



Uzbekistan: Operation and Maintenance Sustainability of Water Supply and Sanitation Infrastructure

Project Name	Operation and Maintenance Sustainability of Water Supply and Sanitation Infrastructure		
Project Number	56115-001		
Country / Economy	Uzbekistan		
Project Status	Approved		
Project Type / Modality of Assistance	Technical Assistance		
Source of Funding / Amount	TA 10072-UZB: Operation and Maintenance Sustainability of Water Supply and Sanitation Infrastructure		
	Technical Assistance Special Fund		US\$ 1.00 million
Strategic Agendas	Environmentally sustainable growth Inclusive economic growth Regional integration		
Drivers of Change	Gender Equity and Mainstreaming Governance and capacity development Knowledge solutions Partnerships Private sector development		
Sector / Subsector	Water and other urban infrastructure and services / Other urban services - Urban policy, institutional and capacity development		
Gender Equity and Mainstreaming	Some gender elements		
Description	<p>The knowledge and support technical assistance (TA) will improve the financial sustainability of the Uzsvtaminot Joint Stock Company (UJSC), the national agency managing and developing Uzbekistan's municipal water supply and sanitation (WSS) sector and the capacity of the executing agency for WSS projects funded by the Asian Development Bank (ADB). The TA will support UJSC in (i) preparing climate-resilient and carbon-neutral midterm and long-term investment plans, (ii) strengthening debt management capacity, and (iii) improving its governance and institutional capacity. It will support the government's public financial management and medium-term debt management strategy, while improving WSS service delivery across the country.</p> <p>The TA aligns with Uzbekistan's Vision 2030 for long-term and sustainable improvements to the people's well-being, the nation's wider development priorities, and with ADB's country partnership strategy, 2019-2023 for Uzbekistan. It supports ADB's Strategy 2030 in four key priority areas and will contribute to Sustainable Development Goals 1, 5, and 10-13. The TA is also guided by ADB's COVID-19 and Livable Cities in Asia and the Pacific: Guidance Note.</p>		

Project Rationale and Linkage to Country/Regional Strategy	<p>Water supply and sanitation challenges. Uzbekistan has limited financial resources to operate and maintain infrastructure assets, which is particularly pertinent to the WSS sector. WSS services are largely inadequate because of aging infrastructure, low tariffs, accelerated demand from population expansion, and increasing water resource scarcity from climate change impacts. Weak operation and maintenance (O&M) practices have resulted in high water losses, foregone revenues, and low service provision, while increasing potential health threats. Although water supply coverage in the cities is generally high (70%-96%), supply is often unreliable, with water availability and service quality decreasing in outlying peri-urban and rural areas. Nonrevenue water (NRW) is expected to be significantly higher than reported because of limited metering and intermittent supply. Sewerage coverage in cities and towns is only 13%-37%. Improving energy efficiency; and water supply, sanitation, hygiene, and health measures are imperative to protect against the coronavirus disease (COVID-19) and future pandemics. Water utility deficiencies. Inadequate revenues have resulted in low staff wages, reducing the ability of provincial suvtaminots (water utilities) to retain and recruit skilled staff; and to apply resource-saving, energy-efficient, and environment-friendly technologies, perpetuating a cycle of weak O&M. It further inhibits suvtaminots from engaging in long-term planning based on steady and predictable revenues, engaging instead in short-term, ad hoc planning cycles that are often dependent on transfers from the central government, which has an understandable focus on service expansion. Given other challenges, this issue risks cementing inefficiencies and overbuilding infrastructure based on dated technical norms and consumption assumptions. Utility financial performance. A financial management assessment conducted in 2021 revealed weaknesses in UJSC's operational and financial performance. UJSC and its suvtaminots are either incurring financial losses or barely generating sufficient revenues to meet operating expenses. Tariffs are largely insufficient to cover operating expenses (excluding depreciation). The suvtaminots provide services below full cost recovery, motivated mainly by the government's desire to provide a social benefit and protect vulnerable populations. Those unable to cover their costs become dependent on government subsidies and direct financial support in the form of operational and/or capital transfers. They are at times unable to cover their energy expenses, which can consist of up to a third of the expenses for wastewater treatment facilities. This creates arrears on payables and a possibility of default or high-cost borrowing, leading to expensive short-term debt. Reforms pilot-tested in the energy sector have shown significant promise in reducing government subsidies and improving sector performance. The government has been launching similar reforms in WSS and other sectors since 2020. Government response. Since 1997, the government has invested significant resources in WSS development. It has partnered with 12 international development agencies, which are funding or proposing to fund 63 investment projects in Uzbekistan's WSS sector, for a cumulative investment value of \$3.9 billion as of 2022. ADB and other international financial institutions closely engage with the government to build capacity and introduce good governance practices to (i) ensure effective and efficient use of available public funds and mobilize additional domestic revenues, (ii) improve project sustainability, (iii) introduce mitigation measures and energy-saving technologies to reduce greenhouse gas emissions, and (iv) ensure that the financial sustainability of the sector is addressed systemically. The government has defined strategic directions to improve the public financial management system for 2021-2025. In 2021, the government adopted a medium-term debt management strategy with an annual ceiling of 60% public debt to gross domestic product ratio (footnote 1). It targets improving state-owned enterprise expenditure transparency and the prudent use of funds from external borrowings. Uzsuvtaminot as the national water supply and sanitation utility. The government established UJSC in November 2019 as the country's national water utility, with responsibilities for all provincial suvtaminots. Designated as the executing agency for WSS project development and implementation, it is mandated to implement the state policy of expanding WSS accessibility across Uzbekistan. Through the government's corporate charter, UJSC is a commercial enterprise into which nationwide WSS assets have been transferred. All provincial suvtaminots are UJSC's provincial branches, which by themselves have been reorganized and registered as limited liability companies and governed by a corporate charter. Uzsuvtaminot's institutional capacity. UJSC's assets O&M is suboptimal, undertaken in an ad hoc manner. UJSC and suvtaminots lack proper asset management systems (AMSs) to assess asset conditions and develop regular maintenance and repair programs that are prioritized, budgeted, and timebound. UJSC has an aging and low-skilled workforce whose salary is less competitive than other public service sectors (gas, electricity), further weakening the capacity to identify deteriorating or defunct assets and prioritize their replacement, rehabilitation, or optimization. UJSC's operational losses have a direct impact on public service delivery (para. 5 and footnote 11). Strengthening UJSC's institutional capacity and financial health is crucial for the government's fiscal and debt management. Limited O&M funds can be effectively allocated and used if there is a robust AMS, which is needed for programming maintenance and asset rehabilitation to maintain utility performance and improve efficiency. The AMS will provide utility managers and decision-makers with critical information on assets and conditions. UJSC has no database of asset information, and it has been difficult to establish asset conditions and the financial asset valuation in its balance sheet. UJSC systems need upgrading and are not yet integrated with provincial suvtaminots. A modern AMS based on advanced information technology will ease informed decision-making at UJSC and help minimize NRW, identify priority areas for capital allocation, and contribute to minimizing expenditures and maximizing service delivery impact and quality. In addition, lack of tools to assess and monitor the performance of investment projects impairs UJSC's ability to adjust operation planning, a management information system integrated with an AMS will be developed in UJSC.</p>
Impact	Public funds effectively and efficiently managed and UJSC's investments sustainable.
Project Outcome	
Description of Outcome	Efficient allocation of scarce O&M resources in the WSS sector improved and infrastructure sustainability increased.
Progress Toward Outcome	
Implementation Progress	
Description of Project Outputs	Institutional capacity in investment and financial planning of UJSC and suvtaminots increased O&M management capacity strengthened
Status of Implementation Progress (Outputs, Activities, and Issues)	
Geographical Location	Nation-wide
Summary of Environmental and Social Aspects	
Environmental Aspects	
Involuntary Resettlement	
Indigenous Peoples	
Stakeholder Communication, Participation, and Consultation	
During Project Design	
During Project Implementation	
Responsible ADB Officer	Hu, Ruoyu
Responsible ADB Department	Central and West Asia Department
Responsible ADB Division	Urban Development and Water Division, CWRD
Executing Agencies	Uzsuvtaminot Joint Stock Company
Timetable	
Concept Clearance	10 Jun 2022
Fact Finding	01 Aug 2022 to 13 Aug 2022

MRM	-
Approval	15 Dec 2022
Last Review Mission	-
Last PDS Update	22 Dec 2022

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Financing Plan/TA Utilization							Cumulative Disbursements	
ADB	Cofinancing	Counterpart				Total	Date	Amount
		Gov	Beneficiaries	Project Sponsor	Others			
1,000,000.00	0.00	0.00	0.00	0.00	0.00	1,000,000.00	-	0.00

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