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IDA/R2015-0043/1

March 10, 2015

**Closing Date: Friday, March 27, 2015
at 6 p.m.**

FROM: The Corporate Secretary

Kyrgyz Republic
Third Village Investment Project
Project Appraisal Document

Attached is the Project Appraisal Document regarding a proposed loan to the Kyrgyz Republic for the Third Village Investment Project (R2015-0043) which is being processed on an absence-of-objection basis.

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Document of
The World Bank

Report No: PAD1124

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT
IN THE AMOUNT OF SDR 4.7 MILLION
(US\$ 6.6 MILLION EQUIVALENT)

AND A

PROPOSED GRANT
IN THE AMOUNT OF SDR 3.9 MILLION
(US\$ 5.4 MILLION EQUIVALENT)

TO THE

KYRGYZ REPUBLIC

FOR THE

THIRD VILLAGE INVESTMENT PROJECT

March 6, 2015

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CURRENCY EQUIVALENTS

(Exchange Rate Effective January 31, 2015)

Currency Unit = Kyrgyz Som (KGS)
KGS 52.16 = US\$1
US\$1.41 = SDR 1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
ARIS	Community Development and Investment Agency
CBO	Community Based Organizations
CDD	Community Driven Development
CPS	Country Partnership Strategy
CDSO	Community Development and Support Officer
ECA	Europe and Central Asia
EMF	Environmental Management Framework
EMP	Environmental Management Plans
FCS	Fragile and Conflict-Affected States
FM	Financial Management
GDP	Gross Domestic Product
GNI	Gross National Income
HQ	Head Quarters
HR	Human Resource
IFR	Interim Financial Reports
IMTAK	Information Matters—Transparency and Accountability in the Kyrgyz Republic
IRR	Internal Rate of Return
JSDF	Japanese Social Development Fund
KfW	Kreditanstalt für Wiederaufbau
LIC	Local Investment Committee
LSG	Local Self-Governments
M&E	Monitoring and Evaluation
MIS	Management Information System
NGO	Non-Governmental Organization
NPV	Net Present Value
NSDS	National Sustainable Development Strategy
O&M	Operations and Maintenance
PDO	Project Development Objective
PIU	Project Implementation Unit
PPD	Public Procurement Department
PPL	Public Procurement Law
PRAMS	Procurement Risk Assessment and Management System
RAP	Resettlement Action Plan
RBM	Results-Based Management
RF	Results Framework

RPF Resettlement Policy Framework
SOE Statement of Expenses
SPF State and Peace Building Fund
VIC Village Investment Committee
VIP Village Investment Project

Kyrgyz Acronyms

AA Ayil Aimak (municipal district)
AO Ayil Okmotu (local administration)
AK Ayil Kenesh (local council)

Regional Vice President:	Laura Tuck
Country Director:	Saroj Kumar Jha
Senior Global Practice Director:	Ede Jorge Ijjasz-Vasquez
Practice Manager:	Elisabeth Huybens

Task Team Leader: Asli Gurkan

KYRGYZ REPUBLIC
Third Village Investment Project

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PAD DATA SHEET*Kyrgyz Republic**Third Village Investment Project (P146970)***PROJECT APPRAISAL DOCUMENT***EUROPE AND CENTRAL ASIA**0000009081*

Report No.: PAD1124

Basic Information			
Project ID P146970	EA Category B - Partial Assessment	Team Leader(s) Asli Gurkan	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints []		
	Financial Intermediaries []		
	Series of Projects [X]		
Project Implementation Start Date 28-Mar-2015	Project Implementation End Date 28-Mar-2020		
Expected Effectiveness Date 01-Nov-2015	Expected Closing Date 28-Jul-2020		
Joint IFC No			
Practice Manager/Manager Elisabeth Huybens	Senior Global Practice Director Ede Jorge Ijjasz-Vasquez	Country Director Saroj Kumar Jha	Regional Vice President Laura Tuck
Borrower: Government of Kyrgyz Republic			
Responsible Agency: Community Development and Investment Agency (ARIS)			
Contact: Telephone No.: (996-312) 301-805	Kubanychbek Iskakovich		Title: Executive Director Email: office@aris.kg
Project Financing Data(in USD Million)			
[] Loan	[X] IDA Grant	[] Guarantee	
[X] Credit	[] Grant	[] Other	
Total Project Cost:	12.00	Total Bank Financing:	12.00
Financing Gap:	0.00		
Financing Source		Amount	

BORROWER/RECIPIENT	0.00
International Development Association (IDA)	6.60
IDA Grant	5.40
Total	12.00

Expected Disbursements (in USD Million)

Fiscal Year	2016	2017	2018	2019	2020	2021	0000	0000	0000	0000
Annual	1.60	2.90	3.50	2.70	1.30	0.00	0.00	0.00	0.00	0.00
Cumulative	1.60	4.50	8.00	10.70	12.00	12.00	0.00	0.00	0.00	0.00

Institutional Data

Practice Area (Lead)

Social, Urban, Rural and Resilience Global Practice

Contributing Practice Areas

Agriculture

Cross Cutting Topics

- Climate Change
- Fragile, Conflict & Violence
- Gender
- Jobs
- Public Private Partnership

Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Public Administration, Law, and Justice	Sub-national government administration	50		
Public Administration, Law, and Justice	Public administration-Other social services	20		
Public Administration, Law, and Justice	General public administration sector	30		
Total		100		

I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

Themes

Theme (Maximum 5 and total % must equal 100)

Major theme	Theme	%
Social dev/gender/inclusion	Participation and civic engagement	55
Rural development	Rural services and infrastructure	45
Total		100
Proposed Development Objective(s)		
The Project Development Objectives are (a) to build local capacity for participatory development and (b) improve access to quality community infrastructure services in targeted project areas.		
Components		
Component Name	Cost (USD Millions)	
Capacity Building of Local Self-Governments and Communities	2.20	
Village Investments	8.60	
Project Management	1.20	
Compliance		
Policy		
Does the project depart from the CAS in content or in other significant respects?	Yes []	No [X]
Does the project require any waivers of Bank policies?	Yes []	No [X]
Have these been approved by Bank management?	Yes []	No []
Is approval for any policy waiver sought from the Board?	Yes []	No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No []
Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	X	
Natural Habitats OP/BP 4.04		X
Forests OP/BP 4.36		X
Pest Management OP 4.09		X
Physical Cultural Resources OP/BP 4.11		X
Indigenous Peoples OP/BP 4.10		X
Involuntary Resettlement OP/BP 4.12	X	
Safety of Dams OP/BP 4.37		X
Projects on International Waterways OP/BP 7.50	X	
Projects in Disputed Areas OP/BP 7.60		X
Legal Covenants		

Name	Recurrent	Due Date	Frequency
Execution of the Subsidiary Agreement	X		Continuous
Description of Covenant			
The Recipient shall exercise its rights and carry out its obligations under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate, waive, terminate or fail to enforce the Subsidiary Agreement or any of			
Name	Recurrent	Due Date	Frequency
Sub-grants and small grants	X		Yearly
Description of Covenant			
The Recipient shall: (a) cause the Project Implementing Entity to make Sub-Grants and Small Grants selected in accordance with detailed criteria set forth in the Project Operations Manual; and (b) enter into an agreement (Framework Agreement) with an eligible Ayil Okmotu on terms and conditions approved by the Association.			
Name	Recurrent	Due Date	Frequency
Safeguards instruments	X		Yearly
Description of Covenant			
Except as the Association shall otherwise agree, the Recipient shall cause the Project Implementing Entity not to assign, amend, abrogate, waive or fail to enforce the RPF and/or EMF, or any of their provisions.			
Name	Recurrent	Due Date	Frequency
Project reporting	X		Yearly
Description of Covenant			
The Recipient shall cause the Project Implementing Entity to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association.			
Conditions			
Source Of Fund	Name	Type	
IDA	Effectiveness Condition	Effectiveness	
Description of Condition			
The Subsidiary Agreement has been executed on behalf of the Recipient and the Projecting Implementing Entity.			
Source Of Fund	Name	Type	
IDA	Effectiveness Condition	Effectiveness	
Description of Condition			
The Operational Manual has been updated and adopted by the Recipient and the Project Implementing Entity in a manner satisfactory to the Association.			

Team Composition					
Bank Staff					
Name	Role	Title	Unit		
Asli Gurkan	Team Leader (ADM Responsible)	Social Development Specialist	GSURR		
Irina Goncharova	Procurement Specialist	Procurement Specialist	GGODR		
Nodar Mosashvili	Financial Management Specialist	Consultant	GGODR		
Aimonchok Tashieva	Team Member	Consultant	LEGLE		
Alisher Khamidov	Team Member	Consultant	GSURR		
Aliya Kim	Team Member	Financial Management Specialist	GGODR		
Angela Nyawira Khaminwa	Safeguards Specialist	Senior Social Development Specialist	GSURR		
Carine Ter-Akopova	Team Member	Program Assistant	ECCKG		
Cesar Niculescu	Safeguards Specialist	Environmental Specialist	GENDR		
Geoffrey John Kurgan	Team Member	E T Consultant	GTIDR		
Jasna Mestnik	Team Member	Finance Officer	WFALA		
Mark C. Woodward	Team Member	Lead Social Development Specialist	GSURR		
Meerim Sagynbaeva	Team Member	E T Temporary	ECCKG		
Nightingale Rukuba-Ngaiza	Team Member	Senior Counsel	LEGLE		
Talaibek Torokulovich Koshmatov	Team Member	Senior Rural Development Specialist	GFADR		
Victoria Ahlonkoba Bruce-Goga	Team Member	Program Assistant	GSURR		
Zhanetta Baidolotova	Team Member	Program Assistant	ECCKG		
Extended Team					
Name	Title	Office Phone	Location		
Mr Ismailov Kubanychbek Iskakovich	Executive Director				
Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments
Kyrgyz Republic	Talas	Talas	X		

Kyrgyz Republic	Naryn	Naryn	X		
Kyrgyz Republic	Ysyk-Koel	Issyk-Kul'skaya Oblast'	X		
Kyrgyz Republic	Chuy	Chuyskaya Oblast'	X		

I. STRATEGIC CONTEXT

A. Country Context

1. **The Kyrgyz Republic is a landlocked, mountainous country in Central Asia with a multi-ethnic population of about 5.8 million and one of the poorest economies in the Europe and Central Asia (ECA) region.** The Gross National Income (GNI) per capita was US\$1,200 in 2013 (Atlas methodology).¹ GDP grew at an average rate of 5 percent annually between 2003 and 2013.² Poverty declined significantly, from 63 percent in 2000 to 32 percent by 2009.³ However, a combination of rising global food and fuel prices, the global economic crisis, and an internal conflict in 2010 have all taken a heavy toll on the Kyrgyz economy. Poverty rose to 37 percent in 2013⁴ with an increasing proportion of the poor being female.⁵
2. **Almost two-thirds of the Kyrgyz population lives in rural areas, where the poverty incidence is higher than in urban zones.** The estimated rural poverty rate was 41.4 percent in 2013 compared to 28.5 percent in urban areas.⁶ Five of the seven regions in the country have poverty rates exceeding 40 percent. The disappearance of Soviet-era collective farms and state enterprises left significant voids in the provision and maintenance of basic services and infrastructure. Access to healthcare, childcare and education has been limited for the rural poor.⁷
3. **Weak governance has been a major hindrance to the country's economic development.** The low level of accountability within a highly centralized governance system eroded trust in state-citizen relationships and resulted in political and social upheaval in 2005 and 2010. Anti-government protests and inter-ethnic conflicts evinced pent-up public frustration over corruption, rising inflation, and deterioration in social services and infrastructure. In response to these events, the government of the Kyrgyz Republic has committed itself to improved local governance and reduced corruption as the basis for the country's economic and social development. This position is reflected in the *National Sustainable Development Strategy* (NSDS), 2013-2017, and the current World Bank Country Partnership Strategy (CPS) for the Kyrgyz Republic (2014-2017).

B. Sectoral and Institutional Context

4. **The early phases of the decentralization process in the Kyrgyz Republic focused on establishing community structures to implement local development initiatives.** In 2002 the government adopted "The National Strategy on Decentralization and Development of Local Self-Government". It was within this context that the Bank supported the Village

¹The World Bank. *Data*. <http://data.worldbank.org/indicator/SI.POV.NAHC/countries/KG?display=graph>

² Ibid

³ Ibid

⁴ Ibid

⁵ UNDP. <http://www.kg.undp.org/content/kyrgyzstan/en/home/countryinfo>

⁶ Ibid

⁷ The World Bank. 2012. *Kyrgyz Republic: Gender Disparities in Endowments and Access to Economic Opportunities*. Washington: World Bank.

Investment Project (VIP1 - approved in December 2003) and the Second Village Investment Project (VIP2- approved in August 2006), both implemented by the Community Development and Investment Agency (ARIS). Village and local investment committees (VICs and LICs) were established to mobilize communities and internal resources for planning and implementing investment activities. In VIP1, 1,661 villages implemented 4,344 micro projects. All 475 *ayil aymaks* (local municipalities) participated in VIP2 and about 2.3 million people benefited directly from the completion of about 6,000 micro projects. VIP and ARIS have become well known and respected “brands” in the Kyrgyz Republic. However, the focus has been more on community-level structures created by the projects and less on local governments’ own systems and capacity to contribute to development efforts.

5. **Over the past ten years, local authorities’ responsibilities towards local populations have increased, as have opportunities for participatory local development.** The Kyrgyz Republic now has four tiers of government: (i) central government, (ii) provinces (*oblasts*), (iii) administrative districts (*rayons*), and (iv) local municipalities (*ayil aymaks*), which are headed by local administrations (*ayil okmotu*) and local councils (*ayl kenesh*), which are collectively referred to as Local Self-Governments (LSG). The 2008 law on LSG assigned twenty-three distinct responsibilities to local self-government bodies.⁸ The 2007 Law on Access to Information obliges local governments and state-affiliated service providers to ensure that information and public records are available to citizens. In particular, *ayil okmotus* are obliged to hold at least two annual general assemblies of residents (*sel'skie skhody*) to discuss local development activities and plans and *ayil keneshs* must meet at least four times a year to discuss reports and plans presented by local governments (see Annex 7 for more details).
6. **Nonetheless, local governments and communities are still limited in their capacity to undertake participatory approaches to governance and development.** This has left a weak relationship between local governments and their constituencies. This weak state-society relationship has been a trigger for conflicts, due to poor management and inequitable distribution of basic services, resources, and employment opportunities. It is within this context that the Government of the Kyrgyz Republic approached the World Bank with a request to develop VIP3.
7. **VIP3 will be qualitatively different from VIP1 and VIP2 by focusing on improving governance and building the capacity of local government institutions for effective development planning and implementation.** Local government institutions will have greater responsibilities in VIP3 than earlier projects. At the same time VIP3 retains the participatory approach embodied in the previous projects.

⁸ LSG responsibilities fall under the following four categories: (i) ensure economic development of their respective territories through adopting development strategies, collecting local taxes, managing local budgets, and managing municipal property; (ii) ensure maintenance and operation of public facilities/infrastructure (such as schools, hospitals, kindergartens, parks, roads, electricity grids, water-pipes, heating systems, waste-disposal systems, public transportation); (iii) administer architectural planning and land use; (iv) administer the development and promotion of local culture and arts.

8. **New features of the project include the following:**
 - i. Local governments will lead social mobilization activities and focus group discussions.
 - ii. Local governments are fully responsible for micro project implementation, including bidding, contracting, technical supervision, inspection and acceptance of goods and works.
 - iii. Local governments will receive targeted trainings in line with their assigned responsibilities, including: (i) local governance legal framework, (ii) local budgeting, (iii) preparing local development strategies, (iv) municipal property management, (v) government procurement of goods and (vi) operations and maintenance.
 - iv. The newly created Agency for Local Self-Governments and Inter-ethnic Relations will be included in the national level commission that approves sub-project selection. The agency representatives will be participants of ARIS trainings and will benefit from the training modules that will be developed and carried out under VIP3.
 - v. The project will introduce a competitive mechanism in the allocation of funding for community-level investments. In addition to a window dedicated for micro-projects, there will be a window for larger projects (sub-projects) to better respond to key community needs.
 - vi. VIP3 also introduces significantly different new works supervision arrangements. The recruitment of an independent professional firm to oversee sub-project construction is expected to bring improvements in implementation quality and reporting.

9. **VIP3 supports the World Bank's twin goals of poverty reduction and shared prosperity.** The project will only target rural communities, where the highest number of poor people reside. The investments will provide employment and important enduring benefits for poor communities, reflecting national development strategy and local priorities. For example, a large number of the investments are expected to be rehabilitation of schools and health clinics, which will contribute to mitigating high maternal mortality rates and improving education services for the rural poor. Other demand-driven investments will likely provide infrastructure for productive activity such as by expanding the power supply. To encourage engagement of local governments with poorer capacity and resources, the project will dedicate a grants window for micro-projects only to subsidized municipalities (i.e., those with fewer resources). The project will strengthen the capacity of local governments to plan and execute development initiatives in the longer term, including through greater sensitivity to the needs of the poor and vulnerable groups.

10. **The project is aligned with the CPS.** The main objective of the CPS (2013-2017) is to improve governance to foster the country's economic and social development. VIP3 focuses on strengthening local governance with a particular emphasis on the accountability between the local self-governments and citizens in the Kyrgyz Republic.

11. **VIP3 has taken into account the findings of the Conflict Filter, a screening tool that is applied to World Bank-funded projects at the preparation stage.** First, VIP3 training and grants for sub-projects will be available to *all* rural municipalities in the four northern regions that are covered by the project (albeit with selection criteria to give preference to those municipalities with fewer resources), in order to prevent potential tension between communities. Secondly, under component 1, the project will provide trainings to targeted

stakeholders on conflict management and grievance -redress measures. Thirdly, ARIS will carry out targeted conflict assessments in some geographic areas that had conflict in the past decade, as part of its social and environmental impact checklist before the selection of projects.

12. **The IDA-financed VIP3 will be implemented in four northern provinces** (Naryn, Issykul, Chui and Talas). KfW will be financing an identical project in the three southern provinces of the country (Osh, Batken and Jalalabad) using the same operational manual as VIP3. The majority of IDA funding will focus on “hard” investments (construction, reconstruction, and rehabilitation of infrastructure). A significant portion of the complementary “soft” investments (capacity building) will be funded from the State and Peace-building Fund, under a US\$1.4 million grant that became effective in January 2015.

II. PROJECT DEVELOPMENT OBJECTIVES (PDO)

A. PDO

13. The higher order objective of the project is to alleviate rural poverty by building the capacity of local self-governments to work with their communities to plan and implement local development programs. **This goal is to be supported through achievement of the PDOs. The PDO is to: (a) build local capacity for participatory development and (b) improve access to quality community infrastructure services in targeted project areas.** Fundamentally this project is about local capacity building. The delivery of infrastructure through competition for sub and micro-projects will both serve as an incentive for quality development planning and enhance the living standards of recipients who will receive improved services. A strong focus on quality and sustainability of sub and micro-projects will ensure that the provision of infrastructure will result in improved service delivery.

B. Project Beneficiaries

14. **There will be 266 communities directly benefiting from VIP3.** The total number of direct beneficiaries from Components 1 and 2 is estimated to be 29,000. This will include local administration staff, local council members, and community members in the targeted villages. The project requires that a minimum of 30 percent of participants in capacity-building activities will be women (Component 1) and that a minimum of 50 percent of beneficiaries of sub and micro-projects (Component 2) will be women (see paragraph 54 for more details on gender).

C. PDO Level Results Indicators

15. PDO Level Results will be measured through the following indicators:
 - Number of municipal districts (AAs) with Local Development Strategy developed involving community
 - Number of AAs conducting public hearings annually, where information is disclosed to the public on budget formulation and execution in accessible formats

- Number of AAs with access to improved quality infrastructure services (disaggregated by non-subsidized and subsidized local self-governments)
- Direct project beneficiaries, of which female
- Beneficiaries that report improved access to infrastructure services as a result of project activities (disaggregated by gender)

III. PROJECT DESCRIPTION

A. Project Components

Component 1: Capacity Building of Local Self-Governments and Communities (US\$2.2 million)

16. This component will support the achievement of the first project development objective of *building local capacity for participatory development* and will target both local communities and local self-governments (local administrations and local councils). Project activities under this component are broadly divided into three sub-components: (i) community mobilization, (ii) training, and (iii) peer to peer learning.

(i) *Community Mobilization* seeks to (i) inform local communities and local self-governments about the project objectives and (ii) prepare them for identification of their priority needs, preparing local development strategies, and seeking financing for their priority project. ARIS field staff will conduct public meetings at the regional level to provide stakeholders with detailed information about the project. Mobilization seminars in the villages will be held by local self-governments, with the help of ARIS field officers, to identify the most motivated and active people to form initiative groups to represent the community carrying out project activities. These initiative groups will conduct focus group discussions to identify community priorities. The priorities will then be discussed and voted on in village assemblies. The priorities proposed by every village will be evaluated by the selection committee. Based on the ranked list of priorities and projects, the working groups, which will also include LSG representatives, will prepare local area development strategies and investment plans.

(ii) *Training*: The training will be done in at least three cycles over the project's life and will aim to cover all 266 municipal districts (AAs) in the four northern regions of the country. Special attention will be paid to the participation of women in training sessions: 30 percent of community trainees will be female; and at least 30 percent of community members in working groups will be women. Data on participation in trainings and quiz scores obtained will be gender-disaggregated.

(iii) *Peer-to-peer Learning*: Exchange visits will be organized among communities, local councils and local administrations to learn good practices in participatory governance and local development. Visits will be encouraged across different ethnic groups and across northern and southern populations as a means to promote social cohesion among areas that have faced tensions in the last few years. Under peer-to-peer learning, the project will seek to facilitate an exchange between localities that have received training under Japanese Social Development Fund (JSDF)-funded "Building Demand-side Capacity for Effective

Local Governance” pilot program in Chui and Talas regions, and new localities that will be covered under VIP3.

Component 2: Village Investments (US\$8.6 million)

17. VIP3 will be divided into at least three cycles during its implementation period. *Municipal districts* can apply for two types of funding provided through a competitive selection process:
 - **Sub-Grants for sub-projects:** (more than \$20,000). Funding for sub-projects may cover new construction, reconstruction, and major rehabilitation works. Although sub-projects will not have a specific size or fiduciary cap⁹, there will be at least two sub-projects per *oblast* per cycle (or one sub-project that encompasses at least two *ayil aimaks*). Sub-project funding will make up 80 percent of the overall funding going to communities.
 - **Small-Grants for micro-projects:** (\$20,000 or less). Grants for micro-projects will only be available to *ayil aimaks* that are classified by the central government as “subsidized” (i.e., they do not have sufficient revenues for either capital expenditures or to meet their running costs). Grants for micro-projects will fund repair works, beautification (landscaping, painting, etc.), and upgrading of facilities (procurement of new furniture, athletic equipment, information and communication technology, etc.). Grant envelope for micro-projects per AA may consist of one or several smaller micro-projects, but their total combined amount will not exceed \$20,000 per AA. Micro-project funding will make up 20 percent of the overall funding going to communities.
18. Interested *ayil aimaks* will fill out an application package which will be ranked and scored by an oblast level selection committee and sub-projects will be vetted by a national-level committee.
19. Eligible AAs can compete for grants in three different ways:
 - Only for sub-project grants (available to all AAs)
 - Only for micro-project grants (available to subsidized AAs only)
 - For both sub- project grants and micro-project grants (available to subsidized AAs only).
20. Participating AAs will be judged against a set of criteria, and those ranked highest will have their priorities funded. The criteria have weights in order to help “level the playing-field” for poorer or more geographically isolated municipalities.
21. The project will require a minimum of 3.75 percent community co-financing (cash) for both sub-project grants and micro-project grants. Co-financing can come from the local government budget, from the community or any other combination of sources. The framework agreements that will be signed between local governments and ARIS will provide the formal commitment that these required contributions have been secured. Each sub/micro-project will first utilize community-contributions before tapping into IDA

⁹ A maximum ceiling will not be imposed in order to prevent a scenario where costs of a requested infrastructure need are under-budgeted or over-budgeted in order to fit a certain pre-identified amount. However, the rule of “at least two sub-projects per oblast per cycle” is introduced in the project in order to avoid a situation where the entire amount allocated for sub-projects per cycle is used for a single large project.

resources. The community contributions will be tracked as part of quarterly monitoring reports.

Component 3: Project Management (US\$1.2 million)

22. **This component will finance the costs of the implementing agency for project management**, specifically coordination and supervision of implementation activities, financial management, annual audits, and monitoring and evaluation. The management and coordination of the project will be the responsibility of a dedicated project management team established within the implementing agency, ARIS.

B. Project Financing

Lending Instrument

23. The lending instrument will be Investment Project Financing.

Project Cost and Financing

24. The total project cost is US\$12 million. World Bank financing will be provided in the form of an IDA credit of US\$6.6 million equivalent (55 percent of the total) and an IDA grant of US\$5.4 million equivalent (45 percent of the total). The IDA credit will be made available on standard IDA terms with a final maturity of 38 years, including a grace period of 6 years.

Project Components	Indicative costs (USD Millions)	% of Total	IDA Financing (USD Millions)	% of IDA Financing
Capacity Building of Local Self-Governments and Communities	2.20	18.60	2.20	18.60
Village Investments	8.60	71.10	8.50	71.10
Project Management	1.20	10.30	1.20	10.30
Total Project Costs	12.00	100.00	12.00	100.00
Front-end fee	0.00	0.00	0.00	0.00
Total Financing Required	12.00	100.00	12.00	12.00

C. Lessons Learned and Reflected in the Project Design

25. **Lesson 1: It is critical to integrate local governance structures into community-driven development (CDD) projects to avoid duplication and ensure sustainability.** CDD projects have often been criticized for creating parallel structures. This has particularly been the case when existing structures are weak. In Kyrgyzstan, VIP1 and 2 created community structures. While it made sense at the time, under VIP3 the focus of attention is shifting to LSGs, which now have a stronger and clearer legal mandate, while continuing to support participatory development.

26. **Lesson 2: A competitive approach for distribution of funds may better respond to community needs and result in better quality of sub-project proposals.** VIP1 and 2 provided block grants to communities on a per capita basis. While this approach supported the initial mobilization of rural communities and provided a framework on how to plan and implement community-driven projects, it did not allow most communities to meet their development needs as the amounts remained too small and spread out. Community consultations during project preparation revealed a desire for providing the grants on a competitive basis, and provide more diversified grant windows. In response to this community feedback, VIP3 includes two distinct grants windows (grants for sub-projects and grants for micro-projects).
27. **Lesson 3: The quality of infrastructure remains a challenge in local governance and community driven projects world-wide.** This was also the case in the Kyrgyz Republic, where additional financing had to be allocated for the retrofitting or reconstruction of a small number of poorly designed and constructed works under VIP2. Under VIP3, the quality of works will be ensured from the outset. The detailed technical supervision arrangements are outlined in Annex 3.
28. **Lesson 4: Most successful local governance/CDD projects build on successful pilots.** Similarly, VIP3 will incorporate successful activities from several pilot projects, such as “Building Demand-side Capacity for Effective Local Governance Project” funded by the JSDF, “Social Cohesion Project” funded State and Peace Building Fund, and “Information Matters—Transparency and Accountability in the Kyrgyz Republic (IMTAK) project” funded by Multi-Donor Programmatic Trust Fund for Europe and Central Asia. VIP3 will build on the learning modules, the quiz methodology, and local level tender committee approaches piloted under these initiatives, as well as other piloted practices.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

29. **The implementing agency will be the Community Development and Investment Agency (ARIS),** which was established in 2003 by the Government as an autonomous agency with an independent board to support investments in rural communities. ARIS has significant experience in managing donor-funded projects: it currently manages five World Bank-financed projects as well as projects funded by other donors. Enjoying a high level of credibility in the country, the agency has experienced staff (it has a southern regional office and seven province-level offices) and management capacity, and an extensive network of partnerships with local governments and communities.
30. **Good synergies are established within ARIS between Projects.** ARIS employs two main categories of staff: employees and consultants. Consultants are hired for a limited duration and a given task. The employees have employment contracts, which are limited to one year maximum (renewability is contingent on project budgets). Additional consultants will be hired, and the existing staff’s work program will be reoriented to manage the implementation of VIP3 activities as required. For example, ARIS will incorporate the

selected team members that implemented the JSDF-funded “Building Demand-side Capacity for Effective Local Governance project” into VIP3 Project Implementation Unit (PIU).

B. Results Monitoring and Evaluation

31. **Under VIP2, ARIS finalized the development of an operational Monitoring and Evaluation (M&E) system.** The system is based on a Management and Information System (MIS), which uses popular and well-known Russian (modular) software called ‘1C’. The various modules of this software can cover such areas as: finance, project monitoring, auditing, engineering and Human Resource (HR) management. This program is also used for accounting. The MIS and the accounting systems are fully interlinked and used at all necessary levels.
32. **For VIP3, the M&E structure has been revised based on the existing MIS.** For VIP3, data on social mobilization, investments (sub-projects and micro-projects) and training will be regularly and continuously collected in the field by ARIS community development support officers (CDSOs), the project offices at oblast and Head Quarters (HQ) level. Data will also be retrieved automatically from accounting records. All of this information will then be used for tracking and measuring the agreed indicators in the Results Framework.
33. **The VIP3 M&E approach will incorporate both qualitative and quantitative methods to gauge project-induced changes.** The project will use assessments, and three satisfaction surveys (at the launch of the project, mid-term, and upon project completion) to measure some of the qualitative indicators. The project will promote disaggregation of data by gender for certain indicators as listed in the Results Framework.

C. Sustainability

34. **The entire project is designed to promote sustainable structures and systems.** This approach is reflected in the inclusion of both local self-governments (executive and legislative branches) and communities as the targets of project activities. The proposed activities seek to raise key stakeholders’ awareness and engage them in their mandated roles and their long-term responsibilities for local matters.
35. **For sustainability of VIP3-funded investments, the key issue will be to strengthen the Operations and Maintenance (O&M) approach from the project design stage onwards.** In VIP1 and VIP2, the process centered on broad estimation of certain costs rather than on their detailed calculation, which was appropriate for such small investments. Under VIP3, the project will allow LSGs and communities to engage in a more detailed calculation of O&M technical requirements and related costs. Such a calculation applies, in particular, to the cost-benefit analysis and business plans of sub-projects. Each sub-project and micro-project must be supported by a formal commitment from the appropriate entities regarding obligations for O&M of the new infrastructure.

V. KEY RISKS AND MITIGATION MEASURES

A. Risk Ratings Summary Table

Risk Category	Rating
Stakeholder Risk	Moderate
Implementing Agency Risk	
- Capacity	Moderate
- Governance	Moderate
Project Risk	
- Design	Moderate
- Social and Environmental	Moderate
- Program and Donor	Moderate
- Delivery Monitoring and Sustainability	Moderate
Overall Implementation Risk	Moderate

B. Overall Risk Rating Explanation

36. **The overall risk rating is moderate.** The project is building on the experience of VIP1 and VIP2. The key activities under the project support existing government strategic and legislative reforms and there is a common understanding of the need for these activities. The capacity and ownership of the implementing agency is high with a demonstrated record in the operating environment. Nevertheless, political risks in the Kyrgyz Republic require close attention. While the implementing agency is capable of managing the expected risks, certain social and political developments may be outside of the project's scope to mitigate.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analyses

37. Given the demand driven nature of the project it is not possible to do a rigorous economic analysis of the project as a whole. A number of significant benefits (e.g., improved access to services, increased livelihoods, better local governance) are difficult to quantify. Instead the analysis has focused on a financial analysis of six likely typical micro and subprojects; (i) school repair; (ii) improved power supply; (iii) construction of a community center; (iv) drinking water supply; (v) school construction; and (vi) establishment of a medical post. This analysis results in an estimated Internal Rate of Return (IRR) for the project of 28.8 percent. Sensitivity analysis suggests that this result is not significantly sensitive either to an increase in costs of 20 percent or a decrease in benefits of 20 percent.
38. The proposed project would generate additional employment opportunities for the rural population in the project area as hired labor. Project interventions would also lead to substantial timesaving such as easier access to educational and medical services. Albeit not

significant, one of the project's impacts on Government budget would be incremental tax revenues because of increased volume of taxable production and services.

39. The main results of the financial analysis include: (i) a significant increase in gross and net returns from each model comparing with and without-project situation and (ii) high benefit/cost ratios illustrating the worthiness of the investments. The Net Present Value (NPV) ranges from US\$ 1,775 to US\$ 44,312; the IRRs from 15.8 percent to 32.7 percent, which are much more conservative compared to those estimated for similar operations under the VIP2. The analysis showed that the models are more sensitive to changes in benefit parameters than they are to variations in investment and operating costs. Sensitivity analysis also showed that all models would remain attractive even if costs increase or benefits decrease.

B. Technical

40. **Funding for community investment will be allocated using a competitive approach with specific selection criteria.** This will have several advantages: (i) larger sub-projects will address community needs better than the previous system of block grants; (ii) there will be in some cases opportunities for different communities to come together and create joint projects; and (iii) other donors, such as KfW, are implementing a competitive approach in the south and it will avoid confusion or tensions if all communities under these donor-financed projects have the same opportunities.
41. **The project puts heavy emphasis on effective supervision.** The project will use an independent firm for construction supervision activities for sub-projects. In the unlikely case that no suitable firms (i.e., eligible by Bank procurement standards when standards cannot be waived) are identified, the implementation agency has reserved the right to hire individual construction supervisors on the condition of the Bank's no objection.
42. **The project incorporates environmental sustainability and consideration of climate change and disaster risks into technical designs.** The project will consider using "green" designs for new facilities and rehabilitation of existing facilities that could result in reduced operation costs. For example, the practice of using double paned windows is common in the country and will be applied. In addition, the feasibility of other design aspects are being explored, including solar energy, high efficiency lighting systems, as well as foundations and wall designs for mitigating heat loss. The quality of design and construction materials and fixtures will be considered prior to tendering construction contracts to mitigate potential earthquake risks. Basic cost-benefit analysis will be performed to ensure the highest appropriate level of quality will be used, which can mitigate repair costs in the short to medium-term.
43. **For micro-projects, construction supervision for anticipated repair and rehabilitation works will be at the expense of the local administration** (not included in the mandatory minimum 3.75 percent community co-financing). Through the framework agreement that the local administration will sign with the implementing agency, the local administration will be expected to identify a local construction specialist who will be responsible for construction supervision and quality assurance. Selected local community members (i.e.,

working groups) will also be expected to provide a copy of the contract with the construction specialist. Oblast level engineers will be responsible for spot checks of micro-projects on as needed basis depending on the technical complexity. ARIS headquarters staff will also conduct inspections at major milestone events of sub-projects.

C. Financial Management (FM)

44. **The project's FM assessment established that the FM arrangements existing in ARIS meet Bank requirements.** FM arrangements, including budgeting and planning, internal control procedures, and staffing of the FM function are adequate. With respect to accounting and reporting, ARIS will use a system based on the existing accounting software, which has also been modified for the accounting and financial reporting purposes of VIP3. The accounting software is especially designed to meet World-Bank-financed project requirements, including the ability to generate Interim Financial Reports (IFRs), attachments of withdrawal applications including Statement of Expenses (SOEs), and annual financial statements. The annual audits of project financial statements will be provided to the Bank within six months after the end of each fiscal year and at project closing. The Recipient has agreed to disclose the audit reports for the project within one month of their receipt from the auditors by posting the reports on the ARIS website. Following the Bank's formal receipt of these reports from the Recipient, the Bank will make them publicly available according to the Bank Policy on Access to Information. As part of the project implementation support and supervision missions, quarterly IFRs will be reviewed and regular risk-based FM missions will be conducted. More details on FM arrangements are provided in Annex 3 and Annex 5.

D. Procurement

45. **Overall, the public procurement environment in the country is improving** as the Public Procurement Department (PPD) under the Ministry of Finance has revised the Public Procurement Law (PPL) and the draft PPL is pending Parliamentary Approval. The draft PPL will create an Independent complaint review commission and PPD will become a regulatory body for Public Procurement. The Bank is supporting the institutional development of PPD and the complaint review commission and capacity building of all stakeholders. The Government is developing e-Government Procurement (e-GP) with Bank technical assistance and Asian Development Bank (ADB) financing.
46. **The Bank staff conducted a procurement capacity and risks assessment using the Procurement Risk Assessment and Management System (PRAMS).** Procurement activities will be carried out by ARIS which has been effectively managing procurement activities under the ongoing VIP2 (with two additional financings) as well as the Second Rural Water Supply Project and Bishkek Osh Urban Infrastructure project. ARIS will have overall responsibility for procurement under the project. ARIS has a main office in Bishkek and seven oblast offices. The main office of ARIS is staffed by four well-qualified and experienced procurement specialists. Ten small oblast-level liaison offices ensure adequate coverage of the country and provide administrative and logistical support for ARIS field staff, the CDSOs.

47. **Summary of Risks and Risk Mitigation Measures:** The Procurement Capacity Assessment Report, including the risks and risk mitigation plan, has been filed in the World Bank's PRAMS. The key issues and risks include: (i) potential risk of delays in the implementation of the project due to the complexity of procurement processes and decision-making that involve local governments; (ii) inadequate capacity to conduct procurements based on World Bank Procurement and Consultant Guidelines; (iii) insufficient contract monitoring and management skills; and (iv) inadequate accountability and oversight for procurement decisions. Given the findings of the assessments, the initial overall procurement risk under the project is assessed as "substantial".
48. **Procurement for the proposed project will be carried out in accordance with the World Bank's "Guidelines: Procurement of Goods, Works and non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers"** dated January 2011 and revised July 2014 (Procurement Guidelines); and "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011 and revised July 2014 (Consultant Guidelines) and provisions stipulated in the Financing Agreement. The project will also follow "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants dated October 15, 2006 and revised in January 2011". Further, as the project has a CDD approach, the project's procurement arrangements will be in line with the Guidance Note for Design and Management of Procurement Responsibilities in Community-Driven Development Projects, dated March 15, 2012.

E. Social (including Safeguards)

49. **Overall, it is anticipated that the project will result in positive impacts on communities.** The project activities are expected to increase the capacity and willingness of the communities to participate more effectively in local development planning on the one hand, and to increase the receptivity of the local governments to community inputs on the other. In addition, the provision of grants for sub projects and micro projects will improve access to quality infrastructure based on community identified priorities. Project design elements to ensure inclusion of youth and women in decision-making processes will enable these groups to perform their roles as citizens and it will contribute to their empowerment. On the negative side, implementation of the sub-projects may result in changes in land use and the impacts of involuntary resettlement as detailed below. However, this impact is expected to be minor.

Safeguards

50. ***Involuntary Resettlement.*** Under Component 2, the project will finance community-level sub-projects and micro-projects such as construction of kindergartens, rehabilitation of health clinics, sports facilities, etc. These works may result in impacts on land use, loss of assets, and loss of livelihoods as detailed under the Operational Policy on Involuntary Resettlement (OP 4.12) and, therefore, OP 4.12 is triggered.
51. **Given the demand-driven nature of Component 2 the specific activities to be financed will not be known until implementation and thus a Resettlement Policy Framework**

(RPF) has been prepared. The RPF includes relevant elements, such as: a comparison of Kyrgyz legislation and OP 4.12, an entitlement matrix, guidelines on the development of a Resettlement Action Plan (RAP), details on valuation procedures, and a grievance redress mechanism.

52. **Consultations on the draft RPF undertaken on October 8, 2014 revealed** that there are limited resources at the local level and alternatives to financing for resettlement need to be considered. It was therefore agreed that resettlement costs would be covered by the Project. The draft RPF was disclosed in-country on November 5 and in the Bank's InfoShop on November 10, 2014.

Social Inclusion

53. **Available literature and experience points to the need for continued attention to the inclusion of women.** Female representation at the level of *ayil okmotu* increased only slightly between 2008 and 2012 (from 3.9 percent to 4.7 percent).¹⁰ Under VIP1 and VIP2, the participation of women in leadership roles was mixed and while there were modest improvements between the two projects,¹¹ the target participation rate of 30 percent was not met consistently in the project areas.

54. **In response to this context, VIP3 addresses gender inclusion in its design in four ways.** First, the project requires a minimum 50 percent of beneficiaries to be women under Component 2 (village investment component). Second, VIP3 requires a minimum 30 percent participation of women in capacity building activities under Component 1. Third, the project team will include female-only focus group discussions as part of social mobilization activities in order to capture the specific needs of women in local governance as well as their infrastructure service needs (under Component 1). And fourth, the project will capture the specific impact of the project activities on men and women separately by collecting gender-disaggregated data. Overall, it is envisioned that these measures will contribute to providing more space for female voices, will provide women with the opportunity to perform their roles as citizens, and will influence development priorities in ways that reflect the needs of women and girls. ARIS is also adopting changes to increase women's role in the decision-making process within ARIS. Women now make up 34 percent of approximately 100 ARIS employees, and they predominantly play supporting roles (as financial managers, procurement specialists, HR specialist, translators, project assistants). ARIS is trying to increase the number of women at various levels. For example, in 2014, ARIS management appointed a female employee as deputy director of ARIS, promoted a female project assistant to be a Specialist on Monitoring and Assessment of Projects, based on competitive selection, and hired three female field staff. ARIS will hire a gender specialist for VIP3.

Community Participation and Citizen Engagement

¹⁰ National Review of the Kyrgyz Republic in the Framework of the Beijing Declaration and Platform for Action.

¹¹ For example, women's leadership in Village Investment Committees during VIP 1 was 12.4 percent as opposed to 19.7 percent in VIP 2.

55. **The entire project is about increasing community engagement in decision making.** It does so by seeking to (i) increase to capacity of the citizens to make their own decisions about development priorities and engage their local officials, (ii) increasing the capacity and responsiveness of local governments to respond to citizens' demand, and (iii) supporting channels where citizens and local governments can work together in the context of local development plans, as well as the implementation and monitoring of community-level investments to be financed by the project. Citizen feedback also heavily shaped VIP3 design. As part of the VIP3 consultation process, a series of discussions was conducted with community members, government officials, and representatives of civil society organizations both in Bishkek and in other parts of the country.

F. Environment (including Safeguards)

56. The project has triggered OP 4.01 and is rated environmental category "B", because of the potential limited environmental issues associated with the small-scale investments for local communities. The project will finance the implementation of physical investments that may include construction/rehabilitation of clinics, kindergartens, sports halls, bridges, etc.

57. **While the environmental impact of the proposed project will be largely positive, some adverse impacts may be generated.** The identified positive environmental impacts of the Project include: (i) improved citizens' skills and awareness in planning and implementation of local investments, with particular attention to environment protection; and (ii) a sustainable management of improved infrastructure by communities which brings environmental and social benefits in relation to the natural resources management.

58. **The potential negative impacts that may result from implementation of the Project's activities are mainly related to the Component 2--Village Investments--and include:** (i) increased pollution due to construction waste; (ii) generation of dust, noise and vibration due to the movement of the construction vehicles and machinery; (iii) associated risks due to improper disposal of construction waste, asbestos, minor operational or accidental spills of fuel and lubricants from the construction machinery, and (iv) improper reinstatement of construction sites upon completion of works. All these potential environmental impacts are readily identifiable, small in scale and minimal in impact and can be effectively prevented, minimized or mitigated by measures identified in the Environmental Management Framework (EMF).

59. **Site-specific Environmental Management Plans (EMPs) will be prepared for each sub-project.** Implementation of environmental mitigation and compliance measures during VIP2's Additional Financing was carried out by the contractors (construction firms) and monitored by ARIS PIU staff (engineers). This practice will continue under VIP3. Appropriate training on WB safeguards will continue to be provided under VIP3 to local officials and community safeguards volunteers. The consultation on "environmental guidelines" took place on October 8, 2014 and the guidelines were disclosed in country and on the World Bank Infoshop on October 30, 2014.

60. **The Project will not finance Category-A sub-projects, will not support activities that target natural habitats or protected sites, and will prohibit those activities that can**

cause a significant loss or degradation of any significant natural habitat. The environmental screening process will check for the presence of physical cultural resources. In addition, chance find procedures will be included in all works contracts.

G. Other Safeguards Policies Triggered

61. **OP7.50 (International Waterways).** IDA agreed to finance potential micro-projects and sub-projects which may include minor rehabilitation of existing irrigation and drinking water supply systems. Given the potential impact on international waterways, for example Chui, Talas and Naryn rivers, OP 7.50 has been triggered. Micro-Projects and Sub-Projects will not adversely affect the quality or quantity of water flows to downstream riparian states, or lead to the changes in water intake and/or discharge. The exemption to notify the riparian countries (Kazakhstan, Tajikistan, Turkmenistan and Uzbekistan) was obtained from the World Bank's Vice President for Europe and Central Asia region.

Annex 1: Results Framework and Monitoring
THE KYRGYZ REPUBLIC: Third Village Investment Project

Project Development Objectives

- (a) Building local capacity for participatory development and (b) improving access to quality community infrastructure services in targeted project areas

These results are at		Project Level										
Project Development Objective Indicators												
Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values						Frequency	Data Source/ Methodology	Responsibility for Data Collection
				YR1	YR2	YR3	YR4	YR5	End Target			
Number of municipal districts (AAs) with Local Development Strategy developed involving community		Number	0	0	150	180	220	266	266	Yearly	Minutes of public hearings / AK resolution/ Working groups/MIS	ARIS
Number of AAs conducting public hearings annually, where information is disclosed to the public on budget formulation and execution in accessible formats (cumulative)		Number	0	0	150	180	220	266	266	Yearly	MIS/minutes /AK resolution	ARIS

Number of AAs with access to improved quality infrastructure services (disaggregated by non-subsidized and subsidized)		Number	0	0	8/20	11/45	15/55	19/65	19/65	Yearly	MIS	ARIS
Direct project beneficiaries (number), of which female (percentage)	X	Number/ Percentage	0	10,000/ 30	20,000/ 30	23,000/ 30	26,000/ 30	29,000/ 30	29,000/ 30	Yearly	MIS	ARIS
Beneficiaries that report improved access to infrastructure services as a result of project activities (gender disaggregated)		Percentage	0	0	0	70/40	70/40	70/40	70/40	Yearly	MIS, survey	ARIS

Results indicators by components

Component 1. Capacity building and empowerment

												ARIS
Percentage of beneficiaries with increased knowledge of local governance topics covered under project trainings		Percentage	0	60	60	60	60	60	60	Yearly	Knowledge Tests/MIS	ARIS
Average number of people that participated in public hearings at village level		Number	0	0	100	100	100	100	100	Yearly	Minutes of meeting/MIS MIS/interviews	

Percentage of beneficiaries that perceive their role has increased in decision-making (disaggregated by gender)		Percentage	0	0	70/30	70/30	70/30	70/30	70/30	Yearly	Minutes of meeting/MIS /interviews/survey	ARIS
Satisfaction rate of beneficiaries who attended exchange visits (peer to peer learning)		Percentage	0	0	0	80	80	80	80	Yearly	Evaluation forms following the exchange visits	ARIS
Number of AAs that have submitted proposals to compete for grants cumulative		Number	0	80	160	240	240	0	240	Yearly	Proposals submitted/ minutes of the evaluation committee, MIS	ARIS

Component 2. Rural Investment

Number of sub-projects completed		Number	0	0	8	16	20	24	At least 24	Yearly	MIS/ SP and MP completion and acceptance certificates	ARIS
Number of grants for micro-projects implemented (cumulative)		Number	0	0	20	40	50	60	At least 60	Yearly	MIS/ SP and MP completion and acceptance certificates	ARIS

Percentage of actually allocated vs. planned funds for O&M		percentage	0	0	0	70	70	70	70	Yearly	MIS/ costs confirmation letter	ARIS
Percentage of beneficiaries that feel that community investments funded by the project reflected their priority needs	X	percentage	0	0	0	80	80	80	80	Yearly	Satisfaction surveys/MIS/ interviews	ARIS

Component 3. Project Management

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values						Frequency	Data Source/ Methodology	Responsibility for Data Collection
				YR1	YR2	YR3	YR4	YR5	End Target			
Ratio between operating expenditures and total project budget		Number	0	2.9	4.9	7.0	9.1	10.3	10.3	Quarterly	MIS, Finance Unit	ARIS

Project Development Objective Indicators (PDO)

Indicator Name	Description (indicator definition etc.)
Number of municipal districts (AAs) with Local Development Strategy developed involving community members	This indicator measures “participatory development” part of the PDO. This cumulative indicator will measure whether local development plans have been developed in a participatory manner and whether each Development Strategy is at a basic acceptable quality that covers 3-5 year planning that includes a feasible budget.
Number of AAs conducting public hearings annually, where information is disclosed to the public on budget	This is a PDO indicator to demonstrate that capacity has been built in one of the key participatory local governance dimensions, participatory budgeting. If local self-governments are able to hold these meetings and report to the community how they have managed/executed budget in a given year, and disclose information in accessible formats, this is an indication that their budgeting capacity has

formulation and execution in accessible formats	improved. The law on financial and economic foundations of the Local Self-Governments (Article 13, item 7) stipulates that the review and approval of the budgets should be done transparently and publicly in open sessions of the local council (<i>ayil kenesh</i>) and in public hearings, and the budgets must be published in mass media. This indicator requires at least one meeting annually (where local self-government bodies discuss with public the budget execution update from the previous year and the budget formulation for the current year.
Number of municipal districts (ayil aymaks) with access to improved quality infrastructure services	This indicator will measure the second part of the PDO, ‘access to improved quality infrastructure services’. ‘Infrastructure services’ refers to successfully constructed/rehabilitated infrastructure + fully functioning facility+ existence of operations and maintenance plan and budget. This indicator will be disaggregated by subsidized and non-subsidized municipalities.
Direct project beneficiaries (number), of which female (percentage)	This indicator measures individuals actively using the infrastructure services supported by the project, or those who participated in trainings or peer-to-peer learning activities funded under the project.
Beneficiaries that report improved access to infrastructure services as a result of project activities (gender disaggregated)	This indicator will rely on a perception survey to measure satisfaction with improved access to infrastructure services.

Intermediate Results Indicators

Indicator Name	Description (indicator definition etc.)
Component 1	
Percentage of beneficiaries with increased knowledge of local governance topics covered under project trainings	ARIS will rely on interviews with beneficiaries and a series of before and after knowledge tests in communities to obtain data for the measurement of this indicator.
Average number of people that participated in public hearings at village level	This indicator will ensure that decisions on community priorities were made with the participation of average 100 people per village.
Percentage of beneficiaries that perceive their role has increased in decision-making (disaggregated by gender)	This indicator will be based on a qualitative perception survey.

Satisfaction rate of beneficiaries who attended exchange visits (peer to peer learning)	This indicator will be based on an evaluation form that will be provided to the participants of study tours, which will have a scoring method for measuring satisfaction.
Number of municipal districts (AAs) that have submitted proposals to compete for grants	This indicator seeks to measure ‘increasing local level capacity for participatory development’. AAs would need to use all the knowledge and skills learned in trainings in order to complete and submit proposals. As part of the project proposal ,they need to submit their local development strategies, investment plans, procurement, O&M planning
Component 2 indicators	
Number of sub-projects completed	ARIS will use this indicator to measure the number of sub-projects completed, including new or renovated exiting schools, kindergartens, bridges, health clinics, and other physical facilities. Data for this measurement will come from the MIS.
Number of grants for micro-projects implemented	ARIS will use this indicator to measure the number of small-scale/micro-projects completed, including minor repair works and beautification works. Data for this measurement will come from the MIS.
Percentage of actually allocated vs. planned funds for O&M	ARIS will analyze MIS/costs confirmation letters to measure the percentage of funds that were allocated for Operations and Maintenance. Calculations: $(\text{Actual/Planned}) \times 100 \text{ percent} = \text{Percent of O\&M budget spent relative to planned}$ for each sub-project and micro-project, then the total summation of percentages for all Bank-financed projects divided by the total number of projects in service during that year (calculated as weighted average).
Ratio between operating expenditures and total project budget	ARIS will analyze data supplied by MIS and Finance Unit to quarterly assess what percentage is the operating costs of the total project budget. This information will help to gauge overall progress with project’s implementation.

Annex 2: Detailed Project Description
THE KYRGYZ REPUBLIC: Third Village Investment Project

The third phase of the Village Investment Project will target local community members, local administration staff, and local council members who will receive direct capacity building support in participatory governance and participatory development (Component 1). The project will also support the design and implementation of sub-projects and micro-projects (grants envelope may consist of one or more micro-projects) from participatory local investment plans (Component 2). Monitoring and evaluation of program activities is expected to create further knowledge of how to design successful participatory development interventions in evolving and fragile contexts for administrative and fiscal decentralization (Component 3). The project's three inter-linked components are outlined below:

Component 1: Capacity Building of Local Self-Governments and Communities (\$2.2 million)

This component will support the achievement of the first project development objective of *building local capacity for participatory development* and will target both local communities and local self-governments (local administrations, *Ayl Okmotus* and *Ayil Kenesh*, local councils). Project activities under this component are broadly divided into three sub-components: (i) community mobilization, (ii) training, and (iii) peer to peer learning.

(i) Community Mobilization: seeks to a) inform local communities and local self-government bodies about the project objectives, b) prepare them for identification of their priority needs, local development strategies, and seeking financing for their priority project. The community mobilization consists of five steps.

1. Information campaign. ARIS staff will conduct public meetings and round tables at province (oblast) and district (rayon) centers to provide stakeholders with detailed information about the project. In its public outreach campaign, ARIS will pay particular attention to reaching out to different ethnic groups, women and youth. Mass media will be invited to events, conferences, and meetings.

2. Mobilization seminars in the villages. The objective of these seminars is to identify the most motivated and active people to form working groups that will represent the community throughout project activities. The invitees to these seminars represent a wide variety of stakeholders, including leaders and active members of the villages, head of the AO, members of AKs, the elders, employees of education and public health institutions, representatives from various civil society community organizations etc. A village meeting will be considered participatory if there is minimum of 20 percent of village households represented.

3. Focus group discussions by the working groups at the village level. The working groups will hold focus group discussions with: (i) women, (ii) youth, (iii) elderly people, (iv) mixed groups, (vi) groups divided by profession. The focus groups will identify, discuss and prioritize communities' needs. The results of the focus groups are discussed and priorities are ranked at village meetings.

4. Ayil Aimak contest. The priorities proposed by every village in the territory of an ayil aimak (AA) are evaluated by the AA selection committee. The list of sub-projects and micro-project grants ranked by the AA selection committee is reviewed and approved by the local council (Ayil Kenesh-AK). AAs interested in participating in VIP3 activities need to confirm its intention by submitting an official letter to ARIS.

5. Preparation of local development strategy and investment plan. Based on the previously ranked list of priorities and projects, the working group prepares a local area development strategy and investment plan.

(ii) Training: The training will be done in three cycles over the project's life and will aim to cover all of the 266 AAs in the 4 northern regions of the country. However, the level and subjects of the training sessions will depend on whether an AA is interested in participating in the project as indicated in letters of commitment that will be submitted by the local governments to ARIS. There are two sets of training modules: general and specialized.

- *General training modules* consist of the following subjects: (i) local governance legal framework, (ii) local budgeting, (iii) economic forecasting, (iv) municipal property management, (v) government procurement of goods, (vi) works and services, and (vii) conflict management. The general training modules are targeted at all communities, local administrations and local councilors.
- *Specialized training modules* are more detailed, aimed at addressing specific project needs and are comprised of the following subjects: (i) participatory rural appraisal and ayil aimak profiling; (ii) local area development strategy and investment plan; (iii) how to prepare project Proposals for subprojects/micro-projects; (iv) environmental and social assessment and impact mitigation; (v) use of checklists, (vi) procurement of goods, (vii) works and services; (viii) participatory monitoring and evaluation; and (ix) operations and maintenance. The target groups for these trainings are the members of the Community Working Groups, Participatory M&E Groups, and Tender committees. For the O&M training, the head of the AO and relevant staff within the AO will attend the training, as they are going to be representing the owner and be responsible for O&M activities.

The 1.4 million dollar SPF-funded grant will finance the first cycle of social mobilization and training activities. Special attention will be paid to the participation of women in training sessions: (30 percent of community trainees will be female; and at least 30 percent of community members in working groups will be women.) ARIS will closely track gender representation in trainings and working groups as part of the project M&E process. Data on participation in trainings and quiz scores obtained will be gender-disaggregated.

(iii) Peer-to-peer Learning: Exchange visits will be organized among communities, local councils and local administrations to learn good practices in participatory governance and local development. Visits will be encouraged across different ethnic groups and across northern and southern populations as a means to promote social cohesion among areas that have faced tensions and violence in the last few years. Through peer-to-peer learning, the project will seek to facilitate an exchange between localities that have received training under JSDF pilot program in Chui and Talas Provinces, and new localities that will be covered under VIP3.

Component 2: Village Investments (\$ 8.6 million)

VIP3 will be divided into at least three cycles during its implementation period. *Ayil Aymaks* can apply for two types of funding provided through a competitive selection process:

- **Sub-Grants for sub-projects** (more than \$20,000): Funding for sub-projects may cover new construction, reconstruction, and major rehabilitation works. Although sub-

projects will not have a specific size or fiduciary cap¹², there will be at least two sub-projects per *oblast* per cycle (or one sub-project that encompasses at least two *ayil aimaks*). Sub-project funding will make up 80 percent of the overall funding allocated to community. Since sub-project will likely be significantly large in value and scope of works, additional implementation support shall be provided by ARIS. While all community development support officers will have a basic knowledge in the technical feasibility of implementing projects, provincial (*oblast*) level engineers will engage communities that are selected to receive sub-project funding to support with the planning process and to begin developing an operations and maintenance strategy.

The implementation supervision for sub-projects will be robust with a permanent third party construction supervision engineer (assigned by an independent firm) and an *ayil okmotu* assigned construction specialist providing support (at the expense of the AO). In addition, ARIS *oblast* level engineers will provide spot checks and engineers (senior engineer, detailed design engineer, and environmental/safety engineer) from the ARIS central office will conduct inspections at major milestones or unannounced spot checks. Both ARIS staff and community participants will take part in the tendering of designs and construction companies. ARIS *oblast* level staff will be responsible for assisting the AOs with the implementation of the operations and maintenance (O&M) plan, which shall include identification of a suitable owner's representative (*lengthman*) to perform routine maintenance activities and to contract major repair needs, development of a financing plan, as well as the execution of the technical plan.

- **Small-Grants for micro-projects** (\$20,000 or less): Grants for micro-projects will only be available to *ayil aimaks* that are classified by the central government as “subsidized” (i.e., they do not have budget for either capital expenditures or to meet their running costs). Grants for micro-projects will fund repair works, beautification (landscaping, painting, etc.), and upgrading of facilities (procurement of new furniture, athletic equipment, information and communication technology, etc.). Grants for micro-projects may consist of one or several smaller micro-projects, but their total combined amount will not exceed \$20,000. Micro-project grant funding will make up 20 percent of the overall funding allocated to community.

While micro-projects will not be as large as sub-projects in value or scope, the implementation of grants for micro-projects will allow ARIS to build technical capacity amongst the AOs and local communities for construction, supervision, as well as operations and maintenance for sustainable development. Provincial/*oblast* level engineers will be responsible for conducting screenings of the proposed projects after communities are awarded to micro-project to ensure their technical feasibility (in addition to community development support officers who will assist communities during the development of the micro-project grant proposals). It is not anticipated that detailed designs will be necessary, as the scope of works will include primarily minor repairs and procurement of goods; however, both ARIS and local community members will be jointly responsible for tendering contracts or procuring goods (in line with the Bank procurement guidelines). During any works, the AO will be responsible (at their own expense) for assigning a construction supervisor for daily monitoring and approval

¹² A maximum ceiling will not be imposed in order to prevent a scenario where costs of a requested infrastructure need are under-budgeted or over-budgeted in order to fit a certain pre-identified amount. However, the rule of “at least 2 sub-projects per *oblast* per cycle” is introduced in the project in order to avoid a situation where the entire amount allocated for sub-projects per cycle is used for a single large project.

needs. In addition, the ARIS provincial engineer will perform spot checks to ensure quality and report to ARIS central office engineers on progress of repair works, installation of equipment and furniture, quality of works or goods, as well as problems encountered. ARIS oblast level staff will be available to assist as needed the AOs with the implementation of the operations and maintenance plan, which shall include identification of a suitable owner's representative (lengthman) to perform routine maintenance activities and to contract major repair needs, development of a financing plan, as well as the execution of the technical plan. It can be anticipated that the facility where the investment will be made was not previously operated and maintained appropriately, therefore it will be of paramount importance to ensure that the existing asset is in proper working order prior to initiating the O&M strategy.

IV. Selection Process for Investments

Interested community groups representing the AAs will complete an application package which will be ranked and scored by an oblast level selection committee and sub-projects will be vetted by a national-level committee.

Eligible AAs can compete for grants in three different ways:

- Only for sub-projects (available to all AAs)
- Only for micro-projects (available to subsidized AAs only)¹³
- For both of sub-projects and micro-projects (available to subsidized AAs only).

Participating AAs will be judged against a set of criteria, and those ranked highest will have their priorities funded. In an effort to promote a "pro poor agenda" in line with the World Bank's twin goals, the criteria have "weights" to ensure the needs of poorer and/or more geographically isolated municipalities are given priority if their proposals are equally as suitable compared to other AAs. The application packages will be evaluated first by the oblast selection committee and once the financing envelope for sub-projects is exhausted, the oblast committee would re-rank the AA's packages. First, the selection committee will remove the AAs that were awarded sub-projects and proposal packages received by non-subsidized AAs. The committee will then score the remaining packages to distribute the micro projects using the same social criteria as sub projects, and simplified technical criteria.

Selection Committees:

- *Oblast level Committee.* The oblast level selection committees will consist of a representative of the Prime Minister's plenipotentiary's Office of a relevant oblast; nongovernmental organizations of relevant oblasts and an ARIS representative for coordination and facilitation purposes (non-voting member). The purpose of the oblast level selection committees is threefold:
(i) to score submitted proposals relying on a set of selection criteria; (ii) to tabulate all scores; and (iii) to recommend to the national/republican selection committee the highest-scoring proposals for the award of sub-project funding. The selection of grants for micro-projects will be finalized at the Oblast committee.

¹³ An AA may only receive either a sub-project or micro-project grant during any given cycle. In the case that the AA receives a sub-project during the first or second cycles, it will not be eligible for another sub-project or a micro-project grant in the subsequent cycles. In the case that the AA receives a micro-project grant, it will be eligible for a sub-project in subsequent cycles.

- *National-level (Republican) Committee.* The national level selection committee will consist of relevant line ministries, the Agency for Local Self-Government, other central government agencies involved in community driven development, and nongovernmental organization representatives. There will be an ARIS representative in this committee as well for coordination and facilitation purposes. The role of national level committee will be threefold: (i) to ascertain that the selected sub-projects are not already being financed through other sources, (ii) to ensure that adequate resources are provided for the rehabilitated/reconstructed infrastructure (including budget for operation and maintenance costs if needed, so that they are fully functioning and sustainable facilities, providing services to the community (at this stage, participating communities will receive a memorandum of understanding from the relevant line ministry), (iii) to confirm the decisions of oblast-level committees awarding sub-projects to highest-scoring applicants.

Selection Criteria

For those AAs seeking to obtain sub-project funding, the application packages will be ranked according to four sets of criteria, 1) well-being of AAs, 2) community mobilization, 3) quality of the development strategy; and 4) quality of the sub-project/or micro-project proposal. The same social criteria will be used for both sub-projects and micro-projects. However, micro-project(s) proposed as part of the micro-project grant package will be evaluated based on simpler technical criteria, compared to the sub-projects, given that micro-project grants will be used for minor rehabilitation, beautification, purchasing equipment, etc.

Table 1: Overview of Selection Criteria for Sub-projects and Small-grants

Type	Criteria Description	Weight
<i>Social Criteria</i>	Well-being” of AA: measured by the <i>ayil okmotus</i> ’ access to fiscal capital and the remoteness of <i>ayil aimaks</i> (The most remote AAs and the highest subsidized AAs will get higher scores, in order to ensure that the VIP3 activities are reaching the poorest and the most vulnerable communities.	15 percent of total score
	“Community Mobilization: measured by the <i>aiyl aimaks</i> ’ ability to mobilize and train various stakeholders	25 percent of score
	Development strategy; which evaluate the quality of <i>aiyl aimaks</i> ’ overall local development strategies	30 percent of total score
<i>Technical Criteria</i>	Sub-project proposal: which assesses the quality of proposed sub-projects with special emphasis on their technical aspects and prospects for long-term sustainability	30 percent of total score
	Micro-project proposal: will be evaluated based on relevance (e.g. how it addresses the prioritized needs), coverage (e.g. number of direct and secondary beneficiaries), and sustainability (e.g., what is the amount allocated to O&M and who will pay for it).	30 percent of the score

The project will require a minimum of 3.75 percent community co-financing for both sub-project and micro-project grants. The ayl aimaks will be encouraged to collect more than this amount, and will get higher scores in the selection criteria if they are able to. Co-financing can

come from the AO budget, from the community, or any combination of sources. Co-financing from the *ayil aymak* will be on top of the grant amount obtained out of IDA funding. AAs that received financing for sub-projects will be excluded from the following cycles to provide more opportunities for those AA that have not previously received financing to address capital construction or rehabilitation projects.

Component 3: Project Management (\$1.2 million)

This component will finance the costs of the implementing agency for project management, specifically coordination and supervision of implementation activities, financial management, annual audits, and monitoring and evaluation.

The management and coordination of this project will be the responsibility of a small dedicated project management team established within the implementing agency, ARIS. The team will be responsible for preparing work plans and operation manuals, managing the budget, managing relations with local authorities and communities, developing terms of references for the necessary consultancies, and overseeing and providing support for project activities. In addition, the team will be responsible for tracking the progress of the project, carrying out semi- annual assessments of outcomes and results, and communicating and reporting regularly on the progress of the project to relevant audiences.

Annex 3: Implementation Arrangements

KYRGYZ REPUBLIC: Third Village Investment Project

Project Institutional and Implementation Arrangements

The Kyrgyz Republic will be the recipient of the proposed IDA funds. The Ministry of Finance will be the official borrower and the Community Development and Investment Agency (ARIS) has been designated as the executing agency for the project. It will manage the day-to-day management of the project, and ensure that project implementation is conducted in a timely and quality manner, in accordance with the legal agreement and with due attention to all project requirements and procedures.

ARIS was established in 2003 as an autonomous non-governmental agency with an independent board to support investments in rural communities. In addition to being the main agency for community engagement in the Kyrgyz Republic, ARIS has significant experience in managing donor-funded projects including the first and second Village Investment Project. The agency enjoys a high level of credibility in the country, has adequate staff and management capacity, and an extensive network of partnerships with local agencies and NGOs in Kyrgyz Republic. Based on its experience with the Village Investment Projects, it is the only organization in the country at present that is able to carry out CDD activities on a large scale.

ARIS has a dedicated capacity-building staff and all the project training activities will be provided under the supervision of ARIS. It has received funding through a previous grant to establish training centers and the project will utilize this infrastructure. However, local trainers will be hired as required, especially on more technical topics.

A Project Coordinator will also be hired to work within ARIS, and will have responsibility for managing the project. An additional 1-2 staff will be recruited to manage the implementation of grant activities as required, including coordination of the capacity building and training activities.

Financial Management, Disbursements and Procurement

Implementing Entity ARIS will be responsible for implementing the financial management (FM) function of the Project, including the flow of funds, budgeting, accounting, reporting, internal controls and external audit. FM assessment was carried out to determine the FM implementation risk and the FM arrangements at the implementing agency, including accounting, reporting, planning, budgeting, internal controls and staffing. FM arrangements were assessed to be satisfactory to the Bank. The inherent FM risk of the Project after applying risk mitigation measures is rated as *Moderate*; the Control Risk and the overall residual FM Risk are also considered to be *Moderate*.

Strengths and Weaknesses. Significant strengths provide a basis for reliance on the project financial management system including the following: (i) significant experience of ARIS FM staff in implementing Bank-financed projects over several past years; (ii) adequate accounting software utilized by ARIS; (iii) FM arrangements under active projects are satisfactory, and (iv) unmodified audit reports issued on ongoing projects' financial statements confirms this fact. No significant weaknesses were identified at ARIS. The following capacity building actions have been agreed to be implemented:

Actions for capacity building	Responsible	Completion date
Update the FM Chapter of the Project Operational Manual to reflect VIP3 related internal control, budgeting, external auditing, financial reporting and accounting policies and procedures	ARIS	By effectiveness
Modify existing accounting software for accounting and financial reporting purposes of VIP3. The accounting software will be specially designed to meet World-Bank-financed projects requirements including ability to generate IFRs, withdrawal applications, SOEs, and annual financial statements	ARIS	30 days after effectiveness

Budgeting and Planning. ARIS has acceptable budgeting and planning capacity for VIP3. The annual budget of VIP3 will be based on the final procurement plan that is to be discussed and agreed with ARIS Director and cleared by the World Bank. All changes to the procurement plan will be reviewed by the Director and cleared by the World Bank. The Director/Project Coordinator, the FM specialist, technical specialists of the project and the procurement specialist will be involved in preparation of the annual budget for their respective components. The budget is cleared by the MOF and the Bank and approved by the Executive Director of the ARIS. The budget will form a basis for allocating funds to project activities and requesting counterpart funds from the Government, where appropriate. However, a budget is not suitable for the planning figures of the IFR. Therefore it was agreed that ARIS will prepare kind of Disbursement Plan based on approved Procurement Plan. The Disbursement Plan will be prepared according to the IFR format (disbursement categories, components and activities, account codes, and broken down by quarter) and will be used for calculation of IFR planned figures.

Accounting and Reporting. The cash basis of accounting will be applied for the project's accounting. ARIS will maintain a current accounting system. Project-management-oriented Interim unaudited Financial Reports (IFRs) will be prepared under VIP3. ARIS will produce and submit to the Bank a full set of IFRs every calendar quarter throughout the life of VIP3. The format of IFRs will be agreed before negotiations and will include (i) Project Sources and Uses of Funds, (ii) Uses of Funds by Project Activities, (iii) Designated Account Statement, (iv) Project Balance Sheet and (v) a Statement of Expenditure Withdrawal Schedule. IFRs will be produced by the accounting software. These financial reports will be submitted to the Bank within 45 days of the end of each calendar quarter. The project's annual audited financial statements and audit report together with the management letter will be provided to the Bank within six months of the end of each fiscal year and also at the closing of the VIP3 by ARIS.

Internal Controls. The ARIS internal control system was assessed in to be capable of providing timely information and reporting on VIP3. The FM chapter of the Operational Manual (OM) is well prepared and fully documents accounting and financial reporting policies and procedures of ongoing projects, such as: internal control procedures, including authorization of expenditures and approval of the payments; bank reconciliations: verification of expenditures' eligibility by the Financial Manager; description of financial documents flow/circulation; indication of eligible cash transactions; budgeting procedures; formal

reconciliation procedures of project records with Client Connection and XDR/USD reconciliation; safeguards for assets, etc. Similar internal control systems will be maintained for the purpose of the proposed project. Expenditures incurred by ARIS will be authorized by the Director and verified for eligibility and accuracy by the Financial Managers. The existing FM Chapter of the Operational Manual will be updated to reflect the specific activities of VIP3, including Chart of Accounts, Audit TOR, frequency of submission, format of IFRs, and so forth.

Staffing. ARIS has experienced FM staff, headed by the Financial Manager responsible for overall FM arrangements of all projects, implemented by the agency. The Financial Manager has prior many years’ experience working in the WB-financed projects. The FM Manager will be in charge of the overall FM arrangements of VIP3 as well. There are also two experienced disbursement specialists at the ARIS as well two accountant and the assistant of the financial manager. This arrangement is considered to be adequate; no further actions are required in ARIS.

External Audit: VIP3 will be conducted (i) by independent private auditors acceptable to the Bank, on TORs acceptable to the Bank, and selected by ARIS; and (ii) according to the ISA issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. The TOR will include (i) audits of financial statements, (ii) assessments of the accounting system, and (iii) a review of the internal control mechanisms. The following table identifies the required audit reports that will be submitted by the PIU together with the due date for submission.

Audit Report	Due date
VIP3 Financial Statements include Project Sources and Uses of Funds, Uses of Funds by Project Activities, Project Balance Sheet, SOE Withdrawal Schedule, DA Statement, Notes to the Financial Statements, and Reconciliation Statement.	Within 6 months of the end of each fiscal year and also at the closing of VIP3.

The audited financial statements will be disclosed to the public in a manner acceptable to the World Bank. Following the Bank’s formal receipt of these statements from the borrower, the Bank makes them available to the public in accordance with the World Bank Policy on Access to Information.

Disbursements

Disbursements from the IDA Grant and Credit Account will follow the transaction-based method, i.e., traditional Bank procedures: including advances to designated accounts, direct payments, Special Commitments and reimbursement (with full documentation and against Statements of Expenditures - SOEs). The separate designated account will be opened in a commercial bank acceptable to the Bank. For payments above the minimum application size, as will be specified in the Disbursement Letter, each implementing agencies may submit withdrawal applications to the Bank for payments to suppliers and consultants directly from the Grant Account. Disbursement arrangements will be detailed in the Disbursement Letter.

Procurement

Overall, the public procurement environment in the country is improving as the Public Procurement Department (PPD) under the Ministry of Finance has revised the Public Procurement Law (PPL) and the draft PPL is pending Parliamentary Approval. The draft PPL will create an independent complaint review commission and PPD will become a regulatory body for public procurement. The Bank is supporting the institutional development of PPD and the complaint review commission, as well as capacity building of all stakeholders. The Government is developing e-GP with the Bank TA and ADB financing.

Procurement activities will be carried out by the ARIS which was established in October 2003 and has been effectively managing procurement activities under the ongoing VIP2 (with two additional financings) as well as the Second Rural Water Supply Project and Bishkek Osh Urban Infrastructure project. ARIS will have overall responsibility for procurement under the project. ARIS has a main office in Bishkek and seven oblast offices ensuring adequate coverage nationwide. The main office of ARIS is staffed by four well-qualified and experienced procurement specialists. The ARIS procurement specialist will provide administrative and technical support for ARIS staff and the Community Development Support Officers (CDSOs) working in the fields.

Summary of Risks and Risk Mitigation Measures: Procurement capacity and risks were assessed using the Procurement Risk Assessment and Management System (PRAMS), and the Procurement Capacity Assessment Report has been filed in the PRAMS. The key issues and risks concerning procurement for implementation of the project include: (i) potential risk of delays in the implementation of the project due to the complexity of procurement processes and decision-making that involve Local Self-Governments (LSGs); (ii) inadequate capacity to conduct procurements based on World Bank Procurement and Consultant Guidelines; (iii) insufficient contract monitoring and management skills; (iv) inadequate accountability and oversight for procurement decisions. Given the findings of the assessments, the initial overall procurement risk under the project is assessed as “*substantial*”.

Procurement for the proposed Project be carried out in accordance with Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (revised July 2014) and “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (revised July 2014). The various items under different expenditure categories are described in general below. For each contract to be financed by the Project, the different procurement methods or consultant selection methods, estimated costs, prior review requirements, and time frame are agreed between the Recipient and the Bank in the Procurement Plan.

Under the village investments component, the Project will finance two different grant types: (i) sub-project grants, which will be larger in scope and will likely include new construction, reconstruction, and major rehabilitation works; and (ii) micro-project grants (maximum US\$20,000). The envelope may consist of one or more micro-projects, which will be much smaller in nature and will likely include repair works, rehabilitation and upgrading of facilities. The procurement by LSGs financed out of micro-project grants will be in accordance with the provisions applicable for Community Participation in Procurement (CPP) as defined in para. 3.19 of Procurement Guidelines and described in detail in the Community Handbook. These procedures will be in line with the Guidance Note for Design and Management of

Procurement Responsibilities in Community-Driven Development Projects, dated March 15, 2012.

Procurement of Works. Works procured under the project would be done under sub-projects and micro-projects indicated above. While procurement for sub-projects will be handled by ARIS, procurement under micro-projects will be delegated to LSG bodies. The procurement will be done using appropriate Standard Bidding Documents (SBD) agreed with the Bank. The SBD shall contain a draft contract and conditions of contract acceptable to the Bank. *National Competitive Bidding* (NCB) will be used for civil works contracts estimated to cost more than US\$ 50,000. *Shopping for Minor Works* will be used for civil works contracts estimated to cost US\$ 50,000 or less. The procurement of works financed out of micro-projects will be described in detail in the Community Handbook.

Procurement of Goods. Goods procured under this project would include some office equipment and furnishings, several vehicles publishing reference book for AO and AK, and operational consumables. The procurement will be done using appropriate form of Invitation to Quote (ITQ) agreed with the Bank. The ITQ shall contain draft contract and conditions of contract acceptable to the Bank. *Shopping* will be used for goods contracts estimated to cost less than US\$100,000 per contract. Procurement under sub projects and micro-projects may also include procurement of goods. Procurement of goods under sub-projects will be handled by ARIS and procurement of goods under micro-projects will be delegated to LSGs. The procurement of goods financed out of small-grants will be described in detail in the Community Handbook.

(a) ARIS Head Office: The Bid Evaluation Committees (tender committees) are established by the ARIS Executive Director. A separate Bid Evaluation Committee is set up for any specific procurement by the order of the ARIS Executive Director. Notification about the contract awarding is made on behalf of the ARIS Executive Director and the Project Coordinator. Contracts are signed by the ARIS Executive Director or a person to whom these authorities were delegated. The Bid Evaluation Committee should include Project staff members, specialists competent in the sphere related to goods, works or consulting services to be procured.

(b) Tender Committees under subprojects: Tender Committees are established by the ARIS Executive Director. A separate Tender Committee is set up for any specific procurement by the order of the ARIS. Each Tender Committee will include representatives of LSG bodies (the head of the Aiyl Okmotu), a representative of direct beneficiaries, and staff members of the ARIS oblast office (as facilitators. It should also include a specialist in the relevant field related to the subject of procurement and other persons appointed to participate in the procurement procedures.

(c) Tender Committees under micro-projects: Tender Committees for implementation of micro-projects are established by the order of local government (AO) head. The committee should include representatives of AO, a specialist in the relevant sphere, a certified procurement officer, a representative of the beneficiary and others. AO is fully responsible for micro projects implementation, including conducting bidding, contracting, technical supervision, inspection and acceptance of goods and works.

Procurement of non-consulting services is not anticipated.

Selection of Consultants. Some of the staff deployed by ARIS will continue to be employed under ongoing consultancy contracts. All updated TORs and draft contracts for ARIS key staff, which will remain from the previous project, shall be reviewed by the Bank's team. In addition, ARIS will hire consulting firms for preparation of detail designs, technical supervision, 3rd Party QA/QC Consultant and technical/financial audits. Short lists of consultants for services estimated to cost less than US\$300,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.6 of the Consultant Guidelines.

Training and Operational Costs. The project will finance the operating costs of ARIS attributable to VIP3 (headquarters, regional and oblast offices, and field staff), comprising mainly salaries and fees, office operations, travel and subsistence expenses. These will be procured using the existing administrative procedures of ARIS which were reviewed and found acceptable to the Bank. ARIS will prepare annual operational budget for the Bank team's review and clearance.

Delegation of the Procurement Function for Community Micro-Projects. The execution of procurement for micro-projects will be delegated to LSGs. Procurement responsibilities, procedures and sample documentation are described in detail in the Operational Manual (OM) and in the Community Procurement Handbook. The detailed Community Procurement Handbook was prepared and used under VIP2; it is provided to communities that receive grants for micro-projects. The procurement of Goods, Works and Services will be done at the LSG level, inviting micro-project groups (MPGs). The micro-projects will include the procurement of goods, works, consultant services and training. The MPGs will manage micro-project implementation. They will receive support from, and be supervised by, ARIS through its Community Development Support Officers (CDSOs). The procurement activities of LSGs will be governed by the OM and the Community Procurement Handbook which set forth the procedures to be used. These procedures will be harmonized with public procurement procedures to ensure sustainable capacity building. They require local advertisement and public bid opening, using the sample bidding documents and standard contract forms developed for community procurement for micro-projects (and included in the OM and the Community Procurement Handbook).

Each LSG will allocate a part of its public information board for posting information on contract awards, including the name of each vendor who submitted a quotation, prices as read out at public opening, name and evaluated prices of each quotation that was evaluated, name of vendors who were rejected and the reasons for rejection, the name of the winning vendor and the price it offered, as well as duration and summary of the scope of the contract award. All contracts awarded through direct contracting (irrespective of the amount) shall be listed on the information board.

Risk Assessment and Mitigation Measures. Given the findings of the assessment, the initial overall procurement risk under the project is assessed as "*substantial*". To mitigate the identified procurement-related risks, the following mitigation actions are suggested:

	Actions	Deadline
1.	Training of staff involved in the project procurement activities in Bank's Procurement and Consultant Guidelines and the public procurement	Ongoing
2.	Preparation of a project Operational Manual with a detailed chapter on procurement, including detailed description of procurement decision making processes and accountability for procurement decisions	By effectiveness
3.	Preparation of a detailed procurement plan for the first 18 months of the project and submission of updates as required	Appraisal and agreed by Negotiations
4.	Preparation of the bidding documents, terms of references and draft request for proposals for the first year of project implementation to facilitate the initiation of procurement as per the agreed Procurement Plan	Negotiations/first months of implementation
5.	Ensuring quality review of the both technical specifications/ terms of references, Bid Evaluation Reports and the final deliverables	Ongoing
6.	Putting in place an efficient contract monitoring mechanism designed to maximize overall value for money of contracting activities	Ongoing
7.	Regular procurement support during project implementation by Bank procurement staff.	Ongoing

It is expected that, after the above measures have been taken, the risk would be reduced to "Moderate".

Procurement Plan A draft procurement plan has been developed covering the above procurement activities and agreed at Negotiations. The plan will be updated periodically, at least once a year, and each update will be subject to World Bank prior review. The initial procurement plan as well as subsequent updates will be published on the World Bank's external web site in line with the requirements of World Bank Guidelines.

Disclosure: The following documents shall be disclosed on ARIS website: (i) procurement plan and updates, (ii) invitation for bids for goods and works for all ICB and NCB contracts, (iii) request for expression of interest for selection/hiring of consulting services for QCBS and LCS, (iv) contract awards of goods and works procured following ICB/NCB procedures, (v) short list of consultants(firms), (vi) contract award of all consultancy services (firms), (vii) list of contracts following DC, CQS or SSS on a quarterly basis.

The following details will be sent to the Bank for publishing on the Bank's external website and UNDB: (i) invitation for bids for procurement of goods and works using ICB procedures, (ii) request for expression of interest for consulting services with estimated cost more than \$300,000, (iii) contract award details of all procurement of goods and works using ICB procedure, (iv) contract award details of all consultancy services with estimated costs above \$300,000, and (v) list of contracts/purchase orders placed following SSS, CQS or DC procedures on a quarterly **basis**.

Additional Provisions for National Competitive Bidding: The standard provisions for NCB will be applied to all the NCB contracts in the Kyrgyz Republic as per Financing Agreement for the AF.

Procurement Thresholds: The thresholds for procurement methods and Bank's prior review thresholds will be the same as in the original project. Thresholds are noted below.

Table: Thresholds for Procurement Methods and Bank Prior Review

Expenditure Category	Contract Value (USD)	Procurement Method	Bank Prior Review
Civil Works	>= 5, 000 000	ICB	All ICB contracts
	< 5, 000,000	NCB	First contract
	<50 000	Shopping	First contract
	NA	DC	All
Goods	>= 1, 000 000	ICB	All ICB contracts
	<1, 000 000	NCB	First contract
	<100 000	Shopping	First contract
	NA	DC	All DC contracts
Consultant Services	NA	QCBS, QBS, FBS, LCS and CQS*	All contracts >= USD 300,000 for firms; all contracts >= USD 200,000 for individuals; and all SSS contracts above 5,000.
	NA	SSS	
	NA	IC	
<p>Notes: ICB – International Competitive Bidding NCB – National Competitive Bidding DC – Direct Contracting QCBS – Quality and Cost Based Selection QBS – Quality Based Selection FBS – Fixed Budget Selection LCS – Least Cost Selection *CQS – Selection Based on Consultants’ Qualification below \$300,000 depending on the nature of assignment SSS – Single (or Sole) Source Selection IC – Individual Consultant selection procedure NA – Not Applicable</p>			

Procurement Supervision

Procurement Supervision and Procurement Post Review will be based on the CDD Guidance Note, dated March 15, 2012. The external audit TOR will include verification of procurement processes, as per the Operational Manual and asset verification. These results will be further reviewed during field visits carried out by implementation support missions. The procurement post review will be carried out on a sample basis (15 percent in terms of number of contracts) by the procurement specialist based in the region/country office and one ex-post review report will be prepared per fiscal year, including findings of physical inspections for not less than 10 percent of the contracts awarded during the review period. In addition, two supervision missions are expected to take place per year. During supervision missions, the team will review results of external audit and summarize these findings in the Aide Memoire.

Environmental and Social Issues (including safeguards)

While the environmental impact of the proposed project will be largely positive, some adverse impacts may be generated. The identified positive environmental impacts of the Project include: (a) improved citizens’ skills and awareness in planning and implementation of local investments, with particular attention to environment protection; and (b) a sustainable

management of improved infrastructure by communities which brings environmental and social benefits in relation to the natural resources management.

The potential negative impacts that may result from implementation of the Project's activities are mainly related to the Component 2 – Village Investments and include: (a) increased pollution due to construction waste; (b) generation of dust, noise and vibration due to the movement of the construction vehicles and machinery; (c) associated risks due to improper disposal of construction waste, asbestos, minor operational or accidental spills of fuel and lubricants from the construction machinery, and (d) improper reinstatement of construction sites upon completion of works. All these potential environmental impacts are readily identifiable, small in scale and minimal in impact and can be effectively prevented, minimized or mitigated by measures identified in the Environmental Management Framework (EMF) prepared for the project, also known as Environmental Guidelines for Micro-Projects. Site-specific Environmental Management Plans (EMPs) will be prepared for each sub-project that will be implemented.

Overall, it is anticipated that the project will result in positive impacts on communities. Increased capacity to manage participatory development planning will strengthen community voice in development process. In addition, the provision of grants for sub projects and micro projects will improve access to infrastructure based on community identified priorities. Project design elements to ensure inclusion of youth and women in decision-making processes will contribute to the empowerment of these two groups, positively shift norms vis-à-vis women's voice, and, most immediately, increase the likelihood that investments will reflect the needs of women, girls, and youth. On the negative side, implementation of the sub-projects may result in changes in land use and the impacts of involuntary resettlement as detailed below.

A Resettlement Policy Framework (RPF) has been prepared and disclosed to mitigate the impacts of involuntary resettlement. The details of land acquisition are not yet known, given the demand-driven nature of the project, however it is anticipated that impacts will be relatively modest and the number of people impacted in any one sub-project few. Site-specific Resettlement Action Plans (RAPs) will be prepared for each sub-project. VIP3 will rule out any sub-project that will likely result in significant land acquisition/resettlement impact. In the context of this project, 'significant impact' refers to resettlement costs exceeding 1 percent of the sub-project cost.

VIP3 brings gender inclusion in its design in four ways. Firstly, the project requires a minimum 50 percent of beneficiaries to be women under Component 2 (village investment component). Secondly, VIP3 requires a minimum 30 percent participation of women in capacity building activities under Component 1. Thirdly, the project team will include female-only focus group discussions as part of social mobilization activities in order to capture the specific needs of women in local governance as well as their infrastructure service needs (under Component 1). And fourthly, the project will capture the specific impact of the project activities on men and women separately by collecting gender-segregated data. Overall, it is envisioned that these measures will contribute to providing more space for female voices, will provide women with the opportunity to perform their roles as citizens, and will influence development priorities in ways that reflect the needs of women and girls. ARIS is also adopting changes to increase women's role in the decision-making process within ARIS. Women now make up thirty-four percent of approximately 100 ARIS employees, and they predominantly play supporting roles (as financial managers, procurement specialists, HR specialist, translators, project assistants). ARIS is trying to increase the number of women at various

levels. For example, in 2014, ARIS management appointed a female employee as deputy director of ARIS, promoted a female office manager to be a Specialist on Monitoring and Assessment of Projects, and hired three female field staff. ARIS will hire a gender specialist for VIP3.

Monitoring & Evaluation

Under VIP 2, ARIS finalized the development of an operational M&E system. The system is based on Management and Information System (MIS), which uses popular and well-known Russian (modular) software called '1C'. The various modules of this software can cover such areas as: finance, project monitoring, auditing, engineering and HR management. This program is also used for accounting. The MIS and the accounting systems are fully interlinked and used at all necessary levels.

For VIP3, the M&E structure has been revised based on the existing MIS. For VIP3, data will be regularly and continuously collected in the field by ARIS community development officers (CDSOs), the Project offices at oblast and HQ level on social mobilization, investments (sub-projects and micro-projects) and training. Data will also come automatically from accounting records. All of this information will then be used for tracking and calculating the agreed indicators (and targets) indicated in the Results Framework.

The VIP3 M&E approach will incorporate both qualitative and quantitative methods to gauge project-induced changes. The project will promote disaggregation of data by gender for certain indicators as listed in the Results Framework.

Monitoring and evaluation of project activities will include the following:

- An inception survey will be conducted for the purpose of establishing gender-disaggregated baselines for the indicators to be monitored
- A general training needs assessment will be prepared to test the current knowledge and skills of local governments in developing local development plans.
- Quarterly implementation progress reports will be prepared and submitted to the World Bank, including updates on PDO and intermediate indicators as per the Results Framework. The details on performance indicators, target values, data collection, and reporting methods are presented in Annex 1.
- Descriptive semi-annual reports will be prepared by ARIS to explain in details the implementation progress.
- A completion survey incorporating baseline, monitoring, and ongoing research data will be conducted to understand project results at the end of the project.

Role of Partners

Parallel financing in the amount of US\$1.4 million will be provided by an SPF grant to finance the first cycle of Component 1 activities. In addition, 5.5 million Euros will be provided by KfW, a German government-owned development bank, targeting the three southern regions of Osh, Jalalabad and Batken. The projects financed by the Bank and KfW will both be using the same operational manual. The KfW-funded project started in November 2014. This will provide an opportunity to test Component 1 project activities, before the Bank-financed VIP3 activities start, and adjustments will be made in the OM, if necessary, before effectiveness of the IDA financing for VIP3. The project team maintains close collaboration with all key actors in the country, financing and/or implementing local governance initiatives in order to enhance

synergies and avoid duplications. It is possible that over the life of the project additional donor financing may be mobilized, in which case VIP3 funding could be expanded, or other parallel projects could be carried out, using the principle of sharing a common approach and OM.

**Annex 4: Operational Risk Assessment Framework (ORAF)
Kyrgyz Republic: Third Village Investment Project (P146970)**

. 1. Project Stakeholder Risks					
1.1. Stakeholder Risk	Rating	Moderate			
<p>Description:</p> <p>1. Risk of anti-government protests (similar to the April 2010 uprising)</p> <p>2. Distribution of project benefits may be uneven and strengthen the divide between wealthy and low-income municipalities.</p> <p>3. There is a risk of capture of VIP3-generated benefits by national and local-level formal and informal interest groups.</p>	Risk Management:				
	<p>1. The current political system (whereby the power is equitably distributed among main government branches) has demonstrated the capacity to withstand political pressures and crises (including protests by opposition groups, the dissolution and formation of several cabinets in 2012 and 2013). Thus far, the Kyrgyz law enforcement agencies have also demonstrated their capacity to maintain law and order.</p> <p>2. To mitigate these risks, ARIS will rely on various surveys and statistical data in community selection for inclusion in the VIP3 (official Kyrgyz poverty statistics). ARIS will ensure an inclusive and geographically equitable roll-out of project activities so that specific geographic areas and communities would not disproportionately benefit from project activities. While subsidized municipalities can apply to both grant windows. The micro-project grants will only be open to poorer municipalities.</p> <p>3. The Bank has strict fiduciary policies that all project stakeholders are required to follow, and they are subject to systematic audits. On average, 70 people are required in public hearings to ensure participatory nature of decisions. Community members who suspect corruption or elite capture can contact ARIS through ARIS hotline or through ARIS' community mobilizers. ARIS will also rely on cross-checking and "peer auditing" by community members (which were effectively used by ARIS under VIP1 and VIP2) to improve community capacity and compliance with financial and procurement management guidelines.</p>				
	Resp:	Stage:	Recurrent:	Due Date:	Frequency:
	Both	Both	<input checked="" type="checkbox"/>		
2. Implementing Agency Risks (including fiduciary)					
2.1. Capacity	Rating	Moderate			
Description:	Risk Management:				

<p>Project success is dependent on the professional project performance of the project implementing partner ARIS.</p>	<p>Implementing partner ARIS has a very strong reputation in the Kyrgyz Republic, and significant experience implementing IDA and other donor projects in rural areas. Over the last decade ARIS implemented the first and second phases of the Village Investment Project. Since 2011 The World Bank in collaboration with ARIS has been piloting an approach to participatory governance and capacity-building with local communities is currently managing 5 Bank-funded projects. The 2014 institutional assessment of ARIS has demonstrated that ARIS has strong World Bank fiduciary and safeguards capacity.</p>				
	<p>Resp: Both</p>	<p>Stage: Implementation</p>	<p>Recurrent: <input checked="" type="checkbox"/></p>	<p>Due Date:</p>	<p>Frequency: Continuous</p>
<p>2.2. Governance</p>	<p>Rating</p>	<p>Moderate</p>			
<p>Description: There is a risk that ARIS executives will be replaced by Kyrgyz government (under pressure from political and economic interest groups). The change in ARIS leadership may delay project implementation.</p>	<p>Risk Management: Currently the organizational structure of ARIS is adequate, and responsibilities are clearly defined at all levels. Officially, ARIS is a non-governmental entity (which means that the Kyrgyz government’s capacity to influence appointments within ARIS is limited). In keeping with ARIS’ bylaws, the current Executive Director was selected through a competitive process, which was approved by the ARIS donors. The Bank team will closely track country-level sociopolitical changes, though the capacity to mitigate impacts remains limited.</p>				
	<p>Resp: Both</p>	<p>Stage: Implementation</p>	<p>Recurrent: <input checked="" type="checkbox"/></p>	<p>Due Date:</p>	<p>Frequency: Continuous</p>
<p>3. Project Risks</p>					
<p>3.1. Design</p>	<p>Rating</p>	<p>Moderate</p>			
<p>Description: Quality of technical designs may be inadequate resulting in cost overruns /change orders</p>	<p>Risk Management: Detailed designs and cost estimates will be prepared by qualified consultants. A Bank specialist will undertake spot checks and assess the capacity of the measures built into the project. Physical and price contingencies will be included in cost estimates. There will be multiple layer of supervision, including a firm that will be hired, in addition to oblast-level engineers when needed.</p>				
	<p>Resp:</p>	<p>Stage:</p>	<p>Recurrent:</p>	<p>Due Date:</p>	<p>Frequency:</p>

Technical risks in complex sub-projects	Both	Implementation	<input checked="" type="checkbox"/>		Per project cycle
3.2. Social and Environmental	Rating	Moderate			
Description: The project may trigger unexpected environmental or social risks, especially in the larger sub-projects. Exclusion of women as participants and beneficiaries.	<p>Risk Management: ARIS has significantly enhanced its capacity to screen for involuntary land acquisition issues and no cases of involuntary land acquisition have emerged in the previous VIP projects. VIP3 prepared a comprehensive Environmental Management Plan, and detailed Environmental Guidelines for sub-project implementation included in the Operational Manual Bank safeguard specialists will monitor compliance during implementation. An experienced safeguards specialist has been assigned to the project.</p> <p>The project includes a requirement of a minimum of 30 percent participation of women in capacity building activities and in the local level decision making processes. In addition, the capacity building activities (financed under Component 1) are to be designed in a gender sensitive manner and will include training in participatory and inclusive planning. ARIS will support community mobilization specifically that of women through field officers. The project will monitor the extent to which women participate in the project (see results framework for details).</p>				
	Resp: Both	Stage: Implementation	Recurrent: <input checked="" type="checkbox"/>	Due Date:	Frequency: Annual
3.3. Program and Donor	Rating	Moderate			
Description: Insufficient donor coordination may lead to duplication of activities.	<p>Risk Management: The VIP3 team closely coordinates with other Bank project teams that have ARIS as an implementing agency to ensure the use of shared staff capacities and other resources is well managed. The VIP3 team holds regular discussions with other donors to ensure close coordination and prevent duplication of activities. ARIS participates in regular meetings of donors and stakeholders in local government capacity- building activities. A strong ongoing collaboration with other potential donors will be maintained to ensure all streams of financing continue to contribute to a consolidated implementation of the project.</p>				
	Resp: Bank	Stage: Implementation	Recurrent: <input checked="" type="checkbox"/>	Due Date:	Frequency: Continuous

3.4. Delivery Monitoring and Sustainability	Rating	Moderate			
<p>Description:</p> <p>The PIU may not have adequate capacity to monitor technically complex works. Communities and local government may have difficulty in maintaining infrastructure.</p>	<p>Risk Management:</p> <p>The project will hire an independent third party firm to supervise sub-projects, supported by Oblast level engineers whenever necessary. The task team will include a civil engineer experienced in providing implementation support to community-driven projects. He will pay periodic visits to the project sites.</p>				
	Resp: Client	Stage: Implementation	Recurrent: <input checked="" type="checkbox"/>	Due Date:	Frequency: Continuous
Overall Risk					
Overall Implementation Risk			Moderate		

Annex 5: Implementation Support Plan
Kyrgyz Republic: Third Village Investment Project

Strategy and Approach for Implementation Support

1. The Implementation Support Plan (ISP) describes how the Bank will assist the client in achieving the expected results and mitigating risks identified in the ORAF. In particular, the ISP puts emphasis on accomplishing the following objectives: (i) 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; (ii) Ensure that the implementing agency's monitoring and evaluation measures meet the standards approved by the Bank, and where appropriate, complement the implementing agency's M&E system; And (iii) facilitate the timely implementation of the risk management measures identified in ORAF.
2. *Technical Implementation Support:* During the implementation phase, the task team will continue to engage an infrastructure engineer to ensure the technical quality of Component 2 outputs. The engineer, with extensive experience in rural infrastructure implementation, shall ensure the technical arrangements agreed upon with the implementation agency during project preparation and will build on lessons learned from VIP2, particularly those related to construction supervision and integration of sound operations and maintenance (O&M) practices. Prior to tender, the team engineer will be responsible for reviewing designs (all sub-projects and any micro-projects where the scope of work may present technical challenges during construction or the service phase). During the construction phase, the engineer shall provide supervision support to ensure the quality of works and safety as well as to advance discussions on O&M strategies that will be initiated by the implementation agency.
3. The team engineer will conduct bi-annual supervision missions throughout implementation. In addition to back office reviews of the designs, the engineer may provide in person reviews with the implementation agency's technical team and will carry out site visits where works are ongoing or where service recently commenced. All sub-projects shall be inspected at least once for technical quality while works are ongoing and/or soon after completion of construction (at least one sub-project per oblast per cycle will be visited during the construction/rehabilitation phase). A geographic cross section of micro-projects of various types will also be randomly selected during the supervision missions for inspection of ongoing or completed works. During site visits, the team engineer will engage community leaders to detail plans for implementation of O&M strategies with the objective of strengthening the chances for long-term sustainability through good technical practices and appropriate allocation of budget for operations and maintenance needs.
4. *Financial Management Implementation Support:* During project implementation, the project team will supervise the project's financial management arrangements in the following ways: (i) review the project's quarterly IFRs as well as the project's and Entity annual financial statements, the auditor's management letters and remedial

actions recommended in the auditor's management letters; and (ii) during the Bank Team's on-site missions, review the following key areas: project accounting and internal control systems; budgeting and financial planning arrangements; disbursement arrangements and financial flows, including counterpart funds, as applicable; and any incidences of corrupt practices involving project resources. As required, a World Bank-accredited financial management specialist will participate in the implementation support and supervision process.

5. *Procurement Implementation Support:* The project team will conduct risk-based implementation support and supervise procurement arrangements in the following ways: (i) providing detailed guidance on the Bank's Procurement Guidelines providing to ARIS; (ii) providing training to relevant agency staff, as well as its consultants; (iii) prior and/or post-review of procurement documents, including timely comments and suggestions for improvements; (iv) monitoring procurement progress against the procurement plan; and (v) supporting improvement of the agency-wide procurement system, in particular through providing support and advice for optimization of the procurement processes and development of model bidding documents for the agency.
6. *Environmental Safeguards Implementation Support:* A Bank Environmental Specialist will review the implementation of the project's EMPs and provide guidance to the Implementing Agency's environmental specialist to ensure compliance with Bank's environmental safety guidelines.
7. *Social Safeguards Implementation Support:* The Bank team's Social Development Specialist will join supervision missions to provide guidance on resettlement, compensation, social inclusion, and grievance management.
8. *Supporting the Implementing Agency's M&E:* The Bank team will employ both qualitative and quantitative methods to gauge project-induced changes. The Bank team and the implementing agency will engage in semi-annual *joint reviews* aimed at examining the progress in achieving agreed targets and results. As part of the joint reviews, the Bank team will assess quarterly implementation progress reports, descriptive semi-annual reports detailing work implemented during this period. During each review, the Bank team and the implementing agency will identify the type of implementation support that is needed. They will also adopt joint decisions on necessary assistance.
9. *Managing risks identified in the ORAF:* The Bank team's regular dialogue with the Government and the implementing agency will help with early identification of problems, obstacles and risks that could delay implementation. The Bank works closely with the Government to involve the Parliament into the process of project preparation at early stages and keeps MPs informed to avoid delays at the ratification stage. Bank's country team has an ongoing dialogue with key counterparts to advice on process simplification. New operations will be ring-fenced against risks posed by the complex governance environment with stringent procurement and financial management

practices being followed by the implementing agency. Dialogue will be carried out through regular implementation support missions, video and audio conferences.

Table 1-Implementation Support

Time	Focus	Skills Needed	Resource Estimate	Partner Role
First twelve months	-Social mobilization and training	Rural Development Specialist Conflict Management/social development expert Civil engineer Social safeguards specialist Environmental specialist Survey/M&E specialist Procurement specialist FM specialist	US 100,000 per year	The TTL travels to Kyrgyz Republic for multiple projects at once, cost sharing possible with other projects on the variable costs.
12-48 months	Social mobilization, Construction and technical supervision	Rural Development Specialist Conflict Management/social development expert Civil engineer Social safeguards specialist Environmental specialist Survey/M&E specialist Procurement specialist FM specialist	US 70,000 per year	

Table 2: Skill Mix Required

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Task Team Leader	30	8	Region based
Rural Development Specialist	6	4	Field based-trips to take place inside the country
Conflict management specialist	20	6	Field based
Social development specialist	12	2	

Environmental safeguards specialist	10	2	
M&E specialist	6	2	
Engineer	15	6	
Procurement Specialist	17	0	Field based
FM specialist	13	0	Field based

Table 3: Partners

Name	Institution/Country	Role
Donors that finance State and Peace Building Fund	Scandinavian donors	Will finance the first cycle of capacity building activities. VIP3 will finance subsequent cycles.

Annex 6: Financial and Economic Analysis

Introduction

1. The proposed project would be implemented using a community-based demand-driven approach and adopting decentralized demand-led funding mechanisms. The project would support activities targeted at improving infrastructure at village level.
2. This analysis identifies the possible activities and investments that the communities are likely to choose depending upon their feasibility within specific conditions. During project implementation, the specific interventions would be tailored according to the priority needs expressed by the beneficiaries and the economic conditions at a particular location. A number of potential investment activities were identified during the project design although the interventions suitable for project support vary depending on the region. Accordingly, the project activities and scope discussed here and the assessment of prospective benefits and costs is only indicative. Based on existing experience and the technical assessments conducted in specific areas, a number of possible interventions has been analysed as follows: improved drinking water supply; school rehabilitation and construction; improved power supply; establishment of a social club; and construction of a medical post.

Project Benefits

3. The project is expected to lead to improved livelihoods through building local capacity for participatory development planning and improving access to quality community infrastructure in targeted project areas for the benefit of all engaged in rural value. The project will enhance the community's ability to prioritize, plan and implement proposed economic activities. The adoption of a participatory community demand-driven approach would result in: (a) empowering communities to manage their own resources in a more efficient manner; (b) accustoming the community to prioritize, plan and implement proposed economic activities; and (c) assisting communities to interact more effectively with local administration, central government and other sources for the delivery of services. As a result, it is expected that communities and their organisations would be mobilised and strengthened through participatory and gender sensitive approaches matched with equally strengthened capacity of government agencies and other service providers who be able to meet expressed community's priorities in a timely and transparent manner.
4. Project interventions would also provide capacity building and training to the institutional partners leading in the end to the institutional strengthening of local and central administrations. Strengthening local planning capacities would also include developing the synergies between different interventions and donors' activities.
5. Investments in improved rural infrastructure would result in raising living standards and providing income-generating opportunities. The proposed project would generate additional employment opportunities for the rural population in the project area as hired labour. Project interventions would also lead to substantial timesaving either in terms of time saved in water collection or easier access to educational and medical services. The economic benefits per household are calculated by multiplying the daily timesaving and the opportunity costs of rural labour. In addition to the time saved, the project would improve the health status of the population in the area by reducing the incidence of waterborne and cold borne diseases. However, this benefit is rather difficult to estimate. One of the project's impacts on Government budget would be incremental tax revenues because of increased volume of taxable production and services.

Financial Analysis

6. Seven illustrative models were prepared to demonstrate the likely activities to be funded by the project: i) school repair; ii) improved power supply; iii) construction of a social club; iv) drinking water supply; v) rehabilitation of an irrigation scheme (canal lining)¹⁴; vi) school construction; and vii) establishment of a medical post. The financial analysis mainly focuses on the financial viability of the typical micro-projects (MPs) and sub-projects (SPs) to be implemented under the Village Investments component. The analysis focuses on the assessment of MPs and SPs, which would generate direct benefits to the participating communities, in terms of increased incomes, employment opportunities and reduced costs (time and O&M). The analysis is primarily based on the post-financial appraisal of the investments undertaken by ARIS during 2011-2013 as well as the field visits to participating communities. A detailed description of MPs and SPs is provided in Project files, while the summary is presented in Table 1 below.

7. **Internal Rate of Return.** The internal rate of return (IRR) of 10 percent is used in this analysis to assess the viability and robustness of investments. 10 percent IRR is based on the Central Bank's refinancing rate plus annual inflation for 2013. Using the IRR as the measure, the models' sensitivity to the changes in parameters can be assessed by varying the cost of investments, production costs and revenues.

Table 1: Infrastructure Models - Estimated Costs and Annual Net Benefit, Financial Results and Switching Values

Model	Investment costs (USD)				Incremental annual net benefits per US\$ of investment	IRR, %	NPV, USD	Switching values, %	
	Project grant	Beneficiaries	Total	Annual quantifiable benefits, US\$				Benefits	Investment costs
School repair	27 718	1 080	28 798	5 756	0,20	19,5%	17 890	-31%	60%
Power supply	3 618	141	3 759	1 775	0,47	32,7%	6 795	-26%	175%
Community Center	125 338	4 883	130 221	35 829	0,28	23,8%	137 935	-38%	103%
Drinking water supply	24 817	967	25 784	10 428	0,40	29,8%	38 060	-44%	143%
Irrigation rehab	10 792	420	11 212	4 136	0,37	32,3%	19 870	-40%	172%
School construction	232 397	9 054	241 452	44 312	0,18	15,8%	97 257	-26%	39%
Medical post	46 479	1 811	48 290	10 912	0,23	17,1%	21 207	-25%	43%
Average	38 457	1 498	39 955	16 164	0,30	24%	48 431		
	96,25%	3,75%	100%						

* The switching values show percentage by which the costs would need to rise or benefits decrease before the NPV reached zero, associated with each of the values (at 10 percent opportunity costs).

8. **Summary.** The main result of the financial analysis include: (i) a significant increase in gross and net returns from each model compared with and without-project situation; (ii) high benefit/cost ratios illustrating the worthiness of the investments. The NPV ranges from US\$ 1 775 to US\$ 44 312, while the IRRs from 15.8 percent to 32.7 percent, which are much more conservative compared to those estimated for similar operations under the

¹⁴ Although irrigation rehabilitation was included in the financial analysis, it was decided during the appraisal stage to exclude irrigation to mitigate any impact related to international waterways, and given that there are other Bank-funded activities devoted entirely to the irrigation sector.

VIP2. The analysis showed that the models are more sensitive to changes in benefit parameters than they are to variations in investment and operating costs. Sensitivity analysis also showed that all models would remain attractive even if costs increase or benefits decrease.

9. The indicative models show a positive impact on employment. Favorable cash flows from the possible project financed investments indicated that the improvements would be sufficient to ensure uptake of the proposed activities. Also, a beneficiary's contribution and the competitive selection process are likely to translate into a high degree of economic attractiveness. Detailed proposals would be required for each intervention.

Economic Analysis

Cost benefit X NPV = US\$ 14.4million ERR = 29
percent

10. The period of analysis is 20 years to account for the phasing and gestation period of the proposed interventions. The scenario presented in the economic analysis is rather conservative. The analysis that appears below is indicative and demonstrates the scope of profitability originated from conditions prevailing at the time of the preparation.

11. The traditional economic analysis that aggregates benefits from specific models taking up pre-determined packages of interventions as compared to project costs for this specific project is rather difficult. The probable uptake of grants for the different MP and SP activities cannot be certainly known. It was assumed and presented however, how infrastructure models could be used to estimate potential returns to US\$ 1 of economic investments. The project would support villages/district/regions to identify opportunities leading to economic growth and development in the project area, thus generating investments beyond those included in project costs.

12. **Benefit Stream.** The analysis attempts 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.

13. The illustrative models described above have been used for the calculation of the overall benefit stream, based on economic prices. Quantifiable social benefits like time savings and employment generation have been included. All local costs and revenues were converted into their approximate economic values using a Standard Conversion Factor (SCF) of 0.9. All values are given in constant 2014 prices

14. The summary of benefits of demonstrated models is presented in Table 5 of the previous sections.

Table 2: Summary of Infrastructure Models (Economic)

Model	Investment costs (USD)				Incremental annual net benefits per USD of investment	IRR, %	NPV, USD
	Project grant	Beneficiaries	Total	Annual quantifiable benefits, USD			
School repair	27 718	1 080	28 798	5 037	0,17	19,5%	15 661
Power supply	3 618	141	3 759	4 123	1,10	83,5%	22 223
Community Center	125 338	4 883	130 221	38 353	0,29	29,2%	173 273
Drinking water supply	24 817	967	25 784	77 760	3,02	198,7%	464 355
School construction	232 397	9 054	241 452	45 533	0,19	19,1%	136 171
Medical post	46 479	1 811	48 290	16 204	0,34	31,1%	61 756
<i>Average</i>	38 457	1 498	39 955	27 222	0,77	59%	127 174

15. In calculating the overall benefits from these models, the following was taken into account:

- Assuming the above-mentioned examples as realistic sub- and mini-projects to be implemented, an estimated average incremental annual net benefit per one US\$ of investments was calculated, which equals to USD 0.77.
- The incremental net benefits were calculated by multiplying this indicator with the amount of estimated economic investments but considering the gradual increase of such benefits over the period of five years.
- It was assumed that only 80 percent of the investments would achieve the estimated returns.
- The benefits of infrastructure models are calculated for the period of twenty years.
- No financing flows have been undertaken in the calculations as they are either already reflected in the project costs (the VIP3 financing and beneficiary contribution for the investment costs) or represent transfer payments (taxes).

16. **Cost Stream.** The incremental costs in economic prices have been calculated by the removal of price contingencies and taxes/duties. The total economic cost of the project amounts to about US\$ 10.8 million.

17. **Overall Estimated Return of the Proposed Project.** Given the above benefit and cost streams, the base case internal rate of return (IRR) is estimated at 28.8 percent. The base case net present value of the project's net benefit stream, discounted at 10 percent, is US\$ 14.4 million. The summary of economic analysis is presented in Table 4.

18. **Sensitivity Analysis.** Economic returns were tested against changes in benefits and costs and for various lags in the realisation of benefits. In relative terms, the ERR is equally sensitive to changes in costs and in benefits. In absolute terms, these changes do not have a significant impact on the ERR and economic viability is not threatened by either a 20 percent decline in benefits or by a 20 percent increase in costs. A fall in total project benefits by 20 percent and an increase in total project costs by the same proportion would reduce the base IRR to about 20 percent. The results are presented below.

Table 3: Sensitivity Analysis

Sensitivity Analysis (20-year period)	Base case	Costs Increase			Increase of Benefits		Decrease of Benefits			Delay of Benefits	
		+10%	+20%	+50%	+10%	+20%	-10%	-20%	- 30%	1 year	2 years
IRR	28,8%	27%	25%	20%	31%	33%	26%	24%	21%	24%	20%
NPV (000'USD)	14 404 656	13 605 457	12 806 258	10 408 663	16 644 320	18 883 984	12 164 992	9 925 327	7 685 663	11 755 812	9 347 772

19. The switching value for total project benefits is about 64 percent, while for project costs it is more than 100 percent. A one-year delay in project benefits reduces the IRR to 24 percent. With a two-year delay in project benefits, the IRR falls to approximately 20 percent.

Table 4: Economic Analysis – Cost and Benefit Stream

(US\$ thousand)	PY1	PY2	PY3	PY4	PY5	PY6	PY7	PY8	PY9	PY10-20
Project Benefits										
Net Benefits of infrastructure projects	0	0	272 086	1 042 996	2 040 645	3 128 989	3 899 899	4 353 376	4 534 767	4 534 767
Total Project Net Benefits	0	0	272 086	1 042 996	2 040 645	3 128 989	3 899 899	4 353 376	4 534 767	4 534 767
Project Costs										
Investment Costs	959 573	1 970 942	3 293 678	2 817 818	1 757 988					
Replacement of Goods and Equipment*						0	0	0	0	0
Recurrent Costs*						0	0	0	0	0
Total Project Costs	959 573	1 970 942	3 293 678	2 817 818	1 757 988	0	0	0	0	0
Total Project Incremental Net Benefits	-959 573	-1 970 942	-3 021 592	-1 774 822	282 657	3 128 989	3 899 899	4 353 376	4 534 767	4 534 767

IRR

28,8%

NPV @ 10% (US\$ thousand)

14 404 656

* Replacement and recurrent costs are already included in calculation of net benefits from infrastructure projects

Annex 7: Timeline on Decentralization in the Kyrgyz Republic and Local Government Structures

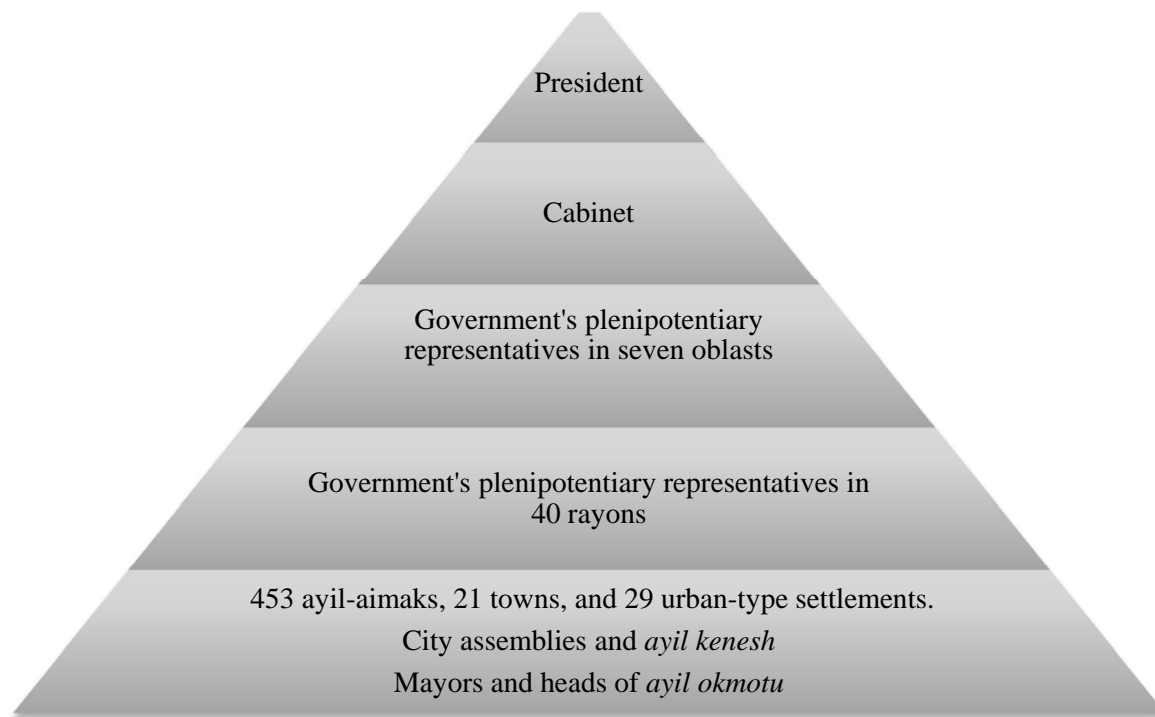
1992	<i>Parliament adopts the Law on Local Self-Government (LSG) and Local State Administration that gives Councils (Keneshes) authority to oversee local executive bodies.</i>
1996	<i>The KR Government adopts a decree establishing ayil okmotu (local governments).</i>
1999	<i>The KR Government decrees that LSGs hold budget hearings.</i>
2001	<i>First direct elections of heads of LSGs are held across the country. The KR Government adopts a decree formalizing traditional bodies such as kurultai, aksakal courts; The Parliament adopts the Law on Local State Government and Local State Administrations.</i>
2002	<i>Parliament adopts the Law on Municipal Property, which transfers control over state property to LSGs. The KR Government approves the National Strategy on Decentralization for the period 2002 -2010. The KR Government adopts National Poverty Reduction Strategy that introduces “social mobilization approach to poverty reduction.”</i>
2003	<i>Parliament adopts the Law on the Financial and Economic Basis for LSG to strengthen financial autonomy of LSG.</i>
2005	<i>Change of government as a result of the March 2005 Tulip Revolution delays decentralization reform. Parliament adopts the Law on Jamaats (communities) and Associations, which allows groups of citizens to pool their resources and create formal associations that can collaborate with LSGs.</i>
2006	<i>KR Government reduces the number of local taxes from 16 to 8.</i>
2007	<i>A nationwide referendum endorses the new version of the Constitution that gives LSGs more powers over local decision-making and budgeting. The KR Government adopts a two-tier budget: the first tier for the entire state level including the oblast and rayon; the second tier is for LSGs. The change in budgeting reduces the powers of oblast and rayon levels of government.</i>
2008	<i>Parliament approves amendments to the Law on Local Self-Government and Local State Administration to formalize the two-tier budget system. Parliament adopts a new version of the Tax Code that reduces the number of local taxes from 8 to 2 (property tax and land tax).</i>
2010	<i>The country is rocked by a violent change of government and a major inter-ethnic violence. A nationwide referendum endorses a new version of the constitution which introduces a parliamentary political system in the country.</i>
2011	<i>Parliament adopts amendments to the Law on LSG, Law on Local State Administration, and Law on the status of the Ayil Kenesh deputies. The changes strengthen the powers of local council (ayil kenesh) deputies; they obtain authority to elect heads of LSG and oversee local budgets.</i>
2013	<i>KR Government creates the State Agency for Local Self-Government Bodies and Ethnic Relations.</i>
2014	<i>The Parliament adopts amendments to the Law on Local Council (ayil kenesh) Elections, which clarifies the rules for participation of political parties in local elections.</i>

Sources: a) The official website of the Kyrgyz Government; b) The KR State Agency on Local Self-Government Bodies and Ethnic Relations; c) INTRAC (International NGO Training Centre).

Kyrgyz Republic Governance Structure¹⁵

The Kyrgyz Republic has three tiers of government and a local self-governance system:

- The first tier is the central government in Bishkek (including President's Office and the Cabinet);
- The second tier includes seven *oblasts* (provinces) – Batken, Chui, Jalal –Abad, Issyk Kul, Naryn, Osh and Talas.¹⁶ The provinces are led by government's plenipotentiary representatives (previously known as governors);
- The third tier consists of 40 *rayons* (administrative districts), which are headed by government's plenipotentiary representatives;
- The Local Self-Governance System comprises 453 *ayil aymaks* (local municipalities), 21 towns, and 29 *urban-type settlements*. These bodies are headed by heads of local governments (*ayil okmotu*) and mayors. The main difference between heads of *ayil okmotu* and mayors is the size of the territory under their jurisdiction. *Ayil okmotu* heads are typically in charge of several villages that make up *ayil aymak*; meanwhile, mayors control only the territory of the town which is typically divided into several territorial councils (TC).



¹⁵ Data obtained from the official website of the government of the Kyrgyz Republic; www.gov.kg.

¹⁶ The capital, Bishkek has an independent status equivalent to an oblast. In 2003, Osh was granted the status of an oblast and the “southern capital.” As the result of governance reforms in 2009 and 2011, oblast and rayon-level administrators have experienced reduction in their budgets and the number of employees. Consequently, the influence of both these levels of governance has significantly diminished.

Annex 8: Map of the Kyrgyz Republic

