

PROJECT INFORMATION DOCUMENT (PID)
ADDITIONAL FINANCING

Report No.: PIDA25408

Project Name	Additional Financing for Bukhara and Samarkand Sewerage Project (P152801)
Parent Project Name	Uzbekistan Bukhara and Samarkand Sewerage Project (P112719)
Region	EUROPE AND CENTRAL ASIA
Country	Uzbekistan
Sector(s)	Sanitation (100%)
Theme(s)	City-wide Infrastructure and Service Delivery (80%), Municipal governance and institution building (20%)
Lending Instrument	Investment Project Financing
Project ID	P152801
Parent Project ID	P112719
Borrower(s)	Ministry of Finance
Implementing Agency	SAMARKAND REGIONAL PRODUCTION ENTERPRISE SUVOKOVA, BUKHARA REGIONAL PRODUCTION ENTERPRISE SUVOKOVA, UZKOMMUNKHIZMAT
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	17-May-2015
Date PID Approved/Disclosed	02-Jun-2015
Estimated Date of Appraisal Completion	09-May-2015
Estimated Date of Board Approval	23-Jun-2015
Appraisal Review Decision (from Decision Note)	The review did authorize the team to appraise and negotiate

I. Project Context

Country Context

1. Uzbekistan is a resource-rich, fast-growing, lower-middle-income country, strategically located in Central Asia. Its 29.2 million inhabitants, of which 49.7 percent live in rural areas, represent half of Central Asia's population. Following independence in 1991, the home-grown, gradualist, state-led development strategy of the Government of Uzbekistan (GoU) has delivered consistent economic growth as well as gradual reforms.
2. Uzbekistan has enjoyed robust gross domestic product growth since the mid-2000s, averaging 8 percent annually according to official data, mainly due to three factors: (a) favorable terms of trade, in particular, the continued high world market prices of the country's key export commodities—copper, gold, and natural gas; (b) the Government's macroeconomic management, including its late-2008 stimulus; and (c) limited exposure to international financial markets, which

shielded it from contagion effects.

3. Poverty rates declined from 26 percent in 2002/2003 to about 13.7 percent in 2015. Growth has been mostly driven by commodity exports (gold and gas). The structure of the economy has changed with the composition of output shifting away from primary agriculture in the late 1990s to industry and services by 2011.

4. The GoU is formulating a strategic vision for Uzbekistan to become an industrialized upper-middle-income country by 2030. Under this ambitious vision, per capita income presently estimated at US\$1,545—would need to increase almost tenfold over the next two decades, and the economy would need to grow at an average rate of 6 percent per year. The World Bank supports the GoU in articulating such a vision and is working with the country to focus on four pillars through the latest Country Partnership Strategy (CPS): (a) improve efficiency of infrastructure; (b) enhance competitiveness of the economy; (c) diversify the economy; and (d) improve access to social services. As part of this strategy, the Bank is lending to the GoU for investments in more energy-efficient infrastructure and upgrades, including those for the water and sanitation (WSS) sector where infrastructure has become largely outdated as a result of poor management and neglect.

Sectoral and institutional Context

5. Uzbekistan benefited from extensive and robust water services infrastructure built during the Soviet era, including major regional water transfer aqueducts and well-developed networks in urban areas and, to a lesser extent, in rural areas. Although the country has been more proactive than most of its neighbors in attending to infrastructure needs during the economic transition, over time, the limited capacity of sector institutions to maintain, renew, and expand such assets has led to an extensive degradation of access to services.

6. In 1996, following independence, the GoU adopted a number of measures as part of its efforts to strengthen and reform the legal and institutional foundation of municipal services. In particular, new institutional arrangements were introduced by decentralizing the management of WSS to utilities operated by local governments with control over regional, municipal or district Vodokanals/utilities in charge of service provision. Although the introduction of private sector participation (PSP) was attempted as early as in 2002, and a partial corporatization reform was successfully enacted for the Tashkent Vodokanal, the institutional framework of WSS sector remains weak, impaired by incomplete decentralization, inconsistent ownership of assets, fragmented responsibilities and legislation, inefficient financing and regulatory mechanisms, and low institutional capacity. Local governments and utilities do not have adequate autonomy and capacity, and lack effective policy support and regulatory incentives from the central administration. This, compounded by weak utility management capacity and an overall neglect of operations and maintenance has led to extensive deterioration of existing infrastructure.

7. Currently, there is no adequately funded and staffed ministry-level entity responsible for WSS services. Instead, sector development and oversight are entrusted to the Uzbek Communal Services Agency (UCSA), or Uzkommunkhizmat. Given its limited capacity to lead sector planning, policy or performance agenda, the agency's focus is mostly limited to the implementation of investment programs and the operation of regional aqueducts. The Uzbek government has recognized the urgent need for institutional reforms and capacity building of the water agencies (especially the vodokanals) and for rehabilitating the deteriorated WSS infrastructure. The GoU continues to support institutional reforms and capacity strengthening of Bukhara and Samarkhand vodokanals. This support aim at promoting the overall efficiency and sustainability of utility operations.

8. Despite efforts to date, the service level in the water and sanitation sector is lagging behind.

According to official data, while roughly 88 percent and 79 percent of the urban and rural population, respectively, receive piped water supply, only 17 percent of users have continuous service, and over 65 percent of users have less than six hours of service per day. The situation is particularly dire in rural areas, where previously served communities often cope with chronic service breakdown or no service at all. Demand management and operational efficiency are poor, with average hydraulic losses estimated at 42 percent and only about 33 percent of user connections metered.

9. Installed technology and systems operations are inefficient from an energy-use perspective. Adding to the sustainability challenge, the capital and operating costs of new infrastructure are seldom optimized as a result of obsolete design and service standards. Compared to water supply, urban sewerage service is substantially less developed, with an estimated 17 percent effective coverage ratio, which is limited to about 70 cities and towns. Built in the 1970s and 1980s, and largely neglected since then, sewerage infrastructure is in poor condition and continues to deteriorate. Wastewater treatment capacity is also highly degraded, often only ensuring marginal pollution removal. The status of rural sanitation is not well documented and its development has been left to the initiative of households and communities.

10. Overall, water services sector rehabilitation, renewal, and expansion needs present a huge investment challenge for Uzbekistan. The GoU estimates urgent priority investments to amount to approximately US\$5.4 billion through 2020, of which US\$4.1 billion is needed for water supply and US\$1.3 billion for wastewater management. Existing sector financing is inadequate to cover investment needs. Tariff regulation is mostly driven by social concerns, somewhat disconnected from utility cost-recovery and investment imperatives. Even though water tariffs have increased in recent years, water and wastewater services still remain affordable, with a median price of US \$0.06/m³ (the average cost of water services is estimated to be below one percent of household expenditures). For most utilities, such low tariffs result in an inadequate revenue base, further eroded by unsatisfactory collection levels. Since the GoU's policies rule out any operating subsidies, utilities operate under extremely constrained operating budgets, unable to afford competitive salaries or adequate maintenance, let alone capital improvements.

11. Sector challenges are also rooted in capacity and governance issues. With few exceptions, the performance of the administrations and utilities is low due to inadequate technical and managerial capacity and a culture of limited efficiency and customer service. Technical capacity limitations also affect the local engineering design and construction market. With unattractive compensations and an aging workforce, the sector neither effectively motivates performance nor renewal of its skills base. This, along with outdated design standards and rigid procurement rules, is delaying the overdue introduction of modern management practices, efficient designs, and innovative technology to the sector. The GoU is increasingly aware of such sector deficiencies and is committed to addressing them more proactively with donor help, which is why the Bank as well as other bilaterals and multilaterals have been supporting investments and improvements in the sector.

12. The BSSP is the first phase of a long-term government program to improve sanitation and wastewater management in the cities of Bukhara and Samarkand, as a means of improving overall energy efficiency and wastewater service coverage. At present, nearly 100 percent of Bukhara and Samarkand's population have piped water supply while an estimated 50 percent is connected to the sewerage system. All others use on-site facilities such as pit latrines and septic tanks of dubious standards. Most of the sewerage system had been constructed in the 1960s, and is in need of rehabilitation and reconstruction. The BSSP focuses mainly on ensuring the operation and maintenance of the existing sewers and wastewater treatment plants through a program of energy efficiency improvements and rehabilitation of the existing sewer systems.

II. Proposed Development Objectives

A. Current Project Development Objectives – Parent

The project development objectives (PDO) are to mitigate the environmental impact from wastewater pollution and improve the efficiency and sustainability of wastewater management in Bukhara and Samarkand. This will be achieved through (a) rehabilitating select sections of the sewerage system that are deteriorated; (b) limited expansion of the sewerage system into currently unconnected central historical areas, (c) installing more energy-efficient equipment such as wastewater pumps and aeration systems at the wastewater treatment plants and pumping stations; and (d) improving the capacity of the water utilities (vodokanals) in the areas of management, communications and public outreach.

B. Proposed Project Development Objectives – Additional Financing (AF)

The proposed PDOs are to reduce wastewater pollution and improve the performance of utilities responsible for wastewater management in Bukhara and Samarkand.

III. Project Description

Component Name

Component A: Institutional Strengthening and Capacity Building

Comments (optional)

Component Name

Component B: Physical Investments

Comments (optional)

Component Name

Component C: Project Management

Comments (optional)

IV. Financing (in USD Million)

Total Project Cost:	105.00	Total Bank Financing:	105.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			0.00
IDA Credit from CRW			105.00
Total			105.00

V. Implementation

13. The project will be implemented by the Bukhara Vodokanal (BVK) and Samarkand Vodoka (SVK). The Project Coordination Unit (PCU) established under the state agency for public utilities (Uzkommunkhizmat) will have only a project coordination role. The PCU reports to the Uzkommunkhizmat and the Interministerial Coordination Council (IMCC), which shall have representatives from the local governments and key agencies of the central government (Cabinet of Ministers, Ministry of Finance, Ministry of Foreign Economic Relations, Investments and Trade,

State Committee of Architecture and Construction, Ministry of Economy, and Uzkommunkhizmat). The IMCC is headed by the deputy prime minister and provides policy guidance regarding project-related issues and activities. The IMCC shall meet at least quarterly to review the progress of project implementation. The IMCC will be the forum to discuss policy issues in the sector related to project implementation. The BVK and SVK with the support of the Project Implementation Units (PIUs) will be responsible for implementation of all project activities and communication with the Bank.

14. Two PIU are established under the authority of the regional government offices of Bukhara and Samarkand and vodokanals and will be responsible for day-to-day project coordination and monitoring and evaluation. The two vodokanals, the BVK and SVK, operate as government-owned enterprises (Regional Production Enterprises). The two vodokanals with the support of the PIU will be responsible for carrying out the procurement of goods, works, and services in accordance with the Bank's Procurement Guidelines, including contract signature, management, and disbursement. Regional governments will provide the necessary support to the vodokanals and the PIUs to perform their responsibilities and obligations.

15. The PCU will coordinate with the PIUs in their functions of coordinating, monitoring, and evaluating the project activities and their implementation. This project management organization is designed to avoid delays in the decision-making process during project implementation.

16. The PCU and PIUs have been fully staffed and operational since 2002 under the closed Bukhara and Samarkand Water Supply Project, the ongoing BSSP, Syrdarya Water Supply Project, and Alat and Karakul Water Supply Projects and have acquired adequate experience in IDA and Bank-financed project implementation.

17. The PCU is staffed with a project coordinator, financial manager, accountant, and procurement specialist. The PIUs in Bukhara and Samarkand are staffed with heads of the PIU, chief accountants, procurement specialists, civil engineers, and support staff. The PIUs will receive technical support from an international consulting team with expertise in project implementation and construction supervision.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11	x	
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50	x	
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

VII. Contact point

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