

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: 51131

Project Name	National Road Rehabilitation (Osh-Batken-Isfana)
Region	EUROPE AND CENTRAL ASIA
Sector	Roads and highways (90%); General public administration sector (10%)
Project ID	P107608
Borrower(s)	MINISTRY OF FINANCE
Implementing Agency	Ministry of Transport and Communication Project Implementation Unit, Room 612, 6/F 42 Isanova Street, Kyrgyz Republic 720017 Tel: (996-312) 900-970, 900-893 Fax: (996-312) 314-378 bishkekoshroad@infotel.kg
Environment Category	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
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1. Country and Sector Background

Until 2008, a favorable external environment and sound economic policies resulted in a steady increase in the pace of economic growth in the Kyrgyz Republic, while inflation remained low. Following periods of political turmoil, economic growth accelerated to 8 ½ percent in 2007 with poverty rates falling to 35 percent (from 54 percent in 2002) while extreme poverty dropped from 23 percent to 7 percent. Over the last year and a half, adverse external developments however have led to deterioration in economic conditions. Given the country's openness, measured as share of foreign trade to GDP, has been rapidly increasing in recent years (with Russia and Kazakhstan being the two major trading partners) making the country more susceptible to external shocks.

The economic outlook for 2010 however is uncertain and budgetary needs appear more pressing. In this regard, the Government has expressed interest in receiving budgetary support from the donor community for 2010 and onwards, including the World Bank. The latest debt sustainability analysis¹ continues to place the Kyrgyz Republic at a moderate risk of debt distress. The Government's debt management strategy has significantly improved in recent years by refraining from borrowing at non-concessional terms and/or issuing any Government guarantees against commercial loans. As such, external public debt declined from 98 percent of GDP in 2002 to 54 percent in 2007 and 42 percent in 2008, respectively. However, if the

¹ IDA and IMF, Kyrgyz Republic: Joint World Bank/IMF Debt Sustainability Analysis, May 11, 2009.

Government were to assume any responsibility for any commercial loan including the US\$ 1.7 billion loan from Russia, debt indicators would deteriorate dramatically.

Ensuring strong growth in the longer term requires channeling resources in the real sectors of the economy as well as improving the environment for private sector development. Considerable progress in the ease of doing business has been made earning the Kyrgyz Republic a high ranking as one of the top reformers in the two consequent World Bank's Doing Business Surveys² 2008 and 2009. The new economic policy, announced by President Bakiev on 10 January 2008, calls upon the nation to refocus on economic growth and development after years of political uncertainty and languishing economic growth, through increased investments in public infrastructures and structural reforms. The Government is determined to implement reforms that will continue to improve the business environment. In its revised Country Development Strategy for 2009-2011 (CDS)³, the Government has reiterated that it will focus on further improving the business environment and supporting private sector development, in addition to improving the state of the investment climate to increase foreign investment and promote economic growth.

The Government's CDS for 2009-2011 focuses on inclusive economic growth while promoting regional integration and equitable development. The CDS aims to respond to the country's particular development challenges, which include (i) a population amounting to just over five million implying a small domestic market, (ii) significant regional differences in poverty levels despite substantial overall reduction of poverty in the country, (iii) the existence of Uzbek and Tajik enclaves⁴ within its territory (in Batken oblast where the project investments are located), and (iv) a location that is one of the least geographically accessible in the world with only about seven percent arable land and poor endowments of natural resources.

The transport system, in particular the road network, is a priority for the Government of the Kyrgyz Republic given its importance in providing access to markets and basic public services. To date, 92 percent of passenger and 59 percent of freight traffic is carried by road in the Kyrgyz Republic. The road network covers all seven oblasts (provinces), and provides connections to remote communities and links to neighboring countries. Travel in most of the country is severely constrained by the predominantly mountainous topography where roads have to cross passes of above 3,000 meters altitude and are subject to frequent mud slides, debris flow, rock falls, and snow avalanches. Travel in the Southwestern part of the country, namely between Osh and Batken town has some specific problems since the road crosses Tajik and Uzbek enclaves which require a double-entry Kyrgyz visa and a transit visa.

The existing basic transport infrastructure is adequate for the level of economic activity likely to occur in the medium term. About 18,800 kilometers of roads (the republican road network) are under the jurisdiction of the Ministry of Transport and Communications (MoTC). About 40 percent of the roads are sealed, including some with gravel mixed with bitumen binder. Over 50 percent are gravel and about 10 percent are earth roads. Consequently, the primary concern is not expansion or major upgrading of the transport system, but proper maintenance and

² The Doing Business country assessment indicates that the Kyrgyz Republic has moved from 99th to 68th place in 2008 with the CPIA score for Business and Regulatory Environment improving from 3.5 to 4.0.

³ Kyrgyz Republic: Country Development Strategy 2009-2011, approved on February 25, 2009.

⁴ An enclave is a territory whose geographically boundaries lie entirely within the boundaries of another territory.

rehabilitation to preserve the existing network. Roads at all levels are deteriorating; over 60 percent require periodic maintenance or rehabilitation.

Cognizant of this, the Government's focus is on rehabilitating key links in the road transport network that have regional and national strategic importance. Substantial investments (of about US\$ 350 million) have already been made in the last decade to rehabilitate the country's major road corridors. The rehabilitation of six strategic road corridors which carry the majority of the traffic on the republican road network is the focus of the current country and sector strategies. The six strategic corridors include: 1) Osh-Sarytash-Irkeshtham, 2) Suusamyr-Talas-Taraz, 3) Bishkek-Naryn-Torugart, 4) Sarytash-Karamyk, 5) Osh-Batken-Isfana, and 6) Tyup-Kegen.

Along with these investments, the Kyrgyz Republic has also made progress in reforming transport sector operations. It adopted the Road Sector Development Strategy 2007-2010 and the Presidential Program of Roads Development for 2008-2010 which focus on the following medium-term tasks: (i) improvement of the road financing system, (ii) involvement of the private sector in road construction and maintenance, (iii) involvement of local communities in maintenance of local roads, (iv) institutional reforms of a road management system, (v) improvement of road safety, and (vi) use of modern technologies in road management and monitoring. Advisory services to prepare a transport sector master plan for 2010- are currently being provided through consultancy services financed under the ongoing Bishkek-Naryn-Torugart Road Project supported by the Asian Development Bank (ADB).

The institutional arrangements of the transport sector have been evolving since the Kyrgyz Republic gained its independence. In the early 1990s, the Kyrgyz Auto Transport Joint Stockholding Company was abolished and most of its subsidiaries were either privatized or converted to joint-stock companies. Its functions were transferred to the MoTC which is now responsible for sector policies and development of transport and communications, including the road, railway and civil aviation sectors. The road sector is being managed by the Department of Roads established as an integral part of the MoTC while actual road construction, improvement, rehabilitation and maintenance works on the republican road network are carried out by the MoTC's seven regional road agencies (PLUADs) and the Bishkek-Osh Road Department (UAD) comprised of 58 local road maintenance units (DEPs). The MoTC envisages further changes to its structure through gradual devolvement of its operational functions to a multi-level executing body and privatization of the existing local road maintenance units in the near future.

The MoTC has developed a maintenance structure that has given the PLUADs and UAD a degree of autonomy and flexibility, however, the industry practices with regard to the civil works have yet to be improved. The road maintenance units are now able to adequately meet their business needs by varying workforce and required road construction machinery to match funding levels; however, industry practices still remain outdated resulting in less cost efficient road designs, poor quality of the road works and inefficient supervision of the ongoing works on the country's road network. The MoTC would need to further separate client and service provider responsibilities in the road sector by increasing independence of the road maintenance units through adoption of an "improved road management" approach. This has to be accompanied by strengthening of institutional and technical capacity of the MoTC to efficiently manage its road assets and development of the modern industry practices to improve quality of road works. ADB is currently providing support in this regard.

The Government has been actively exploring the ways of developing the local construction industry which has limited capacity. Involvement of the local private contractors in road construction and maintenance has been limited. Based on current size and resources as well as performance, they are considered to have limited financial and technical capacity, mainly for small contracts (possibly up to US\$ 1 million each), or to work as very junior joint venture partners and subcontractors. The ADB has been actively promoting a pilot program of performance-based maintenance (PBM) on the part of the road network totaling 500 km to be performed by the local contractors. In addition, the JICA will finance the survey of the construction industry in the Kyrgyz Republic to elaborate a set of recommendations for the development of the private sector, especially those that will enable local contractors to offer cost effective solutions and services in the road sector whether or not the road maintenance is fully privatized.

Improvement of road safety needs to be a focus of sector activities to reverse alarming trends. Road safety is now a significant issue in Kyrgyzstan, with reports that road fatalities are now rapidly increasing (47 percent, 50 percent and 80 percent increase from 1999 to 2005 for road accidents, injuries and fatalities respectively). With about 41 deaths per 10,000 vehicles, car accident death rate in Kyrgyzstan is 30 times higher than in Western Europe and 3 times higher than in Eastern Europe and Asia. Bad road conditions, increased speeds on improved roads, lack of effective road safety education for all road users, traffic rule violations, and increasing population are thought to be the main causes of high accident rates. The recent launch of the program of regular road safety audits, the establishment of the Road Safety Unit with specific functions under the Road Department of MoTC in the near future and upcoming approval of a National Road Safety Program would further contribute to the improvement of very poor road safety records. However, there is much to be done to address the issue on national level in comprehensive manner.

The Government has asked the World Bank to finance the rehabilitation of a section of the Osh-Batken-Isfana road, one of the six strategic corridors. The original alignment of this road corridor crosses through Uzbek territory at Kok-Talaa, and at Sokh and through Tajikistan at Vorukh. Traveling this road was no problem in the past when there was one transport network connecting cities from within the Former Soviet Union and the Fergana Valley. Since 1991, the situation has changed due to the creation of enclaves resulting in transit foreign territory. To travel the original alignment nowadays causes frequent delays at border crossing points arising from lengthy and sometimes cumbersome control procedures, which severely hamper connectivity along the road. Existing secondary roads which deviate around 110 kilometers from the original alignment (so-called 'detours') exist, but are in poor to very poor condition. The Government's plan is to rehabilitate the detours primarily (so called 'phase I') and link them with the original alignment. Phase II will focus on the rehabilitation of the original alignment. This will form the Osh-Batken-Isfana road corridor which will by-pass foreign territory (Uzbekistan and Tajikistan) and their enclaves within the Kyrgyz Republic.

The proposed Project responds to the general need to preserve the road network and specifically to the growth of traffic along an important route which provides the only connection between the main Kyrgyz cities in Fergana Valley (about one million inhabitants or 18 percent of the country' population) and the rest of the country. Currently, the average daily traffic varies along different sections while significant disruption is reported at border crossings. On the eastern

section of the road (between Osh and Kyzyl-Kiya) in the absence of any constraints, the average daily traffic is about 3,050 vehicles (km 133). However, on the border between Osh and Batken oblasts and further westwards along the second detour of the Osh-Batken-Isfana road, average daily traffic drops drastically to about 1,000 vehicles per day (km 176) due to the roads current condition and because road users are reluctant to travel through border crossings at Kok-Talaa. Traffic along the existing road at the entrance of the Uzbek enclave Sokh (km 129) is reported about 7,400 vehicles per day of which 90 percent are passenger cars. The crossing of international borders at Uzbek and Tajik enclaves significantly increases travel time and costs and road users therefore limit the number of their trips.

2. Objectives

The proposed Project is one of the priority infrastructure investments identified in the Government's Country Development Strategy for 2009-2011. The investment, once implemented will open up the only land transport connection between the main Kyrgyz cities in Fergana Valley and the rest of the country. It will address the specific development challenges of Batken Oblast which are a combination of relative isolation, higher than country average poverty rates, and potential conflict with neighboring countries. Having to cross through enclaves disrupts the daily routine of local inhabitants and is a permanent source of conflict, in particular with border posts that are used to block the transit roads. Attempts have been made to improve regional relations with respect to enclaves and exclaves, but without any success and tensions at border crossing of enclaves remain in Batken oblast.

The objectives of the Project are: (i) to contribute to the reduction of transport costs and travel time along the Osh-Batken-Isfana Road corridor and (ii) to improve road safety planning. As transport costs and travel time decrease, route options increase, allowing more direct travel between destinations, thereby creating a more accessible and reliable transport system. It will also allow cost saving for the road users; travelling will become safer than today. This will benefit people and goods going to and from Batken Oblast or on transit to Tajikistan. The completion of the proposed Project will make a significant contribution to the level of connectivity offered as the road corridor provides the only connection between the main Kyrgyz cities in Fergana valley (such as Osh and Batken cities) and the rest of the country.

Project design is kept simple to reach the objectives within the three year implementation period. Progress towards the attainment of the objectives will be assessed through the following indicators:

Project Outcome Indicators:

- Reduction in transport costs for road users, by car and large bus, along the project road section and in the project area
- Reduction in travel time for road users, by car and large bus, along the project road section and in the project area
- Proportional increase in traffic one year after project road section has been improved or rehabilitated
- Proportional increase in the number of rural people in the project area who live within 2 kilometers of an all-season road
- Increased effectiveness of road safety planning (road safety planning is conducted in an

integrated and comprehensive manner)

Intermediate Outcome Indicators:

- Number of kilometers of all roads rehabilitated under the project
- Percentage of the total classified road network in the project area in good and fair condition
- National road safety program developed and launched
- Pilot demonstration projects on road safety along the project road section developed

3. Rationale for Bank Involvement

Over the past years, the Government has received assistance in the roads sector through investments in infrastructure and support towards reforming sector operations. The ADB is currently financing the sixth road project in the Kyrgyz Republic. ADB assistance to the road subsector which totals US\$210 million was provided for rehabilitating roads from Bishkek to Osh and on to Irkeshtam, and from Bishkek to Almaty in Kazakhstan. In addition, the Islamic Development Bank (IsDB), Japan Bank for International Cooperation (JBIC), and the People's Republic of China have also extended assistance.

In recognition of the need for close coordination, key donors to the Kyrgyz Republic have jointly prepared a strategy, which identifies road subsector development and regional cooperation as priorities for assistance. The World Bank has supported the government through (i) the Urban Transport Project (2000-2005), (ii) technical assistance on road maintenance and public expenditures (2005/2006), (iii) Regional Transport Corridor Performance Measurements (on-going, since 2003).

There are three main reasons for the involvement of the World Bank in this project: (i) The World Bank was asked by the Government to act as the lead donor for the preparation of the rehabilitation of the entire road corridor from Osh to Isfana and to coordinate the preparation of the updated Feasibility Study and detailed technical designs for the corridor (those studies were financed out of a Project Preparation Advance. (ii) The Bank together with the World Health Organization have taken the leading role internationally to improve road safety. (iii) The Bank is well placed to define and implement support for institutional development. There are significant needs for support and capacity building in the areas of road safety and road management.

4. Description

The Bank-financed proposed Project will consist of the following components:

Component 1: Rehabilitation of a Section of the Osh-Batken-Isfana Road Corridor: The component will finance the provision of works and consultants' services for the rehabilitation of about 30 kilometers of the Osh-Batken-Isfana Road corridor. This includes consultancy services for construction supervision (estimated at US\$ 1.5 million) and physical and price contingencies (estimated at about 8 percent). Estimated total cost: US\$ 27.29 million equivalent.

Component 2: Road Safety Planning Improvement: This component will finance the provision of goods, and consultants' services for: (i) the development and launch of a national road safety program; (ii) preparation of demonstration projects for road safety; and (iii) improvement of road

safety planning. This component will build on the Government’s Road Sector Development Strategy and the work currently carried out by the Permanent Secretariat for Road Safety on the revision of road safety guidelines and the preparation of a National Road Safety Program. Other activities to improve road safety planning may include the establishment of road accident database and purchase of road safety equipment. Estimated total cost: US\$ 1.50 million equivalent.

Component 3: Project Management and Implementation. This component will finance the provision of goods, consultants’ services, training, and operating costs, including an audit, to support Project coordination, implementation and management. Consulting services will be used to assist the PIU with the preparation, management and implementation of all activities associated with the Project, including the updated of the feasibility study and technical designs and the supervision of all safeguards and fiduciary aspects of the Project. Other donors are providing the PIU with parallel financing for their operating costs. Estimated total cost: US\$ 1.93 million.

5. Financing

Source:	(\$m.)
Recipient	5.76
International Development Association (IDA)	24.96
Total	30.72

6. Implementation

Along with the World Bank, the Government has invited the EC and the EBRD to parallel finance separate sections of phase 1 of the Osh-Batken-Isfana Road corridor. The section between Kok-Talaa to Pulgon (km 108-123) to be financed from an EC grant is of particular importance to the proposed Project as it will provide an alternative to passing through the territory of Uzbekistan. Financing for this section has been secured (currently in approval stage by EC Parliament). The wider impact of the proposed Project will however depend on the Government’s ability to ensure that sufficient funding for this 17 km long section is secured. The updated feasibility study (FS) indicates that additional financing may be required; the Government however has assured the World Bank that any financing gap for the Kok-Talaa to Pulgon section will be covered by the Government’s own resources.

The update of the original feasibility study for the entire Osh-Batken-Isfana Road corridor⁵ (ensuring equal design standards and comparable safeguards applications) has been financed through a Project Preparation Advance to assess the economic viability of the entire investment, including environmental and social assessment and propose technical design solutions. Whilst detailed designs of the road are still to be finalized the main design principle is to generally follow the existing road alignment.

⁵ EC Tacis financed Feasibility studies (2000/2001) for the rehabilitation/upgrading of two roads in the south of the country including “Osh-Sary Tash-Erkesh Tam” and “Osh-Kyzyl Kya-Batken-Isfana”.

Coordination, joint monitoring of project implementation and collective policy dialogue mechanisms are proposed for the implementation of the proposed Project. During project preparation efforts were made from the side of the World Bank to harmonize existing rules of the development partners in order to save costs and streamline project implementation. The Government however requested to use each financier's disbursement and procurement rules at project preparation. Therefore, coordination and cooperation on project implementation and policy dialogue has been agreed upon.

7. Sustainability

The Government's commitment to the rehabilitation of the Osh-Batken-Isfana Road corridor is a key determinant for the sustainability of the Project. This commitment is not only shown by the highlighting of the project's importance in the Government's country and sector strategies. The Government has already embarked on road upgrading works (mainly earthwork, including some drainage, bridge and pavement) along the corridor and has concluded the works of the Sokh River bridge (km 195 to km 200) out of its own budget. This has totaled about 67 kilometers of length, including earth embankments which have been constructed although offering a poor riding quality at present as the Government is expecting the World Bank and the EBRD to finance the remaining part of the works. Still, even in the current condition of the road, the recent investments⁶ made by the Government are viewed as a marked improvement by road users. The proposed Project is designed to ensure sustainability of the investment by focusing on the long-term benefits through targeted traffic safety measures.

8. Lessons Learned from Past Operations in the Country/Sector

The Bank's assistance in the transport sector will incorporate the following general and country specific lessons learned:

(a) *Improving the overall management of the national road network remains a priority.* Other development partners, in particular ADB and JICA are currently assisting the Government in the introduction of modern road management systems and design standards. Support is particularly focusing on reforming road maintenance practices, and introducing performance based contracting on a pilot basis (see Annex 1 for further details). The expectation is that the support received will positively impact the sustainability of the proposed Project.

(b) *Greater efforts are required to reduce road traffic accidents.* Addressing this problem will require increased resources, greater co-ordination between stakeholders to improve road conditions, and increased awareness of safety at each stage of the project cycle. The launch of the Road Safety Program will be an essential first step to address the road safety problem in the Kyrgyz Republic. Pilot demonstration projects will help showcase benefits of road safety interventions.

9. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
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⁶ In the following amounts: KGS 95 ml. in 2007, KGS 150 ml. in 2008 and planned 108 ml. in 2009

Environmental Assessment (OP/BP 4.01)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Natural Habitats (OP/BP 4.04)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Pest Management (OP 4.09)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Physical Cultural Resources (OP/BP 4.11)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Involuntary Resettlement (OP/BP 4.12)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Indigenous Peoples (OP/BP 4.10)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Forests (OP/BP 4.36)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Safety of Dams (OP/BP 4.37)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects in Disputed Areas (OP/BP 7.60)*	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects on International Waterways (OP/BP 7.50)	<input type="checkbox"/>	<input checked="" type="checkbox"/>

10. List of Factual Technical Documents

Updated Feasibility Study and Detailed Technical Design, Finnroad Oy, June 2009.

11. Contact point

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* *By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas*

