,000 people are affected with about US\$60 million lost in potential GDP), landslides and mudflows. 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 agriculture⁸ and tourism as well as hydropower, extractives and forestry. The Third National Communication to the United Nations Framework Convention on Climate Change (UNFCCC) identifies agriculture, energy and water sectors as the most vulnerable to climate change.⁹ 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 exposure to disaster risks, including managing the transition from a predominantly rural to an increasingly urban society and economy.
5. **Governance remains a defining challenge for the Kyrgyz Republic with uneven progress over the past decade.** Relative to other low- and middle-income countries and even to low-income countries, the Kyrgyz Republic falls well behind average performance in key dimensions in the Worldwide Governance Indicators, including rule of law, control of corruption, and political stability. Public policy has too often been unpredictable, distortive, or inefficient and there has been too little focus on providing an enabling environment for an inclusive private sector.
6. **Gender inequality remains a challenging issue especially related to economic and political empowerment.** According to the Country Partnership Framework (CPF) 2019-2022 (Report No. 130399-KG, discussed by the Board on November 13, 2018), women are less likely to be employed and, when employed, they earn on average 30 percent less than men. The gap in wage levels between men and women has widened between 2013 and 2017, indicating a severe lack of appropriate economic opportunities that could potentially lead to serious social as well as economic issues. This has been further confirmed by *Spatial analysis to support regional integrated development in the Kyrgyz Republic* conducted by the World Bank (the Bank) for the Project preparation. Despite abundant female working-age population especially in urban areas, female labor force participation is low. While the nationwide difference in employment rates between males and females had increased from 24 percent in 2014 to 29 percent in 2017, this gap had widened over time across all regions, including Osh. The region has suffered from an increase in the female employment gap, growing from 15 percent in 2014 to almost 35 percent in 2017. Osh city has been leading the list since 2014 with almost 45 percent difference in employment rate between men and women in 2017. In addition, various studies, 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.

B. Sectoral and Institutional Context

7. **The 2018 Systematic Country Diagnostic (SCD) identified agriculture, tourism, hydropower and mining as key sectors that build on the country's strong base of natural and cultural resources to generate economic growth.** In the Osh Region, agriculture and tourism represent those with the potential to propel broad

⁷ The World Bank, *Adapting to Climate Change in Europe and Central Asia*, 2009.

⁸ Currently, 26 percent of the population is dependent on agriculture.

⁹ Key vulnerabilities identified include water scarcity and drought induced impacts on agricultural production, pest and disease pressure in agriculture and forest ecosystems, domestic water availability and potential hydropower generation.
https://unfccc.int/sites/default/files/resource/NC3_Kyrgyzstan_English_24Jan2017.pdf



based private sector development. Moving on the dual fronts of improving Osh’s urban livability and services as an anchor of tourism in the region and simultaneously taking concerted steps to boost agricultural development in the adjacent rural areas represents the core of a multi-pronged development strategy which aims to tackle the growth, jobs, and inequality challenges.

8. **The SCD also highlights the challenge to both sectors 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.
9. **Boosting competitiveness in agriculture and improving delivery of services in the tourism sector are central for the Government.** In the agriculture sector, interventions tailored to the specific needs of small producers are crucial to poverty reduction and regional economic growth. Agricultural labor productivity remains low and a large share of farms in Osh are very small-scale. An approach aimed at promoting higher-value crop production, niche marketing, and quality improvement is needed to help small farms maximize their limited resources. This is especially important as adherence to an increasingly sophisticated regulatory environment driven by export requirements remains a hurdle for smaller producers. In the tourism sector,¹⁰ strategic interventions and dedicated investments to become internationally competitive, and the Osh Region represent a potential “anchor” of untapped tourism potential. In addition to efforts being taken at a national, systemic level, (tourism is identified as one of the four priority sectors for economic development in the Kyrgyz Republic’s National Sustainable Development Strategy¹¹), concrete interventions in basic infrastructure and tourist amenities are needed, especially in regions like Osh, which holds high potential for tourism development. Osh contains rich historical, cultural and natural assets, and is strategically located at the crossroads connecting the Kyrgyz Republic with China, Uzbekistan and Tajikistan and where cultural and nature-based tourism represents an underexploited opportunity in the country and has large potential for development (including to diversify tourism arrivals).
10. Thus, a two-pronged approach building on the economic potential of the region and its comparative advantages forms the centerpiece of the Government’s efforts to boost development in Osh. On the one hand, addressing the agriculture sector challenges specific to the smallholder-driven nature of the sector and the need to take concrete steps to improve private sector performance, and on the other hand, to implement a comprehensive tourism initiative beginning with critical investment in the core urban areas, reflecting Government’s recognition that regions can only reach their potential is by leveraging regional cities (or growth poles) as growth engines, consistent with the recently approved Regional Development Strategy (2018-2022).¹² This strategy focuses on improving the efficiency of urban growth, creating more livable, attractive and greener

¹⁰ The Kyrgyz Republic is ranked 118th out of 145 countries in the World Economic Forum Travel & Tourism Competitiveness Index 2017, far behind regional competitors such as Kazakhstan (81th) and Tajikistan (107th)

¹¹ The Government’s Tourism Sector Development Program for 2019-2023 outlines 19 priority sites across 7 regions, for restoration, preservation and promotion as tourist attractions, including the Suleiman-too museum and Uzgen historical and cultural complex in Osh Region.

¹² Approved by the Decree Jogorku Kenesh of the Kyrgyz Republic, April 20, 2018, No. 2377-VI



cities to better manage disaster risks and enhance the delivery of municipal services in order to address spatial inequalities and increase the efficiency of public expenditures.

C. Relevance to Higher Level Objectives

11. **The Government has identified supporting regional development as one of the key policy areas to pursue in the coming decades.** The country's President declared the years of 2018 and 2019 as the "Year of Regional Development". Moreover, the 2018-2040 National Sustainable Development Strategy (NSDS) cites regional development as one of its key pillars to support economic prosperity. It further recognizes that achieving sustained economic development requires addressing binding constraints in physical infrastructure and regulatory and enabling environment in sectors that are expected to contribute to the country's economic growth, such as tourism and trade (mainly agribusiness) and potentially unlock private solutions where appropriate. The proposed Regional Economic Development Project responds to the request by the Government and supports the Regional Development Strategy (2018-2022), the 2018-2040 NSDS, as well as sector specific strategies such as the Tourism Sector Development Program for 2019-2023 and State Program for Food Security and Nutrition for 2019-2023. By supporting the 2018-2040 NSDS¹³, which recognizes the need to transition to more sustainable development pathways through the advancement of green economic principles and also calls for the development of climate change adaptation strategies to reduce vulnerability and improve resilience, the Project also addresses climate action priorities in the Kyrgyz Republic and the country's Nationally Determined Contribution (NDC) commitments under the Paris Agreement.
12. **The focus on regional development and improvement in emerging opportunities in agriculture and tourism will contribute to the creation of job opportunities, reducing poverty and promoting inclusive growth.** The Project will support improvements in infrastructure and livability of key urban growth centers, as well as diversification of economic opportunities (and reducing dependence on remittances) through strengthening the agriculture and tourism sectors and targeting both urban and rural populations. In addition, barriers to private sector development and engagement will be addressed through strengthening and building capacities of relevant institutions and stakeholders in the agriculture and tourism industries, including those related to improved promotion, creation of partnerships, and enabling business development environment. The Project will also facilitate improvement of accessibility and linkages between rural-urban areas and within regional markets and the regional and enhancement of local potential.
13. **The Project is consistent with the WBG CPF for the Kyrgyz Republic for 2019-2022 and supports Focus Area 3: Enhance economic opportunities and resilience (and explicitly Objective 8 to support regional development).** The Project is expected to support the Government in: (i) facilitating the regional economic development analysis to inform policies and potential interventions in the Osh Region, and (ii) by piloting regional development initiatives in the key lagging region of Osh and its cities under the Project. The Project would target activities focusing on improving the local economy and opportunities for local income generation, enhancing accessibility, and improving key infrastructure and services, as well as institutional capacity to ensure their delivery.

¹³ UNEP, https://www.adaptation-undp.org/sites/default/files/resources/kyrgyz_nap_in_focus_online_final.pdf and Kyrgyz Republic Country Strategic Plan 2018-2022 <https://documents.wfp.org/stellent/groups/public/documents/cb/wfp293164.pdf>



II. PROJECT DESCRIPTION

A. Project Development Objective

PDO Statement

14. The Project Development Objective is *to support the Recipient to enhance regional economic development through targeted interventions in the selected sectors in the Osh Region.*¹⁴
15. Recognizing that regional development requires multi-sectoral and integrated interventions, the Project will focus support on both urban and rural areas within the Osh Region, and include the city of Osh and the other identified growth poles.¹⁵ The selection of Osh as the pilot region is based on a regional and spatial analysis which shows Osh as one of the key lagging regions despite its abundant assets and potential. The challenges faced by Osh Region include low skilled labor, low level of enterprise development, low market accessibility and low level of development of relevant economic institutions, infrastructure and services. Hence, the Project intends to address these key challenges through interventions in regional economic planning, infrastructure and services improvements, facilitating and targeting Small and Medium Enterprises (SMEs) development, as well as targeted institutional strengthening in the two most important economic sectors – agriculture and tourism with urban development as an enabler to regional and sectoral growth.

PDO Level Indicators

16. PDO indicators reflect the theory of change and attempt to measure the intended results achieved from improved capacity of both national and subnational governments and private sector entities with a particular focus on the tourism and agriculture sectors. The proposed PDO indicators are:
 - (a) Increase in the sale of agricultural products by Project beneficiaries (Percentage),
 - (b) Increase in the number of tourist arrivals at sites supported under the Project (Percentage), and
 - (c) People provided with improved urban living conditions (CRI, Number)
17. Special focus will be given to the distribution of benefits by gender, based on analysis conducted and data generated under the Project through intermediate level indicators.

B. Project Components

18. The Project will focus on enabling regional economic development with a focus on catalyzing private sector development, and on building the capacity of urban centers to serve as the hubs for regional development. Project interventions will include a tailored package of investments and activities aimed at: (i) boosting the region's economic potential through enhancements in tourism and agricultural productivity; (ii) elevating living standards; and (iii) strengthening institutional and private sector capacity in the target areas, including improved awareness and strengthened capacity in urban resilience and energy efficiency practices at both national and local levels.
19. **Component 1: Improving Regional Economic Planning and Regulatory Functions (US\$ 5.5 million).** Interventions proposed under this component are aimed at building capacity for regional economic development planning at the central and regional levels and enabling relevant departments of the key relevant ministries and other agencies in the Osh Region to fulfill their mandate of provision of key public services, including effective regulation. This component will comprise two sub-components:

¹⁴ For the purposes of the Project, "Osh Region" covers the Osh Region and the City of Osh.

¹⁵ In Osh Region, the identified regional cities/growth poles according to the Government's Regional Development Strategy (2018-2022) include Osh, Uzgen, Kara-Suu and Sary-Tash.



20. **Sub-component 1.1: Enhancing Regional Economic Planning (US\$ 1.5 million).** This sub-component will support the development and implementation of a *Regional Economic Development Plan*. The Plan will seek to identify, *inter alia*, policies, priority actions and institutional requirements for effective integrated regional economic planning and development of the region and its main economic corridors. The plan will be developed by the regional government and will focus on identifying opportunities to boost regional economic potential through inclusive, integrated and climate smart initiatives aimed to both strengthen the climate resilience and mitigate the possible impact on the climate change. Financing will also be allocated for specific capacity building opportunities for the staff of public institutions to enable them to better manage and promote the assets generated under the Project and enable the private sector to offer improved services. While the focus largely will be on Osh city and region, the key staff of the relevant ministries and other relevant agencies (for example, the Ministry of Economy (MOE), the Ministry of Culture, Information and Tourism (MOCIT), MAFIM) will also benefit from capacity building activities to enhance their knowledge for better regional development planning, coordination, and policy making, covering climate change adaptation and mitigation strategies. The sub-component will also promote sustained coordination between the center and the region through the use of appropriate technologies and practices (for example, digital platform for regional development investments prioritization and selection).
21. **Sub-Component 1.2: Improving Basic Agricultural Services and Regulatory Functions (US\$ 4.0 million).** This sub-component will improve the infrastructure and services that underpin agri-food marketing and trade in Osh with a focus on strengthening capacity for sanitary and phytosanitary (SPS) control, food quality, and basic services. The sub-component will upgrade facilities located in Osh 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. Support will also be provided to upgrade seed certification and soil analysis functions in Osh to support investments in component 2. This will include upgrading the existing laboratories in Osh to achieve International Seed Testing Association (ISTA) certification and will also support the country's climate adaptation agenda by improving capacity for more efficient input use and the introduction of climate resilience technologies and practices. The component will also provide targeted investment for Osh Technological University and Osh Agricultural College to upgrade their training capacity and equipment on agricultural export markets requirements, food safety regulations, 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. **Component 2: Strengthening Agri-Food Supply Chains and SMEs (US\$ 25.5 million).** This component will facilitate the development of partnerships between agri-businesses and small agricultural producers to finance targeted investments sub-projects that improve quality and expand production/processing volumes. The component will utilize a value chain development approach (productive partnerships) that is based on facilitating and organizing producer groups to meet specific market requirements and link with buyers/aggregators or processing enterprises. The aim of investments will be to: (a) improve access to markets and increase quality and consistency in the supply of relevant outputs; (b) stimulate cooperation within the value chain; and (c) reduce risk and transaction costs for value chain participants.
23. The Project will facilitate the development of productive partnerships on a demand-driven basis during implementation. A productive partnership would cover multiple producer groups in and across one 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.

24. Financing for activities within a partnership will take place through targeted investments critical to improving the functioning of the value chain targeted in the partnership. Sub-projects will finance:
 - (a) Technical assistance and training for producers and other services around quality assurance, pest and disease control and food safety improvements;
 - (b) Public infrastructure rehabilitation (i.e. access road repairs, electricity infrastructure, and other agriculture related infrastructure) critical to functioning of the value chain;
 - (c) Investments 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); or post-harvest facilities (such as facilities for storage, washing, grading, packing, pre-cooling, cold storage) for specific producer groups.
25. Targeted investments will prioritize where possible climate proofing and climate resilience through adaptation or mitigation technologies such as promotion of climate resilient 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.
26. A productive partnership will define an investment program and a sequence of implementation of activities will be determined by the specific partnership proposals. Co-financing requirements will be defined in the Productive Partnership Manual. 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.
27. The detailed criteria for selection of the value chain and the productive partnership will be defined in the Productive Partnerships Manual. 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, and 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.
28. Disbursement for under this component will be subjected to the adoption of the Productive Partnerships Manual, acceptable to the Bank, by MAFIM, ABCC and ARIS and in accordance with the Productive Partnership Agreement and the respective Targeted Investments Sub-projects Agreement.
29. **Component 3: Catalyzing Investments for Tourism and Urban Development (US\$ 22.0 million).** This component will leverage the unique natural and cultural assets of the Osh Region and its cities and finance foundational and enabling investments supporting: (i) integrated packages of improvements of priority touristic sites and clusters; (ii) regional infrastructure, services and amenities to address key bottlenecks for improved tourism quality and conditions; (iii) urban amenities that will enhance the livability of urban centers to attract tourists and retain residents, and (iii) pilot public-private cooperation to attract private investments in the tourism sector. The sub-components are:
30. **Sub-component 3.1: Upgrading Osh and Uzgen Urban Cores and Tourism Circuits (US\$ 19.0 million).** The Osh Region has untapped potential to attract domestic and international tourists to visit the many natural and cultural attractions it has to offer. Osh is the second largest city in the country and the gateway to the south



and the Fergana Valley, while Uzgen has been identified as one of the growth poles in the region with recognized potential to grow its incipient tourism sector. For tourism development and urban regeneration, the Project will finance infrastructure investments in the participating cities (e.g. Osh and Uzgen) and tourism circuits (e.g. Kara-Shoroo, Kyrgyz-Ata, Abshyr-Ata) to improve the tourism image of these areas and address the need for targeted, area-based urban upgrading and complementary infrastructure, services and connectivity, to improve livability. All infrastructure investments under this component will apply energy efficiency standards and consider climate change impacts and address specific risks to strengthen climate resilience of the tourism sector in the targeted area (please also see paragraph 62 “Climate Change”, Section IV “Project Appraisal Summary”, for more details).

31. The component will also initiate and support a Public-Private Cooperation (PPC) mechanism, which will finance public infrastructure to attract private investment in tourism in towns and villages 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 follow a specified screening and selection process, which will be set out in the Project Operations Manual, developed by the Project Implementing Entity (PIE) and acceptable to the Bank.
32. **Sub-Component 3.2: Tourism Product Development, Marketing and Promotion (US\$ 3.0 million).** This sub-component will provide support to public entities at both the national and subnational levels for improved monitoring and evaluation, marketing and promotion of the Kyrgyz Republic and the Osh Region as an emerging destination at the targeted international markets. It will provide support with investment attraction, organization of cultural events and e-governance initiatives. The sub-component will finance the development of sustainable site management plans for cultural and natural heritage sites and relevant workforce development and capacity building for public and private sector.
33. **Component 4: Supporting Tourism and Rural SME Development through Small Grants (US\$ 3.0 million).** The Project will support SME development through a training and small grant program targeting tourism and rural SMEs and startups. The small grants program will aim to support the launching of new enterprise activities in rural areas and diversification and expansion of tourism services. In tourism, small grants will be expected to improve the capacity, and the quality and range of services offered, which could result in inter-linked activities, *inter alia*, in the areas of gastronomy, agro, ethnic and eco-tourism. The program will follow a phased approach, where the accommodation managers/staff, tour operators and tour guides will undergo a robust training program and those who will complete it successfully will be eligible to apply for financing. Other services providers and SMEs will be required to submit a sound business plan for their proposed activities. Technical support in business plan development will be provided by the Project. Start-ups financed under the program will be eligible for financing to scale-up their activities after a proven record of successful utilization of funds (presenting books, payment of taxes, generating employment, etc.).
34. To address the issues of low rates of women participation in the labor force and in access to finance, described in paragraph 6, the small grants program will give preferences to women. Female applicants for the training program will be given priority at the selection stage as well. This will give women an opportunity to gain practical knowledge and skills in doing business in the tourism sector or rural entrepreneurship. When scoring 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 other socially vulnerable groups.
35. The Small Grants Program will be guided by a Small Grants Handbook, which will be developed by the PIE. Disbursement under this component will be subjected to the adoption of the Handbook, acceptable to the Bank, by the PIE.



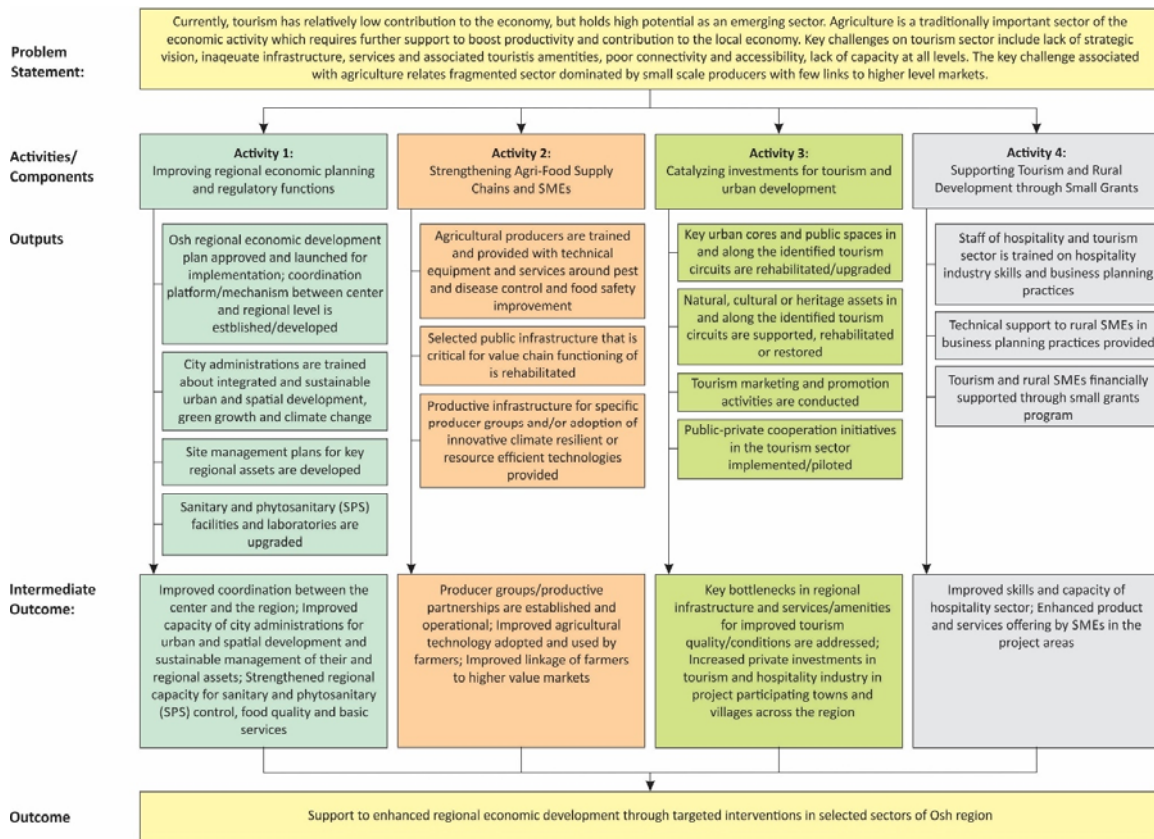
36. **Component 5: Implementation Support, Monitoring and Evaluation (US\$ 4.0 million).** This component will support project implementation, including the Project’s monitoring and evaluation system, communication strategy, application of safeguard instruments, training and financing of operating costs for the Project.

C. Project Beneficiaries

37. The primary beneficiaries for this Project are the inhabitants of the Osh Region and municipalities (both urban and rural) utilizing infrastructure financed under the Project, SMEs from the agricultural and tourism sectors, agricultural producers and agri-businesses and visitors who will benefit directly from improved accessibility, connectivity and infrastructure and services. Both male and female inhabitants of participating localities are expected to benefit from increased job opportunities. Indirect beneficiaries will be the visitors to the cities (for work, visit to markets, administrative, tourism and other purposes).
38. **Citizen engagement.** During preparation, the Project activities have been identified through a participatory process engaging national, regional and local stakeholders. In addition, the studies for urban regeneration of Osh and Uzgen city cores were conducted in a participatory manner. All relevant stakeholders (including women and youth) have been engaged (including the public and private sector and representatives from local communities), study results have been presented at the community meetings, and citizen inputs have been incorporated in the Project design. Also, the Project design has been informed by citizens’ views and a tourism rapid assessment.
39. During implementation, the Project will continue to pro-actively involve local citizens and beneficiaries (especially women and youth groups) across project activities and ensure their engagement in the finalization of detailed designs. Under the Project’s first component, the development of a regional economic development plan will remain participatory and will be finalized only based on in-depth stakeholder engagement. The project’s second component investments in productive partnerships will be demand driven and involve extensive awareness raising. For Citizen Engagement purposes, the Project will utilize the following mechanisms: (i) participatory urban design through place-making, which is a collaborative, community-driven approach including citizens and the local community into urban design activities, (ii) participatory monitoring of ongoing construction works, which will include community representatives to evaluate the implementation of the investments, (iii) periodic “Open Door” days, organized like consultative workshops inviting local citizens and SMEs interested in implementing grant activities and providing guidance and information on the grant program (tailored to applicant needs). These events will aim to also involve vulnerable local citizens and ensure that dialogues are established to assess needs and gaps and further improve grant programs, and (iii) a dedicated and already institutionalized Grievance Redress and Beneficiary Feedback Mechanism for the targeted investments sub-projects and small grant program, which will be actively promoted in the Project. This mechanism will ensure that various avenues of contact and information are utilized (including telephone and widely used web apps such as Facebook, WhatsApp, and Viber). Information with contact phone numbers, the ARIS web site, and a QR code will be displayed at the respective city halls and at all construction sites. For the small grants program, information for interested applicants will be offered through the announcements (posters) in public places and at easy to access information boards.
40. Finally, all citizen engagement activities will include detailed discussions of climate change and sustainability issues relevant to the respective communities and explanations on how the proposed activities and investments will address the issues of climate change adaptation (and, where possible, mitigation).

D. Results Chain

41. Figure below illustrates the Theory of Change or results chain which explains the link between the Project activities, outputs, and outcomes.



E. Rationale for Bank Involvement and Role of Partners

42. **The Bank:** The Bank has been an active partner with the Government of the Kyrgyz Republic in the development agenda through numerous projects over the past decades, delivering both infrastructure projects as well as policy reforms in multiple sectors. This Project represents a new approach as it adopts a cross-sectoral and integrated approach to address regional and economic challenges through not just infrastructure improvements but supporting both key and emerging economic sectors of agriculture and tourism. The Bank is well-placed to work on this agenda as both these sectors have been well prioritized by the Bank over the years and across the globe. Thus, the Bank can bring good experience and expertise to first identify the key issues and bottlenecks, and then propose relevant interventions to tackle these in an integrated manner.
43. Furthermore, the Project will benefit from the Bank’s demonstrated international expertise and experience in adopting similar integrated approaches to regional development in the ECA region, where the Bank has worked with the Governments of Georgia, Armenia, Uzbekistan, Azerbaijan and Russia to develop similar integrated projects.
44. **Other development partners:** A number of other donors are active in this sector in the Kyrgyz Republic and the Project will provide a unique opportunity for collaboration and leveraging of resources in support of sustainable regional development. Some donors who are active in the infrastructure sector and already expressed interest to coordinate and contribute to the urban agenda are the Asian Development Bank, the Asian Infrastructure Investment Bank and the Islamic Development Bank. The European Bank for Reconstruction and Development also actively works with business entities and potential collaboration discussions on technical assistance have taken place with SECO and GIZ. Agriculture investments will be closely coordinated with other donors active in the sector including GIZ, KFW, USAID, IFAD, SDC and others.



F. Lessons Learned and Reflected in the Project Design

45. The Bank has implemented projects targeting similar sectors or adopting an integrated regional development approach in the Europe and Central Asia region and worldwide. The key lessons learned from these projects are reflected in the Project design and elaborated as follows:
46. ***Allow flexibility and adjustments in Project design and implementation to respond to complex local realities and context.*** The Project design allows refinements by adopting a phased approach to implementation. This will include the phased-approach of value chain partnerships preparation and implementation and will be supported through continuous monitoring, review and adjustments over the life of the Project.
47. ***Catalytic investments require the development of institutional capacity and strong coordination.*** Effective and sustainable cross-sectoral interventions require: (i) institutional/organizational setup and instruments for better coordination and execution of interventions at the regional and local level; (ii) integrated planning, both sectoral and geographical; and (iii) champions at both the national and regional/local levels. In addition, the PIE needs to build up sufficient capacity and have the competency to communicate and enable implementation of tasks working both vertically (national to regional and subnational level agencies) and horizontally (across sectors and line agencies). Further, local authorities should build their capacity to plan and manage local services and infrastructure, as well as to facilitate and mobilize private investments.
48. ***Adopting an evidence-based approach to inform Project design.*** Past project experiences have shown that effective project designs should be informed by and based on evidence and data where possible. The Project takes this into consideration by applying a Regional and Spatial Analysis¹⁶ as a first step in understanding regional characteristics, and are further supported by technical assessments such as the Tourism Rapid Assessments and the Conceptual and Urban Designs exercise developed for the Project, in addition to consulting other available information or studies from relevant projects or development partners.
49. ***Productive alliances and programs for SME development require appropriate targeting and selection criteria.*** Such supply initiatives have used grants and technical assistance to facilitate linkages between small-scale producers and buyers in the agriculture sector and investment programs, more generally, have also been used in many countries to finance knowledge and business development related services for SMEs. Assessments of productive alliances and investment programs have identified a number of lessons, including the need to: utilize grants to address a well identified market failure; direct grants to a clearly defined beneficiary group with a verified demand; allow beneficiaries to select service providers; utilize cost sharing to retain ownership by beneficiaries; and ensure transparency and clear criteria in how grants are awarded.¹⁷ The Project has designed mechanisms to incorporate these lessons into the selection of grants for cluster development through the use of a transparent process to select and support targeted investments sub-projects.

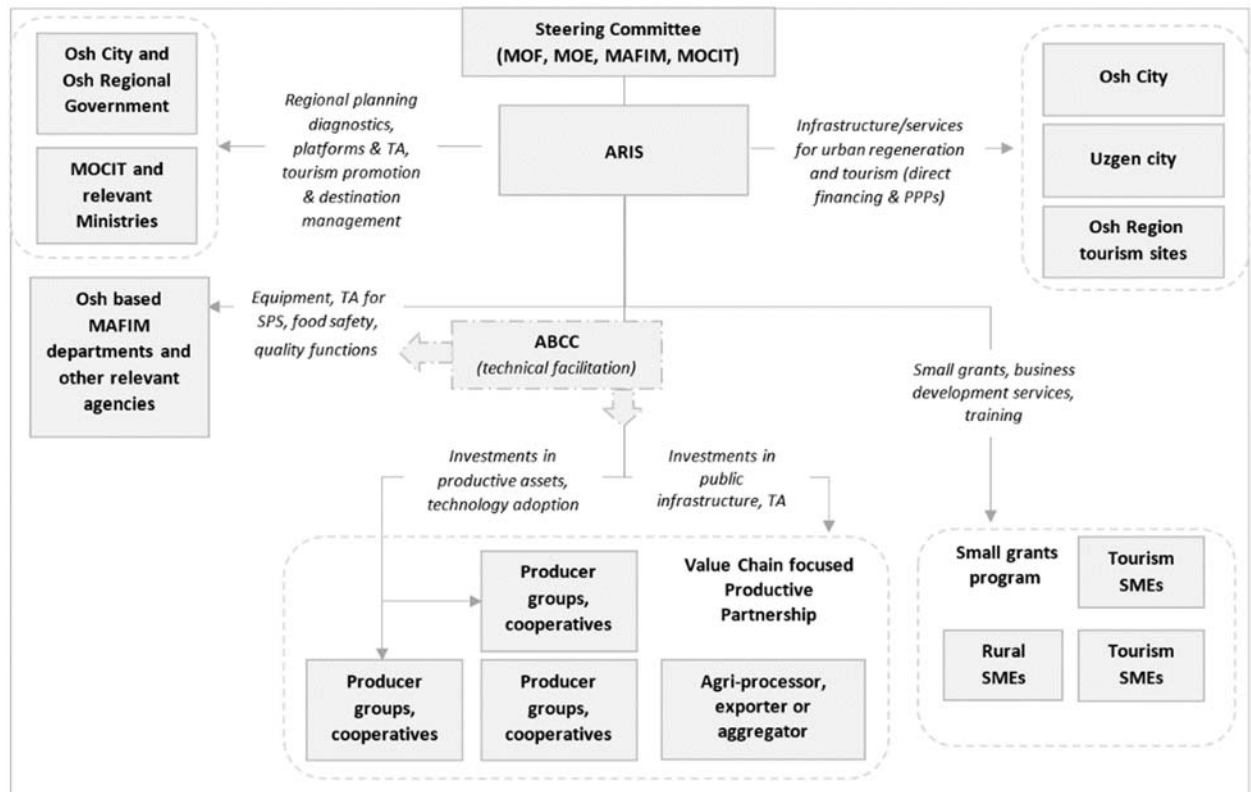
III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

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

¹⁶ The Bank team undertook analytical work to understand regional disparities and characteristics, by adopting a framework comprising of four pillars: (i) urbanization and demographic; (ii) economy and labor force; (iii) connectivity and living standards; and (iv) natural disaster risks and resilience. This was done to better understand the strengths, weaknesses, opportunities, and risks associated with each region and thereby determine the region most in need of development support to be considered under the Project.

¹⁷ "How to Make Grants a Better Match for Private Sector Development", World Bank 2016 and "Linking Farmers to Markets through Productive Alliances", World Bank 2016.



- (a) To ensure coordination and flow of information and timely decision making on strategic and programmatic aspects at the highest level, the Project 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. Prime Minister’s Office, President’s Office, the Ministry of Finance (MOF), MAFIM, Department of Tourism under MOCIT, State Agency for Architecture, Construction and Communal Services, and the Plenipotentiary Representative of the Government in the Osh Region and the City of Osh). This committee will be chaired at the level of Prime Minister’s Office.
- (b) **MOE** will be the **Project coordination Ministry** responsible for overall project coordination. MOE will also coordinate effective implementation of the Project through its Regional Development Policy Department, with the MOE Deputy Minister having overall responsibility for facilitating smooth and high-quality project implementation. As such, MOE’s responsibilities will include reviewing annual work plans (prepared by ARIS), providing relevant technical inputs, especially those at a strategic and policy level or on issues related to economic promotion.
- (c) **MAFIM** will be responsible for setting priorities and objectives for the agricultural activities under the Project, and for identification and endorsement of investments under Sub-Component 1.2. MAFIM will participate in the selection, evaluation and monitoring of Targeted Investments Sub-projects under Component 2.
- (d) **MOCIT** will be responsible for determining priorities and endorsing plans for tourism development under Component 3.
- (e) **ARIS** will be the **Project implementation entity** responsible for all fiduciary (eg. procurement, financial management, preparation of annual reports, budgets etc.) and safeguards (eg. assessments, document preparation and embedding safeguard specialists in local and regional gov to carry out supervision, monitoring and compliance) functions for the RED. ARIS will also be responsible for key technical aspects of the Project (eg. preparation of technical assessments, design and tender documents, organization of



evaluation, consultations, oversight on agriculture activities carried out by ABCC etc.), especially for the tourism and urban development aspects of the Project. ARIS will have a core team based in Bishkek, consisting of specialists required for the Project implementation. With their technical and safeguards staff in Osh, ARIS will closely coordinate with the regional and local governments and ensure smooth implementation of the Project in light of technical, environmental social aspects.

- (f) **ABCC** will support MAFIM and its relevant departments for technical implementation of activities under Sub-Component 1.2 and Component 2 with fiduciary support of ARIS. ABCC will play a lead role in facilitating implementation of productive partnership related activities. For other agriculture related activities, ABCC will liaise with relevant departments in MAFIM to facilitate activities and provide technical support where needed. ABCC will hire additional technical staff members to fulfill their role.
- (g) **MAFIM, ABCC and ARIS** will sign the Cooperation Agreement in form and substance satisfactory to the Bank.
- (h) **The Regional and Local Governments** in Osh Region will actively participate in project implementation. Representatives of ARIS and ABCC, 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 the City of Osh to promote smooth coordination with and implementation of the Project by ARIS and ABCC staff.
- (i) **The Productive Partnerships Selection Committee**, under Component 2, will be established and chaired by MAFIM, with the ABCC providing secretariat support. The Committee will comprise representatives of MOE, 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 Sub-projects program and overseeing the implementation of the Targeted Investment Sub-projects program under Component 2. The adoption of the manual by MAFIM, ABCC and ARIS will be a disbursement condition for Component 2.
- (j) Similarly, **the Small Grants Program Committee**, established under component 4 through a MOE decree will be responsible for evaluating and approving the applications for the Small Grants Program and overseeing the implementation of the Small Grants Program under Component 4. It will comprise members from MOE, Department of Tourism under MOCIT, MAFIM, MOF, ARIS, two members of the SCO sector from the Osh Region, the Osh Governor's Office, City of Osh and City of Uzgen. 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 4.
- (k) The specific roles and responsibilities of the all parties set out above will be described in detail in the Project Operation Manual (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.

B. Results Monitoring and Evaluation Arrangements

51. ARIS will be responsible for day-to-day project implementation and oversight of results monitoring and day-to-day Monitoring and Evaluation (M&E) responsibilities. ABCC will provide technical inputs on the agricultural activities. The project will make clear provision for the design and implementation of an integrated M&E system as part of Component 5, which will cover the costs aimed at designing and managing M&E



systems for the Project implementation period. This system will build upon the existing M&E systems already in place in the Kyrgyz Republic.

52. In particular, ARIS will be responsible to monitor (without being limited to): (a) the progress of work on the ground with timely identification of bottlenecks during implementation; (b) the performance of the Project towards the achievement of the Project development indicators; (c) regular and specific monitoring of the implementing agencies, identifying the most appropriate indicators, triggers and targets to project performance, compliance and success. In addition, ARIS will also work in close collaboration with the local authorities and keep track of the data at the local level and will prepare and submit bi-annual reports to MOE, MAFIM, MOCIT, and to the Bank for endorsement. This will be based on the results framework and indicators defined in Results Framework. A baseline report for each municipality should be made available at the start of project implementation. M&E Framework will be an integral part of the POM.

C. Sustainability

53. Recognizing the long-term sustainability risk, the Project has been designed in close consultation with national agencies, subnational governments and potential project beneficiaries. The investments will be identified following a demand driven approach and in close consultation with local governments and project partner agencies.
54. Moreover, considering the multi-sectoral nature of these investments, MOE is coordinating directly with relevant line ministries and agencies to ensure that what is delivered under the Project is fully consistent with other ongoing and/or upcoming larger sectoral programs and/or projects financed by both the Government and other International Finance Institutions and development partners, follows relevant national sector guidelines and design criteria, and approaches consistent with ongoing sector reform programs. Relevant line agencies or regional/local administrations, under the leadership of the subnational government, will also be involved in various stages of implementation, from tendering to commissioning, and will be responsible for operation and maintenance after handover. For those assets that will remain under the responsibility of the municipalities, the Project will assist them to enhance future sustainability outlook through capacity building support.
55. The ongoing conceptual and urban design studies will introduce innovative urban design processes that include participatory approaches and citizens' engagement (e.g., place-making) for the identification and prioritization of investments. This will contribute to increased local ownership of project activities, in turn increasing also the collection rate of local taxes and, ultimately, long-term sustainability. The agriculture value-chain approach is aimed at building the trusted and fair relationships benefiting to all participants in the chain is expected to be more sustainable than sporadic and ad-hoc trades occurring at the moment.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis

Technical

56. **Project readiness.** The Osh Region was selected to launch the Project and demonstrate the application of regional economic development in the Kyrgyz Republic. For infrastructure works (especially under Component 3), Year 1 indicative investments were identified at Appraisal. These Year 1 investments are critical no-regret investments, to be assessed and prioritized taking into consideration their relevance to the Project development objectives and through the screening criteria. Their relevance was validated technically and based on sound principles of urban design (to ensure no-harm and consistency with existing and upcoming investment plans) and underwent extensive consultative processes for endorsement by both local government and central technical government agencies. Investments for Year 2-5 will require additional feasibility studies and detailed designs to be fully identified. These necessary studies would be launched during the first year of project implementation and will follow the same appraisal procedures as the investments for year one.



57. **Analytical foundation.** The design of the Project was based on various analytical work conducted specifically for this project, in addition to information collected through broad consultations both internally within the Bank's various Global Practices and externally with government entities, development partners, community-based organizations and selected private enterprises. The key original analytical work undertaken for this project includes:
58. *Regional and Spatial Analysis:* The analysis was undertaken to understand the current trend of regional and spatial development across all seven regions in the Kyrgyz Republic to underpin the selection of the region that would benefit the most from the interventions under the Project. The recommendations helped to identify each region's unique economic potential and binding constraints for development. This included: (i) urbanization and demography; (ii) economic composition and workforce; (iii) connectivity and living standards; and (iv) disaster and climate resilience. Based on the analysis and recommendations, the Project design focuses on supporting an integrated development of the Osh Region and Osh City due to both its highly underdeveloped economic potential.
59. *Tourism Rapid Assessments:* The Kyrgyz cities of Osh and Uzgen possess unique cultural and natural assets and thus great potential in developing their emergent tourism sector. The Bank team conducted a rapid tourism assessment to inform the conceptualization and design of the Project by proposing potential activities and associated investments that have a high potential to improve economic activity and benefits generated by tourism activities in Osh Region. This assessment helped to identify opportunities and constraints within the tourism sector at the regional level and proposed tourist circuits, which could enhance the attractiveness of the region, competitiveness of the sector, support private sector investments and improve productivity leading to additional employment and rising incomes for people living in the region.
60. *Integrated Urban Design Schemes for Osh and Uzgen:* The objective of the Project is not just to create more attractive tourist destinations but also through urban regeneration, improve the overall livability and quality of urban environments in the cities, so as to leverage the growth potential of these identified growth poles and further attract private sector investments. The main intention is to support infrastructure development in selected areas to improve tourists' routes and destination management, while also supporting this strategic vision for long-term local development that would benefit both local population and the incoming visitors/tourists. First through creating a development vision and the drawing up of the Integrated Urban Design Schemes, the study aims to support the visioning, identification, prioritization and design of demonstrative "areas of interest" including urban services and infrastructure investments with a focus on tourism development in the selected areas of Osh city and Uzgen district under Osh Region. The interventions proposed will be integrated and area-based, and build upon a participatory process.
61. *Value Chain Development Priorities.* A number of value chain analyses have been undertaken in recent years by a range of partners around horticulture (USAID, ILO), niche products (SDC), smallholder supply chain integration (the Bank), and value chains with high export potential (IFC, the Bank). These studies have identified key constraints around three pillars: productivity, scale/fragmentation, and quality. The Project will target activities with aim of addressing all three areas and supporting value chains to become bigger, inclusive and productive. Stakeholder engagement and market analysis will help drive the selection of specific value chains and the Project design includes a flexible approach to respond to a changing landscape in terms of both market competitiveness and donor interventions.
62. **Climate change:** Mitigation and adaptation measures to address the country's vulnerability to climate change and respond to the increasing risks of extreme weather events in Kyrgyz Republic, as described in paragraph 4, are considered in the Project design and are based on the results of the Project screening for short and long-term climate change and disaster risks. The project areas are vulnerable to increasing temperatures, floods, droughts as well as earthquakes, landslides and mudflows. The project design aims to address the country's vulnerabilities to climate change for adaptation and mitigation throughout the following activities:



- (a) Climate and disaster risks have been considered in the design of Component 1, which concerns capacity building at the central and local levels. As part of this component, it is envisaged that the awareness and capacity to understand urban resilience and energy efficiency practices of both national government and local government officials will be strengthened. Capacity building activities will cover the areas, such as how climate change and disasters can affect the cities, how to build resilience into urban planning practices and asset design processes, how to ensure plan for preparedness and response activities, etc.
 - (b) On the agriculture investments under Window 2 (US\$ 12.5 mil) of Component 2, climate-smart solutions such as water saving technologies, energy efficient processing, use of drought resistant and climate-induced disease resistant varieties, responsible pest management and waste management practices will be encouraged and incentivized through the Targeted Investments Sub-projects mechanism. While specific value chains will be selected only during implementation, it is expected that a large share of investments will support fruits and vegetables sector, where Osh has traditional comparative advantage, and finance improvements in water use considering climate related risks on water scarcity and energy efficiency in addition to improved productivity and quality. Estimates of net Greenhouse gas emissions under the second component are - 20,234 tCO₂ equivalent per year.
 - (c) For investments in all types of physical infrastructure under Component 3, climate and disaster vulnerability will be considered in the design parameters of the investments to adapt to climate change in the long-term, and, particularly, to address the increasing risks of extreme weather events, such as more frequent and intense flooding often causing landslides and mudflows in and around the Project cities (particularly through investments in storm-water drainage and stabilizing embankments), to improve infrastructure resistance to extreme droughts, as well as to ensure seismic resistance standards of urban infrastructure. Technical designs for the selected investments under this component will consider anticipated impacts of climate change and apply required and targeted adaptation measures to ensure climate resilience. Besides engaging in climate change adaptation activities, the component also includes long-term climate change mitigation measures. The mitigation measures are comprising investments in energy efficiency regarding streetlighting as well as administrative and cultural buildings in the pilot cities. Furthermore, interventions under this component will focus on improving mobility in the Project cities for pedestrians and cyclists by adapting innovative and eco-friendly mobility solutions.
63. **Gender.** Project design includes measures to specifically target economic participation of women and priority will be given to identifying activities dedicated exclusively for women agricultural producers or to encourage employment of women in the tourism industry. Gender is considered for the productive partnerships and the small grants program. A gender related intermediate indicator is included in the results framework to enable the Project to monitor progress in improving the gender gap.
64. **Conflict Filter.** Following the revolution and civil unrest in 2010, the Bank introduced a Conflict Filter for its Kyrgyz Republic operations in 2011 as a screening tool to ensure that the Bank-financed projects do not exacerbate conflict risks. The screening tool will be incorporated into the Productive Partnerships Manual and Small Grants Handbook under Components 2 and 4 and will focus on mechanisms to ensure fairness and inclusion when it comes to the selection of the communities and SMEs. Conflict Filter has been already applied to the selection of the indicative long-list of the proposed investments under Component 3. The screening criteria was applied to ensure that the proposed investments (parks, play grounds, roads, street lighting, etc.) do not apply to and benefit specific ethnic groups and interventions are beneficial to a diverse group of users. Where possible, the selected contractors for works under Component 3 will be tasked to provide equal employment opportunities to the Kyrgyz, Uzbek and Tajik (as applicable) workforce and maintain equality. Recognizing the importance of this element, the Project will include satisfaction surveys (see Citizen



Engagement section) to be conducted annually over the course of the Project. ARIS will promote broad representation of ethnic groups at the meetings and ensure that the various ethnic groups voices and concerns are well heard and taken forward during the selection and implementation of various activities under the Project.

Economic analysis

65. The Project is expected to yield positive development impacts. Project activities are expected to generate local employment opportunities and increased private sector activity which will bring in additional local tax revenue.
66. The Project has a clear rationale for public sector provision and financing as it targets the improvement of local and regional public goods, such as basic infrastructure and municipal services. Most infrastructure activities are expected to focus on direct responsibilities of local and regional governments who have limited fiscal capacity to finance capital investments and in areas where private sector financing is absent or not readily accessible. Investments in agro-enterprises fill a market and coordination failure.
67. The analysis of **agricultural investments** focused on a number of indicative economic activities such as: (i) fruit orchard (cherry, apricot, plum), (ii) vegetable (tomato, cucumber), (iii) greenhouse and (iv) cattle breeding. The Project investments will result in the increase of agricultural productivity and promote the introduction of resource-efficient technologies and energy efficient technologies. The financial rate of return (FRR) is 14.0% and the net present value (NPV) of the Project's net benefit stream is US\$15.4 million. All investments provide positive financial results and a significant increase in gross and net returns illustrating the worthiness of the investments. A relevant TA package was attached to each investment to ensure specific capacity building of beneficiaries to uptake innovative technologies.
68. The economic rate of return (ERR) is estimated at 16.7% and NPV is US\$ 17.9 million. It is estimated that the Project will reach 5,000 direct beneficiaries and generate about 4,250 full-time equivalent jobs. In addition, establishment of fruit orchards will generate additional 1,150 full-time equivalent jobs in the first years of interventions. Additional taxes are estimated at \$5.9 million for 15 years through increased cashflows from land, labor and income taxes. The Project will contribute to capturing 210.3 thousand tons of CO2 equivalent via establishing fruit orchard in 1,800 ha of degraded lands. Moreover, it will reduce GHG emissions by 93.2 thousand tons of CO2 equivalent through improved milk and meat productivity and use of energy efficient technologies.
69. The Cost-Benefit Analysis (CBA) for **tourism-related benefits** was prepared for the entire Project, rather than for sub-projects. The Financial Net Present Value (FNPV), Financial Internal Rate of Return (FIRR), Economic Net Present Value (ENPV) and Economic Internal Rate of Return (EIRR) were calculated for the next 15 years, including about 6 years of Project implementation period.
70. The primary financial (monetary) benefits of the Project are expected to come from the following streams: a) tax revenues from incremental increase in tourist arrivals, overnight stays and spending; b) tax revenues from increase in number and profitability of economic enterprises (secondary sales); c) tax revenues from property value appreciation; and d) tax revenues from temporary job creation. Fiscal impact analysis shows that the tax revenues generated by tourism related activities after the Project implementation are over the Project costs - FNPV for the Project at 7% discount rate equals to US\$ 11,447,765.64 and FIRR equals to 22.87.
71. For the calculation of the economic benefits, financial costs (investments costs and operation and management costs) and benefits were adjusted (by excluding the taxes and using relevant conversion factors) in order to correctly assess costs and benefits associated with the Project globally, from the point of view of the economy as a whole. Shadow prices have also been considered along with the inefficiency characteristic for a transitional economy. Economic impact analysis shows that the total economic benefits generated by tourism related activities after the Project implementation are well over the total costs – ENPV for the Project at the 7% discount rate equals to US\$ 83,167,618.50 and Economic IRR equals to 88.92%.



72. The modeling parameters are based on the information gathered during the design stage, including the interviews with farmers and entrepreneurs, information from the donor agencies working in the Kyrgyz Republic and the mission estimates. Information on labor and input requirements for various operations, capital costs, prevailing wages, yields, farm gate and market prices of commodities, input and farm-to-market transport costs were collected. Conservative assumptions were made both for inputs and outputs and consider possible risks as well.

B. Fiduciary

Project Financing

73. The total cost of the Project is US\$ 60.0 million to be financed through US\$ 30.0 million equivalent IDA Credit and US\$ 30.0 million equivalent IDA Grant.

74. The table below provides the summary eligible expenditures in the amount allocated and the percentage set forth against each Category:

Category	Amount (inclusive of taxes)	% to be financed under the Project	IDA Credit Financing	IDA Grant Financing
(1) Goods, works, non-consulting services, and consulting services; Training and Operating Costs for Parts 1, 2(a), 3, 4(a) and 5 of the Project	US\$ 32.5 mil	100%	US\$ 15.0 mil	US\$ 17.50 mil
(2) Goods, works, non-consulting services, and consulting services; Training for the Targeted Investments Sub-projects under Part 2(b) of the Project	US\$ 25.0 mil	100%	US\$ 15.0 mil	US\$ 10.00 mil
(3) Small Grants under Part 4(b) of the Project	US\$ 2.5 mil	100%	-	US\$ 2.5 mil
Total	US\$ 60.0 mil		US\$ 30.0 mil	US\$ 30.0 mil

Financial Management

75. The financial management assessment of the Project was performed in September 2019 and updated in December 2019, in accordance with the Financial Management Manual for the Bank’s Investment Project Financing Operations that became effective on March 1, 2010 and revised on February 10, 2017. Overall FM arrangements at ARIS are adequate to implement the Project and meet the minimum requirements of the Bank’s Policy and Directive on Investment Project Financing subjected to the following conditions being met: (i) the development and adoption by ARIS of the POM, acceptable to the Bank, which will include the Project’s financial management arrangements (an effectiveness condition); and (ii) within 60 days of the Project effectiveness, hiring by ARIS for project related disbursement specialists, with relevant knowledge and experience in the Bank FM/Disbursement policies and procedures. In addition, ARIS will develop a Productive Partnerships Manual and a Small Grants Handbook (for productive partnerships and small grants under Components 2 and 4, respectively), acceptable to the Bank, adoption of which by MAFIM, ABCC and ARIS will be a disbursement condition for funds under the productive partnership and small grants activities under Components 2 and 4, respectively.

76. Project management-oriented Interim Un-audited Financial Reports (IFRs) will be used for the Project monitoring and supervision. The format of the IFRs will include: (i) Project Sources and Uses of Funds; (ii) Uses of Funds by Project Activity; (iii) Designated Account Statements; (iv) A Statement of the Financial Position; and (v) SOE Withdrawal Schedule. ARIS will be producing IFRs every calendar quarter throughout the life of the Project. These financial reports will be submitted to the Bank within 45 days of the end of each



calendar quarter. The first IFRs will be submitted after the end of the first full quarter following the initial disbursement.

77. The Project FM assessment confirmed that, in particular, (i) ARIS has a long successful history of implementation of the Bank and other donor funded projects; (ii) the auditors issued unmodified (clean) opinions on the financial statements of the on-going projects implemented by ARIS, with no critical recommendations in the management letters; and (iii) the IFRs of both ongoing and closed projects implemented by ARIS were received on time and found to be acceptable to the Bank.
78. The audit of the Project annual financial statements will be conducted (i) by independent private auditors acceptable to the Bank following terms of reference (TOR) acceptable to the Bank and procured by ARIS, and (ii) according to the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC). The annual audits of the Project financial statements will be provided to the Bank within six months of the end of each fiscal year and at the Project closing. The cost of the Project audit will be financed from the proceeds of the Project.
79. The Recipient has agreed to disclose the audit reports for the Project within one month of their receipt from the auditors and acceptance by the Bank by posting the reports on the ARIS web-site or other official websites of the Recipient. Following the Bank's formal receipt of these reports from the Borrower, the Bank will make them publicly available according to the Bank Policy on Access to Information.
80. According to the latest Doing Business Survey 2019, the Kyrgyz Republic was among the bottom-rated CIS countries and scored modestly vis-à-vis many other developed and developing countries (70th¹⁸ out of 190) on the ease of doing business. Meanwhile according to 2018 Transparency International's Corruption Perception Index, the Kyrgyz Republic was ranked 132th¹⁹ in the list of 180 countries. The latest Public Expenditure and Financial Accountability Report (conducted in 2014) found that several critical Public Financial Management (PFM) elements including internal controls, external audit (Supreme Audit Institution - SAI), and financial reporting remain weak. While some elements of the country PFM, such as the country's budget system, will be used for the Project, for other PFM elements (accounting, financial reporting, internal controls, funds flow under the Project), Project specific systems at ARIS will be used. The Project's Designated Accounts (DAs) will be opened in a commercial bank(s) acceptable to the Bank.
81. Cash basis will be applied for the Project accounting, and IPSAS "Financial Reporting Under the Cash Basis of Accounting" issued by the International Public Sector Accounting Standards Board (the IPSASB) of the IFAC will be used for the Project financial reporting. ARIS will update its accounting systems to generate the Project financial reports and SOEs.
82. There are overall adequate planning and budgeting capacity and overall adequate internal control systems in place at ARIS, which will be described in the Project Operations Manual for this Project. ARIS has an internal audit function which oversees the Project's internal control systems.
83. The overall FM risk for the Project is assessed as Substantial, with the Inherent Risk and Control Risk also assessed as Substantial, given the complex implementation arrangements, including productive partnership and small grants activities under the Project.
84. **Disbursement Arrangements.** Two Designated Accounts (DA) (one for IDA Grant and another for IDA Credit) will be opened for the Project to be managed by ARIS for activities to be implemented under the Project. The DAs will be opened in US\$, in a commercial bank acceptable for the Bank. The SOE based disbursement method will be applied for the Project. Project funds will flow from the Bank, either: (i) via the DA, which will be replenished on the basis of SOEs or full documentation; or (ii) on the basis of direct payment withdrawal

¹⁸ <https://www.doingbusiness.org/en/rankings>

¹⁹ <https://www.transparency.org/cpi2018>



applications and/or special commitments, received from ARIS. Withdrawal applications documenting funds utilized from the DAs will be sent to the Bank at least every three months. The following disbursement methods may be used under the Project: Reimbursement, Advance, Direct payment and Special Commitment. The DAs' ceilings for each DA as well as the detailed instructions on withdrawal of Project proceeds will be provided in the Financial Management and Disbursement Letter. The details of funds flow under productive partnership and small grants' activities will be described in the Productive Partnerships Manual and Small Grants Handbook acceptable to the Bank, and its adoption by MAFIM, ABCC and ARIS will be a disbursement condition for funds under the productive partnership and small grants' activities under Components 2 and 4.

Procurement

85. Procurement activities will be carried out by ARIS. The Bank team conducted procurement capacity and risks assessment using the Procurement Risk Assessment and Management System (PRAMS). The review identified a number of risks related to the procurement policy and institutional arrangements which need to be mitigated.
86. Summary of Risks and Risk Mitigation Measures. The Procurement Capacity Assessment Report, covering the risks and risk mitigation plan, has been filed in PRAMS. The key issues and risks concerning procurement include: (i) state agencies have limited capacity to prepare detailed designs and technical specifications for the defined investments. This increases the risk for accountability of procurement decisions, especially at the local level; (ii) Possible delays with procurement: on-going and completed projects show frequent delays caused by poor planning; (iii) Low level of competition in the civil works sector: past experience suggests that the country suffers from limited competition due to low capacity of local contractors; (iv) Perceived high level of corruption, as measured by Transparency International; (v) For national bidding, ARIS will follow the public procurement legislation and national procurement procedures, which may increase risks due to the (technical) issues related to the e-Government Procurement (e-GP) system; (vi) Inadequate contract management and lower-than-required quality of procured works, goods and services. Given the findings of the assessments, the initial overall procurement risk under the Project is assessed as high.
87. To align procurement arrangements with the Bank's requirements, ARIS will implement the following mitigation measures: i) With additional consultants' support, be responsible for the preparation of technical documents. Considering that the State procurement procedures do not have standard documents for the selection of the consulting services, use the Bank's standard procurement documents; ii) Realistic procurement planning and scheduling, including timely preparation of the technical specifications or terms of references with Bank's close supervision and monitoring, particularly from the country office; iii) consider analysis for bidder's capacity in the procurement timeline. Early engagement with the market and business outreach will be required; iv) Apply the World Bank's Anti-Corruption Guidelines; v) Register as a Purchaser in state procurement portal. The bidding process shall not be cancelled solely because the minimum bid price is larger than the amount allocated by the procuring entity for this procurement. PIE shall have an option to publish procurement notice without disclosing cost estimates; vi) More emphasis on and training in contract management; regular physical inspections by Bank supervision missions.
88. The activities under the Project will be subject to the World Bank's new Procurement Framework. All procurement of contracts will be conducted through the procedures as specified in the World Bank's Procurement Regulations for IPF Recipients-Procurement in Investment Project Financing Goods, Works, Non-Consulting and Consulting Services, dated July 2016, revised November 2017 and August 2018 (Procurement Regulations). The Project will also be subject to the World Bank's Anti-Corruption Guidelines, dated July 1, 2016. The procurement and contract management processes will be tracked through the Systematic Tracking of Exchange in Procurement (STEP) system. As required by the Procurement Regulations, a Project Procurement Strategy for Development is developed, on the basis of which, the Procurement Plan is formed (to be agreed at negotiation), setting out the selection methods to be followed by the Borrower during the Project implementation in the procurement of goods, works, non-consulting and consulting services financed by the



World Bank. Specific procurement procedures to be followed for managing project resources will be documented in the POM. A detailed description of procurement arrangements and a summary Procurement Plan are provided in Annex 4.

C. Legal Operational Policies

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

89. The OP 7.50 on International Waters is triggered by the Project. The proposed activities will be located in the Osh Region of the Kyrgyz Republic, which is located on the Ak-Bura river, a tributary of the Syr-Darya River that is shared by the Kyrgyz Republic, Kazakhstan, Tajikistan, and Uzbekistan and thus an international waterway according to OP 7.50. The proposed investments will include rehabilitation of field-level irrigation systems, and rehabilitation and improvement of existing water supply and sanitation infrastructure in Osh and Uzgen city. These investments are proposed to be relatively small-scale of rehabilitation in nature and are not expected to lead to increased water abstraction or increased volume of discharged waste waters and will not extend any existing schemes. The Project will not adversely impact the quality or quantity of water flows to the other riparians and will also not be adversely affected by the other riparians' possible water use. An exception to the notification requirements according to paragraph 7 (a) of OP 7.50 was approved by the Regional Vice President on November 22, 2019.

90. The OP 7.60 on Projects in Disputed Areas does not apply and therefore it is not triggered by the Project.

D. Environmental and Social

91. *Relevance of Environmental and Social Standards* (ESSs). All ESSs but ESS 7 (Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities) and ESS 9 (Financial Intermediaries) are relevant to the Project.

92. As before project appraisal it is not possible to identify all activities and the Sub-projects that will be financed, in accordance with the ESS1, the borrower prepared the draft of the Environmental and Social Management Framework (ESMF), which specifies rules and procedures for the activities and Sub-projects' Environmental and Social Impact Assessment (ESIA) and for preparing adequate Environmental and Social Management Plans (ESMPs). The ESMF will guide the ESIA process and covers the following: (i) rules and procedures for environmental and social screening of project activities and Sub-projects to be supported under the Project; (ii) guidance for conducting Sub-projects ESIA and/or preparing simple ESMP or ESMP Checklist which would include the monitoring plans; (iii) mitigation measures for possible impacts of different proposed activities and Sub-projects to be supported by the Project; (iv) safety measures while applying pesticides and a template for the Pest Management Plan; (v) requirements for monitoring and supervision of implementing of ESIA/ESMPs, implementation arrangements; (vii) overview of the capacity of PIE for E&S risk management and capacity building activities that would include other parties on mitigating potential environmental and social risks and conducting sub-projects-level ESIA. Furthermore, the client will need to prepare a SA as part of SIA process that includes: (i) stakeholder identification/mapping; (ii) stakeholder analysis of expectations, concerns, and issues; (iii) assessments of positive and negative impacts; and (iv) a social management plan to mitigate the negative impacts and enhance positive benefits.

93. The ESS 5 is considered relevant due to the potential investments under Components 2 and 3 which could necessitate some temporary and/or permanent physical and economic displacement or induce changes in land use or land access in the areas of certain activities. For example, these could include sewerage, water supply,



drainage system, roads, and transport linkage improvements and other type of transformative investments in improving livability, tourism, and agro-industry. However, the nature and extent of interventions and the impacts thereof are currently not known and will become clearer when investment activities are chosen. An RPF was prepared and disclosed prior to appraisal.

94. The Borrower's Environmental and Social Commitment Plan specifies the main responsibilities and actions to be undertaken by MOE and the implementing entity (ARIS) 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) application of 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 safeguards 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) preparation and adherence to the Environment, Social, Health and Safety Code of Conduct by works contractors; and (g) implementing and reporting on (i) Stakeholders Engagement Plan; (ii) Labor Management Plans (LMP); and Grievance Redress Mechanism.

V. GRIEVANCE REDRESS SERVICES

95. Communities and individuals who believe that they are adversely affected by the Bank supported project may submit complaints to existing project-level grievance redress mechanisms or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of the Bank's non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the Bank's attention, and the Bank Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the Bank Inspection Panel, please visit www.inspectionpanel.org

VI. KEY RISKS

96. **The overall risk for the Project is Substantial.**
97. **Political and Governance risk is Substantial.** The next Kyrgyz parliamentary elections are scheduled for late 2020 and hence may have an impact on the Project implementation if a change in leadership does not support or would substantially alter the Project design. To mitigate the risk, the preparation phase has included briefings to members of the Parliament on the design and this will continue as part of the parliamentary ratification process once the Project approved. After the ratification and following the elections, the Project team will continue closely working with the new members of the government at various levels by engaging them in the key implementation and relevant decision-making processes with informed outlook to the prior developments and decisions. Additionally, there is a risk of elite capture or over-investment for individual investments under all components. To mitigate this risk the Project has included mechanisms for transparency and efficiency in the selection processes for investments under the Project – including the use of neutral third-party feasibility assessments to be used in evaluating proposed investments and extensive community engagement.
98. **Risks pertaining to Institutional Capacity for Implementation and Sustainability are Substantial.** Institutional capacity for implementation is one of the key risks due to the current lack of a dedicated Ministry



or agency²⁰ responsible for regional development and the multiple government agencies (both vertically from national to regional/local levels and horizontally across sectors) that will take part in implementation of the Project. Lack of coordination at the technical level could adversely affect efficiency of Project implementation and, consequently, the achievement of the development objectives. The risk is mitigated by the fact that ARIS, which has a successful record with the Bank in coordinating and implementing the Bank-financed projects, will lead Project implementation and the coordination efforts among the various stakeholders at the technical level. Furthermore, there is a risk that partnerships under Component 2 will take time to be formed and development impacts will take time to materialize. Mitigation measures to address this risk will include plans for extensive communication and mobilization efforts and implementation arrangements that will have ABCC focus exclusively on providing technical support to develop and facilitate partnerships while ARIS will focus on implementation and fiduciary functions.

99. **Fiduciary risk is assessed as High due to the High Procurement risk.** This is due to potential procurement delays as experienced in the past and on-going projects in the country. These delays are often triggered by poor procurement planning processes, attributable to inadequate capacity of the staff to prepare detailed designs and technical specifications for defined priority investments. This increases risk of accountability and has implications on the procurement decisions. To mitigate this risk, ARIS will hire necessary expertise, acceptable to the Bank, to secure adequate arrangements for the development of technical specifications and detailed designs, preparation of bidding documents, evaluation of the results and monitoring of the construction processes, all aiming at resulting in proper planning and implementation processes for improved procurement and contract management practices.
100. **Risk pertaining to Environment and Social are rated as Substantial.** The project focuses on tourism development, which will require interactions with and protection of the Region's rich cultural and natural heritage and UNESCO protected sites. The stakeholders at central and regional levels have limited capacity in understanding and applying the World Bank's Environmental and Social Framework (ESF) and relevant Standards. To mitigate the risk, ARIS will have a dedicated Environmental and Social Safeguards staff in Bishkek and the region, who will ensure proper implementation of the Environmental and Social Management Framework (ESMF), which provides mechanisms for risks mitigation. Furthermore, ARIS staff will continue participating in the relevant training programs organized by the Bank. To ensure proper interaction with the UNESCO protected site, the Project team will coordinate closely with UNESCO on preparation of the concept and subsequent detailed designs and ensure enhanced monitoring during implementation.
101. **Risks related to Stakeholders is rated as Substantial.** The technical design of the Project, which is multi-sectoral in nature, represents a risk. Activities requiring coordination between local and central level agencies may hinder timely and quality implementation of the Project. To ensure proper coordination within the Government, the Steering Committee, chaired by the Prime Minister's office and including members from all concerned Ministries and regional representatives, will ensure multi-agency coordination at a higher level. To promote collaboration between the region and the center, ARIS and ABCC will establish regional offices in Osh, which will result in improved coordination and flow of information and communication.

²⁰ While the MOE is currently responsible for the regional development agenda, it is the Government's intention to set up a new agency or ministry dedicated to regional development. However, the timeline and resources available to do so is unclear.



VII. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY: Kyrgyz Republic

Kyrgyz Republic Regional Economic Development Project

Project Development Objectives(s)

The Project Development Objective is to support the Recipient to enhance regional economic development through targeted interventions in the selected sectors in the Osh region.

Project Development Objective Indicators

Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Support the Government to enhance regional economic development								
Increase in the sale of agricultural products by project beneficiaries (Percentage)		0.00	0.00	0.00	0.00	10.00	10.00	10.00
Increase in the number of tourist arrivals at sites supported under the Project (Percentage)		0.00	0.00	0.00	0.00	0.00	15.00	30.00
People provided with improved urban living conditions (CRI, Number)		0.00	0.00	0.00	50,000.00	50,000.00	150,000.00	150,000.00
People provided with improved urban living conditions - Female (RMS requirement) (CRI,		0.00	0.00	0.00	25,000.00	25,000.00	75,000.00	75,000.00



Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Number)								

Intermediate Results Indicators by Components

Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Component 1: Improving Regional Economic Planning and Regulatory Functions								
Number of central and regional/local public staff benefiting from the capacity building activities for improved coordination and regional development (Number)		0.00	0.00	25.00	50.00	75.00	100.00	100.00
Sustainable management plans for key regional assets developed (Number)		0.00	0.00	0.00	3.00	4.00	5.00	5.00
Number of laboratories and facilities supported under the Project (Number)		0.00	0.00	0.00	4.00	6.00	6.00	8.00
Beneficiaries who report effective engagement processes (Percentage)		0.00	0.00	40.00	50.00	60.00	70.00	70.00
Out of which, females (Percentage)		0.00						50.00
Component 2: Strengthening Agri-Food Supply Chains and SMEs								
Number of operational productive partnership		0.00	0.00	5.00	10.00	20.00	25.00	25.00



Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
initiatives (Number)								
Farmers adopting improved agricultural technology (CRI, Number)	0.00	0.00	0.00	1,000.00	2,000.00	3,000.00	4,000.00	5,000.00
Farmers adopting improved agricultural technology - Female (CRI, Number)	0.00	0.00	0.00	400.00	800.00	1,200.00	1,600.00	2,000.00
Farmers adopting improved agricultural technology - male (CRI, Number)	0.00	0.00	0.00	600.00	1,200.00	1,800.00	2,400.00	3,000.00
Number of farmers and rural producers linked to higher-value markets (Number)	0.00	0.00	0.00	0.00	5,000.00	7,000.00	8,000.00	10,000.00
Component 3: Catalyzing investments for tourism and urban development								
New or rehabilitated urban public spaces (Square Meter(m2))	0.00	0.00	0.00	100,000.00	150,000.00	350,000.00	550,000.00	600,000.00
Increased revenue from visitors to museums (Percentage)	0.00	0.00	0.00	0.00	0.00	0.00	10.00	15.00
Natural, cultural or heritage assets supported, rehabilitated or restored (Number)	0.00	0.00	0.00	2.00	2.00	3.00	5.00	5.00
Increased amount of private sector investments in targeted areas (US\$ million) (Amount(USD))	0.00	0.00	0.00	1.00	2.00	3.00	4.00	4.00



Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Tourism marketing and promotion activities completed (Number)		0.00	0.00	0.00	1.00	2.00	3.00	4.00
Component 4: Supporting Tourism and Rural SME Development through Small Grants								
Number of SME established and supported by the Small Grants Program (Number)		0.00	0.00	30.00	80.00	150.00	230.00	300.00
Female-led SMEs received financial support to start business in tourism or rural setting (gender gap) (Percentage)		0.00	0.00	40.00	40.00	45.00	45.00	50.00
Females participating in the capacity building activities for improved hospitality business practices (gender gap) (Percentage)		0.00	0.00	40.00	40.00	45.00	45.00	50.00

Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Increase in the sale of agricultural products by project beneficiaries	Measures the change in the production levels and access to new markets by participating beneficiaries.	Measured at mid term review stage and then annually	Project progress reports and surveys	Targeted surveys and other M&E data collection tools	ABCC and ARIS (or a designated M&E firm)



		thereafter.			
Increase in the number of tourist arrivals at sites supported under the Project	The indicator will capture the increased number of visitors at the sites supported by the Project. These will include the Suleiman-Too Complex, located in the regional capital city of Osh and Uzgen Museum Complex. During the rehabilitation works, the museums and sites will be closed and no visits are expected during the construction period, therefore zero value has been assigned until the fifth year. The baseline on the actual number of visitors is 225,000 for the year 2018.	Bi-annually	Progress reports	ARIS (or a designated firm) will collect the data from the respective Museum/Site books and visitor logs	ARIS (or a designated M&E firm)
People provided with improved urban living conditions		Bi-annually	Progress reports	ARIS (or a designated firm) will collect data from the Municipalities by sending a request for data inputs	ARIS (or a designated M&E firm)
People provided with improved urban living conditions - Female (RMS requirement)		Bi-annually	Progress reports	ARIS (or a designated firm) will collect data from the Municipalities by sending a request for data inputs	ARIS (or a designated M&E firm)



Monitoring & Evaluation Plan: Intermediate Results Indicators					
Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Number of central and regional/local public staff benefiting from the capacity building activities for improved coordination and regional development	The indicator will capture the number of staff from the central apparatus (MoE and line ministries) and the regional and local governments, who benefited from the capacity building activities offered under the Project	Bi-annually	Progress and event reports	ARIS will report on the number of participants with enhanced knowledge and skills through the event reports and other knowledge-sharing activity summaries	ARIS (or affiliated M&E consultant)
Sustainable management plans for key regional assets developed	The indicator will capture the number of key regional assets, benefiting from the availability of sustainable management plans developed under the Project (this includes national parks, key tourism sites, and other regional facilities)	Bi-annual	Project Progress reports	ARIS will solicit information from the consultants in charge of the reports development and will provide updates in the progress reports	ARIS (or affiliated M&E consultant)
Number of laboratories and facilities supported under the Project	The indicator will capture the number of laboratories and facilities with improved SPS control functions supported under the Project	Bi-annual	Progress reports	ARIS with the support from ABCC will collect data on the completed enhancements of the selected facilities	ARIS (or a designated M&E firm)



Beneficiaries who report effective engagement processes	This indicator will capture the percentage of beneficiaries under all components who report effective engagement processes through Open Door Days and the beneficiary feedback mechanism.	Bi-annually	Project progress reports	ARIS (or designated firm) will track the CE activities and the indicator will be measured through mini-surveys (feedback sheets) after or during each meeting and through BFM.	ARIS (or designated firm)
Out of which, females					
Number of operational productive partnership initiatives	Measures the extent to which productive partnerships have been launched and are functional	Bi-annual	Project reports	Regular project reporting from ABCC	ABCC and ARIS (or a designated M&E firm)
Farmers adopting improved agricultural technology	<p>This indicator measures the number of farmers (of agricultural products) who have adopted an improved agricultural technology promoted by operations supported by the World Bank.</p> <p>NB: "Agriculture" or "Agricultural" includes: crops, livestock, capture fisheries, aquaculture, agroforestry, timber and non-timber forest products. Adoption refers to a</p>	Bi-annually	Dedicated surveys	Survey designed to capture data on producer adoption or utilization of technology	ABCC and ARIS (or a designated M&E firm)



	<p>change of practice or change in use of a technology that was introduced or promoted by the project.</p> <p>Technology includes a change in practices compared to currently used practices or technologies (seed preparation, planting time, feeding schedule, feeding ingredients, postharvest storage/processing, etc.). If the project introduces or promotes a technology package in which the benefit depends on the application of the entire package (e.g., a combination of inputs such as a new variety and advice on agronomic practices such as soil preparation, changes in seeding time, fertilizer schedule, plant protection, etc.), this counts as one technology.</p> <p>Farmers are people engaged in farming of agricultural products or members of an agriculture related business</p>				
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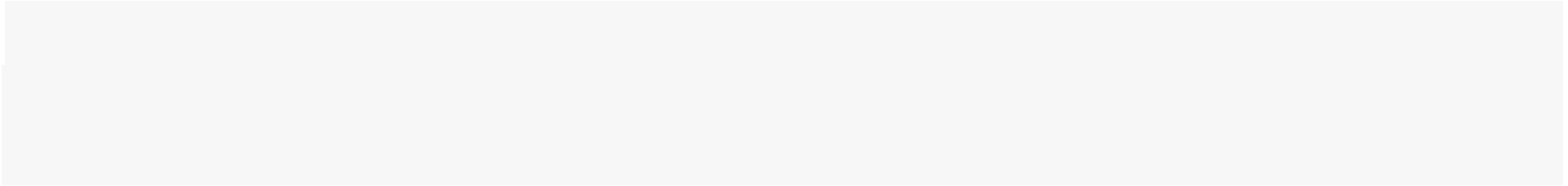
	(disaggregated by men and women) targeted by the project.				
Farmers adopting improved agricultural technology - Female		Baseline, mid-term and final evaluation	Dedicated surveys	Survey designed to capture data on producer adoption or utilization of technology	ABCC and ARIS
Farmers adopting improved agricultural technology - male		Baseline, mid-term and final evaluation	Dedicated surveys	Survey designed to capture data on producer adoption or utilization of technology	ABCC and ARIS
Number of farmers and rural producers linked to higher-value markets	Measures the number of farmers that have developed a market linkage to an exporter or processor as a result of the Project. These numbers will be assessed among the pool of direct beneficiaries of on-farm investments, public infrastructure, training or TÁ, and export promotion activities.	Annually	Progress reports	Project reports and surveys	ARIS
New or rehabilitated urban public spaces	The indicator will capture square meters of rehabilitated public spaces under the Project. These will include museum complexes	Bi-annually	Design documentation and the progress reports	ARIS (or a designated firm) will collect the data from the data sources, measured in square meters	ARIS (or a designated M&E firm)



	and their grounds, public parks and spaces, streets and sidewalks, etc.				
Increased revenue from visitors to museums	The indicator will capture the revenues museums receive from ticket sales and other activities (hosting events, renting spaces, etc.). The baseline will be determined at the beginning of the Project.	Bi-annually	Museum books and annual balance sheets	ARIS (or a designated firm) will collect the data from the selected museum administrators.	ARIS (or a designated M&E firm)
Natural, cultural or heritage assets supported, rehabilitated or restored	The indicator will capture the number of sites (cultural, natural, heritage) benefiting from the project support. This may include: Uzgen Museum Complex, Soleiman-Too Museum Complex, Karashoroo National Park,. Abshyr-Ata and Kyrgyz Ata.	Bi-annually	Handover agreements signed.	ARIS (or a designated firm) will collect the data through their construction monitoring unit to capture the number of completed investments and handover agreements signed.	ARIS (or a designated M&E firm)
Increased amount of private sector investments in targeted areas (US\$ million)	The indicator will capture investments attracted in the Project sites through Public-Private Cooperation (PPC) instrument under component 3.	Bi-annually	PPC management unit/coordinator within ARIS, project progress reports	ARIS (or a designated firm) will capture the investments made by the private sector and supported through PPC.	ARIS (or a designated M&E firm)
Tourism marketing and promotion activities completed	The indicator will capture the number of tourism-related activities supported	Bi-annually	Event and progress reports,	ARIS (or a designated firm) will compile the data from the event	ARIS (or a designated M&E firm)



	under the Project. These include, inter alia, organization of the fairs and participation in the tourism promotion events, hosting tour operators for the study tours, media campaigns completed, etc. It is expected that at least one activity will be completed annually.		submitted by the event planners and organizers.	reports.	
Number of SME established and supported by the Small Grants Program					
Female-led SMEs received financial support to start business in tourism or rural setting (gender gap)	This indicator will help to capture how well the Project addresses the identified gender gap and look into out of the total beneficiaries of financial support under Component 2.2 how many are women (percent).	Bi-annually	Progress reports	ARIS (or a designated firm) will compile the data from the event reports.	ARIS (or a designated M&E firm)
Females participating in the capacity building activities for improved hospitality business practices (gender gap)	This indicator will help to capture the progress towards decreasing the gender gap by counting the percentage of females participating in the training sessions and capacity building activities, provided by the Project	Bi-annually	Event reports, generated and submitted by the consultant.	ARIS (or a designated firm) will compile the data from the event reports.	ARIS (or a designated M&E firm)





ANNEX 1: Implementation Arrangements and Support Plan

COUNTRY: Kyrgyz Republic Regional Economic Development Project

Project Institutional and Implementation Arrangements

1. The specific roles and responsibilities of the all parties outlined below will be described in detail in the POM, which shall be developed by the PIE and furnished to the Bank for no objection. Availability of the approved POM will be an effectiveness condition for the Project.

Steering Committee (SC):

2. Considering the multi-sectoral nature of the Project, a high-level Steering Committee will be established to facilitate and ensure smooth project implementation. The SC will consist of Deputy Minister and Director-level representatives from various relevant line ministries and government agencies including, but without being limited to: Prime Minister's Office, President's Office, MOF, MAFIM, Department of Tourism under MOCIT, State Agency for Architecture, Construction and Communal Services and the Plenipotentiary Representative of the Government in the Osh Region to ensure coordination and harmonization at the highest level. This Committee will be chaired by the *Prime Minister's* Office with MOE providing secretariat support.

Ministry of Economy

3. MOE is the focal ministry at the central level responsible for regional development. MOE will be the *Project coordination Ministry* responsible for overall project coordination (including with the President's Office, Prime Minister's Office, MOF and line ministries, departments and agencies). MOE will also overall manage the Project through its Regional Development Policy Department, with the MOE Deputy Minister having oversight and responsibility for ensuring smooth and high-quality project implementation. MOE responsibilities will further include reviewing and endorsing annual work plans and budget (prepared by ARIS), providing relevant technical inputs, especially on a strategic and policy level or on issues related to economic promotion matters.

Ministry of Agriculture, Food Industry and Melioration

4. MAFIM will be responsible to set priorities and objectives for the agricultural activities under the Project. MAFIM will actively participate in identification and endorsement of investments under Sub-Component 1.2. Under Component 2, MAFIM will participate in the selection, evaluation and monitoring of the productive partnership investments under both windows.

Ministry of Culture, Information and Tourism

5. MOCIT through the Department of Tourism will actively participate in determining priorities and plans for tourism marketing and promotion activities, envisaged under Sub-Component 3.2.

Community Development and Investment Agency (or ARIS)

6. ARIS will be the *Project implementation entity (PIE)* responsible for all fiduciary (eg. procurement, financial management, preparation of annual reports, budgets etc.) and safeguards (eg. assessments, document preparation and embedding safeguard specialists in local and regional gov to carry out supervision, monitoring and compliance) functions for the RED. ARIS will also be responsible for key technical aspects of the Project (eg. preparation of technical assessments, design and tender documents, organization of evaluation, consultations, oversight on agriculture activities carried out by ABCC etc.), especially for the tourism and urban development aspects of the Project.



7. ARIS will have a core team based in Bishkek, consisting of specialist required for the Project implementation. In addition, it will form a local team based in Osh City, which includes one environment specialist and one social specialist and technical staff as required. (While the Safeguards Specialist located in Bishkek will oversee overall coordination of ESMF, reporting to MOE and to the Bank regarding safeguards issues through the agreed reporting lines, integrating safeguards requirements into bidding and contracting documents, preparing TORs for TA activities, etc., the local Safeguards Specialists to be hired in Osh city will have the main duties of ensuring that the Project activities are implemented in compliance with the Bank ESSs, site specific safeguards documents such as Environmental and Social Impacts Assessment (ESIA), studies and preparing the Environmental and Social Management Plans (ESMPs) as well as Resettlement Action Plans (RAPs), and national EA rules and procedures.). Technical staff at the regional level will closely coordinate with the regional and local authorities on the implementation – including monitoring - of the Project. The teams are expected to be mobilized within four months from effectiveness and hence to be functional at the start of the Project implementation. TORs for core staff will be included in the POM.
8. Overall ARIS is well experienced with implementing donor-financed projects on urban and rural infrastructure development as well as on agriculture and water resource management and they have a good record of working hand-in-hand with the line ministries to deliver specific programs. It has in its staff highly experienced environmental and social safeguards specialists, which have participated in the past organized the Bank safeguards training, including training on the Bank’s new Environmental and Social Framework. At same time, the Agency staff and new Safeguards Specialists to be hired will have limited experience and knowledge on addressing the requirements of the new Bank Environmental and Social Standards, and, in particular, those related to labor and working conditions and labor safety issues; community health and safety; incidence reporting protocols; etc. Respectively, the Project will support necessary capacity building activities in specified areas.

ABCC

9. ABCC, on behalf of MAFIM, will be responsible for technical implementation of activities under Components 1.2 and 2 with fiduciary support from ARIS. ABCC will play a lead role in facilitating implementation of activities related to the productive partnership initiatives. For other agriculture related activities ABCC will liaise with relevant departments in MAFIM to provide technical support where needed. In order to fulfill their role, ABCC will place technical staff members in Osh and draw on technical staff in Bishkek. In addition to their core staff, the Project will finance additional technical expertise on the ground as needed to facilitate implementation requirements.
10. ABCC and ARIS will sign the Cooperation Agreement in form and substance satisfactory to the Bank.

Regional/Local Governments

11. The Regional and Local Governments in Osh Region will actively participate in project implementation. Representatives of ARIS and ABCC, 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 the implementation of the Project activities, public safety and public health by appointed a representative in the team, facilitate civic engagement and communication with the citizens and project affected people by conducting community meetings and communicate their feedback to ARIS at the central level, participate in tender evaluation committees to evaluate the proposals and provide inputs for the final decisions and ensure both horizontal and vertical coordination for cross-sector activities. The Governor of Osh will be a part of SC. 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.

Productive Partnerships Selection Committee

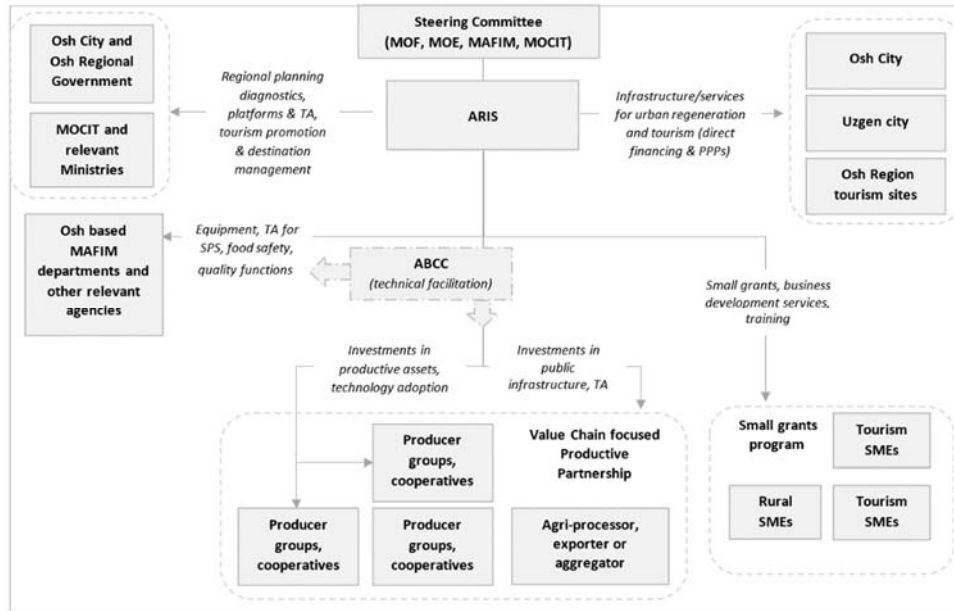


12. The Productive Partnerships Selection Committee, established under Component 2, will comprise representatives from, MAFIM, MOE, MOF, ARIS, ABCC, representatives of the regional and local governments, and members of the civil society. MAFIM will appoint the members of the committee by the decree, and will hold the chair function in the Productive Partnership Committee with secretariat support from the ABCC. The Committee roles and responsibilities, as well as all other details on the productive partnership screening, selection, monitoring and evaluation will be set out in the Productive Partnerships Manual, developed by ARIS and ABCC and approved by the Bank. Availability of the approved manual will be a disbursement condition for Component 2.

Small Grants Program Committee

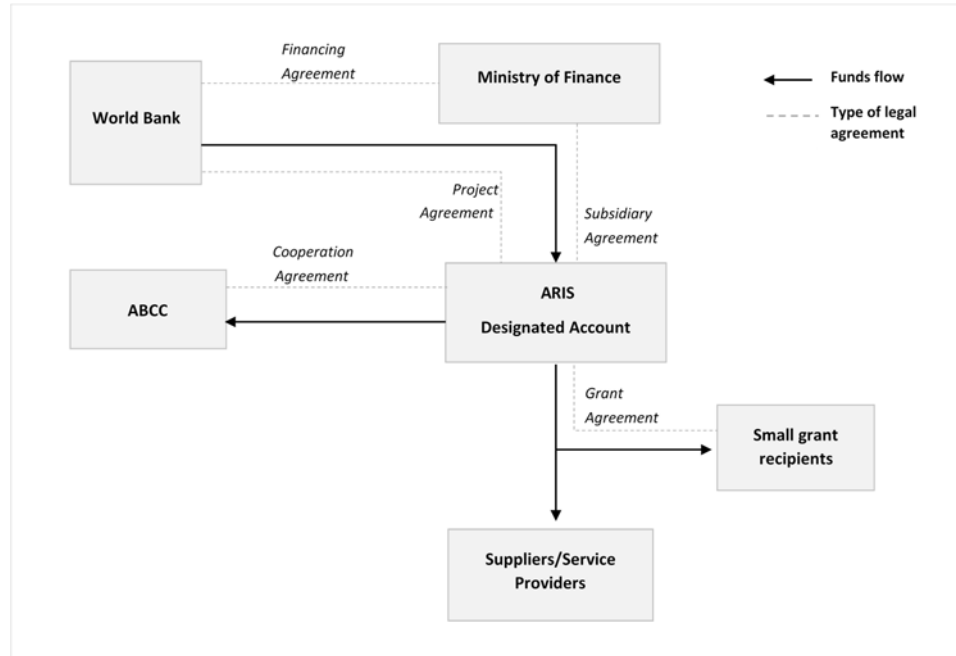
13. Similarly, the Small Grants Program Committee, established under component 4, will comprise members from MOE, MOF, Department of Tourism under MOCIT, MAFIM, ARIS, two members of the SCO sector from the Osh Region, the Osh Governor’s Office, City of Osh and City of Uzgen. MOE will appoint the members of the committee by the decree and perform the chair duties with the secretariat support from the ARIS. The Committee’s mandate, roles and responsibilities, as well as the grants screening, selection, awarding, reporting guidelines and all other details will be described in the Small Grants Handbook, developed by ARIS and approved by the Bank. Availability of the approved Handbook will be a disbursement condition for Component 4.

Implementation arrangements diagram





Funds Flow



Project Implementation Support Plan

Strategy and Approach for Implementation Support

14. The Implementation Support Plan describes how the Bank will assist the client in achieving the PDO of the Project. In particular, the Implementation Support Plan places emphasis on accomplishing the following objectives: (a) provide necessary technical advice to the client and bring international experiences and good practices to ensure that the Project meets the Bank’s technical standards; (b) ensure that the implementing entity’s measures meet the standards approved by the Bank with regard to construction supervision; (c) ensure that the required fiduciary, social, and environmental safeguards are put in place and implemented according to the Loan Agreement and other project documents; and (d) ensure that the annual training plans and programs exclusively benefit the main project beneficiaries, that is, the selected municipalities.
15. The project will be implemented over a period of six years commencing December 2020, the planned date of project effectiveness. The mid-term review will be conducted no later than June 2024.
16. **Technical implementation support.** During the implementation phase, the task team will continue to engage experienced urban specialists, architects and engineers to ensure the technical quality of outputs. Specifically, an urban planner/architect, civil/municipal engineer will be engaged to review designs before tender. A tourism specialist will also provide close supervision of activities developed under Component 3 in relation to tourism development. Recognizing that skills are currently limited within ARIS to deliver the integrated activities required for successful urban regeneration and tourist sites upgrading, Component 3 will require extra supervision. The task team has already leveraged GFDRR trust funds to support the upstream planning and design of this component and to ensure the long-term disaster and climate resilience and sustainability of investments, including meaningful partnerships with the private sector. Technical implementation missions will be implemented at least three times a year during the first 18 months of project implementation, followed by



regular biannual supervision missions. The project team will carry out site visits where works are ongoing or where service has recently commenced.

- 17. **Procurement implementation support.** The Bank shall prior review contracts as per prior review thresholds set in the Project Procurement Strategy for Development/Procurement Plan. All contracts not covered under prior review by the Bank shall be subject to post review during implementation support missions and/or special post review missions, including missions by consultants hired by the Bank. Two half-yearly missions are envisaged for procurement support and supervision of the proposed project. As required, a Bank-accredited Procurement Specialist will participate in the implementation support and supervision process.
- 18. **FM implementation support.** As part of its project implementation support and supervision missions, the Bank will conduct risk-based financial management implementation support and supervisions within a year from the Project effectiveness, and then at appropriate intervals. During the Project implementation, the Bank will supervise the Project’s financial management arrangements in the following ways: (a) review the Project’s quarterly IFRs as well as the Project’s annual audited financial statements and auditor’s management letters and remedial actions recommended in the auditor’s management letters; and (b) during the Bank’s on-site missions, review the following key areas (i) project accounting and internal control systems; (ii) budgeting and financial planning arrangements; (iii) disbursement arrangements and financial flows, including counterpart/beneficiary contribution funds, as applicable; and (iv) any incidences of corrupt practices involving project resources. As required, a Bank-accredited Financial Management Specialist will participate in the implementation support and supervision process.
- 19. **Environmental and social safeguards implementation support.** The Bank’s environmental and social specialists will provide support to ARIS to ensure smooth implementation of the Project activities in consistency with the applicable Environmental and Social Standards of the Bank. Regular site visits will be carried out to monitor the compliance of the contractors with good construction practices and other requirements to be specified in site-specific ESMPs. Additionally, the social specialists will be reviewing the consistency of land acquisition with the requirements of the RPF and RAPs to be prepared for project activities, as well as review citizen engagement under the Project, including the commitment to gender representation, and provide support regarding the implementation of the grievance mechanism in place. The Bank task team will provide guidance in, and review, key environmental and social monitoring documents, such as ESMPs, RAPs, RAP Completion Reports, and quarterly progress reports and support ARIS in meeting its commitments set out in RED.

Table 1: Implementation Support

Time	Focus	Skills Needed	Resource Estimate	Partner Role
First twelve months	<ul style="list-style-type: none"> • Procurement of 1st year fast-track investments and initiation of works • For Component 3, feasibility studies and detailed designs developed for participating municipalities for year 2-5 sub-projects. Launching of Sub-component 3A and 3.B activities 	Entire team with particular focus on agriculture, urban planning, and tourism development	US\$100,000 annually	Coordinate with key project partners, and key donors active in project area.
12–78 months	<ul style="list-style-type: none"> • Closely supervise development of construction works and safeguards compliance • Closely supervise credit line activities and other private-sector engagement activities • Supervise and provide technical guidance on Component 3 activities 	Entire team with particular focus on agriculture, urban planning, infrastructure, site management, capacity building, and citizen	US\$100,000 annually	Coordinate with key project partners, and key donors active in project area.



		engagement		
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Table 2: Skills Mix Required

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Task team leaders	40	16	Non-field-based staff
Agriculture specialist	20	12	Field-based staff
Urban specialist (Architect/Urban Planner)	20	12	Non-field-based staff
Municipal/civil engineer	10	12	Field-based staff
Institutional Expert/Urban Economist	20	12	Field-based staff
Spatial/Urban Planner	6	3	International expert
Tourism expert	8	6	International expert
Private sector development specialist	6	3	International expert
Environmental specialist	8	8	Regionally-based staff
Social specialist	8	8	Regionally-based staff
M&E specialist	2	2	At mid-term review and project end
FM specialist	8	8	Field-based staff
Procurement specialist	10	10	Field-based staff



ANNEX 2: Detailed Project Description

COUNTRY: Kyrgyz Republic Regional Economic Development Project

1. The Project will focus on enabling regional economic development with a focus on catalyzing private sector development, and on building the capacity of urban centers to serve as the hubs for regional development. Project interventions will include a tailored package of investments/activities aimed at: (i) boosting the region's economic potential (ii) elevating living standards; and (iii) strengthening the institutional and private sector capacity in the target areas. The proposed project components are described as below. To achieve the set objectives and meet the PDO of the Project, the Project will comprise five components:

Component 1: Improving Regional Economic Planning and Regulatory Functions (US\$5.5 million).

2. Interventions proposed under this component are aimed at building capacity for regional economic development planning at the central and regional levels and enabling relevant departments of the key relevant ministries and other agencies in the Osh Region to fulfill their mandate of provision of key public services, including effective regulation. This component will comprise two sub-components:

Sub-component 1.1: Enhancing Regional Economic Planning (US\$1.5 million).

3. This sub-component will support the development and implementation of a Regional Economic Development Plan. The Plan will seek to identify, inter alia, policies, priority actions and institutional requirements for effective integrated regional economic planning and development of the region and its main economic corridors. The plan will be developed by the subnational government and will focus on identifying opportunities to boost regional economic potential through inclusive, integrated and climate smart initiatives. Financing will also be allocated for specific capacity building opportunities for the staff of public institutions to enable them to better manage and promote the assets generated under the Project and enable the private sector to offer improved services. While the focus largely will be on Osh city and region, the key staff of the relevant ministries and other agencies (for example, MOE, MOCIT, MAFIM) will also benefit from capacity building activities to enhance their knowledge for better regional development planning, coordination, and policy making. Support will be provided for the sustainable and long-term use of the selected assets developed and regenerated under the Project by developing plans and required instruments. The sub-component will also promote sustained coordination between the center and the region through the use of appropriate technologies and practices (for example, digital platform for regional development investments prioritization and selection).

4. Sub-Component 1.2: Improving basic agricultural services and regulatory functions (US\$ 4.0 million).

This sub-component will improve the infrastructure and services that underpin agri-food marketing and trade in Osh with a focus on strengthening capacity for sanitary and phytosanitary (SPS) control, food quality, and basic services. Financing will be provided to upgrade facilities located in Osh city and the region relating to the functions of safety and quality of agriculture and food products, within the mandate of MAFIM and other line ministries, also training and capacity building around food safety requirements for domestic markets and export promotion. The project will complement ongoing investments that have been initiated to upgrade SPS capacity in line with the standards for the EEU and the WTO by financing remaining gaps. This will include financing for laboratory equipment and upgrading of facilities at border control points and expanding sampling capacity at the district/rayon level. Investments will also finance upgrading food safety quality infrastructure in Osh city/region within GosStandard, Food Laboratory (Sanepidnadzor), Veterinary Service and small food safety laboratories in local markets. Financing under the Project will also be channeled to upgrade seed certification and soil analysis functions in Osh in order to support investments in upgrading production and productivity in



the second component. For the seed laboratory this will include upgrading the existing lab in Osh to achieve International Seed Testing Association (ISTA) certification. Similarly, targeted investment will be provided for Osh Technological University and Osh Agricultural College to upgrade their equipment base and to incorporate agricultural export markets requirements, food safety regulations, HACCP, and modern food processing technologies for short term and long-term training. Infrastructure investments will upgrade existing facilities and will be guided by a detailed feasibility assessment in the first year to refine technical specifications and design.

Component 2: Strengthening Agri-Food Supply Chains and SMEs

5. This component will facilitate the development of partnerships between agri-businesses and small agricultural producers to finance targeted investments Sub-projects that improve quality and expand production/processing volumes. The sub-component will utilize a value chain development or productive partnership approach that is based on facilitating and organizing producer groups to meet specific market requirements and link with buyers/aggregators or processing enterprises. The aim of investments will be to: (a) improve access to market as well as quality and consistency in the supply of relevant outputs; (b) stimulate alliances within the supply chain; and (c) reduce risk or transaction costs for value chain participants, including risks related to climate change and where possible contribute to reduction in GHG emissions.
6. The project will facilitate the development of individual productive partnerships that will be selected on a demand-driven basis during implementation. A productive partnership is expected to cover multiple producer groups in one value chain and include potential beneficiaries across the value-chain - farmers, collectors, processors, traders, and exporters. Eligible productive partnerships would have the following characteristics:
 - (a) *Target a specific market opportunity.* A productive partnership must involve actors in a particular agricultural value chain and respond to a *bona fide* commercial or market opportunity. A commercial or market opportunity is one where there is a commercial agreement that specifies the quality, quantity, timing, and delivery specification of the product generated by the producers and the payment and price determination methodology by the buyer.
 - (b) *Be owned by a lead farmer group, producer organization or cooperative.* A productive partnership must include a group of farmers/producers on one side and a buyer, processor, exporter or service provider (input supplier, machinery services, storage and distribution, advisory or veterinary services) on the other side. Although the productive partnership would require both producer and buyers/processors, the owner of the overall proposal for financing would be the producer group. If more than one producer group are part of the partnership a lead producer group would be designated. Producer groups could be existing groups or clusters of producers who show willingness to coordinate together to meet the market opportunity.
 - (c) *Identify an investment program targeting critical constraints.* Eligible investments would target key constraints to scaling up production and meeting market requirements.
 - (d) *Incorporate gender concerns and climate resilience.* Given that many farmers are women, productive partnerships are expected to generate positive impacts for women and the criteria for selection of productive partnerships will prioritize those demonstrating inclusion of youth, women and vulnerable groups.
7. Each partnership will be governed by a framework agreement and signed by the lead producer group and the buyer/aggregator or processing enterprise.
8. Financing for activities within a partnership will cover a range of potential targeted investments critical to improving the improve the functioning of the value chain targeted in the partnership. In particular, targeted investment Sub-projects will finance: (i) technical assistance and training for producers and other services around quality assurance, pest and disease control and food safety improvement; and (ii) public infrastructure rehabilitation (i.e. small access road repair, electricity infrastructure, and other agriculture related infrastructure) critical to functioning of the value chain; (iii) 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 varieties); or (iv) post-harvest facilities (such as facilities for storage, washing, grading, packing, pre-cooling, cold storage) for specific producer groups.

9. Targeted investments will prioritize where possible climate proofing and climate resilience through adaptation or mitigation technologies such as promotion of climate resilient varieties, improved water management and more optimal input use, livestock management practices that reduce emissions, and energy efficient equipment at both the production and post-harvest stages.
10. The detailed investment program and the sequence of implementation of activities within the partnership will be determined by the specific partnership proposal. Co-financing levels for targeted investments will be determined in the Productive Partnership Manual. 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 partnerships and participants will be required to develop formal supply chain linkages to producers within the partnership. The overall budget limit for each public partnership supported under the Project would be determined in the Productive Partnership Manual but has been tentatively budgeted at the equivalent of up to US\$1 million.
11. The detailed criteria for selection of the value chain and the productive partnership will be defined in the Productive Partnerships Manual. Eligibility, selection, awards, co-financing mechanism, reporting and monitoring will be described in a detail in the Productive Partnerships Manual, which will be developed by ABCC and ARIS and approved by MAFIM. The manual shall be agreed with the Bank and constitutes a disbursement condition for this sub-component. In addition, each Targeted Investment Sub-projects will be carried out in accordance with Productive Partnership Agreement, the respective Targeted Investments Sub-projects Agreement to be signed with each Productive Partnership Beneficiary and the Environmental and Social Standards. The Government may conclude separate additional arrangements with the targeted investment sub-projects beneficiaries to provide for: (i) the transfer of assets, where applicable, to the Productive Partnerships Beneficiaries; and (ii) a mechanism for the reimbursement of the value of said assets.
12. Key criteria for selection of partnerships would be expected to include however, 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.
13. *Expected value chain focus.* Available value chain analysis indicates a number of potential value chains include select fruit products (cherries, apricots, plums) and early season vegetables – both traditional products for Osh agricultural producers – as well as meat and dairy processing. High value niche products such as honey, wool or specialty livestock breeds also show potential. Based on analysis of the Osh Region’s comparative advantage and the current landscape of donor supported programs, however, the Project would be likely to focus more on the fruit and vegetable sub-sector, however the selection of partnerships will be demand driven.
14. *Frequency of partnership selection cycles.* Given the length of the Project implementation period it is envisioned that annual cycles of partnership proposal development and selection would take place in the initial years of the Project – through year 1 and year 3 – and thereafter the focus would primarily be on implementation. It is expected that 25 partnerships would be formalized during the implementation period of the Project.
15. **Component 2 implementation modalities.** Component 2 activities will utilize a demand driven process for the identification of and prioritization of investments. The Productive Partnerships Manual will contain details on the implementation modalities, but partnerships would be identified and selected according to the following principles:



16. *An initial prioritization process.* A public awareness campaign, conducted by ABCC and its mobilizers, would identify value chain actors and identify potential productive partnership leaders and primary beneficiaries in target locations. The first stage would work with district administration, private sector leaders, donor projects and other sources of information to identify actors. Public information campaign in target locations and request for expressions of interest.
17. *Preparation of joint business plans.* Interested actors to participate in workshops on supply chain constraints, opportunities, and potential productive partnership support. The key outputs of this process would be joint business plan proposal by the lead producer group for each productive partnership. The workshops and business planning development will be facilitated by ABCC with additional support from consultant on business development services as needed.
18. *Preliminary Feasibility Studies.* An independent feasibility study would be commissioned for the development of product groups to be supported under each productive partnership. This will include: (i) An indication of current product competitiveness without the Project; (ii) key constraints to the product becoming competitiveness in the market and a general description of the investments required to address these constraints; (iii) potential competitiveness for the product groups post- project implementation; and (iv) key environmental and social safeguards issues to be addressed during sub-project designing. The sub-project where the preliminary feasibility study indicates are unlikely to become competitive will not proceed with full concept notes.
19. *Assessment of Business Plans.* A technical working group comprised of ABCC and MAFIM would review business plans and forward the ones that adhere to the criteria would be presented for review by Productive Partnerships Selection Committee (members of the committee are defined above).
20. *Preparation of Productive Partnership Proposals.* A more detailed proposal will be prepared by the lead proponent group with support of ABCC based on the approved business plan. This may involve a workshop with participants to fully detail the partnership activities and to identify additional potential implementing partners. The productive partnership proposal would include a detailed budget and procurement plan that identifies the portion of the activities that fall under the first window (public investments and services) and those that would falling under the second window (targeted investments Sub-projects for productive assets, innovative technologies and inputs for the producer group). As needed, depending on the Sub-projects initial environmental and social screening, the productive partnership proposals will include an ESIA, and ESMP or a RAP, to be disclosed and consulted with all interested parties and local population.
21. *Assessment of Proposals and Grant Award.* Proposals would be assessed on the basis of both desk assessment and field visits. The Productive Partnerships Selection Committee will make the final decision to accept or reject proposals. A productive partnership framework agreement will be signed and cover the full set of activities and implementation modalities with lead producer organization and the market actor/buyer. Specific Targeting Investments Sub-projects agreement under the framework agreement will be signed with the direct recipients of the targeted investments Sub-projects –producer groups or individual producers.

Component 3: Catalyzing investments for tourism and urban development (US\$22.0 million).

22. The tourism sector of the Kyrgyz Republic is still at an early stage of development and strategic interventions and timely investments are required to strengthen its foundation as well as to enable its development into a matured sector in the long term. This component will leverage the unique natural and cultural assets of the Osh Region and its cities and finance foundational and enabling investments supporting: (i) integrated packages of improvements of priority touristic sites and clusters; (ii) regional infrastructure, services and amenities to address key bottlenecks for improved tourism quality and conditions; (iii) urban amenities that will enhance the livability of urban centers to attract tourists and retain residents, and (iii) pilot public-private cooperation to attract private investments in the tourism sector. The sub-components are:



Sub-component 3.1: Upgrading Osh and Uzgen Urban Cores and Tourism Circuits (US\$19.0 million).

23. The Osh Region has untapped potential to attract domestic and international tourists to visit the many natural and cultural attractions it has to offer. Osh is the second largest city in the country and the gateway to the south and the Fergana Valley, while Uzgen has been identified as one of the growth poles in the region with recognized potential to grow its incipient tourism sector. For tourism development and urban regeneration, the Project will finance infrastructure investments in the participating cities (e.g. Osh and Uzgen) and tourism circuits (e.g. Kara-Shoroo, Kyrgyz-Ata, Abshyr-Ata) to improve the tourism image of these areas and address the need for targeted, area-based urban upgrading and complementary infrastructure, services and connectivity, to improve livability. This will include investments in, inter alia, (1) enhancement of public spaces and upgrading of street networks and associated infrastructure; (2) adaptation and rehabilitation of selected cultural heritage and public buildings; (3) improvements in urban mobility and other urban infrastructure upgrading; (4) improvements in selected basic infrastructure and services that are part of larger networks when deemed necessary to address bottlenecks hindering urban functionality and/or complement the long-term functionality and increased effectiveness of area-specific urban upgrading efforts; (5) upgrading of vehicular, pedestrian and multi-modal accesses, including upgrading of bridges to reduce congestion points; (6) rehabilitation and improvements/modernization of trunk infrastructure, including water supply and sewage networks, where required; (7) support to solid waste management systems; (8) upgrading of storm water drainage systems, if necessary; and (8) preparation of necessary feasibility studies, detailed designs (including urban design studies), and construction supervision for the above listed activities.
24. The component will also initiate and support a Public-Private Cooperation (PPC) mechanism, which will finance public infrastructure to attract private investment in tourism in towns and villages 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 follow a specified screening and selection process, which will be set out in the Project Operations Manual, developed by the PIE and acceptable to the Bank.
25. For investments in physical infrastructure under this component, climate vulnerability is considered in the design parameters of the investments to adapt to climate change in the long-term, and, particularly, to address the increasing risks of extreme weather events, such as more frequent and intense flooding often causing landslides and mudflows in and around the Project cities (particularly through investments in storm-water drainage and stabilizing embankments), to improve infrastructure resistance to extreme droughts, as well as to ensure seismic resistance standards of urban infrastructure. Technical designs for the selected investments under this component will consider anticipated impacts of climate change and apply required and targeted adaptation measures to ensure climate resilience. Besides engaging in climate change adaptation activities, the component also includes long-term climate change mitigation measures. The mitigation measures are comprising investments in energy efficiency regarding streetlighting as well as administrative and cultural buildings in the pilot cities. Furthermore, interventions under this component will focus on improving mobility in the Project cities for pedestrians and cyclists by adapting innovative and eco-friendly mobility solutions.
26. The following indicative short list and associated estimated costs are only preliminary and are subject to verification through ongoing and relevant technical and feasibility studies and detailed designs. This list has been agreed with the local and regional governments through the consultative process at the preparation stage and cleared with the central level authorities during the consultative meetings in Bishkek:

#	Description	Estimated Costs (US\$)
Tourism development and urban regeneration in Osh city		
1	Osh downtown and key neighborhoods urban regeneration (roads, parks and other	6,000,000



#	Description	Estimated Costs (US\$)
	public spaces, pedestrian bridges across river, utilities, etc.)	
2	Suleiman-Too Museum and Complex upgrading (including infra, services, exhibition organization, museum site and visitor management plan, goods, etc.)	4,000,000
Sub-Total:		10,000,000
Tourism development and urban regeneration in Uzgen		
1	Uzgen City urban regeneration (roads, parks and other public spaces, utilities, etc.)	2,500,000
2	Uzgen Museum and grounds upgrading (including infra, services, exhibition organization, museum site and visitor management plan, goods, etc.)	2,500,000
Sub-Total:		5,000,000
Basic infrastructure, services and amenities for regional circuits, and PPC		
1	Provision of tourism services and amenities (eg. rest stops) along the main circuits	1,500,000
2	Abshir-Ata: tourist infrastructure upgrading and solid waste management improvements	500,000
3	Kara-Shoro Park: tourist infrastructure upgrading and solid waste management improvements	500,000
4	Kyrgyz-Ata: tourist infrastructure upgrading and solid waste management improvements	500,000
5	Public-Private Cooperation	1,000,000
Sub-Total:		4,000,000
Total:		19,000,000

27. A list of screening principles as well as selection criteria have been agreed upon at the preparation stage with all stakeholders at the local, regional and central levels and shall be applied to the long list to prioritize investments to form a short list of investments. They are:

(a) **Threshold screening principles:**

- (i) Full alignment with the PDO
- (ii) Not posing any significant social or environmental risks and negative impact

(b) **Shortlisting criteria:**

- (i) **Economic impact** (e.g. contribution to local and regional economy, ability to generate jobs)
- (ii) **Commitment or willingness to develop** (including government commitment, private sector interest and community support)
- (iii) **Sustainability and Operation and Maintenance** (e.g. feasibility for long-term sustainability, sound operation and maintenance commitments and arrangements in place)
- (iv) **Tourism attractiveness** (e.g. value of heritage assets, natural beauty, appeal to visitors, demand)

Sub-Component 3.2: Tourism Product Development, Marketing and Promotion (US\$3.0 million).

28. This sub-component will provide support to public entities at both the national and subnational levels, especially to: (1) the Department of Tourism (under MOCIT) for improved monitoring and evaluation, marketing and promotion of the Kyrgyz Republic as an emerging destination at the targeted international markets, (2) the Department of Tourism and the relevant regional government entities to develop a comprehensive tourism strategy for the Osh Region, which shall identify opportunities for sector development and offer solutions and a roadmap to address shortcomings; (3) the Kyrgyz Tourism State Enterprise for investment attraction, training and marketing; (4) public and private sector in Osh to improve destination management in Osh Region covering tourism marketing, promotion, local outreach campaign and media coverage, as well as tour packaging with



bordering countries and tourism industries; (5) regional and local administrations to plan and implement cultural events for tourism development, (6) central, regional and local agencies to provide support with performance monitoring & evaluation activities (e.g. measuring tourist arrivals/number of visitors, spending, opinions, occupancy rates, increases in tourism-related investments, and gender aspects) and e-governance initiatives (e.g. an online platform/one-stop service center for tourists, or support to host application on the cloud services); (v) museum and national park administration to have set plans for sustainable site management of cultural and natural heritage; and (vi) other key tourism-related organizations/associations and the private sector representatives for skilled workforce development and capacity building.

Component 4: Supporting Tourism and Rural SME Development through Small Grants (US\$3.0 million).

29. The project will support SME development through a training and small grant program targeting tourism and rural SMEs and startups. The small grants program will aim to support the launching of new enterprise activities in rural areas and diversification and expansion of tourism services. In tourism, small grants will be expected to improve the capacity, and the quality and range of services offered, which could result in inter-linked activities, inter alia, in the areas of gastronomy, agro, ethnic and eco-tourism. The program will follow a phased approach, where the accommodation managers/staff, tour operators and tour guides will undergo a robust training program and those who will complete it successfully will be eligible to apply for financing. Other services providers and SMEs will be required to submit a sound business plan for their proposed activities. Technical support in business plan development will be provided by the Project. Start-ups financed under the program will be eligible for financing to scale-up their activities after the proven record of successful utilization of funds (presenting books, payment of taxes, generating employment, etc.).
30. The Small Grants Program will follow a staged approach:
 - (a) **Stage 1: Completion of the Training Program and Consultancy Support.** Accommodation managers/staff, tour operators and tour guides will be required to undergo a robust training program and complete it at a satisfactory level to become eligible for funding. As part of the training, they will be able to develop a sound business plan, which will give them an opportunity to apply for funding. Other service providers and small-scale rural entrepreneurs will be able to receive consultancy support to develop business plans. Training program and consultancy services will be delivered by a consultant, hired by ARIS.
 - (b) **Stage 2: Start up grants.** Those, who will have a sound business plan, will be eligible to apply for financing. Start-up financing will support services delivery and small-scale entrepreneurship development in the rural setting. All applications will be submitted to ARIS for the review by the Grants Manager (to be hired under the Project), who will prepare a full package for the Small Grants Committee's review and approval.
 - (c) **Stage 3: Scale-up support.** Start-ups financed under the program will be eligible for financing to scale-up their activities after the proven record of successful utilization of funds. The applicants will be required to submit relevant documentation to prove that their SME is performing, and they have a sound proposal to scale up. Similar to Stage 2, the ARIS Grants Manager will compile all applications into a package to present it to the Committee for their review and approval.
31. **Small Grants Handbook.** Small grants eligibility, selection, awards, financing, reporting and monitoring will be described in a detail in the Small Grants Handbook, which will be developed by ARIS. The Handbook shall be agreed with the Bank. Disbursement under this component will be subjected to the approval of the Handbook by the Bank.
32. **Dissemination of Information on the availability of training/funding opportunities.** ARIS will develop a communication strategy to ensure fair and transparent application process. Information shall be made available to all ethnic groups throughout the region and ensure that application process is inclusive. At minimum, information on the training and funding opportunities shall be made available in multiple languages through



online sources and in all municipalities.

33. **Gender Gap.** To address the issues of low rates of women participation in the labor and in access to finance, described in paragraph 6, the Small Grants Program will give preferences to women. Female applicants for the training program 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 in the tourism sector or rural entrepreneurship. When scoring 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.

Component 5: Implementation Support, and Monitoring and Evaluation (US\$4.0 million).

34. This component will support project implementation, including the Project’s monitoring and evaluation system, communication strategy, application of safeguard instruments, training and financing of operating costs of the Project Implementing Entity and allow resources to scale up the Project to the other regions, as needed.

Summary of Project Costs

Components	Estimated Costs (US\$)
Component 1: Improving Regional Economic Planning and Regulatory Functions	5,500,000
Sub-Component 1.1: Enhancing Regional Economic Planning	1,500,000
Sub-Component 1.2: Improving Basic Agricultural Services and Regulatory Functions	4,000,000
Component 2: Strengthening Agri-Food Supply Chains and SMEs	25,500,000
Component 3: Catalyzing Investments for Tourism and Urban Development	22,000,000
Sub-component 3.1: Upgrading Osh and Uzgen Urban Cores and Tourism Circuits	19,000,000
Sub-Component 3.2: Tourism Product Development, Marketing and Promotion	3,000,000
Component 4: Supporting Tourism and Rural SME Development through Small Grants	3,000,000
Component 5: Implementation Support, and Monitoring and Evaluation	4,000,000
Sub-Component 5.1: Technical and Implementation Support for ARIS	1,700,000
Sub-Component 5.2: Services and support for ABCC	800,000
Sub-Component 5.3: Project Monitoring and Evaluation and Audit Services	800,000
Sub-Component 5.4: Preparation for future projects	700,000
TOTAL	60,000,000



ANNEX 3: Economic and Financing Analysis

COUNTRY: Kyrgyz Republic Regional Economic Development Project

1. The economic and financial analysis informs how the proposed project interventions will contribute to the development of the participating cities, districts and the region, and if expected benefits justify the expected costs of interventions.
2. Economic and financial analysis was performed separately for two sectors: Tourism and Agriculture. Economic benefits of the Public Parks and Recreational spaces were analyzed as well.

Economic and Financial Analysis for tourism-related Activities

3. The CBA for the tourism-related benefits were prepared for the Project as a whole, rather than for each component or sub-projects. The NPV, FIRR, and EIRR were calculated for the next 15 years, including 6 years of Project implementation period.
4. For the economic and financial analyses, a cost-benefit assessment followed global best practice experiences for this type of projects. The parameters for the models were based on data gathered during the Project design from various governmental entities and completed studies. Conservative assumptions were made both for inputs and outputs, and all possible risks were considered.
5. The analysis attempted to identify quantifiable benefits that relate directly to the activities undertaken following implementation of the components, or that can be attributed to the Project's implementation.
6. Financial analysis considered only incremental revenues that directly return to the Government in the form of taxes/duties due to the Project implementation.
7. For economic analysis financial costs, as well as capital and operational costs were adjusted in order to precisely assess all expenses associated to alternative options of project implementation globally. For achieving this payment of taxes were excluded from the financial, capital and operation costs as tax payments represent just transfer of funds from the point of view of the country. Shadow prices have also been considered along with the inefficiency characteristic for a transitional economy. For the above-mentioned conversion factors have been used.
8. Main benefit streams were calculated based on the following data and assumptions:
 - (a) Increase in tourist arrivals, overnight stays and spending. As a result of the proposed Project, both - domestic and international tourist arrivals are expected to increase, and the resulted incremental revenues have been calculated;
 - (b) Increase in number and profitability of economic enterprises. Development of tourism circuits and destination management and marketing/promotion as new tourist destinations, and improvement of infrastructure are expected to attract private sector investors to establish new economic enterprises or expand existing ones.
 - (c) Property value appreciation. Tourism development and improvement of infrastructure are expected to create more opportunities for businesses to invest and increase demand for real estate. Therefore, the real estate value is expected to appreciate.
 - (d) Temporary job creation during the construction activities. During the implementation of various Project activities, temporary jobs will be created. Temporary jobs also will be created during the construction of assets by investing leveraged capital.
9. **Key Assumptions.** The following key assumptions have been utilized in the analysis:



- (a) **Exchange rate.** The financial exchange rate at 70 KGS/US\$ has been used during the analysis period.
- (b) **Discount Rate.** The Financial Discount Rate of 7% is used in this analysis to assess the viability and robustness of investments.
- (c) **Analysis period.** All models were analyzed for 15 years to show the financial prospects under market conditions.
- (d) **Taxes.** Taxes/duties (VAT, corporate income tax, personal income tax and property tax) will remain constant during the analysis period.
- (e) **Private investment Leverage factor.** The leverage factor for the private investments attracted by the public expenditures will equal 1.5.

10. Detailed key assumptions for tourism-related sector as of November 10, 2019:

Macroeconomic Indicators

Exchange rate US\$/KGS in 2019	69.82
Average exchange rate till January 2027	70.00
Discount rate, %	7%
Operation and Maintenance costs, % of investment	2%
GDP growth rate, %	4%
Inflation, %	4%
Private Investment Leverage Factor	1.50

Disbursement of Project Funds

Year	KGS	US\$
Year 2020	0.00	0.00
Year 2021	18,375,000.00	262,500.00
Year 2022	55,125,000.00	787,500.00
Year 2023	183,750,000.00	2,625,000.00
Year 2024	477,750,000.00	6,825,000.00
Year 2025	588,000,000.00	8,400,000.00
Year 2026	661,500,000.00	9,450,000.00
Year 2027	220,500,000.00	3,150,000.00
	2,205,000,000.00	31,500,000.00

Tourism Related Indicators

Total Tourist Arrivals in 2018	1,380,400
Share of Project area	20%
Tourism revenue, USD in 2018	396,822,857
Tourist arrivals growth rate for 2006-2017	4.1%
Tourist arrivals growth rate forecast in 2022-2030	6.0%
Tourist arrivals growth rate forecast after 2030	4.0%
Long term base line tourism growth rate (w/o project scenario)	3.5%
Tourism spending growth rate for 2024-2034	1.0%
Average stay in 2017, days	4.58
Average stay in 2024, days	5.60
Average stay after 2028, days	2.65
Average daily spending per tourist, USD	62.77
Local share in tourist spending	80%
Hotel occupancy rate	50%



Secondary Sales Multiplier factor	1.5
Breakdown of the tourist spending	
Personnel Salary (net)	20%
Food, utilities & other (local)	28%
Food, liquor (Imported)	20%
Taxes	14%
Investor Profits	18%
Taxes	
VAT	12%
Corporate Income Tax (CIT)	10%
Personal Income Tax (PIT)	10%
Property Tax	0.8%

Project Indicators

Share of Labor costs in Capital Expenditures (Public)	25%
Share of Labor costs in Leveraged Capital Expenditures	25%

Increase in number and spending of Tourists/attributable to the Project

Year	Tourists without the Project (#)	Tourists (#)	Additional Tourists attributable to the Project (#)	Increase (%)	Tourist Spending, US\$
2017	276,080	276,080	0	0%	287
2018	285,743	285,743	0	0%	287
2019	295,744	295,744	0	0%	287
2020	306,095	306,095	0	0%	287
2021	316,808	316,808	0	0%	287
2022	327,896	335,817	7,920	0%	287
2023	339,373	355,966	16,593	0%	287
2024	351,251	377,324	26,073	1%	290
2025	363,545	399,963	36,418	1%	293
2026	376,269	423,961	47,692	1%	296
2027	389,438	449,398	59,960	1%	299
2028	403,068	476,362	73,294	1%	302
2029	417,176	504,944	87,768	1%	305
2030	431,777	535,241	103,464	1%	308
2031	446,889	556,650	109,761	1%	311
2032	462,530	578,916	116,386	1%	314
2033	478,719	602,073	123,354	1%	318
2034	495,474	626,156	130,682	1%	321

Fiscal Impact Analysis

11. Fiscal impact analysis is usually carried out to understand whether the state revenues from tourism related activities in the form of taxes, direct fees, and other sources cover the added costs for infrastructure.
12. Fiscal impact analysis, as well as economic analysis was done for a 20-year period. 12% discount rate has been used for calculation of Net Present Value (NPV).
13. The primary monetary benefits of the Project are expected to come from the following streams and related assumptions:



- (a) Increase in tourist arrivals, overnight stays and spending
- (b) Increase in number and profitability of economic enterprises
- (c) Property value appreciation
- (d) Temporary job creation

14. All key assumptions for financial and economic analysis are presented below:

15. **Assumptions used in fiscal impact.** When calculating ***Tax Revenues from Increase in Tourist Arrival, overnight stays and spending*** the following approach was used:

- (a) Tourist spending was calculated by multiplying number of additional tourists by the average tourist spending, that is calculated by multiplying average stay and average daily spending. Average daily spending was derived from National Statistical Committee of the Kyrgyz Republic data on tourism and equaled 62.77 US\$.²¹ Average stays will increase from 4.58²² days to 5.6 in 2024.
- (b) It is assumed that both domestic and international tourist arrivals and spending are expected to increase by 7% during 2022-2030, after 2030 growth will be 4%.
- (c) It is calculated that 14% of the tourist spending from direct sales will flow to the government, in the form of VAT, PIT, CIT and dividend taxes.

16. To calculate ***Tax Revenues from Increase in number and profitability of economic enterprises (Secondary sales)*** the following approach was used:

- (a) Tax payments, which consists of VAT, PIT, CIT and expenditure on imported food and liquor are deducted from tourist spending and as the remainder is paid to Personnel (20%), Local food and beverage producers, utilities, etc. (28%) and 18% is left to investors, then they will spend it locally and that will create secondary economic effects in the region. We used slightly lower number (1.5) than the widely used National Park Service Money Generating Model²³ sales multiplier that equals to 2. This implies that each dollar of direct sales generates another dollar in secondary sales in this region.²⁴ We assumed that the tax payments for the secondary sales is same and equals to 14%.

17. To calculate ***Tax Revenues from Property Value Appreciation*** the following approach was used:

- (a) Leveraged Capital attracted by the Public expenditures on infrastructure improvements will construct assets and it is assumed that on these assets additional property taxes (0.8% of the value of the assets) will be paid.
- (b) The leverage factor for the private investments attracted by the public expenditures will equal 1 to 1.5

18. To calculate ***Tax Revenues from Temporary Job Creation*** the following approach was used:

- (a) There will be two sources for Temporary Job Creation – Construction activities during Project implementation (Public funding) and during the construction of assets by Leveraged Capital

²¹ <http://www.stat.kg/en/statistics/turizm/>

²² Survey Tourism Sector in Kyrgyzstan: Trends and Challenges - https://ucentralasia.org/Content/Downloads/UCA-IPPA-WP42_Eng.pdf

²³ http://35.8.125.11/mgm2_new/

²⁴ Multipliers are used to capture the secondary effects of visitor spending in a region. There are two basic kinds of secondary effects: Indirect effects are the changes in sales, jobs and income within backward-linked industries in the region, i.e., businesses that supply goods and services to tourism-related firms. For example, hotels purchase a variety of goods and services in the local area in order to produce a night of lodging. Each business that provides goods or services to hotels benefits indirectly from visitor spending in hotels. These indirect effects are captured by Primary sales multiplier.

$$\text{(Primary sales multiplier)} = \frac{\text{(direct sales + indirect sales)}}{\text{direct sales}}$$

Induced effects are the changes in sales, jobs and income in the region resulting from household spending of income earned either directly or indirectly from visitor spending. Employees in tourism firms and backward linked industries spend their income in the local region creating additional sales and economic activity. These impacts are most readily seen when there is a significant drop in tourism activity. Reduced income in the area results in reduced spending that will affect retail stores and other businesses that depend on household spending. Secondary sales multipliers capture both indirect and induced effects.

$$\text{(Secondary sales multiplier)} = \frac{\text{(direct sales + indirect sales + induced sales)}}{\text{direct sales}}$$



- (b) Based on data from the regional projects, on average infrastructure works have 25% labor component (including production and transportation), with around 25% labor component for general infrastructure;
- (c) Thus, The Labor component for the Project activities will be around 25% of the expenditures;
- (d) Proportion of Labor component during construction activities funded by Leveraged Private Capital will be the same 25%.
- (e) PIT from labor expenditures (10%) will be flowing to the government.

19. Fiscal impact analysis shows that the tax revenues generated by tourism related activities after the Project implementation are well over the Project costs - NPV for the Project at 7% discount rate equals to US\$ 14,483,193.24 and FIRR equals to 19.88 %.

20. Detailed calculation of expected fiscal impact (as of November 2019):

Year	Costs, US\$		Tax Revenues, US\$					Total Tax Revenues	Net Benefits
	Capital Expenditures (Public)	Total Expenses	Tax Revenues from Increase in Tourist Arrival, overnight stays and spending	Tax Revenues from Secondary sales	Tax Revenues from Property Value Appreciation	Tax Revenues from VAT and Temporary job generation by Leveraged Capital Expenditures	Tax Revenues from VAT and Temporary Job generation during Project Implementation		
2020	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2021	-262,500.00	-262,500.00	0.00	0.00	0.00	0.00	34,687.50	34,687.50	-227,812.50
2022	-787,500.00	-787,500.00	318,754.35	105,188.94	2,625.00	52,031.25	104,062.50	582,662.03	-204,837.97
2023	-2,625,000.00	-2,625,000.00	667,790.36	220,370.82	10,500.00	156,093.75	346,875.00	1,401,629.93	-1,223,370.07
2024	-6,825,000.00	-6,825,000.00	1,059,808.56	349,736.83	36,750.00	520,312.50	901,875.00	2,868,482.89	-3,956,517.11
2025	-8,400,000.00	-8,400,000.00	1,495,143.21	493,397.26	105,000.00	1,352,812.50	1,110,000.00	4,556,352.97	-3,843,647.03
2026	-9,450,000.00	-9,450,000.00	1,977,561.70	652,595.36	189,000.00	1,665,000.00	1,248,750.00	5,732,907.06	-3,717,092.94
2027	-3,150,000.00	-3,150,000.00	2,511,129.61	828,672.77	283,500.00	1,873,125.00	416,250.00	5,912,677.38	2,762,677.38
2028	-630,000.00	-630,000.00	3,100,233.13	1,023,076.93	312,375.00	624,375.00	83,250.00	5,143,310.06	4,513,310.06
2029	-630,000.00	-630,000.00	3,749,603.30	1,237,369.09	312,375.00	124,875.00	83,250.00	5,507,472.39	4,877,472.39
2030	-630,000.00	-630,000.00	4,464,341.89	1,473,232.82	312,375.00	124,875.00	83,250.00	6,458,074.72	5,828,074.72
2031	-630,000.00	-630,000.00	4,783,429.69	1,578,531.80	312,375.00	124,875.00	83,250.00	6,882,461.49	6,252,461.49
2032	-630,000.00	-630,000.00	5,122,866.27	1,690,545.87	312,375.00	124,875.00	83,250.00	7,333,912.14	6,703,912.14
2033	-630,000.00	-630,000.00	5,483,870.71	1,809,677.33	312,375.00	124,875.00	83,250.00	7,814,048.04	7,184,048.04
2034	-630,000.00	-630,000.00	5,867,732.29	1,936,351.66	312,375.00	124,875.00	83,250.00	8,324,583.94	7,694,583.94
								NPV	\$11,447,765.64
								FIRR	22.87%

Economic Impact Analysis

- 21. The economic analysis is based on the financial analysis. Hence, all the assumptions made in financial analysis are valid in the economic analysis.
- 22. Financial costs, both - investments costs and operation and management costs were adjusted in order to correctly assess costs associated with the Project globally, from the point of view of the economy as a whole. In order to achieve this payment of taxes were excluded from the financial costs as tax payments represent just transfer of funds from the point of view of the country. Also, shadow prices have also been considered along with the inefficiency characteristic for a transitional economy. The assumptions made for the economic analysis are discussed below in detail.
- 23. Financial costs discussed above were corrected for conducting economic analysis as follows:
 - (a) Personal income tax (PIT), which is included in labor cost and makes up its 10%, has been deducted out of the labor costs reflected in the financial costs;
 - (b) Value Added Tax (VAT) at the current rate of 12% has been deducted out of the operations and maintenance as well as capital costs used in the financial analyses.



24. Identification of conversion factors required for the economic analysis was carried out in the following two stages:

- (a) Total project costs were broken down into three components: Foreign Procurement; Local Procurement and Local Labor Force;
- (b) Then appropriate conversion factors were applied to each group.

25. Conversion factors applied to the mentioned cost items are given in Table below:

Capital Costs Conversion Factors²⁵

Type of Work	Foreign Purchases		Local Procurement			
	Share in total costs, %	Conversion factor	materials		Labor force	
			Share in total costs, %	Share in total costs, %	Conversion factor	
Construction works	0%	1.0	80%	0.9	20%	0.75
Materials	15%	1.0	75%	0.9	10%	0.75

26. After the application of the conversion factors the resulted capital expenditures (both Public and Leveraged) were used for the economic analysis.

27. The primary economic benefits of the Project are expected to come from the following streams and related assumptions:

- (a) Economic Benefits from Incremental Tourist Expenditures
- (b) Economic Benefits from Temporary Job Generation
- (c) Economic Benefits from Secondary Sales

28. **Assumptions made during Economic Analysis.** To calculate *Economic Benefits from Incremental Tourist Expenditures* the following approach was used:

- (a) Tourist spending was calculated by multiplying number of additional tourists by the average tourist spending, that is calculated by multiplying average stay and average daily spending. Average daily spending was derived from National Statistical Committee of the Kyrgyz Republic data on tourism and equaled 62.77 US\$.²⁶ Average stays will increase from 4.58²⁷ days to 5.6 in 2024.
- (b) It is assumed that both domestic and international tourist arrivals and spending are expected to increase by 7% during 2022-2030, after 2030 growth will be 4%.
- (c) Tax payments (14%) in the form of VAT, PIT, CIT and expenditure on imported food and liquor (20%) is deducted from tourist spending to calculate economic benefit

29. To calculate *Economic Benefits from Temporary Job Generation* the following approach was used:

- (a) There will be two sources for Temporary Job Creation – Construction activities during Project implementation (Public funding) and during the construction of assets by Leveraged Capital
- (b) It is assumed that in the first case labor component will be 15% and in the second – 25%
- (c) The PIT will be deducted from these payments to calculate economic benefits.

30. To calculate *Economic Benefits from Secondary Sales* the following approach was used:

²⁵ A standard conversion factor (SCF) of 0.9 is used for non-tradable items and a shadow wage rate factor (SWRF) of 0.75 for unskilled domestic labor.

²⁶ <http://www.stat.kg/en/statistics/turizm/>

²⁷ Survey Tourism Sector in Kyrgyzstan: Trends and Challenges - https://ucentralasia.org/Content/Downloads/UCA-IPPA-WP42_Eng.pdf



- (a) There will be two sources for Secondary sales - Economic Benefits from Incremental Tourist Expenditures and Economic Benefits from Temporary Job Generation.
- (b) These payments can be spent locally to create secondary economic effects in the region. We used slightly lower number (1.5) than the widely used National Park Service Money Generating Model sales multiplier that equals to 2. This implies that each dollar of direct sales generates another dollar in secondary sales in this region.

31. Economic analysis shows that the total economic benefits generated by tourism related activities after the Project implementation are well over the total costs and Economic IRR equals to 67.94%.

32. Detailed calculation of economic impact is provided below:

Economic Impact (as of November 2019)

Year	Economic Costs, US\$			Economic Benefits, US\$				Net Benefits
	Capital Expenditures (Public)	Leveraged Capital Expenditures	Total Expenses	Economic Benefits from Incremental Tourist Expenditures	Economic Benefits from Temporary Job Generation	Economic Benefits from Secondary sales	Total Economic Benefits	
2020	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00
2021	-221,878.13	-332,817.19	-554,695.31	0.00	88,593.75	38,095.31	126,689.06	-428,006.25
2022	-665,634.38	-998,451.56	-1,664,085.94	1,502,699.07	265,781.25	760,446.54	2,528,926.86	864,840.92
2023	-2,218,781.25	-3,328,171.88	-5,546,953.13	3,148,154.56	885,937.50	1,734,659.59	5,768,751.64	221,798.52
2024	-5,768,831.25	-8,653,246.88	-14,422,078.13	4,996,240.37	2,303,437.50	3,138,861.49	10,438,539.36	-3,983,538.77
2025	-7,100,100.00	-10,650,150.00	-17,750,250.00	7,048,532.26	2,835,000.00	4,249,918.87	14,133,451.13	-3,616,798.87
2026	-7,987,612.50	-11,981,418.75	-19,969,031.25	9,322,790.88	3,189,375.00	5,380,231.33	17,892,397.21	-2,076,634.04
2027	-2,662,537.50	-3,993,806.25	-6,656,343.75	11,838,182.43	1,063,125.00	5,547,562.19	18,448,869.62	11,792,525.87
2028	0.00	0.00	0.00	14,615,384.76	212,625.00	6,376,044.20	21,204,053.95	21,204,053.95
2029	0.00	0.00	0.00	17,676,701.27	212,625.00	7,692,410.29	25,581,736.56	25,581,736.56
2030	0.00	0.00	0.00	21,046,183.20	212,625.00	9,141,287.53	30,400,095.73	30,400,095.73
2031	0.00	0.00	0.00	22,550,454.27	212,625.00	9,788,124.08	32,551,203.35	32,551,203.35
2032	0.00	0.00	0.00	24,150,655.29	212,625.00	10,476,210.52	34,839,490.81	34,839,490.81
2034	0.00	0.00	0.00	25,852,533.34	212,625.00	11,208,018.08	37,273,176.42	37,273,176.42
							ENPV	\$83,167,618.50
							EIRR	88.92%

ECONOMIC BENEFITS OF THE PUBLIC PARKS AND RECREATION SPACES

33. The project envisages rehabilitation of public parks and recreational spaces in the cities of Osh and Uzgen. Parks provide great benefit to the inhabitants and tourists. In addition to their high environmental benefits, including preserving plant and animal habitat, decreasing air pollution, and water filtration, parks create an economic benefit for the governments and the individuals. Well planned and developed parks can generate financial returns that are often many times greater than funds invested into their reconstruction. The main benefits include:

- (a) Increased property values (homebuyers prefer homes close to parks, open space, and greenery);
- (b) Increased tax revenues from park activities/tickets (parks can draw local and international visitors, bringing tourism revenue to local restaurants, hotels, snack shops, and stores);
- (c) Decreased medical costs through increased exercise (parks provide low or no-cost recreation and encourage exercise) and reducing air pollution (park's plants absorb air pollutants such as nitrogen dioxide, sulfur dioxide, carbon monoxide, ozone, and some particulates, reducing the impacts they have on peoples' cardiovascular and respiratory systems, which in case of the Kyrgyz Republic are the major contributors of the morbidity and comprise about 45.5% of all diseases);



34. Calculating benefits of the increase in property values and tax revenues need extensive studies to collect baseline data. While the data about the property market is almost nonexistent in Osh, the Project has focused on the decreased medical costs, as these can be calculated on the basis of the statistical information.
35. Several reports, including extensive report “Quantifying the Contribution of Public Parks to Physical Activity and Health”²⁸ show that the cost of physical inactivity is between 2.4% to 8.2% of healthcare expenditures. As the dollar figures noted in this report may not be comparable, because all studies have used different methods, the qualitative conclusions are similar. For the Kyrgyz Republic, the team used the average figure of 5.3%.
36. According to World Health Organization²⁹ total expenditure on health per capita in the Kyrgyz Republic is around 215 US Dollars.
37. Taking into consideration the number of project beneficiaries in Osh and Uzgen City – 150,000 persons, the team assumed that annual economic benefits from decreased medical costs would equal to US\$ 1.7 mil.
38. It should be noted that, beyond economic benefits, parks also have environmental and social benefits.

ECONOMIC AND FINANCIAL ANALYSIS FOR AGRICULTURAL ACTIVITIES

39. The analysis of agricultural investments focuses on a number of indicative economic activities identified during the Project design and that would be potentially supported by the RED. Following illustrative models were prepared to demonstrate the financial and economic viability of potential investments:
 - (a) Fruit orchard (cherry, apricot, plum)
 - (b) Vegetable (tomato, cucumber)
 - (c) Greenhouse
 - (d) Cattle breeding
40. All above models aimed to identify incremental costs and revenues related to the introduction of new technologies or practices and associated to the investments carried out in the first year. However, due to assumptions that the introduction of some activities in the Project area will be completely new, the without project values for some models are set at null. In most cases, the result of the investment translates into additional demand from primary producers and new permanent jobs.
41. The analysis attempted to identify quantifiable benefits that relate directly to the activities undertaken following implementation of the agricultural components, or that can be attributed to the Project’s implementation. The incremental net benefits of illustrative models were then used in the calculation of the overall benefit stream. Climate benefits in terms of GHG sequestration or reduction were also calculated and utilized for the estimation of the economic benefit stream. The analysis also considered the shadow price of carbon and used 40 US\$/tCO₂e as the social value of carbon in line with Banks standards established in 2017.³⁰
42. The parameters for the models are based on information gathered during the design: interviews with farmers and entrepreneurs, information from the donor agencies operating in the Kyrgyz Republic and the preparation team’s own estimates. In particular, information on labor and input requirements for various operations, capital costs, prevailing wages, yields, farm gate and market prices of commodities, input and farm-to-market transport costs were collected. Conservative assumptions were made both for inputs and outputs, and take account of possible risks.
43. **Key Assumptions.** Following key assumptions were utilized in the analysis.

²⁸ https://www.rand.org/content/dam/rand/pubs/research_reports/RR700/RR774/RAND_RR774.pdf

²⁹ <https://www.who.int/countries/kgz/en/>

³⁰ World Bank, 2017. Guidance note on shadow price of carbon in economic analysis



- (a) **Prices.** Financial prices for commodities/inputs reflect farm-gate prices and those actually paid/received by the farmer/entrepreneur, and imply potential risks. Economic prices were calculated by the removal of price contingencies and taxes/duties.
- (b) **Exchange rate.** For the analysis the financial exchange rate at 70 KGS/US\$ was utilized. The economic exchange rate estimated at 75 KGS/US\$ was used for the economic analysis.
- (c) **Adoption rate.** Aggregated benefit cash flows are calculated considering 90% of adoption rate.³¹ This represents conservative benefits projections assuming that at least 90% of Project investments will succeed.
- (d) **Discount Rate.** The Financial Discount Rate of 7% is used in this analysis to assess the viability and robustness of investments. The discount rate of 7% is used in economic analysis as well.
- (e) **Analysis period.** All models were analyzed for 15 years to show the financial prospects under market conditions. At aggregated level, the costs and benefits streams are presented for a 15-year period as well.
- (f) **Scope of investment:** The total investment costs for the four illustrative models presented here is approximately US\$ 12 million. Given that the final budget for productive partnerships is twice this amount benefits in terms of jobs, should be adjusted.

Financial Impact Analysis

- 44. Given the above assumptions, the FIRR is 14.0% and the net present value (NPV) of the Project's net benefit stream is US\$15.4 million. Detailed calculations of aggregated financial IRR and NPV are presented in the "Aggregated Summary" spreadsheet of the Financial Analysis.
- 45. The main result of the financial analysis provides: (i) positive financial results for all investments and (ii) a significant increase in gross and net returns from all models compared with and without project situation illustrating the worthiness of the investments.
- 46. By implementing innovative agricultural technologies, value addition must be achieved using resource-efficient technologies such as drip irrigation and energy efficient equipment for greenhouses. The Project will also support increase in agricultural productivity mainly through improved seeds for crop production and improved breeds and feeding practices for livestock management.
- 47. The models shall be regarded as a potential set of project investments and this set can be flexibly adapted within the Project implementation. The summary of the possible production models is presented in Table 1. The table summarizes the hypothetical cases of individual households/enterprises, but may not represent the final portfolio of investment.
- 48. **Fruit orchards.** For the purpose of the analysis, an area of about 1,800 ha of fruit orchards was considered as potential investment with project support. In this analysis the investment cost includes seedlings, fertilizers, fencing, drip irrigation equipment and reservoir. Without project scenario is set at null since the proposed orchards are assumed to be established in new areas. The rotation period of fruit orchards is well above 15 years, i.e. the analyzed period. Unlike local practices, the potential project interventions focus on high density orchards. Despite the short period of analysis, fruit orchards models show very positive results: IRR ranges from 18% to 23%. The number of beneficiaries was estimated at 1,800 households assuming grouping households who own small scale orchards (1-ha).
- 49. Investments in **vegetables** aim at expanding production of tomato and cucumber in the Project area for commercial purposes (without project scenario is set at null). The investment package includes productive seedlings and seeds, fertilizers, drip irrigation equipment and reservoir. IRRs at 28% for cucumber and 30% for tomato signal about financial attractiveness of such businesses under the condition of improved access to markets. 1,200 beneficiaries are expected to benefit from these activities.

³¹ Aggregated benefits are reduced by 10%, while aggregated costs are the same.



50. **Green houses:** A 1-ha energy efficient **greenhouse** model for vegetable production was analyzed. Without project scenario assumes 1-ha greenhouse with relatively high consumption of coal for production of tomato and cucumber. Through investments not only to greenhouse construction, drip irrigation equipment, reservoir, seeds and fertilizers but also to energy efficient equipment such as heater and thermo cover, with project scenario sufficiently reduces coal consumption (from 3,300 kg/day to 2,244 kg/day per greenhouse) and increases production by 3% due to improved climate control in the greenhouse. The IRR for greenhouse is 26% which shows financial viability of potential Project investments in energy efficient technologies.
51. **Cattle breeding** model shows economic incentives to improved livestock productivity. The analysis considers a household with one cow which provides one calf annually. The cow produces milk while calves are kept for 2 years only for meat production. Under without project and with project scenarios the cow is replaced after 8 and 6 years respectively. Investments in improved breed cows, high quality veterinary services, artificial insemination and improved feeding practices increase meat production from 280 kg/cattle to 480 kg/cattle for a 2-year cattle and annual milk production from 2,000 l/cow to 6,000l/cow. Incremental revenues provide the IRR at 25%.
52. All above investments were blended with a relevant TA package to ensure specific capacity building of beneficiaries to uptake innovative technologies.

Summary of financial results for agricultural investments for 15-year period.

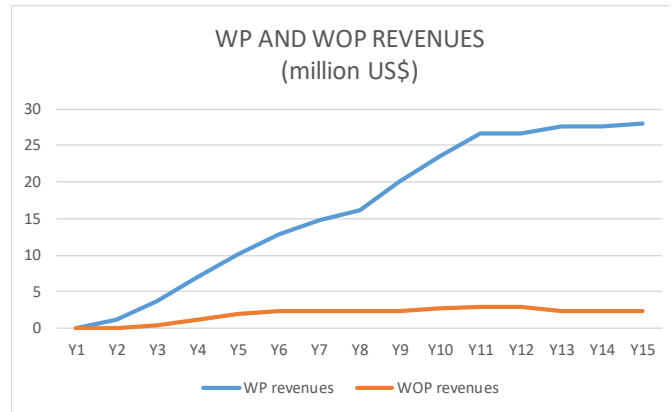
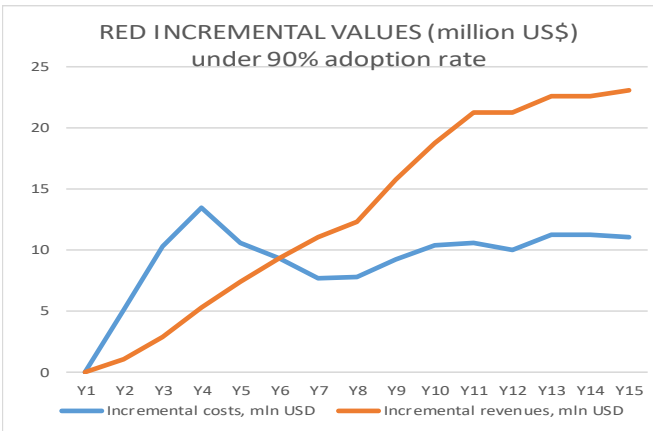
	Adoption	Investments per unit of adoption	IRR	NPV	Number of beneficiaries
<i>Unit</i>	<i>Area, ha</i>	<i>US\$/ha</i>	<i>%</i>	<i>US\$/ha</i>	<i>Households / Entrepreneurs</i>
Fruit orchards					
Apricot	600	9,425	19%	22,276	600
Cherry	600	7,854	23%	25,279	600
Plum	600	9,996	18%	16,621	600
Vegetables					
Tomato	600	6,608	30%	5,874	600
Cucumber	600	6,151	28%	5,282	600
Greenhouse	2	1,123,357	26%	98,428	2
<i>Unit</i>	<i># of households</i>	<i>US\$/household</i>	<i>%</i>	<i>US\$ household</i>	<i>Households</i>
Cattle breeding	2,000	2,886	25%	2,366	2,000
TOTAL					5,002

Economic Impact Analysis

53. Given the aggregated benefit and cost streams, the economic rate of return (ERR) is estimated at 16.7% and net present value of the Project’s net benefit stream in economic terms is US\$ 17.9 million. Detailed calculations of aggregated economic IRR and NPV are presented in the “Aggregated Summary” spreadsheet of the Economic Analysis.
54. Obtained results are sensitive to the further reduction in adoption rate of benefits, delay in Project implementation and fluctuations in Project revenues and cost. 80% adoption rate and 1-year delay in Project implementation decrease economic NPV to US\$ 7.1 million and US\$ 3.7 million respectively. 10% increase in aggregated costs and 10% decrease in aggregated revenues lead to economic NPV of US\$ 10.0 million and US\$8.2 million respectively.



- 55. Considering that presented models as representative, it is estimated that in terms of proposed investments the Project would reach 5,000 beneficiaries. In terms of labor it is expected that Project investments will generate about 4,250 full-time equivalent jobs at full capacity of the provided investments. In addition, establishment of fruit orchards will generate additional 1,150 full-time equivalent jobs in first years of interventions.
- 56. Increased local economic activities will generate additional taxes at \$5.9 million for 15 years through increased cashflows from land, labor and income taxes.
- 57. The Project will contribute to capturing 210.3 thousand tons of CO2 equivalent via establishing fruit orchard in 1,800 ha of degraded lands (excluding GHG emissions related to use of mineral fertilizers). It will additionally reduce GHG emissions by 93.2 thousand tons of CO2 equivalent through introduction of improved breeds and feeding practices as well as energy efficient technologies.
- 58. Investments will provide substantially high and positive economic net incremental revenues starting from Year 6. Compared to the WOP scenario, Project interventions are able to increase revenues by more than 5 times starting from Year 10:





ANNEX 4: Procurement

COUNTRY: Kyrgyz Republic Regional Economic Development Project

1. *Applicable Procurement Framework:* Activities under the Project will be subject to the Bank's New Procurement Framework. Procurement of all contracts will follow the procedures specified in the Bank's Procurement Regulations for IPF Recipients-Procurement in Investment Project Financing Goods, Works, Non-Consulting and Consulting Services, dated July 2016, revised in November 2017 and August 2018 (Procurement Regulations). The project will also be subject to the World Bank's Anti-Corruption Guidelines, dated July 1, 2016. The procurement and contract management processes will be tracked through the Systematic Tracking of Exchange in Procurement (STEP) system.
2. *Summary of Project Procurement Strategy for Development:* As required by the Procurement Regulations, two Project Procurement Strategies for Development (PPSD) are developed, based on which a Procurement Plan is prepared setting out the selection methods to be followed by the borrower during the Project implementation when procuring goods, non-consulting and consulting services, financed by the Bank. The procurement approaches for key packages have been determined in the PPSDs as described in the following paragraphs.
3. **Procurement approach for key goods, works and non-consulting services contracts (indicative list).**
 - (a) Osh downtown and Uzgen City urban regeneration (roads, parks and other public spaces, utilities, etc.) will be procured through the Request for Bids (RFB) method.
 - (b) Suleiman-Too Museum and Complex upgrading and Uzgen Museum and grounds upgrading (including infrastructure, services, exhibition organization, museum site and visitor management plan etc.) will be procured through the RFB method.
 - (c) Provision of tourism services and amenities (eg. rest stops) along the main circuits will be procured through the RFB method.
 - (d) Abshir-Ata, Kara-Shoroo Park and Kyrgyz-Ata infrastructure improvement will be procured through the RFB method.
 - (e) Abshir-Ata, Kara-Shoroo Park and Kyrgyz-Ata goods for tourist infrastructure upgrading and solid waste management improvements; (including trucks and bins) will be procured through the RFB method.
 - (f) Furniture, goods and exhibition equipment for Suleiman-Too and Uzgen museums will be procured through the RFB method.
 - (g) Educational equipment for Osh technical agricultural college and Osh university will be procured through the RFB method.
 - (h) Various laboratory equipment will be procured through the RFB method.
4. **Procurement approach for key consultancy contracts (indicative list):**
 - (a) Comprehensive assessment of Sulaiman-Too and Uzgen museums complexes, Detailed designs and author Supervision for Sulaiman-Too and the Uzgen Museum, Osh Construction Supervision Services, Technical Supervision for Sulaiman-Too and Uzgen Museum will be selected through the Quality- and Cost-based Selection (QCBS) method.
 - (b) Tourism Product development at the regional level (eg. fairs, exhibitions, PR, media campaigns, cultural events, forums) will be selected through the QCBS method.
 - (c) Company for branding, marketing and promotion activities for Osh Region will be selected through the QCBS method.
5. **Key conclusions from the conducted market analysis:**



- (a) The market can meet procurement needs of the Project. The Government agrees that additional efforts will be required in terms of continuous consultations with the industry, careful approach to development of procurement documentation, and deliberate efforts to widely advertise tenders to ensure appropriate levels of participation by both local and international vendors.
- (b) The current state of the construction market promotes enough competition to offer the best value under all equal conditions, even taking into account the regionality. However, needs to be noted that the companies are mainly specialize in new construction with limited experience in restoration works. In order to avoid difficulties with possible damages during the construction phase, it is necessary to provide insurance against possible risks of damage to the historical assets. In addition, it is necessary to develop clear specifications, rules and methodology on how to conduct works at historical sites, and prepare a special system on how to communicate with the workers involved in rehabilitation and restoration works. It must be required that the supervision team with the relevant experience is always present at the sites with cultural heritage and historical values.

6. **Procurement risks analysis.** Procurement capacity assessment was performed by the Bank using the Procurement Risk Assessment and Management System. Based on the assessment the Project procurement risk is rated as “High”.

Procurement risks
Project beneficiaries do not have capacity to prepare detailed designs and technical specifications for defined investments. This increases the risk of accountability of procurement decisions, especially at the local level; Large grant component brings additional risk related to complexity, procurement capacity and market readiness.
Potential procurement delays: completed and on-going projects experience suggests that frequent procurement delays should be expected due to the poor procurement planning, lack of procurement capacity and limitations of the markets.
Low level of competition in civil works sector: Past experience indicates that the procurement in the country has not attracted adequate competition due to the limited capacity of the local contractors.
Several civil works packages include rehabilitation of cultural heritage sites. This sites pose additional procurement, social and environmental risks.
Perceived high level of corruption as measured by Transparency International.
ARIS will follow public procurement law and national procurement procedures when procuring at the national level, which may hold increased risks due to the (technical) issues related to the e-Government Procurement (e-GP) system
Inadequate contract management and lower-than-required quality of procured works, goods and services

To mitigate the risks, the following actions have been identified:

Preliminary risk mitigation measures
With the support from additional consultants, ARIS will be responsible for preparation of technical documents. Considering that the State procurement procedures do not have standard documents for the selection of the consulting services, use the Bank’s standard procurement documents
Small Grants Handbook will cover procurement procedures, acceptable to the Bank.
Realistic procurement planning and scheduling, including timely preparation of the technical specifications or terms of references with Bank’s close supervision and monitoring, particularly from the country office
ARIS shall consider analysis for bidder’s capacity in the procurement timeline. Early engagement with the market and business outreach will be required.
Application of World Bank’s Anti-Corruption Guidelines
ARIS shall register as a Purchaser in the state procurement portal. The Bidding process shall not be



cancelled solely due to the reason that minimum bid price is larger than the amount allocated by procuring entity for this procurement. Implementing entity shall have an option to publish procurement notice without disclosing cost estimate.
More emphasis on and training in appropriate contract management is required, supplemented by regular physical inspections during the Bank's supervision missions
Close supervision by the Bank staff especially for the packages for the cultural heritage sites

Use of National Procurement Procedures.

7. In accordance with paragraph 5.3 of the Procurement Regulations, when approaching the national market (as specified in the Procurement Plan tables in STEP), procurement under the Bank-financed operations may be carried out in accordance with “Single-Stage Bidding” method set forth in the Public Procurement Law of the Kyrgyz Republic dated April 3, 2015 #72 (the “PPL”) with amendments dated November 18, 2016, #182, December 10, 2016, #195, February 14, 2017, #25, May 30, 2017, #93, March 29, 2018, #32, January 11, 2019, #4, June 26, 2019, #76, provided that such arrangements continue to meet requirements of the paragraph 5.4 of the Procurement Regulations and the following conditions:
 - (a) The request for bids/request for proposals document shall require that bidders/proposers submitting bids/proposals present a signed acceptance at the time of bidding, to be incorporated in any resulting contracts, confirming application of, and compliance with, Bank Anti-Corruption Guidelines, including without limitation the Bank’s right to sanction and the Bank’s inspection and audit rights;
 - (b) Bidding documents, including contract forms, acceptable to the Bank shall be used. Bidding documents shall include provisions, as agreed with the Bank, intended to adequately mitigate against environmental, social, health and safety (“ESHS”) risks and impacts.
 - (c) The Bidding process shall not be cancelled sole on the reason that minimum bid price is larger than the amount allocated by procuring entity for this procurement.
 - (d) There shall be no preference applied during procurement of goods and works.
 - (e) Implementing agency shall have an option to publish procurement notice without disclosing cost estimate.
8. When other national procurement arrangements other than national open competitive procurement arrangements are applied by the Borrower, such arrangements shall be subject to paragraph 5.5 of the Procurement Regulations. Other national procurement arrangements such as “Simplified Method” (Request for Quotation) may be applied on the same conditions stated above for procuring limited quantities of readily available off-the-shelf goods or simple civil works of small value. In addition, not less than three quotations shall be requested to ensure competition.
9. Procurement for Small Grants Program under Component 4 will follow the guidelines set out in the Small Grants Handbook.
10. *Training and Operating Costs:* The project will finance operating costs for ARIS and ABCC. When required, ARIS and ABCC personnel will be selected on the basis of experience, qualifications, and capability to carry out the assignment. The selection shall be carried out through the comparison of the relevant overall capacity of at least three qualified candidates among those who have expressed interest in the assignment. Detailed procedures will be outlined in the POM. ARIS’s will develop a detailed training plan and prepare annual operational budget for the Bank team’s review and clearance. Operating costs and training will be financed as per annual budget approved by the Bank.
11. *Record keeping:* All records pertaining to award of tenders, including bid notification, register pertaining to sale and receipt of bids, bid opening minutes, bid evaluation reports and all correspondence pertaining to bid evaluation, communication sent to/with the Bank in the process, bid securities, and approval of invitation/evaluation of bids would be retained by respective agencies and uploaded in the STEP.



12. *Disclosure of procurement information:* The following documents shall be disclosed: (a) Procurement Plan and updates; (b) an invitation for bids for goods and works for all contracts; (c) request for expression of interest for selection/hiring of consulting services; (d) contract awards for goods, works, non-consulting and consulting services.
13. The following details shall also be published in the United Nations Development Business and Bank’s external website: (a) an invitation for bids for procurement of goods and works following open international market approaches; (b) Request for Expression of Interest for selection of consulting services following open international market approaches; and (c) contract award details of all procurement of goods and works and selection of consultants using open international market approaches.
14. *Fiduciary oversight by the Bank and procurement supervision:* The Bank shall prior review contracts as per prior review thresholds set in the PPSD/Procurement Plan. All contracts not covered under prior review by the Bank shall be subject to post review during implementation support missions and/or special post review missions, including missions by consultants hired by the Bank. Two half-yearly missions are envisaged for procurement support and supervision of the proposed project.

Table: Summary Procurement Plan based on the indicative list of investments

Contract Description	Estimated Cost (US\$ equivalent)	Proc. Method	Procurement Approach	WB Review (prior/post)
<u>Goods</u>				
Abshir-Ata, Kara-Shoroo Park, Kyrgyz-Ata: goods for tourist infrastructure upgrading and solid waste management improvements; Trucks and bins for Kyrgyz-Ata, Abshyr-Ata, Kara-Shoroo	1,000,000	RFB	Open international	post
Goods for Branding, marketing and promotion activities for Osh Region	1,150,000	RFB	Open international	post
Supply tht product development at the regional level (fairs, exhibitions, PR, media campaigns, cultural events, forums)	1,150,000	RFB	Open international	post
Furniture, goods and exhibition equipment for Suleiman-Too and Uzgen museums	500,000	RFB	Open international	post
Mechanization and electrification of agriculture for Osh technical agricultural college	325,000	RFB	Open international	post
Laboratory equipment (for testing seeds ISTA, for Osh University, for 7 sampling points for laboratory testing, for 7 border control points, for 2 phytosanitary laboratories, for Agrochemical (soil) laboratory, for laboratories under GosStandard, Food Laboratory (Sanepidnadzor), Veterinary Service and Commerce and small food laboratories in local markets, for 7 information centers, testing points of expertise of crops)	2,074,300	RFB	Open international	prior
Office equipment, furniture for laboratory (ISTA); Office equipment, furniture for on testing points of expertise of crops; Office	363,000	RFB	Open international	post



equipment, furniture for 7 sampling points for laboratory testing; Office equipment, furniture for 7 border control points; Office equipment, furniture for 2 phytosanitary laboratories;				
Goods for Implementation of activities suggested by the REDP	200,000	RFB	Open international	post
Goods for regional online platform development	150,000	RFB	Open international	post
<u>Works</u>				
Osh City downtown and key and Uzgen City urban regeneration (roads, parks and other public spaces, utilities, etc.) (roads, parks and other public spaces, pedestrian bridges across river, utilities, etc.)	7,200,000	RFB	Open international	prior
Suleiman-Too Museum and Complex upgrading and Uzgen Museum and grounds upgrading (including infra, services, exhibition organization, museum site and visitor management plan etc.)	6,950,000	RFB	Open international	prior
Provision of tourism services and amenities (eg. rest stops) along the main circuits	950,000	RFB	Open international	Post
Abshir-Ata, Kara-Shoroo and Kyrgyz-Ata infrastructure improvement	1,000,000	RFB	Open international	Post
<u>Consulting services</u>				
Osh City Construction Supervision Services	350,000	QCBS	Open international	Post
Comprehensive assessment of Sulaiman-Too and Uzgen museums complexes Detailed designs and Construction Supervision for SulaimanToo and the Uzgen Museum	350,000	QCBS	Open international	Post
Technical supervision Sulaiman-Too and the Uzgen Museum	350,000	QCBS	Open international	Post
Company for Branding, marketing and promotion activities for Osh Region	350,000	QCBS	Open international	Post
Tourism Product development at the regional level (fairs, exhibitions, PR, media campaigns, cultural events, forums)	350,000	QCBS	Open international	Post
Consulting company for M&E to conduct a baseline survey, focus group interviews, etc. collect quantitative and qualitative data through the Project and then at closing provide the summary with the impact results	600,000	QCBS	Open international	Prior
Company for Preparation of future projects	700,000	QCBS	Open international	Prior
Support to department of Tourism and regional/local tourism agencies for improved statistics and data collection	500,000	QCBS	Open international	Prior



Consulting company for feasibility studies for SPS investments and design of technical specifications for equipment of laboratories, centers and points	300,000	QCBS	Open international	Post
Consulting company to identify specific supply chain actors for participation and the competitive selection of sub-projects	350,000	QCBS	Open international	Post
Training in hospitality industry for tour guides, tour operators and accommodation managers/staff; Technical support in business planning	500,000	QCBS	Open international	Prior
Project audit (financial audit)	100,000	LCS	Open international	Post
Low-value packages				
Other low-value goods	217,000	RFQ		
Other low-value works	318,000	RFQ		
Other low-value consulting services	1,459,700	CQS, IC		
Other trainings	193,000	AP		
Project Management	2,500,000			
Value chain investments	25,000,000			
Small grants for tourism and rural enterprise development	2,500,000			



Map

