



Report and Recommendation of the President to the Board of Directors

Project Number: 46135-002
August 2015

Proposed Loan Republic of Uzbekistan: Djizzak Sanitation System Development Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(21 July 2015)

Currency unit	-	Sum (SUM)
SUM1.00	=	\$0.0004
\$1.00	=	SUM2,567.69

ABBREVIATIONS

ADB	-	Asian Development Bank
DWSE	-	Djizzak Regional Water Supply and Sewerage Enterprise
EMP	-	environmental management plan
km	-	kilometer
LARP	-	land acquisition and resettlement plan
O&M	-	operation and maintenance
PAM	-	project administration manual
PDC	-	project development consultant
PIU	-	project implementation unit
PMU	-	project management unit
SDR	-	special drawing right
SIZ	-	special industrial zone
UCSA	-	Agency "Uzkommunkhizmat" (Uzbekistan Communal Services Agency)
WWTP	-	wastewater treatment plant

NOTE

In this report, "\$" refers to US dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 46135-002	
Project Name	Djizzak Sanitation System Development Project	Department /Division	CWRD/CWUW
Country	Uzbekistan	Executing Agency	Uzbekistan Communal Services Agency "Uzkommunkhizmat"
Borrower	Ministry of Finance		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Water and other urban infrastructure and services	Urban sanitation		81.00
		Total	81.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Medium
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Organizational development	Effective gender mainstreaming (EGM)	✓
Knowledge solutions (KNS)	Pilot-testing innovation and learning		
Private sector development (PSD)	Public sector goods and services essential for private sector development		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Urban	High
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: B Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		81.00	
Sovereign Project loan: Asian Development Fund		81.00	
Cofinancing		0.00	
None		0.00	
Counterpart		15.56	
Government		15.56	
Total		96.56	
9. Effective Development Cooperation			
Use of country procurement systems		No	
Use of country public financial management systems		No	

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 Djizzak Sanitation System Development Project.¹

2. The project will support the Government of Uzbekistan in improving urban wastewater services for the city of Djizzak. Responding directly to the needs of urban communities, it will upgrade and expand the existing sewerage system, provide wastewater treatment services, strengthen institutional capacity, and assist with development of a new provincial water supply and wastewater utility.

II. THE PROJECT

A. Rationale

3. Djizzak city is the administrative and economic center of Djizzak Province, located strategically between the nation's capital, Tashkent, which lies 170 kilometers (km) to the northeast, and Samarkand, which is 90 km to the southwest. With an area of over 21,000 square kilometers, Djizzak Province is an important agro-industrial region, and is rich in mineral resources.² The province is home to over 200 industrial enterprises, including over 30 major industries,³ and had an estimated population in excess of 1.2 million in 2012. As the primary administrative and economic hub in the province, Djizzak city is a key driver of regional economic growth and development. The city is approximately 11 km (north–south) by 10 km (east–west), and has good road and rail networks. The city's population was estimated at 163,000 in 2013.⁴ Growth from population increase and city expansion is anticipated to average over 5% per year through 2020.

4. The city's strategic importance is highlighted by the government's recent approval of a long-term development plan to transform the city into a regional administrative, economic, industrial, and cultural center.⁵ Under the plan, urbanization will be accelerated, industrial zones expanded, existing industries relocated, and residential areas developed. A special industrial zone (SIZ) is also being developed to encourage foreign direct investment into high-technology industries.⁶ These initiatives will dramatically increase the city's population,⁷ strengthen its economy, create jobs, and, as a consequence, increase household incomes and living standards.

5. The city's sewerage system lags seriously behind other infrastructure. Although it serves less than a quarter of the city's current population, the system is plagued by frequent overflows and blockages.⁸ Originally constructed in 1975, and with poor subsequent maintenance, sections of the 131-kilometer long sewerage network have now deteriorated well beyond their

¹ The design and monitoring framework is in Appendix 1.

² These include barite, limestone (cement) gypsum, and facing stone.

³ The province's industrial production includes the chemical, light industry, food production, agricultural processing, engineering, and metalwork industries. The province is also considered a regional leader in the production of alkali batteries, knitted garments, mixed fodder, and flour.

⁴ Based on the Institute of Forecasting and Macroeconomic Research.

⁵ Decree of the Cabinet of Ministers No. 266: Approval of the Master Plan of Development of Djizzak City by the Year 2030, 30 September 2013.

⁶ Presidential Decree No. 4516: Establishment of a Special Industrial Zone, Djizzak, 18 March 2013.

⁷ Current estimates project the population will increase to about 260,000 by 2020, and 310,000 by 2035.

⁸ In 2013, the system had a roster of 12,871 domestic consumers and 308 consumers categorized as "other", serving a population of approximately 38,500. The network also receives effluents from industrial facilities within the vicinity of the WWTP and from the Uch-Tepa district center located north of Djizzak city.

useful life, resulting in extensive and frequent network malfunctions.⁹ Also, following the permanent breakdown of the system's wastewater treatment plant (WWTP) in 2002 due to weak institutional capacity and financial constraints, untreated sewage from the entire network completely bypasses the WWTP and discharges directly into surface water channels, resulting in serious environmental damage and threats to public health. Epidemiological records for Djizzak reveal increasingly disturbing trends of diseases such as acute intestinal infections and viral hepatitis that are commonly associated with poor sewerage and sanitation. The Djizzak City Sewerage Company is responsible for provision of sewerage within the city, but struggles to operate and maintain even basic elements of the existing sewerage network. Its financial management is not well established and performance requires improvement;¹⁰ revenues generally cover only salaries and essential network repairs.

6. The government plans to improve sanitary conditions through phased investments to rehabilitate and expand the sewerage system and reform the responsible institutions. A new provincial water supply and sewerage enterprise is currently being created that will own, manage, and operate all urban water supply and wastewater systems in Djizzak Province. Djizzak city's existing water supply and sewerage companies will be absorbed as a branch operation of this provincial administration.¹¹ Overall, the government understands that in parallel to significant physical investments, widespread institutional reform and cost-recovery improvements will be essential to improve sector conditions, mitigate acute public health and environmental impacts in the city, and support planned economic growth.

7. The project will support the government's development plans for Djizzak city by both revitalizing and expanding the city's sewerage system and providing substantial assistance to implement the planned institutional reform process. It is consistent with (i) the Asian Development Bank (ADB) Strategy 2020 midterm review action plan;¹² (ii) ADB's Country Partnership Strategy for Uzbekistan, 2012–2016;¹³ (iii) ADB's Water Operational Plan, by supporting increased investment in wastewater management and sanitation;¹⁴ (iv) the Program of Integrated Development and Modernization of Water Supply and Sewerage Systems of the Republic of Uzbekistan for the Years 2009–2020; and (v) previous and ongoing ADB interventions in the sector.¹⁵ Lessons that have been incorporated in the project design include

⁹ Sewer network breakdowns increased from 428 (2011) to 503 (2013), corresponding to 3.84 breakdowns per km annually; over the same period, breakdowns from the four pump stations increased from 7 to 18 per year. In a recent survey, 40% of consumers reported sewerage breakdowns during the previous year.

¹⁰ The company currently generates a small profit, but this is primarily the result of a dramatic reduction in operating costs caused by its wastewater treatment facility being inoperative, and is not representative of normal operations.

¹¹ Prime Minister's decree 3/8960 (March 2014) confirms that provincial water supply and sewerage companies are to be transformed into provincial water supply and sewerage enterprises, which will absorb municipal water and wastewater companies within their jurisdictions. The name of the provincial enterprise for Djizzak is the Djizzak Regional Water Supply and Sewerage Enterprise.

¹² ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

¹³ The strategy prioritizes infrastructure development in the transformation to a modern industrial and service economy.

¹⁴ ADB. 2011. *Water Operational Plan 2011–2020*. Manila.

¹⁵ ADB intervention includes two completed water supply and sanitation projects (ADB. 2001. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to the Republic of Uzbekistan for the Urban Water Supply Project*. Manila; and ADB. 2005. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Uzbekistan for the Kashkadarya and Navoi Rural Water Supply and Sanitation Project*. Manila). Both projects have been rated successful. Five projects are also currently being implemented, including ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Uzbekistan for the Surkhandarya Water Supply and Sanitation Project*. Manila; and four under the first multitranche financing facility: ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to the Republic of Uzbekistan for the Water Supply and Sanitation Services Investment Program*. Manila; including Loan 2564-UZB, tranche 1; Loan 2633-UZB, tranche 2; Loan 2825-UZB, tranche 3; and Loan 3064-UZB, tranche 4. The current rating of these projects is on-track.

the need to (i) avoid project commencement delays; (ii) provide early counterpart funding; (iii) recruit qualified consultants in a timely manner; (iv) ensure project management unit (PMU) and project implementation unit (PIU) staff salaries are competitive and include incentive mechanisms; and (v) maintain quality standards for civil works structures.

B. Impact and Outcome

8. The impact of the project will be improved living standards, environment, and public health in Djizzak. The outcome of the project will be improved and expanded access to reliable, sustainable, and affordable water supply and sanitation services in Djizzak.

C. Outputs

9. The project will have two outputs:

- (i) **Output 1: Wastewater management system in Djizzak city improved.** Output 1 will construct trunk sewers (45.80 km in length), a new WWTP, and one pumping station; rehabilitate trunk sewers (16.75 km) and three pumping stations; procure equipment; and decommission obsolete components. Support will be provided to operate and maintain the new facilities. By project completion, the system will collect and treat 30,000 cubic meters of sewage per day from domestic and nondomestic consumers, including at least 85,000 residents of Djizzak city and the Uch-Tepa district center.
- (ii) **Output 2: Institutional capacity of the Djizzak Regional Water Supply and Sewerage Enterprise improved.** A transitional support program will support the establishment and operations of the Djizzak Regional Water Supply and Sewerage Enterprise (DWSE) that will absorb the Djizzak city water supply and sewerage companies. The DWSE's capacity will be further strengthened through management support and training.

D. Investment and Financing Plans

10. The project is estimated to cost \$96.56 million equivalent (Table 1).

Table 1: Project Investment Plan (\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Wastewater management system in Djizzak city improved (civil works and equipment)	76.13
2. Institutional capacity of the Djizzak Regional Water Supply and Sewerage Enterprise improved (consulting services)	9.26
Subtotal (A)	85.39
B. Contingencies^c	7.67
C. Financing Charges During Implementation^d	3.50
Total (A+B+C)	96.56

^a Includes taxes and duties of \$13.660 million to be financed from government resources.

^b In 2014 prices.

^c Physical contingencies computed at 5%. Price contingencies (i) for foreign costs computed at 1.1% (2015), 1.4% (2016), and 1.4% (2017), and 1.5% per year thereafter; and (ii) for local currency costs at 10% (2015), 11% (2016–2017) and 10% thereafter; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Includes interest during implementation for Asian Development Bank loan at 2% per annum.

Source: Asian Development Bank estimates.

11. The government has requested a loan in various currencies equivalent to SDR 53,999,000 from ADB's Special Funds resources to help finance the project. The loan will have a 25-year term, including a grace period of 5 years, an interest rate of 2.0% per annum during the grace period and thereafter, and such other terms and conditions set forth in the draft loan and project agreements.

12. The financing plan is in Table 2.

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Special Funds resources (loan)	81.00	83.89
Government ^a	15.56	16.11
Total	96.56	100.00

^a Government contribution includes taxes and duties.

Source: Asian Development Bank.

13. In addition to works, goods, consulting services, and interest during implementation, ADB funding for the project is also expected to include the financing of (i) costs of the PMU and PIU, including staff salaries and operating costs;¹⁶ and (ii) land acquisition and resettlement costs.¹⁷

E. Implementation Arrangements

14. Advance action and retroactive financing has been requested by the Uzbekistan Communal Services Agency (UCSA), the executing agency for the project, for the early recruitment of the project development consultants (PDCs) and detailed design consultant.¹⁸ An invitation for expressions of interest for the PDCs is expected by late 2015.

15. As the executing agency for the project, UCSA will establish an internal PMU to monitor and evaluate project activities, outputs, and safeguards compliance, and prepare review reports. DWSE will be the project implementing agency and responsible for day-to-day project implementation. While DWSE is being established and becoming operational, a PIU will perform the implementing agency functions.¹⁹ The PIU will be located in Djizzak city, and will report directly to UCSA and the PMU. UCSA will report quarterly to the project steering committee. The implementation arrangements are summarized in Table 3 and described in detail in the project administration manual (PAM).²⁰

¹⁶ ADB financing of project management costs is considered necessary to ensure timely availability of funds for a function critical to the overall success and timely completion of the project. In addition, the budgeted costs for the PMU and PIU are viewed as reasonable and consistent with project management costs incurred and financed by ADB under the projects financed under the ongoing MFF: ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranches Financing Facility to the Republic of Uzbekistan for the Water Supply and Sanitation Services Investment Program*. Manila.

¹⁷ ADB has funded land acquisition and resettlement costs for the projects financed under the ongoing MFF. Additional rationale and justification for ADB financing of land acquisition and resettlement costs, in line with the requirements set forth in ADB. 2012. *Cost Sharing and Eligibility of Expenditures for ADB Financing. Operations Manual*. OM H3/BP and H3/OP. Manila, are in paragraph 19 of this report. Resettlement costs will be eligible for ADB financing only if they are incurred in compliance with all applicable requirements under ADB's Safeguard Policy Statement (2009) and the ADB-approved resettlement plan.

¹⁸ Established by presidential decree in 2000, UCSA is a central government body that is directly accountable to the Cabinet of Ministers. With overall responsibility to improve water supply and wastewater services, it formulates policy, advises on reforms and decrees, and is a focal execution agency for foreign investments in the sector. UCSA's activities are financed by a combination of government, utility, and development bank project funding. UCSA is the executing agency for the projects referenced in footnote 15.

¹⁹ The PIU staff will include a director, a wastewater engineer, an accountant, a social and gender specialist, and an environment and social safeguard specialist. This arrangement is similar to the PIU for the ongoing MFF.

²⁰ The Project Administration Manual (accessible from the list of linked documents in Appendix 2) details the project steering committee's tasks and responsibilities.

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	February 2016–April 2021		
Estimated completion date	30 April 2021		
Management			
(i) Oversight body	Project steering committee; chair: Ministry of Finance ^a		
(ii) Executing agency	UCSA		
(iii) Key implementing agency	Djizzak Regional Water Supply and Sewerage Enterprise		
(iv) Implementation unit	PIU, 5 staff		
Procurement	International competitive bidding	1 contract – design and build (with extended defect notification period and operation maintenance)	\$39,000,000
	International competitive bidding – works	3 contracts	\$42,733,000
	National competitive bidding – works	1 contract	\$1,802,000
	National competitive bidding – equipment	3 contracts	\$2,702,000
	Shopping	5 contracts	\$208,000
Consulting services	Project development consultant QCBS	International: 85 person-months National: 132 person-months	\$3,300,000
	Detailed design sewerage network consultant QCBS	National: 130 person-months	\$800,000
	Transition Support Program Government financing	National: 1,200 person-months	\$2,500,000
	PIU–PMU auditing LCS	International: 8 person-months National: 20 person-months	\$294,000
Retroactive financing and/or advance contracting	Retroactive financing is available for up to 20% of the loan amount of advance contracts for the project development consultant and the detailed design.		
Disbursement	The ADB loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

ADB = Asian Development Bank, LCS = least-cost selection, PIU = project implementation unit, PMU = project management unit, QCBS = quality- and cost-based selection, UCSA = Agency “*Uzkommunkhizmat*” (Uzbekistan Communal Services Agency).

^a The project steering committee composition has not yet been confirmed, but it is envisioned to include representatives of UCSA, Djizzak Regional Water Supply and Sewerage Enterprise, the provincial government administration, the governor's office, and Djizzak city government.

Source: Asian Development Bank.

III. DUE DILIGENCE

A. Technical

16. Due diligence undertaken during project preparatory technical assistance confirmed the technical viability of the project. Analysis of alternative technical options identified appropriate wastewater treatment process technology and sewerage system design in terms of economic and safeguards aspects. The project option recommends construction of a new WWTP with a treatment capacity of 30,000 cubic meters per day and rehabilitation and expansion of the existing sewerage system in accordance with international design and construction standards. The system will serve domestic and nondomestic consumers, including a population of at least 85,000.²¹ The project will meet the government's effluent water quality standards, optimize

²¹ It is anticipated that the project will rehabilitate connections for at least 38,000 people, and add new connections for at least 47,000 people. Further expansion will be considered based on the city's needs and financial capacity.

electricity consumption, and improve the environment and natural water bodies of the project areas. Operation and maintenance (O&M) equipment, a laboratory, and specialized service equipment will be procured. Support provided by the project's Transition Support Program will ensure that the DWSE is fully established and operational.

B. Economic and Financial

17. **Economic analysis.** The economic viability of the overall project is assessed from a national perspective, based on the benefits of rehabilitating and improving the sewerage system for Djizzak city. The main quantified benefits for the population from improved sanitation include: improved health and reduced infant mortality, time savings, and saved costs of constructing and maintaining alternative sanitation facilities. The project will also support the growth of the SIZ in Djizzak by providing essential wastewater collection and treatment facilities, and contributing to economic benefits. Additional benefits accrue from the use of treated effluent and the greater public goods benefits brought about by an improved environment and water resources. The project is assessed to be economically viable, as the economic internal rate of return of 14.12% exceeds the assumed economic opportunity cost of capital of 12%. The sensitivity analysis shows that the economic internal rate of return is most sensitive to increased capital costs, and less sensitive to increased O&M costs and reduced benefits.

18. **Financial analysis.** The financial analysis is conducted from the perspective of an independent, stand-alone entity that is solely responsible for the management and operation of sewage collection and treatment for Djizzak city and Uch-Tepa district center. Income and expenditures over a 25-year period were estimated based on internationally acceptable parameters and a tariff regime appropriate for the customer base, differentiating between residential households, nonrevenue-generating institutions, commercial enterprises, and industrial operations in the SIZ. The analysis shows that the potential tariff revenues will cover all direct O&M and depreciation costs from the outset, but continuing government support will be needed to service the ADB loan. The entity's financial position will improve over time, however, as the debt is paid off and depreciation charges diminish. Moreover, absorption of the existing Djizzak City Sewerage Company into the DWSE will also improve the financial viability of the project. With financial support from the central government and appropriate tariff adjustments, the project could be financially viable and generate a financial internal rate of return of 2%, which is higher than the weighted average cost of capital of 1.60%. The sensitivity analysis shows that the financial performance is sensitive to increases in capital investment and O&M costs, and changes to the future revenue stream.

19. Managing the project's social and environmental risks—such as environmental mitigation, monitoring, and land acquisition impacts²²—will require funding that may not necessarily accord with the government's annual budget. Funds for land acquisition compensation will be required following completion of the detailed design, but before the award of civil works contracts; it is easier to include this funding in the project costs rather than relying on the government's annual budget. The government's administrative arrangement under the resolution for land acquisition ensures that payment of compensation will be effective and transparent, but to ensure compensation is paid in accordance with the land acquisition and resettlement plan (LARP), an independent monitoring agency will be recruited by the PMU, with disbursements for land acquisition costs based on verification of payment by the independent monitoring agency.

²² The land is owned by the government; compensation payments reflect the economic loss resulting from discontinued use of the land by farmers. However, when the LARP is updated, other impacts may be realized.

C. Governance

20. A financial management assessment has concluded that the existing Djizzak water supply and sewerage companies, and the existing provincial water enterprise, currently meet ADB's financial management requirements, although auditing functions need to be improved. Financial management is being strengthened through the government's institutional reform initiatives, which will result in the creation of the DWSE, which will implement standardized reporting systems and improved financial management and internal control systems. The DWSE will be established with assistance from the project's Transition Support Program.

21. Procurement management assessments concluded that UCSA satisfies ADB's requirements for an executing agency. Its system is adequate to (i) prepare qualified bidding documents; and (ii) conduct the procurement of civil works, goods, equipment, and consulting services.²³ The PMU will be staffed with experienced personnel that have received training on ADB project administration and implementation. ADB will provide additional procurement oversight. The PMU staff will also be familiar with ADB's Handbook for Borrowers on the Financial Management and Analysis of Projects (2006),²⁴ Procurement Guidelines (2015, as amended from time to time), and Guidelines on the Use of Consultants (2013, as amended from time to time).

22. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government, the Ministry of Finance, and UCSA. The specific policy requirements and supplementary measures are described in the PAM.

D. Poverty and Social

23. Based on household budgets survey (Goskomstat), the poverty level in Djizzak province was 27.90%, compared with 23.60% nationally.²⁵ The project will contribute indirectly to poverty reduction in the project area through the provision of an improved sewerage system and implementation of sanitation awareness and hygiene-promotion activities and associated institutional and management strengthening of the utility. This will reduce health care expenditures caused by unsanitary environmental conditions and improve health and well-being.²⁶ More than 85,000 persons will benefit from the project investments, including through improvements to existing services and provision of expanded access to services.²⁷

24. Constraints related to the lack of sanitation in homes negatively affect the quality of life for all family members, especially women. As detailed in the project gender action plan, the project will (i) recruit a PMU and PIU social and gender specialist; (ii) facilitate women's participation in project-associated activities; (iii) provide employment opportunities in the WWTP, with jobs such as sanitation operator available to women (at least 50% of WWTP laboratory staff and 50% of customer care workers will be women); (iv) include women in the project management and implementation team, who will be equitably paid; (v) provide gender and development awareness training for relevant organizations; (vi) provide equal opportunity

²³ The project's procurement capacity assessment report and recommendation is available on request.

²⁴ ADB. 2006. *Handbook for Borrowers on the Financial Management and Analysis of Projects*. Manila.

²⁵ Data from the 2007 Household Budgets Survey (Goskomstat), conducted by the State Statistics Committee.

²⁶ A project preparatory technical assistance household survey of 280 households in Djizzak (April 2014) revealed that almost two-thirds (64.3%) of households surveyed are not connected to centralized sewerage. These households use pit latrines, 44% of which are not concreted (sealed); given that 15% of households use water from shallow wells for drinking and household purposes (often located only a few meters from unsealed pit latrines), cross contamination is likely, posing a serious threat of infectious and parasitic diseases.

²⁷ Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

and access to training for female DWSE staff; (vii) establish a gender-sensitive customer care and complaints unit; and (viii) conduct gender-sensitive sanitation and hygiene promotion training and outreach activities linked to the sewerage system to reduce disease and the associated burden on women who provide care.²⁸

E. Safeguards

25. **Environmental safeguards.** The project is classified as category B for environmental impacts in accordance with ADB's Safeguard Policy Statement (2009). An initial environmental examination was undertaken regarding the construction of the new WWTP and supporting facilities. It assesses impacts and includes an environmental management plan (EMP) to minimize or avoid these impacts. Public consultations were also completed in Djizzak. The project will not cause significant environmental impacts, and almost all environmental disturbances will primarily occur during construction. Most of the impacts are temporary in nature, and can be addressed during construction by employing good construction practices. An environmental monitoring report covering EMP implementation must be submitted biannually to ADB.

26. The project is considered to be environmentally feasible. The PMU, on behalf of UCSA, will have overall responsibility for implementing the EMP throughout project preparation and implementation. The contractor will be responsible for implementing the EMP and mitigating all impacts relating to construction activities. UCSA has limited capacity to address environmental concerns, and consequently the PMU team will include an environment specialist.²⁹ The supervision consultant will also include an environment specialist on its team to supervise the contractor in implementing the EMP during the construction phase.

27. **Social safeguards.** The project will require the permanent and temporary acquisition of land. Permanent acquisition of approximately 30.65 hectares will be required for the WWTP, its access road, and a new pumping station in Halkabad, while temporary acquisition of 43.99 hectares will be required during reconstruction of the sewerage network. On this basis, the project is classified as category B for involuntary resettlement in accordance with ADB's Safeguard Policy Statement (2009). The new WWTP will be constructed on reserve land of the Djizzak region, and an involuntary resettlement compliance audit indicates that the land used by the existing and new facilities is not in dispute or subject to current or past claims by other parties, with no future claims expected. The resettlement plan was prepared in close consultation with affected people. There are 13 households with 132 residents affected by land acquisition; during consultation, all expressed a willingness to accept land-for-land compensation.

28. The LARP was prepared in accordance with national laws and regulations and ADB's Safeguard Policy Statement (2009). The LARP assessment was carried out from May to July 2014. Four consultations were performed with affected people and other relevant parties such as local government agencies and local communities. Implementation of the LARP, including land acquisition, consultants, and monitoring, will cost approximately \$440,000, of which about \$375,000 is to compensate for permanent and temporary acquisition. In addition, training will be provided by the PDC on LARP implementation. UCSA has experience in dealing with LARP

²⁸ Gender Action Plan (accessible from the list of linked documents in Appendix 2). The project is classified effective gender mainstreaming.

²⁹ The specialist will be responsible for (i) ensuring that all environmental concerns are taken into account during the detailed design, (ii) ensuring that the procurement and contract documents cover all environmental requirements, (iii) monitoring EMP implementation being performed by supervision consultants and contractors, and (iv) preparing biannual environmental monitoring reports to be submitted to ADB and UCSA.

implementation; for this project, a qualified resettlement consultant will assist the PMU. The consultant will update the LARP after the detailed design is available, and then submit it to ADB for approval prior to processing of the procurement contract. Compensation to affected farmers must be fully paid prior to the award of the civil works contracts. In the event that the project includes a design-and-build contract, the PMU will issue a notice to proceed with civil works only after ADB has formally concurred that all compensation payments have been paid in full. The PMU will be responsible for submitting formal reports to ADB,³⁰ and for establishing a grievance redress mechanism to address complaints. The poverty and social assessment survey indicates that there are no communities or groups in the project area that maintain a particular culture, language, or properties. The project is classified as category C for indigenous peoples and ethnic minorities requirements in accordance with ADB's Safeguard Policy Statement (2009). To comply with ADB information disclosure requirements, the initial environmental examination and LARP reports were disclosed on the ADB website on 28 August 2014.

F. Risks and Mitigating Measures

29. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.³¹ The integrated benefits and impacts are expected to outweigh the costs.

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
No regular internal audit for PMU; staff recruited for PIU in Djizzak may have limited experience with ADB financial management requirements	A project management team, including a qualified international financial management specialist and a qualified national financial management specialist, will be recruited to provide necessary support and to strengthen internal control of the PMU, PIU, and DWSE.
Government unable to finance and sustain project operation and maintenance over the long term	DWSE has been established to improve water supply and sanitation sector management in Djizzak Province. The national government will ensure that DWSE has all necessary financial resources to operate and maintain its assets and meet its debt obligations. Debt service of the loan will be subsidized by the Ministry of Finance.
Limited government procurement capacity, and procurement delays	A PMU established within UCSA and a PIU established in Djizzak will manage project procurement and implementation, using international and national specialists. Advance action for the recruitment of the project development consultant and individual consultants is also proposed. ADB will provide additional procurement oversight.
Due to institutional capacity limitations, the DWSE is not established as a viable, commercially oriented utility with consumer accountability and service sustainability	The national government's recent legislative initiatives clarify the mandates, responsibilities, and relationships of national, provincial, and municipal sector institutions. The TSP will assist governments at all levels to implement the institutional reform program in Djizzak Province, and develop DWSE.
Industrial units discharge effluent without pretreatment, negatively impacting the operation of the project's sewerage system and wastewater treatment plant	The project provides a system for the environmental monitoring and laboratory testing of industrial effluents, and capacity development to ensure the enforcement of standards, to be operated within an existing environmental regulatory framework.
Revenue generation difficulties resulting from poor billing and collection, and revenue limitations	The TSP will provide assistance to DWSE to establish transparent billing and collection systems.

ADB = Asian Development Bank, DWSE = Djizzak Regional Water Supply and Sewerage Enterprise, PIU = project implementation unit, PMU = project management unit, TSP = Transition Support Program, UCSA = Agency "Uzkommunkhizmat" (Uzbekistan Communal Services Agency).

Source: Asian Development Bank.

³⁰ Including (i) an updated LARP after the detailed design is available, (ii) a report of full compensation payments to affected people, (iii) an external monitoring report regarding LARP implementation, and (iv) a verification report on LARP implementation by an independent monitoring agency.

³¹ Risk Assessment and Risk Management Plan (accessible from the linked document list in Appendix 2).

IV. ASSURANCES AND CONDITIONS

30. The government and UCSA 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.

31. The government and UCSA have agreed with ADB on certain covenants for the project, which are set forth in the loan agreement and project agreement.

32. It will be a condition for loan effectiveness that (i) the borrower shall have issued a resolution specifying, among other things, the general project scope, the project's exemption from taxes within the territory of the borrower, the project's implementation arrangements, and government's contribution valued at not less than \$500,000 to support implementation of the institutional reforms component of the project; and (ii) the subsidiary loan agreement (pursuant to which the borrower will onlend the entire proceeds of the loan to UCSA), in form and substance satisfactory to ADB, will have been executed and delivered and will be fully effective and legally binding upon such parties.

V. RECOMMENDATION

33. 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 in various currencies equivalent to SDR53,999,000 to the Republic of Uzbekistan for the Djizzak Sanitation System Development Project, from ADB's Special Funds resources, with an interest charge at the rate of 2.0% per annum 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

13 August 2015

DESIGN AND MONITORING FRAMEWORK

Impacts the Project is Aligned with: Improved living standards, environment, and public health in Djizzak (Sector Strategy 2020, Development of Strategy, Road Map and Investment Program for the Water Supply and Sanitation Sector of the Republic of Uzbekistan until 2020).			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
<p>Outcome Improved and expanded access to reliable, sustainable, and affordable water supply and sanitation services in Djizzak</p>	<p>a. At least 85,000 urban residents of Djizzak and surrounding areas have access to improved water supply, sewage collection, and wastewater treatment facilities by 2020 (2013 baseline: 30,000)</p> <p>b. More than 350 business establishments and more than 110 organizations have access to improved and centralized sewerage system service by 2020 (2013 baseline: 308 business establishments and 105 organizations)</p>	<p>Provincial statistical data reports</p>	<p>Government delays or curtails the implementation of development investments for water supply and sanitation services</p>
<p>Outputs 1. Wastewater management system in Djizzak city improved</p>	<p>1a. WWTP functional, with capacity of 30,000 m³/day by 2020 (2013 baseline: 0 m³/day)</p> <p>1b. Wastewater pumping capacity increased to 15,285 m³/day by 2020 (2013 baseline: 9,420 m³/day)</p> <p>1c. Sewerage network expanded to 176.8 km in 2019 (2013 baseline: 131 km)</p> <p>1d. Operation and maintenance facilities upgraded and equipment installed by 2020</p> <p>1e. 300 men and 500 women participated in community-level sanitation and hygiene promotion training by 2017–2018</p> <p>1f. 16.75 km of trunk sewers rehabilitated by 2019</p>	<p>Provincial statistical data reports</p>	<p>Delays in the implementation of the water and sanitation strategy, institutional, and regulatory reforms</p> <p>Prolonged government approval process may delay implementation of project activities</p>
<p>2. Institutional capacity of DWSE improved</p>	<p>2a. All technical and financial management staff of the DWSE trained by 2020</p> <p>2b. A customer care unit at the DWSE staffed in 2020, of which 50% are women</p> <p>2c. Laboratory of WWTP staffed in 2020, of which 50% are women</p>	<p>Executing agency progress reports</p>	<p>Trained staff leave their posts</p>

Key Activities with Milestones**1. Wastewater management system in Djizzak city improved**

- 1.1 Construct WWTP by June 2020
- 1.2 Reconstruct three pumping stations, and construct one pumping station by June 2020
- 1.3 Reconstruct sewerage network by December 2019

2. Institutional capacity of DWSE improved

- 2.1 Government approval of the TSP by June 2017
- 2.2 Implement the TSP from June 2016 to June 2020
- 2.3 Develop training plan by December 2019, and conduct training during January–June 2020
- 2.4 Establish effective human resources management system in DWSE by June 2020
- 2.5 Establish management information system and financial management system to monitor and regulate the operator by June 2020
- 2.6 Implement water and wastewater plan that considers affordability for low-income consumers, with wide participation from stakeholders by June 2020

Inputs

ADB: \$81 million (ADF loan)
 Government: \$15.56 million

ADB = Asian Development Bank, ADF = Asian Development Fund, DWSE = Djizzak Regional Water Supply and Sewerage Enterprise, km = kilometer, m³ = cubic meter, TSP = Transition Support Program, WWTP = wastewater treatment plant.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://adb.org/Documents/RRPs/?id=46135-002-3>

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. Gender Action Plan
12. Initial Environmental Examination
13. Resettlement Plan
14. Risk Assessment and Risk Management Plan