

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

Report No.: AB2389

<b>Project Name</b>	Second Village Investment Project
<b>Region</b>	EUROPE AND CENTRAL ASIA
<b>Sector</b>	Sub-national government administration (100%)
<b>Project ID</b>	P098949
<b>Borrower(s)</b>	KYRGYZ REPUBLIC
<b>Implementing Agency</b>	Community Development and Investment Agency (ARIS) Address: 102 Bokonbaeva Street, Bishkek Contact Person: Mrs. Elmira S. Ibraimova, Executive Director Tel: 996-312-62 77 47 Fax: 996-312-62 47 48 Email: <a href="mailto:elmira@aris.kg">elmira@aris.kg</a>
<b>Environment Category</b>	<input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
<b>Date PID Prepared</b>	June 13, 2006
<b>Date of Appraisal Authorization</b>	May 27, 2006
<b>Date of Board Approval</b>	August 3, 2006

1. Country and Sector Background

*Rural Development.* The Kyrgyz Republic is a small and land-locked country with an average per capita income of US\$473 and a population of about 5.1 million, of whom 65% live in rural areas where the predominant economic activity is agriculture. Despite considerable growth in agricultural output over the past decade, rural poverty remains pervasive, at 56% (compared with the national average of 46% and urban poverty of 28%, in 2004), and the rural population accounts for more than 75% of the poor and about 80% of the extremely poor. Much of the rural economy still operates in a barter mode and much farming is subsistence oriented. The available arable land is intensively used, but comprises only 7% of total land area. Employment and income-earning opportunities outside farming are very scarce in most rural areas. Traditional providers of social and economic services, the collective or state enterprises, no longer exist. Artisanal services are also lacking, no longer provided as ancillary activities of collective enterprises. Most of those skilled in such trades have lost their employers and lack the means and/or business know-how to make a new start as private entrepreneurs.

The disappearance of the old structures and systems has also left significant voids in areas such as infrastructure maintenance, drinking water provision, sanitation services, health care, child care, social facilities and the like. The limited access to essential health and education services is a major manifestation of rural poverty, and the equally limited access to essential infrastructure services impedes the emergence of rural non-farm enterprises that could provide employment and ease the pressure on scarce farm land. Many of the young, discouraged by the lack of prospects in the villages, look for ways to leave.

*Poverty.* The Comprehensive Development Framework (CDF) adopted in May 2001 remains the foundation of the country's longer-term social development strategy. Building on it, a National Poverty Reduction Strategy (NPRS) for 2003-2005 was adopted in 2003, following a lengthy consultative process involving civil society and external donors, which set forth an action program for economic, social and institutional reforms aimed at human development and poverty reduction. It emphasized the need to improve public administration, promote the equitable distribution of health and educational resources, and foster reforms, particularly in the energy and mining sectors. It assigned economic growth and supporting structural reforms a key role in poverty reduction, and it emphasized the need to focus budget expenditures at social sectors so as to have the desired impact on the poor.

Following the political changes of 2005, the new administration began to draft a new NPRS which is to be finalized this year. Building on the old, the new strategy will emphasize the importance of governance and structural reforms. The following have been identified as priority areas: (i) improvements in governance and transparency in public administration; (ii) improvements in public financial management; (iii) sound macroeconomic management; (iv) reforms in the energy and mining sectors; (v) enhanced social development, particularly in health and education; (vi) creation of a business-friendly environment; and (vii) refinements in the poverty reduction strategy and its implementation. The strategy will identify indicative spending areas, with a strong tilt towards economic growth as a means to mitigate poverty.

*Administrative and Fiscal Decentralization.* The decentralization process initiated by the Government aims at genuine citizen participation and establishing local self-governments (LSGs) accountable to their constituents and endowed with specific authorities. Decentralization is seen as more than simply a transfer of responsibilities, but recognized as means to provide for the efficient allocation of resources to deliver public services and to legitimize government in general. The decentralization strategy was developed and is to be implemented within the framework of the CDF and the NPRS, although implementation has been slowed by political fragility and lack of full government buy-in. Its main focus is to improve the legislative framework concerning communal property, financial and economic principles of LSG, and municipal services. The key objective is to ensure an economic and financial basis for LSG.

*Community-Driven Development and Donor Collaboration.* The Government is keen to see that community-based organizations (CBOs) are supported and enabled to respond effectively to priority needs at the community level. Various other donors and NGOs have in the past years implemented small-scale community-based projects, and a notable characteristic of the first Village Investment Project (VIP) is its close collaboration with multiple partners.

## 2. Objectives

The project will sustain and expand the achievements realized under the first VIP, by expanding coverage to all 473 *aiyl okmotus* in the country. The overarching aim of the project is alleviation of rural poverty. It seeks to achieve this by pursuing three specific objectives: (a) improving governance and capacity at the local level; (b) strengthening the provision of, and access to, essential infrastructure services; and (c) supporting private small-scale group enterprise development. It does this at the grassroots level, by supporting income and employment

generating investments in village infrastructure and in group-managed small enterprises and by helping communities and local authorities work together to achieve key development objectives at the local level. It will strengthen local government administrations (*aiyl okmotus*) and councils (*aiyl keneshs*) and grassroots institutions – making the more inclusive, accountable and effective at meeting villagers’ self-identified development needs. This approach is firmly in line with the country's policy of devolution of responsibilities. It will strengthen local government administrations (*aiyl okmotus*) and councils (*aiyl keneshs*) and grassroots institutions -- making them more inclusive, accountable and effective at meeting self-identified development needs.

### 3. Rationale for Bank Involvement

The current CAS focuses on three key priorities, each closely linked to a priority objective of the NPRS: (a) supporting private sector-led growth, (b) providing essential services, and (c) strengthening the governance framework. (A new multi-donor joint Country Support Strategy is currently under preparation. It is expected to emphasize the same three essential priorities.) The CAS highlights the importance of the high levels and wide extent of poverty, its rural predominance, and efforts to alleviate these problems. It emphasizes community-driven development as a means to create the conditions for local enterprise to grow and the economy to diversify, to empower communities to identify their own priorities, to help realize the decentralization vision of the NPRS, and to support the decentralization effort.

The project supports all three of the stated CAS goals and squarely supports the Government’s efforts to decentralize responsibilities to local self-governments and community based groups in order to alleviate poverty. Applying a bottom-up approach to prioritization, planning and implementation, directing assistance directly at rural communities, and relying heavily on the empowerment of grassroots institutions, it will promote good governance at the level closest to the people, provide the impetus for sustained economic development, and contribute to employment generation and poverty alleviation in rural areas.

### 4. Description

The project will be a repeater operation to the first Village Investment Project (VIP). It will extend coverage to the country’s remaining 126 *aiyl okmotus* not yet participating, and continued support will be provided for 347 communities already participating. The project will utilize all institutions established and processes and mechanisms developed under the first VIP. It will draw upon the capacity created and built upon the experience gained and lessons learned. It will consist of three components.

It will support the development of capacity at the community and village level to plan, prioritize and implement local investments and to manage financial resources efficiently and transparently. Funds will be provided to eligible communities in the form of small block grants, and these will be used by the communities to support small-scale demand-driven community or group investments that will directly or indirectly generate off-farm employment and income or that will alleviate serious deficiencies in local infrastructure and thereby allow villagers to turn their attention to economic ventures. Investment decisions at the community level will be made on the basis of participatory planning, involving all local stakeholders. The project will be

implemented with intensive NGO participation and will pay particular attention to the needs and business opportunities of women and women's groups and young adults. Participating communities, groups or CBOs will contribute to the investment costs in cash and/or kind and be fully responsible for the subsequent operation and maintenance of the facilities created. Investments will be implemented as much as possible by the local beneficiaries themselves and/or by local contractors so as to support the development of local small-scale enterprise.

*Component 1 - Capacity Building and Empowerment.* This component supports local capacity building and promotes community empowerment. It comprises training and support to communities, local governments and CBOs in (i) social mobilization, (ii) strategic planning, micro-project preparation and implementation, and (iii) good governance.

*Social Mobilization.* Participating communities will be provided with training and support in social mobilization and monitoring, needs assessment, resource assessment, and participatory planning. Special efforts will be made to ensure inclusion of women, the elderly, youths and vulnerable groups. The project will continue to collaborate very closely with the partner organizations already engaged in community mobilization and capacity building.

*Local Development Planning and Micro-Project Implementation.* Citizens in beneficiary communities will develop skills and gain experience in local development planning and micro-project implementation through their participation in the Village Investment component. They will be eligible to receive training in business development, infrastructure planning and operation, and good practices for avoiding or mitigating environmental impacts of micro-projects.

*Governance.* Governance training will emphasize: (i) skills, mechanism, processes and tools for good governance, (ii) accountability and transparency in conducting public affairs, (iii) awareness of local responsibilities and rights in its fiscal relations with higher levels of government; and (iv) strategic planning for community development. It will include broadening of awareness and understanding of national procedures and requirements for environmental assessment and management. Particular emphasis will be placed on measures to minimize the room for misuse, fraud and corruption.

*Component 2 - Village Investments.* This component supports a facility and mechanisms for delivering financial and technical support for community-based initiatives around which villagers and local authorities collaborate in an ongoing process of strategic planning, investment selection, and micro-project implementation. Eligible and participating communities will receive community grants, phased over four years, to implement their agreed and approved community investment plans. Through a participatory and fully transparent process villages will assess and identify local problems, establish their own priorities for the grant scheme, and identify and prepare micro-projects that address their needs. The *aiyl-kenesh* level Local Investment Union (LIU), through its Executive Committee (LIC), will coordinate this effort, drawing on the contributions of the Village Investment Unions (VIUs) and their Executive Committees (VICs).

The typology of eligible micro-projects reflects the villager's needs and priorities and their willingness to organize themselves and dedicate material, financial and managerial resources to

common undertakings. They fall into two main categories, economic and social infrastructure and group-based small business ventures, and the extent and modalities of financial support are different for the two categories. The communities themselves decide on the most appropriate use of the project financial support they receive and on the composition of their annual investment programs. The communities will have to contribute at least the equivalent of 25% (including at least 3.75% in cash) of their community grant allocation to the cost of their community investment plans.

Grant disbursements to participating communities will be phased over four years. Providing financial and implementation support for a sustained period is intended to foster and ensure sustained community collaboration and to develop strong habits of inclusion, transparency and accountability.

*Component 3 - Project Management.* This component supports overall project management, including but not limited to the Community Development and Investment Agency (ARIS). The project finances key agency staff, consultants, essential equipment, operating costs, technical assistance, training, and office refurbishment. Funding will also be provided for information dissemination, beneficiary assessments, periodic surveys, participatory M&E activities, a management information system, project audits, and periodic meetings of the national and oblast-level Project Consultation Groups.

## 5. Financing

Source:	(\$m.)
BORROWER/RECIPIENT	7.5
IDA Grant	15.0
UK: BRITISH DEPARTMENT FOR INTERNATIONAL DEVELOPMENT (DFID)	13.2
Total	35.7

## 6. Implementation

### *(a) Institutions*

The key institutions involved in implementing the project are: (a) the Community Development and Investment Agency (ARIS), (b) communities, community-based organizations (CBOs) and community groups, and (c) local self-government councils and administrations (*aiyl keneshs* and *aiyl okmotus*). In addition, the project will continue to work closely with Community Mobilization Partners (CMPs), organizations active and experienced in social mobilization activities at the grassroots levels.

*Community Development and Investment Agency (ARIS).* The project will be managed by ARIS, a public agency established in October 2003. It is a legally and operationally autonomous institution and operates according to the guidelines and procedures set out in its charter and its Operational Manual. ARIS has three regional offices and ten small oblast-level offices to provide backstopping and an administrative base for its field staff. It is headed by an Executive Director and has experienced staff responsible for general administration, financial management,

procurement and contracting, legal issues, safeguards issues, technical matters, promotion and community mobilization, management information, and monitoring & evaluation. The agency's performance in managing the first VIP has been highly satisfactory.

*Communities/Community Groups.* Rural communities, community organizations and community groups will drive the village planning and investment process. They will determine their own priority needs, organize themselves, develop and submit investment proposals, implement the investments, manage their own and the project resources provided, and operate and maintain the facilities created in accordance with agreed business plans. The population of each participating *aiyl*, legally constituting the Village Investment Union (VIU), will elect a representative Village Investment Union Executive Committee (VIC) whose role is to identify key problems and aspirations and to solicit community proposals for micro-projects that address these. Proposals for micro-projects can originate with any individual or group in the community -- including the VIC, the Local Investment Union Executive Committee (LIC; see below) and the *aiyl kenesh*. Micro-Project Groups (MPGs) formed by community residents will manage micro-project implementation (from proposal to planning and through implementation). All decision making at the VIU/VIC and LIU/LIC levels will be open and transparent, conducted in accordance with the guidelines and mechanisms specified in the project OM.

*Local Self-Governments (Aiyl Keneshs and Aiyl Okmotus).* A key goal of the project is to enable and encourage *aiyl okmotu* administrations and local government councils (*aiyl keneshs*) to work closely with community-based organizations, as envisaged under the provisions of the 2002 Law on Local Self-Government and Local State Administration. The processes established under the project are designed to promote and facilitate this. The project also seeks to strengthen their capacity in strategic planning and fiscal management and, more generally, in methods for accountability and transparency.

#### *(b) Implementation Arrangements*

The project will be implemented over a period of four years, commencing in January 2007. Implementation will be in accordance with the manuals, handbooks and guidelines comprising the Project Implementation Plan. The first project year will be heavily focused on social mobilization, on training and capacity building of ARIS staff and consultants, communities and partner NGOs, and on testing different approaches to community mobilization and resource allocation among and within eligible communities.

### 7. Sustainability

The project design is intended to ensure sustainability not merely of the investments financed, but of the processes put in place to ensure citizen involvement in local decision making and local government accountability to the constituents. Investments will be identified by the communities as meeting their own priority needs, thus providing a high probability of sustained commitment to effective operation and future maintenance. The core thrust of the implementation arrangements being participatory needs assessments, prioritizing, planning and implementation, these procedures are expected to become habitual and guide community interaction and local self-government in the longer run.

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

The design of the first VIP incorporated multiple lessons learned from CDD operations around the world and in Kyrgyzstan. This has contributed much to the project's effective implementation and visible positive impact to date. No significant changes are therefore envisaged in project design or implementation arrangements.

## 9. Safeguard Policies (including public consultation)

<b>Safeguard Policies Triggered by the Project</b>	Yes	No
<a href="#">Environmental Assessment (OP/BP 4.01)</a>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Natural Habitats ( <a href="#">OP/BP 4.04</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Pest Management ( <a href="#">OP 4.09</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Cultural Property ( <a href="#">OPN 11.03</a> , being revised as OP 4.11)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Involuntary Resettlement ( <a href="#">OP/BP 4.12</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Indigenous Peoples ( <a href="#">OP/BP 4.10</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Forests ( <a href="#">OP/BP 4.36</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Safety of Dams ( <a href="#">OP/BP 4.37</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects in Disputed Areas ( <a href="#">OP/BP 7.60</a> )*	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects on International Waterways ( <a href="#">OP/BP 7.50</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>

## 10. List of Factual Technical Documents

Environmental Assessment: Village Investment Project, Environmental Review, May 1, 2006—  
Report Number E-1409

## 11. Contact point

Contact: Gotz A. Schreiber

Title: Lead Economist

Tel: (202) 473-4495

Fax: (202) 614-0995

Email: [Gschreiber@worldbank.org](mailto:Gschreiber@worldbank.org)

## 12. For more information contact:

The InfoShop

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 458-4500

Fax: (202) 522-1500

Email: [pic@worldbank.org](mailto:pic@worldbank.org)

Web: <http://www.worldbank.org/infoshop>

---

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

