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Proposed Loan Second Tashkent Province Water Supply Development Project (Uzbekistan)

1. The Report and Recommendation of the President (RRP: UZB 51240-001) on the proposed loan to Uzbekistan for the Second Tashkent Province Water Supply Development Project is circulated herewith.
2. This Report and Recommendation should be read with *Country Operations Business Plan: Uzbekistan, 2019-2021*, which was circulated to the Board on 7 December 2018 (DOC.IN.451-18).
3. In the absence of any request for discussion and in the absence of a sufficient number of abstentions or oppositions (which should be communicated to The Secretary by the close of business on 16 April 2019), the recommendation in paragraph 41 of the paper will be deemed to have been approved, to be so recorded in the minutes of a subsequent Board meeting. Any notified abstentions or oppositions will also be recorded in the minutes.

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Report and Recommendation of the President to the Board of Directors

Project Number: 51240-001
March 2019

Proposed Loan Republic of Uzbekistan: Second Tashkent Province Water Supply Development Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 12 February 2019)

Currency unit	–	sum (SUM)
SUM1.00	=	\$0.0001174979
\$1.00	=	SUM8,510.790000

ABBREVIATIONS

ADB	–	Asian Development Bank
CSA	–	Agency <i>Kommunkhizmat</i> (Communal Services Agency)
EMP	–	environmental management plan
GIS	–	geographic information system
GRM	–	grievance redress mechanism
ha	–	hectare
km	–	kilometer
LARP	–	land acquisition and resettlement plan
m ³	–	cubic meter
MHCS	–	Ministry of Housing and Communal Services
O&M	–	operation and maintenance
PAM	–	project administration manual
PCU	–	project coordination unit
PMC	–	project management and construction supervision consultant
PPP	–	public–private partnership
TPS	–	Tashkent Provincial <i>Suvokova</i> (state unitary enterprise)
WSS	–	water supply and sanitation

NOTE

In this report, “\$” refers to United States dollars unless otherwise stated.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 51240-001	
Project Name	Second Tashkent Province Water Supply Development Project	Department /Division	CWRD/CWUW
Country Borrower	Uzbekistan Republic of Uzbekistan	Executing Agency	Agency "Kommunhizmat" (CSA) formerly Uzbekistan Communal Services Agency "Uzkommunkhizmat"
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Water and other urban infrastructure and services	Other urban services	0.50	
	Urban sanitation	0.84	
	Urban water supply	103.96	
	Total	105.30	
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	CO2 reduction (tons per annum)	12,849
Environmentally sustainable growth (ESG)	Global and regional transboundary environmental concerns	Climate Change impact on the Project	Medium
	Urban environmental improvement	ADB Financing	
		Adaptation (\$ million)	5.50
		Mitigation (\$ million)	26.60
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development	Effective gender mainstreaming (EGM)	✓
Knowledge solutions (KNS)	Organizational development		
Partnerships (PAR)	Knowledge sharing activities		
	Civil society organizations		
	Implementation		
	Private Sector		
Private sector development (PSD)	Public sector goods and services essential for private sector development		
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Rural	Medium
Household Targeting	No	Urban	High
SDG Targeting	Yes		
SDG Goals	SDG6, SDG8, SDG11, SDG13		
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: B Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		105.30	
Sovereign Project (Concessional Loan): Ordinary capital resources		105.30	
Cofinancing		0.00	
None		0.00	
Counterpart		19.40	
Government		19.40	
Total		124.70	
Currency of ADB Financing: USD			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Republic of Uzbekistan for the Second Tashkent Province Water Supply Development Project.

2. The project will support the Government of Uzbekistan in the rehabilitation and expansion of a regional water supply system located in the Yangiyul and Chinaz districts of Tashkent province.¹ Responding directly to the water supply shortage of the population in the project area, it will improve water supply and sanitation services, pilot the decentralized wastewater disposal systems, and strengthen institutional capacity in the province's water supply and wastewater utility. The project is listed in the Asian Development Bank (ADB) country operations business plan for Uzbekistan, 2019–2021.²

II. THE PROJECT

A. Rationale

3. **Opportunities and constraints.** Uzbekistan is one of Central Asia's fastest-growing economies. The nation's primary economic driver is Tashkent province, the largest urban agglomeration and most economically advanced region. The province is endowed with natural resources and vibrant industries and generates almost 25% of the nation's gross domestic product.³ Instrumental to the province's future growth is the continued development of its southwestern economic corridor, which extends along primary road and rail arteries that link Tashkent city with towns and cities to the southwest. The project's two contiguous districts of Yangiyul and Chinaz, located 20–60 kilometers (km) to the southwest of Tashkent city, are integral districts within this corridor.⁴

4. Despite its strong economic growth potential, the province suffers from pervasive urban service limitations, primarily in water supply and sanitation (WSS). Much of its Soviet-era WSS infrastructure has deteriorated, resulting in unreliable services, high leakages and non-revenue water, and elevated pollution risks. Over time, many WSS utilities became almost bankrupt, with obsolete and non-functional assets, unsustainable modes of operation, and limited capacity to attract investment.

5. **Reform initiatives.** Historically, sector deficiencies included a fragmented regulatory framework, limited sector planning, acute funding constraints, ineffective regulatory compliance, and a virtually absent private sector. With ADB assistance, the government has responded by reorganizing WSS sector institutions, and implementing sector-wide management, financial, and cost recovery reforms. Since 2000, ADB has provided over \$500 million of funding for improving water and sanitation services. Commencing in 2015, and driven by the Decree of the Cabinet of Ministers 306, the first reform phase focused on regulatory reforms and institutional consolidation, including the reorganization of provincial WSS utilities, known as *suvokovas* (state unitary enterprises), and the absorption of individual city and district water companies into them.⁵ *Suvokovas* are implementing extensive time-bound corporate governance enhancements to strengthen utility capacity. A second reform phase, initiated in 2017, is overhauling the wider WSS

¹ A very small area of Zangiota comprised five settlements along the administrative border between Zangiota and Yangiyul is also included. These five settlements receive water supply from the water service network of Yangiyul.

² ADB. 2018. *Country Operations Business Plan: Uzbekistan, 2019-2021*. Manila.

³ Tashkent Province's population (excluding Tashkent city) is estimated to be 2.829 million. City Population (accessed 18 January 2019).

⁴ The population of Yangiyul is about 259,000 and that of Chinaz is about 129,000.

⁵ Government of Uzbekistan. 2015. *Decree of the Cabinet of Ministers of the Republic of Uzbekistan "On Implementation of Main Directives of Development of Water Supply and Sanitation Organizations."* Decree of the Cabinet of Ministers No. 306. Tashkent.

institutional framework. A new ministry, the Ministry of Housing and Communal Services (MHCS) was established in 2017, and is responsible for WSS sector policy formulation, coordination, and implementation. MHCS manages government policy and coordination for WSS and other communal services. The Communal Services Agency (CSA) reports to the MHCS and supervises ADB-funded and other externally-funded projects. Other national agencies have also been instituted during this phase.⁶ A third reform phase is envisaged to create an enabling environment for public–private partnership (PPP) arrangements in the sector.⁷

6. These reforms are yielding substantial improvements in Tashkent province through the operationalization and capacity strengthening of the Tashkent Provincial *Suvokova* (TPS), which is responsible for all provincial WSS services. Since its reorganization in 2016, the TPS has implemented key reforms such as, completed district branch inventories, consolidated smaller water supply systems, strengthened public accountability, modernized management systems, expanded its consumer base, increased tariffs, and recruited personnel. The ADB-funded first Tashkent Province Water Supply Development Project (TPWSDP) is assisting the TPS to (i) revitalize the water supply systems of Kibray and Zangiota districts, located to the northeast of and contiguous with Yangiyul and Chinaz districts; and (ii) improve the TPS’s financial and operational managements.⁸ Under close supervision and monitoring of CSA, its financial performance continues to improve as the project progresses.⁹ In recent years, the World Bank, the Islamic Development Bank, Arab Coordination Group, Swiss State Secretariat for Economic Affairs, and Swiss Agency for Development and Cooperation have also been working in the WSS sector in other regions of Uzbekistan.

7. **Priority needs.** There are two priority WSS sector needs in Tashkent province: (i) expand the water supply network of Yangiyul and Chinaz districts; and (ii) provide additional capacity support to further strengthen the TPS to improve efficient management and to adopt innovative technologies. Water supply improvements in these two districts are critical because only about 20% of inhabitants in the proposed project area currently receive municipal water supplies, while the 80% unserved are forced to purchase expensive trucked water, or to obtain unsafe water from wells and irrigation canals. Water scarcity causes public health risks and constrains economic growth.¹⁰ Institutional constraints primarily relate to capacity limitations in corporate management, financial and asset management, and WSS system operations. Currently, only major cities and urban centers in Tashkent Province have centralized wastewater systems. The project supports the government in rural sanitation development by introducing a pilot program for decentralized wastewater systems.

8. **Proposed project.** Complementing the first project (footnote 8), the project will rehabilitate and expand the VU-1 regional water supply system, delivering safe potable water to 220,000 inhabitants of the project area.¹¹ In addition, the project will extend capacity support to

⁶ In 2017, the State Committee for Investments (SCI) and the National Agency for Project Management (NAPM) were instituted to monitor and control WSS sector investments.

⁷ Government of Uzbekistan. 2018. *Presidential Resolution “On additional measures on development of water supply and sanitation system in the Republic of Uzbekistan”*, PP4040. Tashkent.

⁸ ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Uzbekistan for the Tashkent Province Water Supply Development Project*. Manila.

⁹ Since the reorganization, the TPS’s net sales have increased at a faster rate (averaging 23% per annum) than its operating costs (averaging 20.4% per annum). Its financial performance culminated in 2017 with a current ratio of 2.71, days in receivables of 84, an operating ratio of nearly 1, and a debt–equity ratio of 1.45.

¹⁰ Ministry of Health data indicates that water-related diseases, including dysentery and viral hepatitis, account for more than half of infectious disease incidence, with women and children being most vulnerable.

¹¹ The existing Soviet era VU-1 regional water supply system covers the four districts of Kibray, Zangiota, Yangiyul and Chinaz. The first TPWSDP rehabilitates and expands the coverage in Kibray and Zangiota. The proposed second project will rehabilitate and expand the coverage for Yangiyul and Chinaz districts, and five settlements of the adjacent Zangiota district. The term “VU-1” is the locally recognized name of the existing system.

further increase TPS efficiency and sustainability. It will do so by incorporating (i) a corporate development and capacity building program, targeting improvements in asset and financial management, operation and maintenance (O&M), procurement, public accountability, internal auditing, and human resource management; (ii) a sanitation and hygiene improvement program; and (iii) strengthening of geographic information system (GIS) and hydraulic modeling capabilities. It will include a sanitation component and pilot PPP initiatives such as private sector contracting of the O&M of water distribution networks and facilities, and retail distribution of water supplies, including customer service, in selected settlements. The project is consistent with ADB's Water Operational Plan, 2011–2020¹² and Urban Operational Plan 2012–2020;¹³ supports WSS sector government decrees (footnote 5 and 7); and aligns with previous and ongoing ADB-assisted sector projects contributing to key operational priorities under ADB's Strategy 2030.¹⁴

9. Lessons incorporated in the project design from previous ADB sector experience include (i) extending the project implementation schedule to accommodate recently adopted government approval procedures; (ii) securing timely counterpart support by engaging government agencies at an early stage of project preparation; (iii) adding adequate price contingencies in response to the 2017 currency devaluation¹⁵ and potential high inflation; and (iv) mitigating *suvokova* capacity constraints by providing training on financial management, O&M, and customer service support.

10. **Value added by ADB assistance.** The following features provide ADB value addition:
- (i) **Project design and innovation.** The ADB intervention initiated smart technology features, such as installing (a) supervisory control and data acquisition, and a geographic information system (GIS) for network management; and (b) meters for improved billing and increased water revenue.
 - (ii) **Public-private initiative.** The project will include a pilot PPP initiative pursuing the private sector contracting of O&M of water supply facilities in selected settlements.
 - (iii) **Climate change resilience.** The proposed metering, prioritization of climate-resilient materials,¹⁶ adoption of advanced technologies,¹⁷ and a public awareness program will significantly improve urban water resilience. The project will enable an overall decrease in energy consumption and carbon dioxide emissions through the replacement of old pipes and pumps contributing to climate change mitigation.

B. Impact and Outcome

11. The project is aligned with the following impact: living standards, health, and economy in Tashkent province improved. The project will have the following outcome: access to reliable, sustainable, and affordable water supply services in Chinaz and Yangiyul districts of Tashkent province improved and expanded.¹⁸

C. Outputs

12. **Output 1: VU-1 regional water supply system improved.** This output includes the rehabilitation of the VU-1 groundwater well field and associated facilities, construction of 65 km

¹² ADB. 2011. *Water Operational Plan, 2011–2020*. Manila.

¹³ ADB. 2013. *Urban Operational Plan, 2012–2020*. Manila.

¹⁴ ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

¹⁵ On 4 September 2017, the Central Bank of Uzbekistan devalued the national currency from SUM4,210 to SUM8,100 per US dollar following the publication of the decree of the President of Uzbekistan "On priority measures for liberalization of currency policy" on 2 September 2017.

¹⁶ Climate-resilient materials include high-density polyethylene pipes and polyethylene septic tanks.

¹⁷ Supervisory control and data acquisition systems with sensors, controls, automatic data loggers, and GIS mapping and database for efficient operation and maintenance (O&M) of the WSS systems.

¹⁸ See footnote 1 regarding inclusion of five settlements in Zangiota district. The design and monitoring framework is in Appendix 1.

of transmission mains, 27 km of distribution mains, 540 km of distribution network (85% new, 15% rehabilitated), 37 water reservoirs (23 new, 14 rehabilitated), 22 water distribution centers (12 new, 10 rehabilitated), 5 pressure towers, 2 administration buildings, 2 water quality laboratories, 37,500 metered water supply connections, and 4,000 individual wastewater disposal systems.

13. **Output 2: Institutional capacity strengthened.** This output will further improve the TPS's capacity through implementation of a (i) capacity and corporate development program, (ii) pilot program to identify and introduce PPP initiatives, (iii) sanitation and hygiene program to pilot decentralized wastewater disposal systems, (iv) GIS for the water network, and (v) developing a TPS training center.

D. Summary Cost Estimates and Financing Plan

14. The project is estimated to cost \$124.7 million (Table 1). Detailed cost estimates by expenditure category and by financier are included in the project administration manual (PAM).¹⁹

Table 1: Summary Cost Estimates
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1 VU-1 regional water supply system improved ^c	82.8
2 Institutional capacity strengthened	9.9
Subtotal (A)	92.7
B. Contingencies^d	26.9
C. Financial Charges During Implementation^e	5.1
Total (A+B+C)	124.7

^a Includes taxes and duties of \$19.4 million which the government will finance by exemption. Such amount does not represent an excessive share of the project cost.

^b In mid-2018 prices as of May 2018.

^c The term "VU-1" is the locally recognized name of the well field of the existing system.

^d Physical contingencies computed at 3% of base cost estimates for civil works and equipment. Price contingencies computed at average of 1.6% on foreign exchange costs and 8.7% on local currency costs.

^e Includes interest for the ADB loan at 2% per year.

Source: Asian Development Bank estimates.

15. The government has requested a concessional loan of \$105.3 million from ADB's ordinary capital resources to finance the project. The loan will have a 25-year term, including a grace period of 5 years; an interest rate of 2% per year during the grace period and thereafter; and such other terms and conditions set forth in the loan and project agreements. The government will relend the loan to the TPS pursuant to a subsidiary loan agreement under similar terms.

16. The summary financing plan is in Table 2. ADB will finance the expenditures in relation to civil works, goods, project implementation support, training, capacity building, and interest during implementation. It will also finance (i) costs of the project coordination unit (PCU) in the executing agency; (ii) social charges and withholding taxes on PCU staff salaries; and (iii) land acquisition and resettlement costs.

Table 2: Summary Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (concessional loan)	105.3	84.5
Government of Uzbekistan ^a	19.4	15.5
Total	124.7	100.0

^a Government contributions include taxes and duties.

Source: Asian Development Bank estimates.

¹⁹ Project administration manual (accessible from the list of linked documents in Appendix 2).

17. **Climate finance.** Climate mitigation is estimated to cost \$26.6 million and climate adaptation is estimated to cost \$5.5 million. ADB will finance 100% of mitigation costs and 100% of adaptation costs. Details are provided in Climate Change Assessment (accessible from the list of linked documents in Appendix 2).

E. Implementation Arrangements

18. The CSA is the executing agency for the project. The Project Coordination Unit (PCU) under CSA will handle procurement, contract management, financial management, project administration, safeguards compliance, and reporting. The TPS is the implementing agency for the project and responsible for (i) opening and managing the project's advance account; (ii) preparing and submitting required financial reports; (iii) signing all contracts under the project; (iv) ensuring implementation of gender action plan; and (v) coordinating, monitoring, verifying and reporting the project implementation progress on the ground. Detailed design of the first civil works contract package is expected to be approved in April 2019. The first Invitation for Bids is expected to be released in May 2019. The Request for Proposal for project management and construction supervision consultant (PMC) is expected to be issued in March 2019.

19. The implementation arrangements are summarized in Table 3 and described in detail in the PAM (footnote 19).

Table 3: Implementation Arrangements

Table 3: Implementation Arrangements			
Aspects	Arrangements		
Implementation period	August 2019–August 2025		
Estimated completion date	August 2025		
Estimated loan closing date	28 February 2026		
Management			
(i) Oversight body ^a	Ministry of Finance Ministry of Investment and Foreign Trade Ministry of Housing and Communal Services		
(ii) Executing agency	Agency <i>Kommunkhizmat</i> (Communal Services Agency)		
(iii) Coordination unit	Project Coordination Unit		
(iv) Implementing agency	TPS		
(v) Implementation unit	Strategic Development Department, TPS		
Procurement	Open competitive bidding: civil works	7 contracts	\$106,983,000
Consulting services	QCBS (90:10): PMC	International: 91 person-months National: 426 person-months	\$4,396,000
	QCBS (90:10): Detailed engineering designs	National: 361 person-months	\$2,579,000
	QCBS (90:10): Capacity and corporate development program	International: 1 contract	\$1,500,000
	QCBS (90:10): Sanitation and hygiene improvement program	International: 1 contract	\$840,000
	QCBS (90:10): Pilot study for public–private partnership initiative	International: 1 contract	\$480,000
	QCBS (90:10): Capacity building for groundwater supply development	National: 1 contract	\$480,000
	QCBS (90:10): Development of geographic information systems	International: 1 contract	\$600,000
	LCS: Financial audit	National: 1 contract	\$216,000
Advance contracting	Advance contracting for the PMC and detailed design consultants.		
Disbursement	The loan proceeds will be disbursed following ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank, LCS = least-cost selection, PMC = project management and construction supervision consultant, QCBS = quality- and cost-based selection, TPS = Tashkent Provincial Suvokova.

^a The functions of oversight bodies is stipulated in the Decree of the President of the Republic of Uzbekistan PP-3857 “On measures for improvement of the procedure for performing due diligence on pre-project, project, tender documentation and contracts,” dated 20 February 2018.
Source: Asian Development Bank.

III. DUE DILIGENCE

A. Technical

20. The project design addresses water shortages and quality issues, O&M deficiencies, and sanitation issues. The project feasibility study evaluated three water supply development options based on available water resources; investment efficiency; future operational expenditures; and potential environmental, social, and resettlement impacts.²⁰ The average consolidated water demand at the 2045 horizon is estimated at 48,000 cubic meters (m³) per day, with a maximum daily demand of 60,000 m³ per day. The application of advanced technologies and the prioritization of climate-resilient materials are key design features. Proposed technologies are compatible with local conditions.

B. Economic and Financial

21. **Economic analysis.** An economic analysis was conducted following ADB guidelines²¹ and derived benefits from (i) incremental water consumption calculated using willingness-to-pay and water demand projections as proxies, and (ii) resource cost savings from non-incremental water sales as households switch to piped water from alternative water sources. It also estimated the health benefits from the improved reliability and quality of non-incremental water consumption leading to potentially lower incidence of waterborne diseases in the project areas. The resulting base-case economic internal rate of return is 14.84%, exceeding ADB’s prescribed minimum discount rate of 9% and confirming the project’s economic viability. A sensitivity analysis undertaken indicated that the project will remain economically robust under the following scenarios: (i) 10% increase in investment cost, (ii) 10% increase in O&M costs, (iii) 10% decline in benefits, (iv) combination of the first three scenarios, and (v) 1-year delay in project benefits. The sensitivity analysis shows that the economic internal rate of return is most sensitive to a combination of an increase in capital cost and a decrease in benefits, and least sensitive to an increase in O&M costs.

22. **Financial analysis.** A financial cost–benefit analysis was conducted, and the results confirmed the financial viability of the project. The financial internal rate of return calculated was 1.32%, which exceeded the estimated weighted average cost of capital of 0.18%. The sensitivity analysis showed that financial viability will be at risk if a 10% increase in capital investments and O&M costs are combined simultaneously with a 10% decline in tariff revenues. To generate a positive financial internal rate of return, the analysis assumed under a worst-case scenario that tariffs would need to be increased by about 150% in real terms by 2026, increasing thereafter at 10% per year, except every 5 years when the rate increases by 20%. Nominally, this entails increasing the tariff for residential users from the current rate of SUM475 per m³ to SUM1,188 per m³ by 2026. The assumed increase in tariffs requires an annual real rate of increase of about 14%, which is higher than the 7% historical average of the real rate of tariff increases in Tashkent province since 2016. ADB has discussed the proposed rate of increase with the Ministry of Finance and TPS and both have agreed that the rate is reasonable, given the exceptionally high demand for clean and reliable water supply in the project districts and the relatively lower tariff increases in Tashkent region. The tariff would also be affordable to the targeted household

²⁰ Centralized water supply development options evaluated include (i) the VU-1 well field as a single raw water source; (ii) the VU-1 and Chinaz well fields as raw water sources; and (iii) the VU-1, Chinaz, and Almazor well fields as raw water sources. Option (i) has been selected as the least-cost and most beneficial option for the project population.

²¹ ADB. 2017. Guidelines for the Economic Analysis of Projects. Manila.

beneficiaries who have expressed their willingness to pay at least SUM2,500 per m³ for cleaner and more reliable water supplies. At present, most of them access clean water through trucks or vendors at a higher cost of SUM6,000 per m³.

23. To ensure financial sustainability, the government will support TPS's debt servicing, including the foreign exchange risk and necessary tariff reforms. The Ministry of Finance is mandated to review and regulate the tariff increases. Hence, operating loan covenants have been formulated and agreed to ensure that TPS's financial performance is enhanced, enabling TPS to use the ADB loan proceeds effectively and to meet its debt servicing requirements. The financial analysis indicates that the projected operating ratios, liquidity indicators and debt servicing coverage ratios of TPS will meet the agreed loan covenants.

C. Governance

24. The TPS was established and registered as a limited liability company in 2015 and became a state-owned enterprise in 2016. It is responsible for WSS services in Tashkent province. The overall financial management risk rating of TPS remains *substantial*, but this is expected to be reduced to *moderate* after sufficient training and experience has been acquired by its staff under the ongoing first project (footnote 8). The *substantial* financial management risk rating is because (i) the TPS is in the early stages of implementing its first project, and has relatively limited experience as an implementing agency with financial management responsibilities for project funds; and (ii) adjustments are necessary to its accounting, budgeting, auditing, and reporting systems regarding the project's financial management. The TPS is inexperienced in the management of ADB disbursements and does not have adequate administrative or accounting knowledge to manage an advance fund or the statement of expenditure procedures in accordance with ADB's Loan Disbursement Handbook (2017, as amended from time to time).

25. TPS's financial statements and reports require modifications to meet the reporting and auditing requirements of the project. Given the substantial risk, the principal mitigation measure proposed is that the CSA, with its prior experience in implementing large capital expenditure projects, will continue to supervise and guide the TPS. Financial management consultants will also be available to support the TPS.

26. Overall procurement-related risks on the project are rated *high* mainly because of multiple layers of oversight and approval procedures required by government agencies concerned, and insufficient procurement capacity of the TPS in multilateral bank-funded projects. CSA will continue to handle the procurement and train the TPS staff. The TPS's project document preparation and review process is considered adequate to ensure compliance with the ADB Procurement Policy (2017, as amended from time to time). The project will provide additional training on ADB procurement procedures to enhance PCU's procurement capacity.

27. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government, CSA, and TPS. The specific policy requirements and supplementary measures are described in the PAM (footnote 19).

D. Poverty, Social, and Gender

28. The project will have a direct impact on the health, economic prospects, and living conditions of the population of the project area. By 2025, the project will benefit 220,000 residents in 79 settlements within the project area, where currently 19% of all households are poor and 14% of the households are headed by women. Health benefits will be derived through (i) increased access to improved drinking water, (ii) greater water availability for personal hygiene, (iii) improved sanitation and reduced open defecation, and (iv) better septage management.

29. Women are primarily responsible for domestic chores, and the lack of reliable potable water supply increases this burden. In Chinaz and Yangiyul districts, women are solely responsible for fetching of drinking water in 54% of surveyed households, while Zangiota district, women are responsible in 26% of surveyed households. On average, water collecting accounts for 2.75 person-days per month in Chinaz and Yangiyul districts. About 70% of women are responsible for taking care of disabled, children, and sick family members, and 92% are responsible for removing solid and liquid domestic waste. Women working in kindergartens, schools, and hospitals bear the responsibility to fetch water several times a day and to clean toilets, since most of them do not have functioning sewerage systems. Provision of safe potable water will have a positive impact on women, and potentially allow them to spend more time in making earnings for their living. It will also positively impact the health of all family members, especially children and the elderly, resulting in savings on medical expenditures.

30. The project is classified as effective gender mainstreaming. The gender action plan includes (i) recruitment of a social and gender specialist in the PCU; (ii) sanitation facilities made available in 10 schools, 3 kindergartens, and 1 polyclinic in the project area; (iii) facilitation of women's participation in all project-associated activities; (iv) employment opportunities for women; (v) training of trainers on participatory hygiene and sanitation conducted (28 trainers, 30% of them being women); (vi) at least 30% of the project households engaged in the sanitation and hygiene awareness campaign primarily targeting women and girls; and (vii) at least 5,500 residents (50% of them being women and school girls) participated in sanitation and hygiene public awareness campaign.

E. Safeguards

31. In compliance with ADB's Safeguard Policy Statement (2009), the project's safeguard categories are as follows.²²

32. **Environment (category B).** Project impacts are expected to be limited in magnitude and of short duration, mostly related to the construction and rehabilitation of the groundwater well field, distribution centers, transmission trunks, and distribution networks. These impacts include the generation of dust, noise, hazardous solid wastes, labor and public safety, temporary access blockages, traffic disturbances, and construction material production and transportation. Mitigation measures to address construction and operational impacts are in the environmental management plan (EMP) that forms part of the initial environmental examination. The initial environmental examination was disclosed on the ADB website on 30 August 2018. Six public consultation meetings were conducted in the project districts.

33. Operation phase environmental impacts include higher water withdrawal of groundwater sources and increases in sewage compared with the existing situation. These impacts will be mitigated through proper implementation of mitigation measures developed in the EMP. Installation of about 4,000 individual wastewater disposal systems is planned in nine settlements of Chinaz district. For the remaining of the project area, sewerage improvements will potentially be included in the next project phase. The PCU within the CSA will be responsible for EMP implementation to comply with ADB's safeguards requirements and national environmental regulations. PCU will assign one environmental and social safeguards specialist who will be assisted by the international environment specialist of the PMC in overseeing EMP implementation. The TPS will also designate its staff responsible for EMP implementation, in close coordination with the CSA. EMP implementation will be financed by the project.²³ A grievance redress mechanism (GRM) to mitigate both environmental and social safeguard issues will be

²² ADB. Safeguard Categories.

²³ The costs of mitigation measures and environmental monitoring will be included in the construction contracts, and the cost for environmental supervision will be included in the PMC consulting services contract.

established after project effectivity. In addition to weekly, monthly and quarterly reporting, the PMC will assist the PCU to prepare semiannual environmental monitoring reports (EMRs) and a final EMR (including post-construction environmental audits) for submission to ADB and relevant government authorities. These reports will be disclosed to the public on the CSA website (in Uzbek or Russian) and the ADB website (in English).

34. **Involuntary resettlement (category B).** The project involuntary resettlement impact is considered as insignificant in accordance with ADB's Policy and Guidelines.²⁴ There will be no physical displacement of people. The project will require permanent land acquisition of 4 hectares of arable lands for construction of new water distribution centers and will temporarily impact 22.6 hectares of arable land during the construction of water transmission mains. The project initial socio-economic survey identified 68 affected households, of which 9 with permanent impacts and 59 with temporary impacts.

35. A land acquisition and resettlement plan (LARP) has been prepared to address all the associated losses in accordance with ADB's Safeguard Policy Statement and relevant national legislation. The LARP was disclosed on the ADB website on 28 August 2018. Project information disclosure and meaningful consultations with project stakeholders and displaced persons were undertaken during LARP preparation, and will continue throughout implementation. When the project design is finalized, the LARP will be updated in accordance with applicable laws, and ADB approval will be obtained prior to any further implementation. All displaced persons will receive compensation in accordance with the LARP provisions. The land required for the project will be made free of encumbrances in sections prior to commencement of construction. A GRM is in place in accordance with the LARP, to assist affected persons in resolving grievances and complaints. The CSA will submit semiannual safeguards monitoring reports to ADB for review and disclosure. The cost to implement the LARP is estimated at \$461,259, which includes a 15% contingency. The country has enabling laws for fair compensation and, over the years, the CSA has acquired experience in implementing ADB projects involving involuntary resettlement.

36. **Indigenous peoples (category C).** There are no indigenous peoples, as defined in ADB's Safeguard Policy Statement, in the project area.

F. Summary of Risk Assessment and Risk Management Plan

37. Significant risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.²⁵

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Frequently changing government procedures and staffing of the TPS weaken its financial management capacity. Limited institutional capacity of the TPS slows down project implementation.	The EA will provide supervision and support to the IA in financial management. The IA will (i) recruit accounting staff, and international and national financial management specialists; (ii) develop a financial management training plan, and train project financial staff; (iii) prepare a financial management manual; and (iv) ensure that the terms of reference for external audits are agreed with ADB. The project will include a capacity development program for the IA.
Prolonged government approval procedures by oversight agencies delay project implementation.	Close coordination will be maintained with government agencies. The PCU and IA staff will participate in ADB procurement training.

²⁴ ADB. Safeguard Policy Statement (2009); Handbook on Resettlement: A Guide to Good Practice (1998); Involuntary Resettlement Safeguards: A Planning and Implementation Good Practice Sourcebook (Draft 2012). Manila.

²⁵ Risk Assessment and Risk Management Plan (accessible from the linked document list in Appendix 2).

Risks	Mitigation Measures
Tariff increases are not implemented as expected.	To ensure financial sustainability, the government supports the TPS's debt servicing and water tariff reforms with recent tariff increases and tariff collection being handled by the Bureau of Compulsory Enforcement of the General Prosecutor's Office.

ADB = Asian Development Bank, EA = Executing Agency, IA = Implementing Agency, PCU = project coordination unit, TPS = Tashkent Provincial Suvokova.

Source: Asian Development Bank.

IV. ASSURANCES AND CONDITIONS

38. The government, CSA and TPS have assured ADB that implementation of the project shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the PAM and loan documents.

39. The government, CSA and TPS have agreed with ADB on certain covenants for the project, which are set forth in the draft loan agreement and project agreement.

40. It will be a condition for disbursement that the subsidiary loan agreement (pursuant to which the borrower will relend the entire proceeds of the loan to the TPS), in form and substance satisfactory to ADB, shall have been signed.

V. RECOMMENDATION

41. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of \$105,300,000 to the Republic of Uzbekistan for the Second Tashkent Province Water Supply Development Project, from ADB's ordinary capital resources, in concessional terms, with an interest charge at the rate of 2% per year during the grace period and thereafter; for a term of 25 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements presented to the Board.

Takehiko Nakao
President

12 March 2019

DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with Living standards, health, and economy in Tashkent province improved. ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Access to reliable, sustainable, and affordable water supply services in Chinaz and Yangiyul districts of Tashkent province improved and expanded	By 2026: a. 100% water supply service coverage in the project areas achieved (2018 baseline: 20%) b. Consumer satisfaction with the quality of water supply in the project areas increased to 90% (2018 baseline: 45%) c. Tariff collection for water supply service (from existing and new users) increased to 95% (2018 baseline: 85% from existing users)	a–c. Executing agency project completion report and survey report	Tariff increases are not implemented as expected
Outputs 1. VU-1 regional water supply system improved ^b	By 2026: 1a. One groundwater well field with 60,000 cubic meters per day capacity rehabilitated (2018 baseline: 20% of capacity) 1b. 65 km of water transmission main constructed, and 27 km of service main and 540 km of distribution networks constructed or rehabilitated (2018 baseline: About 5 km of dilapidated service main and 100 km of dilapidated distribution networks) 1c. 22 (12 new, 10 existing) water distribution centers constructed or rehabilitated (2018 baseline: 10 existing out-of-service) 1d. Five pressure towers constructed (2018 baseline: 0) 1e. 37 (23 new, 14 existing) reservoirs constructed or rehabilitated (2018 baseline: 14 existing out-of-service) 1f. Two water quality laboratories constructed and fully staffed (at least 30% of staff are women) (2018 baseline: 0) 1g. Two administrative buildings reconstructed (2018 baseline: 0)	1a–1i. TPS project progress reports, executing agency project completion report	Prolonged government approval procedures by oversight agencies delay project implementation

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	<p>1h. 4,000 individual wastewater disposal systems installed (2018 baseline: 0)</p> <p>1i. 37,500 water meters installed (2018 baseline: 7,500 existing meters)</p>		
2. Institutional capacity strengthened	<p>By 2026:</p> <p>2a. At least 20 TPS staff and O&M operators trained (2018 baseline: 0)</p> <p>2b. Geographic information system of utility networks and hydraulic model of water supply operations developed (2018 baseline: 0)</p> <p>2c. PPP initiatives implemented in at least three selected settlements (2018 baseline: None)</p> <p>2d. Gender-inclusive customer grievance redress mechanism commissioned, and customer care units established with 30% of staff being women (2018 baseline: None)</p> <p>2e. At least 30% of project households engaged in the sanitation and hygiene awareness campaign, primarily targeting women and girls (2018 baseline: 0)</p> <p>2f. Information tool kits on public health and hygiene distributed to at least 80% of educational staff in schools, kindergartens and colleges (2018 baseline: 0)</p> <p>2g. Sanitation and hygiene awareness campaign participated by at least 5,500 residents, including at least 50% women and school age girls (2018 baseline: 0)</p>	2a–2g. TPS project progress reports, executing agency project completion report	Limited institutional capacity of the TPS slows down project implementation
Key Activities with Milestones <ol style="list-style-type: none"> 1. VU-1 regional water supply system improved <ol style="list-style-type: none"> 1.1 The government approves feasibility study by Q2 2019 1.2 Mobilize project coordination unit staff by Q2 2019 1.3 Complete advance contracting for PMC by Q4 2019 1.4 Issue RFP for PMC services by Q2 2019 1.5 Detailed design for the first civil works contract package by Q2 2019 1.6 Award contract for PMC services by Q4 2019 1.7 Issue first civil works bidding documents by Q2 2019 1.8 Award first civil works contract by Q1 2020 1.9 Complete civil works contract(s) by Q3 2025 			

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
2. Institutional capacity strengthened 2.1 Issue RFP for capacity and corporate development program consultant services by Q2 2020 2.2 Award contract for capacity and corporate development program consultant services by Q4 2020 2.3 Develop and implement capacity building programs by Q3 2025 2.4 Complete consulting services contract(s) by Q3 2025 2.5 Develop geographic information system by Q3 2025 Project Management Activities Strengthen project coordination unit in Agency <i>Kommunkhizmat</i> (Communal Services Agency) Prepare and submit project progress reports			
Inputs Asian Development Bank: \$105.3 million (concessional ordinary capital resources loan) Government of Uzbekistan: \$19.4 million			
Assumptions for Partner Financing Not applicable			

km = kilometer, O&M = operation and maintenance, PMC = project management and construction supervision consultant, PPP = public private partnership, Q = quarter, RFP = request for proposal, TPS = Tashkent Provincial *Suvokova* (state unitary enterprise).

^a Defined by the project and developed in accordance with the Decree of the President of Uzbekistan No. 2910 dated 20-April-2017 "About drinking water supply and sewerage systems comprehensive development and modernization program during the period of 2017 - 2021".

^b The term "VU-1" is the locally recognized name of the well field of the existing system.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=51240-001-3>

1. Loan Agreement
2. Project Agreement
3. Sector Assessment (Summary): Water and Other Urban Infrastructure and Services
4. Project Administration Manual
5. Contribution to the ADB Results Framework
6. Development Coordination
7. Financial Analysis
8. Economic Analysis
9. Country Economic Indicators
10. Summary Poverty Reduction and Social Strategy
11. Risk Assessment and Risk Management Plan
12. Climate Change Assessment
13. Gender Action Plan
14. Initial Environmental Examination
15. Land Acquisition and Resettlement Plan

Supplementary Documents

16. Project Technical Analysis
17. Detailed Financial Analysis
18. Detailed Economic Analysis
19. Financial Management Assessment
20. Procurement Risk Assessment Report