

ACTIVITY REPORT

1. Basic Data		Project Number: 52256-003	
Facility Name	Multisector Activities Support Facility	Department/Division	CWRD/CWUW
Activity Name	Osh–Plotina WTP Chlorine Neutralization Unit	Executing Agency	Ministry of Finance
Country	Kyrgyz Republic	Implementation Period	October 2019–October 2021
Borrower	Ministry of Finance	Subgrant Closing	May 2022
2. Sector	Subsector	ADB Financing (\$ million)	
✓ Water and Other Urban Infrastructure and Services	Urban water supply		0.50
		Total	0.50
3. Operational Priorities		Climate Change Information	
✓	Addressing remaining poverty and reducing inequalities Accelerating progress in gender equality	CO ₂ reduction (tons per year) Climate change impact on the activity	0.00 Low
✓	Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability		
✓	Making cities more livable	ADB Financing	
✓	Promoting rural development and food security	Adaptation (\$ million)	0.00
	Strengthening governance and institutional capacity Fostering regional cooperation and integration	Mitigation (\$ million)	0.25
4. Poverty Targeting	General Targeting: ✓ Geographical Targeting: ✓ Household Targeting:		
5. Risk Categorization	Low risk		
6. Safeguards	Environment: B Involuntary Resettlement: C Indigenous Peoples: C		
7. Status of the Facility and Previous Activities			
The facility will deliver on CPS, 2018–2022 priorities by (i) supporting early design work and advanced procurement actions to alleviate project start-up bottlenecks, (ii) strengthening the government’s project implementation capacity, (iii) introducing new technologies, standards, and management approaches, (iv) enhancing the sustainability of ADB-financed investments through improved asset management practices, and (v) bringing completed infrastructure investments in conformance with up-to-date performance standards ^a			
8. Activity Description			
Summary. The first activity under the facility will support the physical upgrade of the chlorine neutralization unit at the Osh–Plotina WTP, completed in September 2016 under the Emergency Assistance for Recovery and Reconstruction project. ^b The unit will be upgraded to a higher international standard and provide 400,000 people with access to safe and reliable water supply. The activity will improve the development impact and sustainability of the project.			
Linked ADB-financed projects: In April 2010, the Kyrgyz Republic experienced political disturbance resulting in deaths and injuries, substantial property damage, and a change in government. Community violence that erupted in June 2010 caused even greater casualties, internal displacement of many people, and physical losses. A key objective of the Emergency Assistance for Recovery and Reconstruction project approved in September 2010 was to rebuild the dwellings and improve the essential public infrastructure that were damaged in the disturbances, and a project subcomponent included the rehabilitation of the Osh–Plotina WTP. The project completion report concluded that the project was <i>successful</i> , but it recognized			

that upgrading the chlorine neutralization unit at the Osh–Plotina WTP to meet up-to-date water supply standards with the highest safety levels remains a priority.^c

Activity output: Project efficiency and sustainability enhanced. Completed infrastructure investments will be upgraded to conform with up-to-date performance standards.

The design and monitoring framework for the activity is in the Appendix of the report and recommendation of the President.

Value added by ADB assistance and special features. ADB’s understanding of the water supply sector helped identify the need to upgrade the chlorine neutralization unit at the Osh–Plotina WTP. The output-based procurement approach for the first activity will allow for an optimal solution at the lowest cost while keeping standards at a high level.

9. Implementation arrangements

Implementing agency DDWSSD under the State Agency for Water Resources.

The implementation arrangements are described in detail in the AAM (accessible from the list of linked documents).

Project readiness status. Use of advance action has been approved, and consultants have been recruited to prepare the detailed design for the first activity.

10. Summary Cost Estimates

The activity is estimated to cost \$500,000 (Table 1). All activity expenditure items are small works that are eligible for financing under the facility. Detailed cost estimates are included in the AAM.

Table 1: Summary Cost Estimates
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Output 3: Project efficiency and sustainability enhanced	0.525
B. Contingencies^c	0.100
C. Financial Charges During Implementation	0.000
Total (A+B+C)	0.625

^a Includes taxes and duties of \$125,000. Such amount does not represent an excessive share of the project cost. The government will finance taxes and duties through direct payment.

^b In mid-2019 prices as of 27 June 2019.

^c Physical and price contingencies, and a provision for exchange rate fluctuation are included. Price contingencies computed at average of 1.6% on foreign exchange costs and 4.4% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

Source: Asian Development Bank Estimates.

11. Financing

The activity will be financed by a subgrant not exceeding \$500,000 from ADB’s Special Funds resources (Asian Development Fund). ADB will finance the expenditures in relation to enhancing project efficiency and sustainability.

Table 2: Summary Financing Plan
(\$ million)

Sources	Amount
ADB: Special Funds resources (ADF grant)	0.500
Cofinancing: None	0.000
Counterpart: Government	0.125
Total	0.625

ADB = Asian Development Bank, ADF = Asian Development Fund.

Source: ADB estimates.

12. Due Diligence Summary

Development benefits. The activity will enhance the treatment performance of the chlorine neutralization unit at the Osh–Plotina WTP. The water tariff levied by Vodokanal, the city’s water utility, can sufficiently cover O&M costs. The economic analysis for the completed project was updated to take into account the additional costs associated with the activity subgrant. The analysis showed that the overall project will remain viable, with an economic internal rate of return of 18.7% compared with the 19.1% reflected on the project completion report and a financial internal rate of return of 2.4% compared with the initial estimate of 2.8%, as the outputs have not changed, and the increase in capital expenses is negligible in relation to the size of the linked project.

Governance. The financial management risk for the implementing agency for the first activity is *substantial*. Mitigating measures have been incorporated under the approved Issyk-Kul Wastewater Management Project that will ensure that the DDWSSDP has (i) adequate staff to handle project financial management, although they are unfamiliar with ADB’s disbursement guidelines and procedures; (ii) an adequate accounting system that integrates project-specific accounting, budgeting, auditing, and reporting requirements; on top of (iii) the experience as an executing agency for projects financed by other international financial institutions, with responsibilities for grant disbursements and advance account management; and (iv) capacity for internal audit. ADB’s Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the Ministry of Finance.

Safeguards. The safeguard categories of the first activity subgrant are *category B* for the environment, *category C* for involuntary resettlement, and *category C* for indigenous peoples.

13. Key Risks

The overall risk for the facility is *low* because of the nature and limited size of the activities to be supported.

14. List of Linked Documents

<http://www.adb.org/Documents/RRPs/?id=52256-003-3>

1. Facility Agreement
2. List of Indicative Activities
3. Activity Report
4. Activity Administration Manual
5. Environmental Assessment and Review Framework
6. Initial Environmental Examination
7. Resettlement Framework

AAM = activity administration manual, ADB = Asian Development Bank, CO₂ = carbon dioxide, CPS = country partnership strategy, CWRD = Central and West Asia Department, CWUW = Central and West Asia Urban Development and Water Division, DDWSSD = Department of Drinking Water Supply and Sewerage Development, O&M = operation and maintenance, SEFF = small expenditure financing facility, WTP = water treatment plant.

^a ADB. 2018. *Country Partnership Strategy: Kyrgyz Republic, 2018–2022—Supporting Sustainable Growth, Inclusion, and Regional Cooperation*. Manila.

^b ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grant to the Kyrgyz Republic for Emergency Assistance for Recovery and Reconstruction*. Manila.

^c ADB. 2017. *Completion Report: Emergency Assistance for Recovery and Reconstruction in the Kyrgyz Republic*. Manila.

DESIGN AND MONITORING FRAMEWORK

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Output Project efficiency and sustainability enhanced	One chlorine neutralization unit upgraded at Osh–Plotina WTP	Executing agency project completion report and survey report	Changes in government approval procedures by oversight agency delays project completion.
Key Activities with Milestones 1. Project sustainability enhanced 1.1 Prepare output-based procurement documentation for the chlorination neutralization unit by Q3 2019 1.2 Start procurement by Q3 2019 1.3 Award contracts by Q4 2019 1.4 Complete civil works contract by Q4 2020			
Project Management Activities Chlorine neutralization unit at Osh–Plotina WTP			
Inputs ADB: \$0.500 million (grant) Government: \$0.125 (grant)			
Assumptions for Partner Financing Not Applicable			

ADB = Asian Development Bank, Q = quarter, WTP = water treatment plant.

Contribution to the ADB Results Framework: Households with new or improved water supply.

Source: Asian Development Bank.

RISK ASSESSMENT AND RISK MANAGEMENT PLAN
Osh-Plotina Chlorine Neutralization Unit

Risk Description	Risk Rating	Action	Period	Responsible Agency
Implementing Entity Failure to report or delays in reporting suspected fraud, waste or misuse of project resources or assets.	Substantial	Prepare and submit monitoring reports on suspected fraud, waste or misuse of project resources or assets.	Quarterly, beginning end of Q4 2019	DDWSSD/MOF (Chamber of Accounts)/ PMO
Fund Flow Misunderstanding and misinterpretation of ADB's guidelines on disbursement and withdrawals of the grant proceeds.	Substantial	Provide online and on-the-job training on ADB disbursement and payment procedures using an advance account to DDWSSD/PMO	On-line training: Before project start up at Q3 2019 On-the-job training: Beginning Q3 2019	ADB/DDWSSD/ PMO
		The PMO will be involved in the preparation of supporting documents for grant withdrawal to applications so they will also be provided with online and on-the-job training on ADB disbursement and payment procedures.	On-line training: Quarterly beginning Q3 2019 On-the-job training: Beginning Q3 2019	DDWSSD/ ADB
Staffing Inadequate number of staff and insufficient knowledge and understanding of ADB's disbursement policies and procedures.	Substantial	DDWSSD to recruit and/or appoint additional staff to handle project financial management in the PMO to be established under the project. ADB to facilitate training on ADB's disbursement policies and procedures. ¹	At project start-up, Q3 2019 through to project completion, Q4 2024	ADB/DDWSSD/ PMO
Accounting Policies and Procedures Inadequate project accounting and financial reporting system.	Moderate	Configure the accounting system of SAWR/DDWSSD to incorporate project-specific accounting and financial reporting, training and monitoring.	At project start up, Q3 2019	ADB/DDWSSD/ PMO
Budgeting Inability of the IAs to develop realistic budget and raise counterpart funds.	Moderate	Prepare and issue budgeting policies and procedures for requesting the counterpart funding contribution of the government for the project promptly and accurately.	Before project start up, by Q3 2019	MOF/DDWSSD/ PMO/
Internal audit Absence of internal audit unit.	Substantial	SAWR to assign an internal auditor from its Internal Audit Unit to the PMO.	At project start-up, Q3 2019 through to project	SAWR/ DDWSSD/PMO

¹ ADB to provide the ADB Handbook on Financial Management and Loan Disbursement Handbook to facilitate training and capacity development.

Risk Description	Risk Rating	Action	Period	Responsible Agency
		DWSSD/PMO to prepare and agree on a project work plan for internal audit.	completion, Q4 2024	
		SAWR/DDWSSD to agree a work plan for the internal audit of the financial statements (FS) and transactions of throughout the project implementation period.	By Q3 2019	MOF/Chamber of Accounts/ DDWSSD/PMO and ADB
External audit Delayed audit process and submission of audited financial statements in accordance with the grant agreement.	Substantial	For the external audit of the DDWSSD financial statements, MOF/SAWR (DDWSSD) to agree a timetable with the State Chamber of Accounts. Arrangements will be made by DDWSSD/PMO for the annual external audits of the project financial statements and entity financial statements of the DDWSSD.	For the external audits during the project implementation period, annually by Q1 of the following year	MOF/Chamber of Accounts/ DDWSSD/PMO ADB
Reporting and Monitoring Delay in submission of audited financial reports and non-compliance with government requirements and with international public accounting standards.	Substantial	Configure the accounting systems of SAWR/DDWSSD for project financial reporting, training and monitoring. Conduct formal training and on-the-job training on the project accounting system in accordance with an agreed training program.	During project start-up, by Q3 2019, through to project completion, 2024	DDWSSD/PMO ADB
Management Information systems Lack of appropriate safeguards or security system measures to protect records and transactions in the electronic MIS.	Moderate	Configure the accounting systems of SAWR/DDWSSD with features that appropriately safeguard and secure the confidentiality and integrity of the data in the system.	By Q3 2019	DDWSSD/PMO ADB

ADB = Asian Development Bank, DDWSSD = Department of Drinking Water Supply and Sewerage Development, SAWR = State Agency for Water Resources under the Government of the Kyrgyz Republic, MIS = management information system, MOF = Ministry of Finance, PMO = project management office.

Source: Asian Development Bank.