



Project Readiness Financing Report

Project Number: 53107-001
October 2019

Republic of Uzbekistan: Urban Services Projects

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CURRENCY EQUIVALENTS

(as of 7 August 2019)

Currency unit	–	sum (SUM)
SUM1.00	=	\$0.000115
\$1.00	=	SUM8,704.87

ABBREVIATIONS

ADB	–	Asian Development Bank
CSA	–	Agency Kommunkhizmat (Communal Services Agency)
DED	–	detailed engineering design
EPCM	–	engineering, procurement, and construction management
PAM	–	project administration manual
PCU	–	project coordination unit
PRF	–	project readiness financing
TA	–	technical assistance
TPS	–	Tashkent Province Suvokova

NOTE

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

Vice-President	Shixin Chen, Operations 1
Director General	Werner Liepach, Central and West Asia Department (CWRD)
Director	Yong Ye, Urban Development and Water Division, CWRD
Team leader	Jung Ho Kim, Senior Urban Development Specialist, CWRD
Team members	Ana Paula Araujo, Environment Specialist, CWRD
	Andrew Brian Bennett, Counsel, Office of the General Counsel
	Lilibeth Manalaysay-Buenavente, Associate Project Analyst, CWRD
	Linda Dimayuga, Senior Project Officer, CWRD
	Minhong Fan, Senior Procurement Specialist, Procurement, Portfolio, and Financial Management Department
	Feruzha Insavaliyeva, Associate Safeguards Officer, Uzbekistan Resident Mission (URM), CWRD
	Doniyor Mukhammadaliyev, Social Sector Officer, URM, CWRD
	Kiyoshi Nakamitsu, Principal Urban Development Specialist, CWRD
	Kee-Yung Nam, Principal Energy Economist, Sustainable Development and Climate Change (SDCC)
	Diep Pham, Senior Financial Management Specialist, CWRD
	Nathan Rive, Climate Change Specialist, CWRD
	Yukihiro Shibuya, Social Development Specialist (Safeguards), CWRD
	Annalyn Almodiel-Toledo, Operations Assistant, CWRD
	Seok Yong Yoon, Principal Public Management Specialist (e-Governance)
Peer reviewer	Christian Walder, Water Supply and Sanitation Specialist, SDCC

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 53107-001	
Project Name	Urban Services Projects	Department/Division	CWRD/CWUW
Country	Uzbekistan	Executing Agency	Agency "Kommunhizmat" (CSA) formerly Uzbekistan Communal Services Agency "Uzkommunkhizmat"
Modality	Project Readiness Financing (Loan)		
Borrower	Republic of Uzbekistan		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=53107-001-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=53107-001-PortAtaGlance		
2. Sector		ADB Financing (\$ million)	
✓ Water and other urban infrastructure and services	Other urban services		3.00
	Urban policy, institutional and capacity development		2.00
	Urban sanitation		4.50
	Urban solid waste management		1.00
	Urban water supply		4.50
	Total		15.00
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		Climate Change impact on the Project	Low
✓ Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability			
✓ Making cities more livable		ADB Financing	
✓ Strengthening governance and institutional capacity		Adaptation (\$ million)	2.25
		Mitigation (\$ million)	2.25
Sustainable Development Goals		Poverty Targeting	
SDG 6.2, 6.a		General Intervention on Poverty	✓
SDG 10.2			
SDG 11.6, 11.7, 11.a			
SDG 12.c			
SDG 13.a			
4. Risk Categorization:	Low		
5. Safeguard Categorization	Not Applicable.		
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		15.00	
Sovereign Project Readiness Financing (Concessional Loan): Ordinary capital resources		15.00	
Cofinancing		0.00	
None		0.00	
Counterpart		1.80	
Government		1.80	
Total		16.80	
Currency of ADB Financing: US Dollar			

I. PROJECT READINESS FINANCING

A. Rationale

1. **Country and sector context.** Uzbekistan has one of the fastest-growing economies in Central Asia—gross domestic product growth was 5.1% in 2018, and is projected to be 5.0% in 2019–2020.¹ Agriculture plays a significant role, and Uzbekistan is currently the world’s fifth largest producer of cotton and a major regional producer of fruits and vegetables.² However, with a young and growing population and increasing rural–urban migration,³ urban growth is an important contributor to the country’s recent economic achievements.

2. **Key urban sector challenges.** Rapid urbanization and uncoordinated and financially constrained expansion of cities have placed a heavy burden on the country’s aging urban infrastructure, affecting the quality of life, overall attractiveness to investors, and the potential for job creation. Cities are at risk of service delivery failure because of unmanageable growth and limited urban infrastructure, while demand for urban services and infrastructure is increasingly unmet. The issue is further aggravated by (i) the absence of an urbanization policy, strategy, and plans; (ii) rapid urban sprawl with fragmented investments and inefficient service delivery; (iii) weak property laws and regulations; and (iv) low capacity at the city level for urban planning and strategic capital investment. The country needs a national urbanization policy and strategy as well as strategic investments to balance regional development, sustain economic growth, and improve livability for its citizens.

3. **Government’s approach.** As a result of presidential decrees on urbanization,⁴ the government established an urbanization agency under the Ministry of Economy and Industry to analyze demographic and economic trends in cities and adjoining areas to (i) identify growth areas, (ii) prepare and implement a national urbanization strategy, (iii) develop a comprehensive program for integrated urban development, (iv) provide a holistic solution to urban sector challenges, (v) improve urban–rural linkages, and (vi) promote coordinated urban planning and management in public services.⁵ The Asian Development Bank (ADB), in coordination with other development partners,⁶ is supporting the agency through advisory and capacity development services provided under a transaction technical assistance (TA) facility to prepare the national urbanization strategy, road map, and master plans and to identify innovative solutions for making cities livable.⁷ The transaction TA facility (footnote 7) is also financing feasibility studies and safeguard due diligence for the ensuing projects. Four urban projects are currently identified in ADB’s country operations business plan for Uzbekistan, 2019–2021: the Tashkent Province Sewerage Improvement Project, Water Supply and Sanitation Development Program, Integrated Urban Development Project, and Sustainable Solid Waste Management Project.⁸

4. **Project readiness financing.** ADB’s experience in Uzbekistan shows that slow project start-up after approval—caused mainly by the government’s inability to prepare the detailed engineering design (DED) and procurement documents in a timely manner—has a negative impact on projects

¹ ADB. 2019. *Asian Development Outlook 2019-Strengthening Disaster Resilience*. Manila.

² World Bank. 2018. *Farmers and Agribusinesses in Uzbekistan*. Washington, DC.

³ The urbanization level in Uzbekistan is 51%. Government of Uzbekistan, State Committee of Statistics. 2017. [Demographic Situation in the Republic of Uzbekistan](#). Tashkent.

⁴ Presidential Decree Nos. UP-5621 and No. UP-5623, both dated 10 January 2019.

⁵ Services include water and sanitation, solid waste management, urban transport and tourism development.

⁶ 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 other regions of Uzbekistan.

⁷ ADB. 2019. *Technical Assistance to the Republic of Uzbekistan for [Preparing Urban Development and Improvement Projects](#)*. Manila.

⁸ ADB. 2018. *Country Operations Business Plan: Uzbekistan, 2019–2021*. Manila.

by prolonging implementation, increasing cost, and compromising their impact. The project readiness financing (PRF) is an integral part of ADB's support to the sector. It will support a high level of project readiness by preparing and completing DED, procurement documents, and advance assessment of procurement packages before project approval. The PRF will also strengthen the capacity of project executing and implementing agencies of each ensuing project. The design of the PRF is aligned with ADB's country partnership strategy for Uzbekistan, 2019–2023,⁹ and ADB's water and urban operational plans, and environmental operational directions. It also contributes to three of the seven key operational priorities under ADB's Strategy 2030 regarding livable cities, strengthening governance and institutional capacity, and enhancing environmental sustainability.¹⁰

5. **ADB's value addition.** This will be the first PRF in Uzbekistan and will support procurement readiness for multiple urban projects. To achieve a high level of project readiness, the F-TRTA (footnote 7) financed due diligence will be followed by the PRF technical engineering design and procurement supports. ADB value addition and innovation will include (i) immediate support for the preparation of detailed design and procurement documents; (ii) an early start-up and shortened project implementation period; (iii) identification of smart solutions and alternatives through high-level technology and climate-resilient designs; (iv) support for institutional reforms and capacity development through information and communication technology, and public–private partnership arrangements; (v) advance assessments for procurement packaging; (vi) detailed institutional solutions for enhanced operation and financial sustainability; and (vii) strengthened capacity of relevant stakeholders for integrated urban planning and management.

B. Outputs and Activities

6. The PRF will ensure the readiness of ADB-financed urban development projects by delivering the following outputs.

7. **Output 1: Detailed engineering design and procurement support completed.** For the ensuing projects, once the transaction TA due diligence has confirmed the viability of the proposed investments, the PRF will complete the preparation of DED and procurement documents. Innovative solutions using advanced information and communication technology will be incorporated in the project designs to ensure effective asset management as appropriate. Climate resilient and energy efficient design and gender elements will be reflected in the DED.

8. **Output 2: Business model, service delivery standards, social inclusion, financial sustainability and operations improved.** The PRF will support institutional reforms and capacity development with a socially inclusive approach to shape new business models for public utility companies and municipalities to improve service delivery and ensure financial and operational sustainability of the ensuing projects. Such support will include measures to (i) strengthen asset management; (ii) increase client orientation; (iii) improve cost recovery, service standards, accountability, and incentive mechanisms; and (iv) upgrade urban institutions for better planning and management, including mechanisms for effective land use systems. Private sector contracting for operation and maintenance of public utility facilities will also be explored to take advantage of private sector efficiencies and management approaches that can reduce costs and enhance operations.

9. **Output 3: Institutional capacity of executing agencies and implementing agencies strengthened.** The PRF will finance the cost of establishing project coordination units to support the executing agencies and implementing agencies ahead of the ensuing loan approval. This will result

⁹ ADB. 2019. *Country Partnership Strategy: Uzbekistan, 2019–2023—Supporting Economic Transformation*. Manila.

¹⁰ ADB. 2011. *Water Operational Plan, 2011–2020*. Manila; ADB. 2013. *Urban Operational Plan, 2012–2020*. Manila; ADB. 2013. *Environmental Operational Directions, 2013–2020*. Manila; and ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

in high project implementation readiness. Support for the development of integrated urban planning and management capacity for the ensuing projects will also be provided as part of the output.

C. Ensuing Projects

10. The PRF will support the preparation of three of the four urban development projects (in para. 3) to improve living standards, public health, and local economic viability in multiple cities and urban areas. The second and third ensuing projects listed in Table 1 may be replaced with other projects identified in ADB's country operations business plan (footnote 8) if they meet the project selection criteria outlined in Appendix, and are agreed to between ADB and the government.

Table 1: List of Ensuing Projects

Project Name	Indicative Financing Amount	Expected Year of Approval
Tashkent Province Sewerage Improvement Project	\$160 million	2020
Water Supply and Sanitation Development Program	\$200 million ^a	2020
Integrated Urban Development Project	\$300 million ^b	2021

^a Appropriate lending modalities are being explored for the program.

^b Including cofinancing of \$100 million.

Source: Asian Development Bank estimates.

D. Cost Estimates and Financing Arrangements

11. The PRF is estimated to cost \$16.8 million (Table 2). The government will provide \$1.8 million equivalent of in-kind contributions, mainly in the form of exemption of taxes and duties. Detailed cost estimates by expenditure category and by financier are included in the project administration manual (PAM).¹¹ Climate finance is estimated at \$2.25 million for climate change mitigation, and \$2.25 million for climate change adaptation, respectively, reflecting the design of climate resilient and energy efficient infrastructure in ensuing projects.

Table 2: Summary Cost Estimates
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Detailed engineering design and procurement support completed	11.3
2. Business model, service delivery standards, social inclusion, financial sustainability and operations improved	2.5
3. Institutional capacity of executing agencies and implementing agencies strengthened	1.5
Subtotal (A)	15.3
B. Contingencies	0.8
C. Interest During Implementation	0.7
Total (A+B+C)	16.8

^a Includes taxes and duties of \$1.8 million. Such amount does not represent an excessive share of the project cost.

^b In mid-2019 prices as of August.

Source: Asian Development Bank estimates.

12. The government has requested a concessional loan of \$15 million from ADB's ordinary capital resources to help finance project preparation and design activities. The loan will have a 25-year term, including a grace period of 5 years, an interest rate of 2.0% per year during the grace period and thereafter, and such other terms and conditions set forth in the draft loan agreement.

13. The summary financing plan is in Table 3. ADB will finance the expenditures in relation to consulting services, surveys, establishment of the project coordination unit (PCU), and financial charges during implementation.

¹¹ Project Administration Manual (accessible from the list of linked documents in Appendix).

Table 3: Summary Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (concessional loan)	15.0	89.3
Government ^a	1.8	10.7
Total	16.8	100.0

^a The government will finance taxes and duties through exemptions, as in-kind contributions.
Source: Asian Development Bank estimates.

E. Implementation Arrangements

14. The implementation arrangements are summarized in Table 4 and described in detail in the PRF PAM (footnote 11). Procurement will follow the ADB Procurement Policy (2017, as amended from time to time), and Procurement Regulations for ADB Borrowers (2017, as amended from time to time) and its associated staff instructions. The project has high readiness.

Table 4: Implementation Arrangements for Project Readiness Financing^a

Aspects	Arrangements		
PRF Implementation period	October 2019–October 2024		
Estimated completion date	April 2025		
Management			
(i) Executing agency	Agency Kommunkhizmat (Communal Services Agency)		
(ii) Implementing agency	Tashkent Province Suvokova		
Consulting services ^b	QCBS 90:10 (EPCM)	700 person-months minimum	\$10.5 million
	QCBS 90:10 (PMCCB)	400 person-months minimum	\$4.0 million
	ICS (safeguards)	60 person-months minimum	\$0.8 million
Advance contracting	All consulting service packages are proposed for advance contracting.		
Disbursement	Disbursement under PRF will follow 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; EPCM = engineering, procurement, and construction management; ICS = individual consultant selection; PMCCB = project management, coordination, and capacity building; PRF = project readiness financing; QCBS = quality- and cost-based selection.

^a Executing agency and implementing agency arrangements during the implementation of the PRF may be changed in accordance with ADB. 2018. Project Readiness Financing. *Operations Manual*. OM D16. Manila; and Staff Instruction on Business Process for Project Readiness Financing.

^b EPCM, PMCCB, and ICS (safeguards) consultants will be procured for each ensuing project.

Source: Asian Development Bank estimates.

15. ADB will conduct proposal evaluations and select consultants in close coordination with the government. The implementing agency will negotiate with the selected consultants and sign the contracts. Consulting firms and individual consultants will be recruited following the ADB Procurement Policy and Procurement Regulations for ADB Borrowers. Technical firms will be recruited to undertake the engineering, procurement, and construction management (EPCM) in two parts: (i) DED and procurement document preparation, and procurement support activities; and (ii) construction management tendered as a single contract.¹² Output-based contracts will be considered for EPCM and project management, coordination, and capacity building consulting packages to reduce administrative burdens and improve economy, efficiency, and value for money.

II. DUE DILIGENCE

16. **Technical.** The transaction TA facility (footnote 7) will cover feasibility studies and safeguard due diligence of the ensuing projects prior to the preparation of the DED and procurement documents to be financed under the PRF. The feasibility studies are expected to provide technical due diligence

¹² The construction management contract ((iii) in para. 15) will be awarded to the DED and procurement consultant ((i) in para. 15) using the contract variation method and financed by ensuing loans, subject to satisfactory performance under part-1 and the effectiveness of the ensuing loans.

where required and clear guidance on how infrastructure investments agreed to by a range of stakeholders will help the target cities to (i) build their social, environmental, and economic resilience; (ii) develop their competitiveness; and (iii) enhance the sustainability of the urban services.

17. Climate change adaptation and mitigation measures will provide opportunities for the target cities to introduce new and innovative urban infrastructure. The EPCM consultants will undertake climate change risk assessments and include climate change resilience measures in the engineering designs.

18. **Governance.** The overall pre-mitigation financial management risk of the Agency “Kommunkhizmat” (CSA) and Tashkent Province Suvokova (TPS) is substantial. The financial management assessment was conducted to evaluate the capacity of the CSA and TPS in areas of fund-flow arrangements, staffing, accounting and financial reporting systems, financial information systems, and auditing arrangements. Under this PRF, the CSA is involved in financial transactions and reporting, and TPS in supervising consulting services. The assessment considered the CSA to be the executing agency and TPS the implementing agency. The CSA and its PCU’s financial management system are adequate to (i) record required financial transactions and (ii) provide financial statements and monitoring reports during PRF implementation. The PCU staff are familiar with ADB disbursement procedures and financial management requirements, while there are some internal control weaknesses to be strengthened. A detailed action plan in the PAM was discussed and agreed with the CSA. Overall procurement related risks are rated high. While TPS has insufficient procurement experiences, the CSA is familiar with ADB procurement guidelines and has relatively well-established procurement process. The CSA’s PCU has prior experience implementing large capital works projects, and will guide TPS. Project management consultants will also be available to support both agencies. No significant integrity risks of TPS were identified.

19. **Safeguards.** Since the proposed activities consist of consulting services only, activities have not been categorized in accordance with ADB’s Safeguard Policy Statement (2009).¹³ The safeguard classification for the ensuing projects are expected to be category B for environment, involuntary resettlement, and indigenous peoples. The categorization of the ensuing projects will be confirmed when information is available.

III. THE PRESIDENT’S DECISION

20. The President, acting under the authority delegated by the Board, has approved the loan of \$15,000,000 to the Republic of Uzbekistan for the project readiness financing for Urban Services Projects, from ordinary capital resources of the Asian Development Bank (ADB), in concessional terms, with an interest charge at the rate of 2% per year during the grace period and 2% per year 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 agreement; and hereby reports this action to the Board.

¹³ ADB. 2013. Safeguard and Policy Statement. *Operations Manual*. OM F1. Manila.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=53107-001-PRF>

1. Loan Agreement
2. Project Agreement
3. Project Administration Manual
4. Project Selection Criteria