



# Technical Assistance Report

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Project Number: 51197-001  
Knowledge and Support Technical Assistance (KSTA)  
December 2017

## Republic of Uzbekistan: Water and Sanitation Strategy Development and Capacity Building (Cofinanced by the People's Republic of China Poverty Reduction and Regional Cooperation Fund)

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**Asian Development Bank**

## CURRENCY EQUIVALENTS

(as of 19 December 2017)

Currency unit	–	Sum (SUM)
SUM1.00	=	\$0.00012
\$1.00	=	Sum 8,101.62

## ABBREVIATIONS

ADB	–	Asian Development Bank
CSA	–	Agency <i>Kommunkhizmat</i> (Communal Services Agency)
DCM	–	Decree of the Cabinet of Ministers
MHCS	–	Ministry of Housing and Communal Services
TA	–	technical assistance
WSS	–	water supply and sanitation

## NOTE

In this report, "\$" refers to United States dollars.

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## CONTENTS

	<b>Page</b>
KNOWLEDGE AND SUPPORT TECHNICAL ASSISTANCE AT A GLANCE	
I. INTRODUCTION	1
II. ISSUES	1
III. THE TECHNICAL ASSISTANCE	2
A. Impact and Outcome	2
B. Outputs, Methods, and Activities	2
C. Cost and Financing	3
D. Implementation Arrangements	4
IV. THE PRESIDENT'S DECISION	5
APPENDIXES	
1. Design and Monitoring Framework	6
2. Cost Estimates and Financing Plan	8
3. List of Linked Documents	9

## KNOWLEDGE AND SUPPORT TECHNICAL ASSISTANCE AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number: 51197-001</b>	
<b>Project Name</b>	Water and Sanitation Strategy Development and Capacity Building	<b>Department /Division</b>	CWRD/CWUW
<b>Country</b>	Uzbekistan	<b>Executing Agency</b>	Agency "Kommunkhizmat" (CSA) formerly Uzbekistan Communal Services Agency "Uzkommunkhizmat"
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>Financing (\$ million)</b>	
✓ Water and other urban infrastructure and services	Urban sanitation		0.10
	Urban water supply		0.10
		<b>Total</b>	<b>0.20</b>
<b>3. Strategic Agenda</b>	<b>Subcomponents</b>	<b>Climate Change Information</b>	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Low
<b>4. Drivers of Change</b>	<b>Components</b>	<b>Gender Equity and Mainstreaming</b>	
Governance and capacity development (GCD)	Institutional systems and political economy	Some gender elements (SGE)	✓
Knowledge solutions (KNS)	Knowledge sharing activities		
Partnerships (PAR)	Bilateral institutions (not client government)		
Private sector development (PSD)	Official cofinancing Conducive policy and institutional environment		
<b>5. Poverty and SDG Targeting</b>		<b>Location Impact</b>	
Geographic Targeting	No	Nation-wide	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG6, SDG11		
<b>6. TA Category:</b>			
<b>7. Safeguard Categorization</b> Not Applicable			
<b>8. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>0.20</b>	
Knowledge and Support technical assistance: Technical Assistance Special Fund		0.20	
<b>Cofinancing</b>		<b>0.80</b>	
People's Republic of China Poverty Reduction and Regional Cooperation Fund		0.80	
<b>Counterpart</b>		<b>0.00</b>	
None		0.00	
<b>Total</b>		<b>1.00</b>	
<b>9. Effective Development Cooperation</b>			
Use of country procurement systems		Yes	
Use of country public financial management systems		Yes	

## I. INTRODUCTION

1. The knowledge and support technical assistance (TA) will strengthen reforms in Uzbekistan's urban water supply and sanitation (WSS). It will help the government formulate components of a medium-term national urban WSS sector development strategy, build institutional capacity in the national WSS training center, formulate and deliver priority training modules for the center, and improve and refine WSS regulations. The TA is consistent with the country partnership strategy but is not included in the country operations business plan, 2018–2020 for Uzbekistan.<sup>1</sup>

## II. ISSUES

2. **Challenge.** Uzbekistan is one of the most important economies of the Belt and Road Initiative in Central Asia.<sup>2</sup> Historically, the WSS sector has suffered from a combination of insufficient investment and an inadequate policy framework. Acute funding constraints for capital investments and poor operations and maintenance have led to poor service, including high losses from leaks, frequent breakdowns, and excessive repair costs. Institutional arrangements are characterized by (i) fragmented and dysfunctional regulatory and institutional frameworks, (ii) restricted sector planning capabilities, (iii) ineffective regulatory compliance mechanisms, and (iv) weak interagency coordination and oversight. Independent WSS utilities, known as *vodokanals*, did not have the operational capacity or sufficient compensation to deliver adequate WSS services. This has (i) undermined consumer confidence and their willingness to pay; and (ii) increased regulator's reluctance to raise tariffs, further constraining financial and institutional performance.

3. **Current intervention.** Since 2000, the Asian Development Bank (ADB) has invested more than \$500 million in the rehabilitation and expansion of Uzbekistan's WSS infrastructure. More than 5 million residents have benefited from this assistance through safer and more reliable WSS services. To address the government's institutional shortcomings, ADB has assisted in the development of a phased, nationwide reform program, including the reorganization and consolidation of WSS sector institutions, and implementation of sector-wide reforms.

4. Phase 1 of the reform program, which focused on institutional consolidation, was implemented under the ADB-financed Uzbekistan Water Supply and Sanitation Services Investment Program in 2009–2018. In 2015, the Government of Uzbekistan enacted the Decree of the Cabinet of Ministers (DCM) 306<sup>3</sup> to establish regional WSS utilities, known as *suvokovas*, in each province. *Vodokanals* were restructured and absorbed as branches of their respective provincial *suvokovas*. *Suvokovas* are also mandated to implement more than 40 corporate governance improvements to strengthen utility capacity.<sup>4</sup> Phase 2, which is ongoing, aims to

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<sup>1</sup> The TA first appeared in the business opportunities section of ADB's website on 19 December 2017. The TA is a continuation of the strategy as defined by the Urban WSS sector development and investment strategy study and supported by ADB. ADB. 2017. *Country Operations Business Plan: Uzbekistan, 2018–2020*. Manila.

<sup>2</sup> The Belt and Road Initiative, also known as the Silk Road Economic Belt and the 21st-century Maritime Silk Road, is an initiative advocated by the People's Republic of China and joined by others to improve connectivity and economic cooperation.

<sup>3</sup> The Cabinet of Ministers enacted DCM 306, entitled "On measures to implement the main directions of development of the organizations of water supply and sanitation," on 30 October 2015.

<sup>4</sup> The corporate governance requirements include (i) conducting an inventory of assets and consumers; (ii) instituting transparent billing systems; (iii) strengthening fiscal controls and accountability; (iv) adopting a geographic information system for asset management; (v) strengthening customer grievances redress systems; (vi) introducing performance reporting; (vii) reviewing and approving business plans; and (viii) implementing public information campaigns, training, and other measures.

overhaul of the WSS institutional framework. The Agency *Kommunhizmat* (CSA) under the Ministry of Housing and Communal Services (MHCS) is expected to (i) unify government policy on WSS, (ii) manage interdepartmental coordination in WSS, and (iii) implement WSS projects financed by international financing institutions. The State Unitary Enterprise Educational and Methodological Center *Kommunalukuv* has also been transitioned under MHCS into the main training center to build human resource capacity, facilitate the formulation and refinement of legislation, and undertake public awareness activities.<sup>5</sup>

5. **Critical path.** Although the WSS sector reform has made substantial progress, three key initiatives have been identified as being critical to the ongoing reform process: (i) formulation of a medium-term WSS sector development strategy to guide sector development from 2019–2028, (ii) targeted training and support to build the institutional and operational capacity of *Kommunalukuv*, and (iii) refinement of DCM 306 and other regulations based on recent sector findings and emerging developments.

6. The TA will help CSA develop and implement all three initiatives. The TA is consistent with and supports the country partnership strategy for Uzbekistan, 2012–2016<sup>6</sup> by (i) building institutional and management capacity in WSS utilities to enhance their corporate practices, and (ii) improving cost recovery and strengthening accountability. The TA also supports ADB's ongoing WSS sector program, as outlined in the country operations business plan for Uzbekistan, 2018–2020.<sup>7</sup>

### III. THE TECHNICAL ASSISTANCE

#### A. Impact and Outcome

7. The TA is aligned with the following impact: urban WSS services improved. The TA will have the following outcome: Urban WSS strategy and institutional capacity enhanced.<sup>8</sup>

#### B. Outputs, Methods, and Activities

8. The TA outputs will support the government's sector reforms by assisting in formulating a medium-term WSS sector development strategy, strengthening the capacity of *Kommunalukuv*, and updating and refining existing WSS sector regulations. The TA will build upon (i) ADB's sector knowledge and experience, particularly its engagement in recent WSS reforms; (ii) international best practice in modern utility planning, management, and operations; and (iii) longer-term international twinning opportunities to provide continuity in knowledge transfer, learning, and capacity strengthening. TA activities will be closely aligned with and support ongoing and planned ADB investments in the WSS sector, which will benefit from the TA's focus on institutional capacity building and training.

9. **Output 1: Medium-term urban water supply and sanitation sector development and investment strategy prepared.** Output 1 has three key components: (i) drinking water resource

<sup>5</sup> Before the recent reforms, the training center *Kommunalukuv* was known as the Republican Educational–Methodological and Legal–Engineering Center *Uzkommunukuvtashkilotchi*, which reported to Agency *Uzkommunhizmat*, which has been transitioned under the MHCS into the CSA.

<sup>6</sup> ADB. 2012. *Country Partnership Strategy: Uzbekistan, 2012–2016*. Manila.

<sup>7</sup> Including the Western Uzbekistan Water Supply System Development Project and the Tashkent Region Sanitation System Development Project, firm for 2019.

<sup>8</sup> The design and monitoring framework is in Appendix 1.

management and protection;<sup>9</sup> (ii) WSS development strategy, tariff regulations, and proposed investments;<sup>10</sup> and (iii) wastewater discharge standards. The TA will also assess alternative contracting arrangements, including potential public–private partnership modalities.

**10. Output 2: Training Center *Kommunalukuv* capacity strengthened.** The following sector-specific activities will be completed:

- (i) WSS sector diagnostic assessment and formulation of an institutional development program;<sup>11</sup>
- (ii) formulation of a capacity development program for *Kommunalukuv* personnel;
- (iii) confirmation of a twinning arrangement with a WSS knowledge-based facility;<sup>12</sup>
- (iv) development of three priority modules of the *Kommunalukuv* methodological toolkit, including for each module (a) diagnostic assessments, (b) formulation of appropriate methodological guidelines incorporating international best practices, (c) formulation of training modules, (d) piloting and refining of the training modules, (e) training of *Kommunalukuv* trainers, and (f) supervising and monitoring of *Kommunalukuv* trainers during initiation;<sup>13</sup>
- (v) international training tours;<sup>14</sup> and
- (vi) improvement of training facilities.<sup>15</sup>

**11. Output 3: Water supply and sanitation regulatory framework improved.** The achievement of this output involves assisting *Kommunalukuv* in reviewing and refining DCM 306 and other regulations based on recent sector findings and emerging developments.

### C. Cost and Financing

12. The TA is estimated to cost \$1,000,000, of which (i) \$800,000 will be financed on a grant basis by the People's Republic of China Poverty Reduction and Regional Cooperation Fund<sup>16</sup> and administered by ADB; and (ii) \$200,000 will be financed on a grant basis by the Technical Assistance Special Fund (TASF-other sources). The key expenditure items are listed in Appendix 2. The government will provide counterpart support in the form of counterpart staff, access to reports and information, and other in-kind contributions.

<sup>9</sup> Incorporating water balance, water use, and conservation.

<sup>10</sup> Including systems diagnostic assessment, demand analysis, capital investment programming, and the incorporation of smart technologies.

<sup>11</sup> To strengthen its mission, objectives, services, management structure, human resources, revenue base, and tariff setting and financial management capabilities.

<sup>12</sup> The twinning arrangement will provide long-term knowledge-based support to *Kommunalukuv*.

<sup>13</sup> The three training modules are (i) basic corporate knowledge—including training for water balance, billing systems, geographic information system, key performance indicators, accountability, grievance redress mechanisms, public service contracts, energy efficiency, public awareness campaign, and training on water conservation and hygiene (in general, this module will constitute an effective knowledge base on the performance management framework of WSS utilities); (ii) operation and maintenance—including training for asset management, nonrevenue water management, leak detection, and repair (the module will be developed using modern information communication technologies); and (iii) financial management and billing systems—including training for automated accounting systems based on government standards.

<sup>14</sup> Including tours of established WSS entities in the People's Republic of China and possibly the United Kingdom, France, or Germany.

<sup>15</sup> Including computers and office equipment, furniture, and fixtures.

<sup>16</sup> The fund was originally named the People's Republic of China Regional Cooperation and Poverty Reduction Fund in a 2005 Board paper.

## D. Implementation Arrangements

13. ADB will be the implementing agency and will administer the TA. CSA under MHCS, the government's lead agency for WSS policy, coordination, and internationally financed project implementation, will be the executing agency. The Urban Development and Water Division of ADB's Central and West Asia Department will select, supervise, and evaluate consultants. The consultants will liaise closely with CSA and other government agencies throughout the TA. CSA will (i) appoint a project coordinator and counterpart staff, who will work closely with the consultants and support them as required; and (ii) provide project-related data, information, and technical support as required. Following the People's Republic of China Poverty Reduction and Regional Cooperation Fund Guidelines, ADB will prepare annual progress reports.

14. The implementation arrangements are summarized in the table.

**Implementation Arrangements**

Aspects	Arrangements		
Indicative implementation period	March 2018–February 2021		
Executing agency	CSA, MHCS		
Implementing agency	ADB		
Consultants	To be selected and engaged by ADB		
	QCBS (90:10) 1 contract	16 person-months (international and national consultants)	\$200,000
	ICS international consultants	15 person-months	\$300,000
	ICS national consultants	15 person-months	\$53,000
Procurement	To be procured by consultants		
	Shopping	3 contracts	\$260,000
Advance contracting and retroactive financing	Not applicable		
Disbursement	The TA resources will be disbursed following ADB's <i>Technical Assistance Disbursement Handbook</i> (2010, as amended from time to time). The disbursement arrangement will follow frontloading of ADB-administered funds.		
Asset turnover or disposal arrangements upon TA completion	All goods and equipment purchased under the TA will be turned over to CSA at or before the completion of the TA.		

ADB = Asian Development Bank, CSA = Agency *Kommunhizmat* (Communal Services Agency), MHCS = Ministry of Housing and Communal Services, QCBS = quality- and cost-based selection, TA = technical assistance.  
Source: Asian Development Bank estimates.

15. **Consulting services.** The required expertise is in line with the outputs of the TA. ADB will engage the consultants in accordance with the ADB Procurement Policy (2017, as amended from time to time) and the associated project administration instructions and TA staff instructions.<sup>17</sup> The consultants will procure any goods and equipment purchased under the TA, and will turn them over to the CSA at or before the completion of the TA.

<sup>17</sup> Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 3).



#### **IV. THE PRESIDENT'S DECISION**

16. The President, acting under the authority delegated by the Board, has approved (i) the Asian Development Bank (ADB) administering a portion of technical assistance not exceeding the equivalent of \$800,000 to be financed on a grant basis by the People's Republic of China Poverty Reduction and Regional Cooperation Fund and (ii) ADB providing the balance not exceeding the equivalent of \$200,000 on a grant basis to the Government of Uzbekistan for Water Supply and Sanitation Strategy Development and Capacity Building, and hereby reports this action to the Board.

## DESIGN AND MONITORING FRAMEWORK

Impact the TA is Aligned with Urban water supply and sanitation services improved. <sup>a</sup>			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<b>Outcome</b> Urban WSS strategy and institutional capacity enhanced.	a. Medium-term urban WSS strategy adopted by the government (2017 baseline: not adopted)  b. Revised WSS regulation adopted by the government (2017 baseline: not endorsed)  c. <i>Kommunalukuv</i> institutional program implemented (2017 baseline: not applicable)	Quarterly CSA TA monitoring report  Published reports of regulatory framework	Changes in government's strategic priorities
<b>Outputs</b> 1. Medium-term urban WSS sector development and investment strategy prepared	Medium-term urban WSS strategy developed including (i) drinking water resource management; (ii) water supply systems development, tariff regulation, and areas for investment; and (iii) WSS discharge standards submitted by 2019 (2017 baseline: 0)	Strategic outputs report	Frequent changes in government leadership prolong the government review process
2. Training Center <i>Kommunalukuv</i> capacity strengthened	2a. WSS sector diagnostic assessment and institutional development program formulated and implemented with at least 30% women participants by 2020 (2017 baseline: not applicable)  2b. Capacity development program for <i>Kommunalukuv</i> personnel formulated by 2020 (2017 baseline: not applicable)  2c. Twinning arrangement with at least one WSS knowledge-based facility	2a–2d. Quarterly CSA TA monitoring report	High turnover of qualified trainers

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	confirmed by 2020 (2017 baseline: 0)  2d. Three priority modules of the <i>Kommunalukuv</i> methodological toolkit developed and implemented with at least 30% women participants by 2020 (2017 baseline: 0)		
3. WSS regulatory framework improved	Revised WSS regulation adopted by the government (2017 baseline: not applicable)	Quarterly CSA TA monitoring report	Prolonged consultation process with government agencies and stakeholders
<b>Key Activities with Milestones</b> <ol style="list-style-type: none"> <li>1. Medium-term urban WSS sector development and investment strategy prepared               <ol style="list-style-type: none"> <li>1.1. Mobilize consultants by Q3 2018</li> <li>1.2. Complete stakeholder consultation by Q1 2019</li> <li>1.3. Submit draft final report for government review and approval by Q3 2019</li> <li>1.4. Submit final strategy report by Q2 2020</li> </ol> </li> <li>2. Training Center <i>Kommunalukuv</i> capacity strengthened               <ol style="list-style-type: none"> <li>2.1. Mobilize consultants by Q3 2018</li> <li>2.2. Prepare methodology by Q4 2018</li> <li>2.3. Complete stakeholder consultation by Q1 2019</li> <li>2.4. Design and prepare training modules by Q2 2019</li> <li>2.5. Deliver training programs, Q3 2019–Q1 2021</li> <li>2.6. Complete two international training tours by Q4 2020</li> <li>2.7. Submit final report by Q1 2021</li> </ol> </li> <li>3. WSS regulatory framework improved               <ol style="list-style-type: none"> <li>3.1. Mobilize consultants by Q3 2018</li> <li>3.2. Complete stakeholder consultation by Q1 2019</li> <li>3.3. Submit draft final report for government review and approval by Q3 2019</li> <li>3.4. Submit final regulatory framework report by Q2 2020</li> <li>3.5. Conduct international workshops on WSS development strategy by Q4 2020</li> </ol> </li> </ol>			
<b>Inputs</b> ADB: \$200,000 People's Republic of China Poverty Reduction and Regional Cooperation Fund: \$800,000  Note: The government's contribution will be in the form of counterpart staff, access to reports and information, and other in-kind contributions.			
<b>Assumptions for Partner Financing</b> Not Applicable			

ADB = Asian Development Bank, CSA = Agency *Kommunkhizmat* (Communal Services Agency), Q = quarter, TA = technical assistance, WSS = water supply and sanitation.

<sup>a</sup> Defined by the TA.

Source: Asian Development Bank.

**COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

<b>Item</b>	<b>Amount</b>	
	<b>Asian Development Bank</b>	<b>People's Republic of China Poverty Reduction and Regional Cooperation Fund<sup>a</sup></b>
A. Consultants		
1. Remuneration and per diem		
a. International consultants	100.0	266.0
b. National consultants	0.0	93.5
2. Out-of-pocket expenditures		
a. International and local travel	0.0	79.0
b. Office space rental and related facilities	0.0	12.5
c. Reports and communications	0.0	12.0
d. Miscellaneous administration and support costs <sup>b</sup>	0.0	20.0
B. Equipment and goods <sup>c</sup>	100.0	160.0
C. Training, seminars, and conferences	0.0	107.0
D. Contingencies	0.0	50.0
<b>Total</b>	<b>200.0</b>	<b>800.0</b>

Note: The technical assistance (TA) is estimated to cost \$1,000,000, of which contributions from the Asian Development Bank (ADB) and the People's Republic of China Poverty Reduction and Regional Cooperation Fund are presented in the table. The government will provide counterpart support in the form of staff, access to reports and information, and other in-kind contributions. The value of government contribution is estimated to account for 20% of the total TA cost.

<sup>a</sup> Administered by ADB. The disbursement arrangement will follow frontloading of ADB-administered funds.

<sup>b</sup> This will cover office services, stationaries, and supplies.

<sup>c</sup> This includes computers, office equipment, furniture, and fixtures for the training center.

Source: Asian Development Bank estimates.

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/LinkedDocs/?id=51197-001-TARreport>

1. Terms of Reference for Consultants