

**DATA SHEET  
KYRGYZ REPUBLIC  
PROJECT PAPER  
FOR THE  
RESTRUCTURING OF THE BISHKEK  
AND OSH URBAN INFRASTRUCTURE PROJECT  
(GRANT H-358-KG)**

Date: April 7, 2009		Task Team Leader: Jonathan Kamkwala			
Country: Kyrgyz Republic		Sector Director: Peter Thomson			
Project Name: Bishkek and Osh Urban Infrastructure Project		Sector Manager: Wael Zakout			
Project ID: P104494		Country Director: Motoo Konishi			
Environmental category: B					
Borrower: Kyrgyz Republic					
Responsible agency: Community Development and Investment Agency					
Revised estimated disbursements (Bank FY/US\$m)					
FY	2008	2009	2010	2011	2012
Annual	0.10	2.80	3.90	3.70	1.50
Cumulative	0.10	2.90	6.80	10.50	12.00
Current closing date: June 30, 2012					
Revised closing date [if applicable]: n/a					
Indicate if the restructuring is:					
Board approved           x					
RVP approved            ___					
Does the restructured project require any exceptions to Bank policies?   ___ Yes <input checked="" type="checkbox"/> No					
Have these been approved by Bank management?                           ___ Yes <input checked="" type="checkbox"/> No					
Is approval for any policy exception sought from the Board?               ___ Yes <input checked="" type="checkbox"/> No					
Revised project development objective/outcomes					
No change in Development Objectives, but a reduction in the Outcomes of the Road Component.					
Does the restructured project trigger any new safeguard policies? No					
Revised Financing Plan (US\$m.)					
	Source	Local	Foreign	Total	
	Borrower	1.20	0.00	1.20	
	IDA Grant	0.00	12.00	12.00	
	Others	2.55	0.00	2.55	
	Total	3.75	12.00	15.75	

## **I. Introduction**

1. This Project Paper seeks the approval of the Executive Directors to the following changes in the Kyrgyz Republic Bishkek and Osh Urban Infrastructure Project (Grant H358-KG) (Project ID: P104994) and any amendments to the Project's legal documents. The proposed changes consist in (i) a reduction in the volume of works implemented under the Bishkek road upgrading sub-component due to higher than expected cost of the proposed investment program, and (ii) modifications in the financing and disbursement arrangements for the same sub-component in response to technical modifications requested by the Bishkek Municipality. A corresponding request was submitted to the Bank by the Kyrgyz Ministry of Finance on January 21, 2009. Although they will not cause any change in the development objectives, financial management, and procurement arrangements for the Project nor affect its Environmental Category (B) nor trigger any safeguard policies, the proposed changes will result in a reduction of the expected outcomes of the road component and, in particular, a decrease in the number of beneficiaries.

## **II. Background and Reasons for Restructuring**

2. To help the Municipalities of Bishkek, the capital of the Kyrgyz Republic, and Osh, the country's second largest city, improve the living conditions in a number of semi-informal settlements, so-called *novostroiki* ('areas containing new constructions') the Board approved on March 18, 2008 a Bishkek and Osh Urban Infrastructure Project (BOUIP). The Project, which is estimated to cost US\$ 14.35 million equivalent is funded by an IDA Grant (Gr. H-358-KG) of SDR 7.6 million (US\$12.0 million equivalent), a Kyrgyz Government contribution of US\$ 1.2 million equivalent, and contributions from the Bishkek and Osh Municipalities in an amount of US\$1.1 million equivalent. Its Development Objective is 'to improve the living conditions in selected semi-informal settlements (*novostroiki*) in Bishkek and Osh by increasing the availability of basic infrastructure to the residents of these areas'. BOUIP is implemented by the Community Development and Investment Agency (ARIS), in close cooperation with the Municipalities of the two cities. The Closing Date is June 30, 2012.

3. BOUIP became effective on July 29, 2008. It includes the following four components: (a) Basic infrastructure (divided into three sub-components: (i) Bishkek infrastructure works; (ii) Osh infrastructure works; and (iii) Detailed design and technical supervision); (b) Community investment programs (divided into two sub-components: (i) Bishkek community investments; and (ii) Osh community investments); (c) Institutional Development; and (d) Operational support to the Implementing Agency. The Bishkek infrastructure sub-component consists of two separate elements: (i) upgrading of about 34 km of existing dirt tracks to all weather roads in eleven *novostroiki*; and (ii) rehabilitation of water supply installations in at least two *novostroiki*.

4. Implementation has started well, especially for the Osh Infrastructure Works and Osh Community Investment sub-components. Under the former, two contracts for a total amount of US\$1.4 million equivalent (US\$1.1 million and US\$0.3 million, respectively) have been tendered and are under implementation. An ICB tender for a third contract (estimated at US\$3.6 million) is under preparation. Based on a supervision mission carried out in October 2008 the ratings of the last ISR dated November 11, 2008 are *Satisfactory* for the project development objective (PDO) and implementation progress (IP). Implementation progress under the Bishkek sub-components, however, has been noticeably slower than anticipated for both technical and political reasons. Among the latter a critical factor responsible for the delays has been the high turnover of key officials in the Bishkek Municipality with the Bishkek mayor alone being replaced two times since appraisal.

5. BOUIP was identified at the beginning of 2007. However, the PHRD grant needed to finance the necessary preparation studies became available only in Summer 2007. It became effective in late September 2007. Consultants were hired in November 2007. As a result, the appraisal of the project which took place in early February 2008 had to rely on very preliminary engineering studies and cost estimates. Primarily as a result of explosive cost increases in the Kyrgyz construction industry as well as some design adjustments to take into account geotechnical and other studies completed in Spring 2008 the estimated cost of the program turned out to be approximately one-third higher than estimated at appraisal. In order not to upset the internal balance of the project components it was therefore agreed with the Bishkek Municipality to shorten the total length of the road upgrading program from about 34 km to 21 km and to reduce the number of beneficiary *novostroiki* from eleven to seven.

6. Over the Summer 2008 new officials in the Bishkek Municipality also began to question the suitability of some of the original technical design options for the road upgrading program that had been agreed to at appraisal and which called for the use of a relatively low-cost surface treatment technique (bituminous surface treatment (BST)). The Bishkek Municipality argued that according to prevailing regulations, only the use of high standard asphalt concrete paving was acceptable in urban areas. With the support of Country and Sector Management, the Project Team took the position that the use of IDA resources for the construction of such high standard roads was out of line with the poverty alleviation focus of BOUIP. After protracted discussions a compromise was reached in December 2008 according to which the Bishkek Municipality agreed to finance the additional costs resulting from asphalt concrete paving from its own budgetary resources. The agreement requires a modification to the Legal Documents to reflect the corresponding change in the disbursement percentages.

### **III. Proposed Changes**

7. The proposed changes would consist of the following:

(a) The total length of roads to be upgraded would be shortened from originally about 34 km to about 21 km and the number of Bishkek *novostroiki* settlements benefitting from road upgrading works under the Bishkek infrastructure subcomponent

would be reduced from originally eleven to seven resulting in a corresponding adjustment of performance indicators.

(b) To reflect the agreement reached with the Bishkek Municipality on its funding of the additional costs associated with asphalt paving from the municipal budget, the Financing Agreement would need to be amended. The proposed changes would require amending the FA by rearranging the original disbursement categories as follows: Category 1 will remain as Category 1 for the portion where disbursements have already taken place and will retain the original percentage of financing of 80%. The remaining balance of Category 1 will be split into two new Sub-Categories 1(a) and 1(b) and the percentages will be 55% and 80%, respectively with the proceeds of the Financing shown in the table in Section IV.A of Schedule 2 to the Development Grant Agreement between the Kyrgyz Republic and the Association dated April 30, 2008 reallocated as set out in the Table below:

Category	Original Amount of Financing Allocated (in SDR)	Revised Amount of Financing Allocated (in SDR)	Original Percentage of Expenditures to be financed	Revised Percentage of Expenditures to be financed
(1) Goods and Works under Part 1 of the Project	5,470,000	139,693.19	80%	80%
(1a) Works for road in Bishkek under Part 1 of the Project	n/a	2,100,000.00	n/a	55%
(1b) Other Works and Goods under Part 1 of the Project	n/a	3,230,306.81	n/a	80%
(2) Goods and Works under Part 2 of the project	570,000	570,000.00	95%	95 %
(3) Goods under Parts 3 and 4 of the Project	210,000	210,000.00	100%	100%
(4) Consultants Services including Audit and Training	450,000	450,000.00	100% of local expenditures 90% of foreign expenditures	100% of local expenditures 90% of foreign expenditures
(5) Operating Costs	570,000	570,000.00	100%	100%
(6) Unallocated	330,000	330,000.00		
TOTAL AMOUNT	7,600,000	7,600,000.00		

(c) The additional financing provided by the Bishkek Municipality would result in an increase of the local government contribution to BOUIP from previously US\$1.1 million to US\$2.5 million. As a result, the overall cost of the BOUIP would rise from US\$14.35 million equivalent to US\$15.75. The amount of IDA Grant financing and the contribution from the Kyrgyz Government will remain unchanged, however.

#### **IV. Analysis**

8. The proposed changes will not require any other amendments to the legal documents and no agreed arrangements for project implementation, procurement, financial management and reporting will be affected. Also the changes will have no impact on the Environmental Category (B) of BOUIP, trigger any safeguard policies, or change in the overall risk rating. Calculating an EIRR for BOUIP as a whole was considered impractical because of the vastly different nature of the sub-components and, to take into account the specificity of the socio-economic conditions in each of the beneficiary *novostroiki*, economic evaluation had to be done on an individual sub-project basis. Reducing the number of road sub-projects from eleven to seven has therefore no effect on the economic viability of BOUIP as a whole.

#### **V. Expected Outcomes**

9. The size reduction of the Bishkek road upgrading program will not entail any change in the Development Objective of BOUIP: ‘To improve the living conditions in selected semi-informal settlements (*novostroiki*) in Bishkek and Osh by increasing the availability of basic infrastructure to the residents of these areas.’ While the overall Outcomes of the project will not be affected, the proposed changes will reduce the specific outcomes of the road sub-component and, in particular, entail a decrease in the number of direct beneficiaries from originally about 80,000 to 50,000.

#### **VI. Benefits and Risks**

10. The proposed changes will not introduce any new or aggravate any of the existing risks described in the PAD. The risk that the Bishkek Municipality could fail to provide the necessary counterpart funding is mitigated by the fact that ARIS, in accordance with the provisions of the BOUIP Operations Manual, is not authorized to sign any contract unless the required counterpart funding has been made available in full and deposited in an escrow account opened to that effect.

11. The shift to high standard asphalt concrete paving - requested and financed by the Bishkek Municipality – will have no adverse effects. Bituminous surface treatment (BST) as originally proposed for BOUIP is a worldwide commonly adopted alternative for areas with low level traffic and would have been a perfectly workable solution to provide satisfactory all weather access to transport for *novostroiki* residents in the short- and medium-run. However, BST roads are comparatively more vulnerable to the effects of rapidly increasing traffic and especially that of heavy trucks and public transport vehicles, if a reliable system of quality periodic maintenance is not in place. Evidently, the future development of traffic in the Bishkek *novostroiki* is difficult to predict at this point as it will largely depend on the overall development of economic and social conditions in the Kyrgyz Republic. The Bishkek Municipality’s decision to opt for a more costly optimal solution and hedge the long-term risks of resource-intensive maintenance and repair work has merits that cannot be totally disregarded either. It is for this reason that the Project Team considers that the proposed cost-sharing arrangements represent a solution that effectively preserves the interests of both parties.