



Report and Recommendation of the President to the Board of Directors

Project Number: 46135-004
September 2016

Proposed Loan Republic of Uzbekistan: Tashkent Province Water Supply Development Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 19 September 2016)

Currency unit	–	sum (SUM)
SUM1.00	=	\$0.0003
\$1.00	=	SUM2,985.13

ABBREVIATIONS

ADB	–	Asian Development Bank
DCM	–	Decree of Cabinet of Ministers
EMP	–	environmental management plan
km	–	kilometer
LARP	–	land acquisition and resettlement plan
MOF	–	Ministry of Finance
O&M	–	operation and maintenance
PAM	–	project administration manual
PCU	–	project coordination unit
PMC	–	project management consultant
SDR	–	standard drawing right
TPS	–	Tashkent Provincial <i>Suvokova</i> (state unitary enterprise)
UCSA	–	<i>Uzkommunkhizmat</i> (Uzbekistan Agency)
WSS	–	water supply and sanitation
WTP	–	water treatment plant

NOTE

In this report, “\$” refers to US dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 46135-004	
Project Name	Tashkent Province Water Supply Development Project	Department /Division	CWRD/CWUW
Country Borrower	Uzbekistan Republic of Uzbekistan	Executing Agency	Uzbekistan Communal Services Agency "Uzkommunkhizmat"
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Water and other urban infrastructure and services	Urban water supply		120.90
		Total	120.90
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Adaptation (\$ million)	1.20
Environmentally sustainable growth (ESG)	Global and regional transboundary environmental concerns	Mitigation (\$ million)	0.00
		CO ₂ reduction (tons per annum)	10
		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)	Knowledge sharing activities		
Partnerships (PAR)	Civil society organizations Implementation Private Sector		
Private sector development (PSD)	Public sector goods and services essential for private sector development		
5. Poverty and SDG Targeting		Location Impact	
Project directly targets poverty and SDGs	No	Rural	Medium
		Urban	Medium
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: B Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		120.90	
Sovereign Project loan: Asian Development Fund		120.90	
Cofinancing		0.00	
None		0.00	
Counterpart		22.93	
Government		22.93	
Total		143.83	
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 Tashkent Province Water Supply Development Project.¹

2. The project will support the Government of Uzbekistan in the rehabilitation of a regional water supply system located in Kibray and Zangiota districts of Tashkent province. Responding directly to the needs of the population in the project area, it will upgrade existing water supply networks, provide potable water treatment services, build institutional capacity, and assist in strengthening the province's water supply and wastewater utility.²

II. THE PROJECT

A. Rationale

3. The water supply and sanitation (WSS) systems in Uzbekistan were established under the former Soviet Union. These were all owned and operated by public enterprises, supervised by government ministries, and funded from the central budget. The sector is undergoing reforms to address the challenges of (i) inadequate investment and services coverage, (ii) poor operation and maintenance (O&M), (iii) financial unsustainability, and (iv) weak institutional and regulatory capacity. Most of the *vodokanals* (water supply and sanitation agencies) have started to adopt modern management and commercial practices to improve their accountability and provide incentives to improve services. The results are manifested in terms of improvements in the coverage, quality, reliability, and sustainability of WSS services.

4. Since independence in 1991, growth in Uzbekistan has been attained through a gradual transition to a market-based economy, evolving from an initial emphasis on welfare and social stability towards economic and social development that is supported by strong macroeconomic management. The nation's robust economic growth prospects highlight the need for improved municipal infrastructure and services, underscoring the demand for sustainable infrastructure investments coupled with the progressive modernization of service delivery utilities.

5. The demand for municipal service improvements is pronounced in Tashkent province, which—as the home of Tashkent city, the nation's capital—is the country's most economically advanced province. The districts of Kibray and Zangiota typify the province's 18 towns and districts.³ Located adjacent to Tashkent city, they are destined to contribute substantially to the province's economic growth and to strengthen its urban–rural linkages. Both districts have considerable expansion potential in the agro-industrial area and textile industries. Zangiota is also identified as a possible location for a future special industrial zone.

6. Despite its strong economic growth potential, however, the province suffers from inadequate WSS infrastructure. Historically, WSS has suffered from fragmented and dysfunctional regulatory and institutional frameworks, limited planning capabilities, weak interagency coordination and oversight, and ineffective regulatory compliance mechanisms. *Vodokanals* lack performance-based management, and have high staff turnover. Funding constraints have also been acute for both capital investments and O&M activities, exacerbated

¹ The design and monitoring framework is in Appendix 1.

² The Asian Development Bank (ADB) provided project preparatory technical assistance for the Tashkent Province Water Supply Development Project.

³ Kibray district has a population of 190,000 and is 25 kilometers from Tashkent city. Zangiota district has a population of about 390,000 and is 17 kilometers from Tashkent city.

by low tariff levels, collection inefficiencies, and limited public funding. Significant inequalities exist in the provision of WSS services, particularly between cities and towns.

7. Deficiencies in WSS have also manifested physically. In 2012, although the province's water supply coverage was estimated to be 85.9%, many consumers endured irregular and intermittent water supplies. Much of the province's water supply infrastructure has deteriorated and needs extensive rehabilitation, resulting in unreliable services, high leakage losses, and elevated water pollution risks. Inefficient pumps and frequent power outages further inhibit delivery. In Kibray and Zangiota districts, households and businesses are hampered by frequent water supply interruptions, forcing them to use alternative water supply sources such as shallow wells, stand pipes, and trucked water. Water production headworks, transmission, and distribution facilities within the two districts increasingly face obsolescence as a result of maintenance deficiencies. This low level of service provision impacts directly on consumers and hinders the growth of the province.

8. Fully recognizing the WSS constraints, the government, through the leadership of the Ministry of Finance (MOF) and the Uzbekistan Agency (UCSA),⁴ responded by reorganizing WSS institutions and implementing broad management, financial, and cost-recovery reforms. Driven largely through the Decree of Cabinet of Ministers (DCM) 306 dated 30 October 2015,⁵ *suvokovas* (state unitary enterprises) have been established in each province, with each being mandated to deliver WSS improvements in its respective jurisdiction. In parallel, previously independent city and district *vodokanals* have been restructured and absorbed as district branches into their respective provincial *suvokovas*. DCM 306 also requires that two high-level committees be established and over 40 time-bound WSS improvements be implemented. One committee will ensure the recruitment of qualified management personnel for *suvokovas*, and the other committee will monitor the timely servicing of WSS loans of international financial institutions. In Tashkent province, WSS delivery is the responsibility of the Tashkent Provincial *Suvokova* (TPS). Since its formation, it has progressed rapidly to implement WSS reforms: completing inventories of its 18 district branches, expanding its consumer base,⁶ increasing its tariffs, improving tariff collection efficiencies, consolidating unregistered water supply systems, and recruiting professional and support personnel. Water tariffs have increased significantly—between April 2013 and March 2016, the domestic water tariff increased by 209% in Kibray district and 89% in Zangiota district. These ongoing reforms will provide an increasingly stable foundation on which to develop much-needed water supply investments.

9. The project will revitalize the Kadirya regional water supply system. This includes a 58-kilometer (km) urban corridor of Tashkent province that will initially serve over 260,000 inhabitants of Kibray and Zangiota. These districts have been selected due to their economic importance, proximity to the regional water source, and poor WSS standards. The project is consistent with the Asian Development Bank (ADB) Water Operational Plan, 2011–2020 and country partnership strategy, 2012–2016 for Uzbekistan.⁷ It also conforms with and supports relevant government decrees relating to WSS, and is consistent with previous and ongoing ADB

⁴ The UCSA is a central government body with overall responsibility to improve WSS services nationwide. It formulates policy, advises on reforms and decrees, and is a focal executing agency for foreign investments in WSS.

⁵ DCM 306 "On measures to implement the main directions of development of the organizations of water supply and sanitation" enacted by the Cabinet of Ministers on 30 October 2015.

⁶ The domestic consumer base increased from 0.78 million to 1.17 million, and the commercial and institutional base increased to 4,700 entities.

⁷ ADB. 2012. *Water Operational Plan, 2011–2020*. Manila; ADB. 2012. *Country Partnership Strategy: Uzbekistan, 2012–2016*. Manila.

interventions in WSS.⁸ Lessons incorporated in the project design include the need to (i) provide early counterpart funding, (ii) reduce project commencement delays through advanced actions, (iii) recruit qualified consultants in a timely manner, (iv) ensure project coordination unit (PCU) staff salaries are competitive, and (v) maintain quality standards for civil works structures.

B. Impact and Outcome

10. The project impact will be improved living standards, health, and economy in Tashkent province. The outcome of the project will be improved access to reliable, sustainable, and affordable water supply services in Kibray and Zangiota districts of Tashkent province.

C. Outputs

11. The project will have two outputs:
- (i) **Output 1: Kadirya regional water supply system improved.** Output 1 will consist of a new potable water treatment plant (WTP) producing 105,000 m³ of water daily, 58.3 km of water transmission mains, 8 new and 9 rehabilitated pumping stations, 27.2 km of distribution main pipes, and 337.8 km of distribution networks.
 - (ii) **Output 2: Improved financial, operational, and system management of the Tashkent Provincial Suvokova for Kibray and Zangiota district branches.** Output 2 will improve the financial, operational, and system management of the TPS, including the provision of training for technical and financial management, assistance with the establishment of customer care units at the Zangiota and Kibray district branches, installation of household water meters, and implementation of a computerized financial management system.

D. Investment and Financing Plan

12. The project is estimated to cost \$143.83 million (Table 1).

Table 1: Project Investment Plan (\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Water supply system improvement	125.47
2. Investment program management and capacity development	4.74
Subtotal (A)	130.21
B. Contingencies^c	9.62
C. Financing charges during implementation^d	4.00
Total (A+B+C)	143.83

^a Includes taxes and duties of \$22.93 million, which will be financed from government sources.

^b In early 2016 prices.

^c Physical contingencies computed at 3.0%. Price contingencies computed at 1.4% for 2017 and 1.5% per year thereafter for foreign costs, and 11.0% for 2017, 9.7% for 2018, and 10.0% thereafter for local currency costs. Includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

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

Source: Asian Development Bank estimates.

⁸ ADB intervention includes (i) three completed WSS projects; (ii) four projects under ADB. 2009. *Proposed Multitranchise Financing Facility to the Republic of Uzbekistan for the Water Supply and Sanitation Services Investment Program*. Manila; and (iii) ADB. 2015. *Proposed Loan to the Republic of Uzbekistan for Djizzak Sanitation System Development Project*. Manila.

13. The government has requested a loan in various currencies equivalent to SDR86,537,000 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% per annum during the grace period and thereafter, and such other terms and conditions set forth in the draft loan and project agreements. The proceeds of the loan will be relented from the borrower to the TPS pursuant to a subsidiary loan agreement.

14. The financing plan is in Table 2.

Table 2: Financing Plan
(\$ million)

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Special Funds resources (loan)	120.90	84.1
Government ^a	22.93	15.9
Total	143.83	100.0

^a Government contribution includes taxes and duties.
Source: Asian Development Bank.

15. In addition to works, goods, consulting services, and interest during implementation, ADB project funding will include the financing of (i) costs of the PCU in the executing agency, including staff salaries and operating costs;⁹ (ii) social charges and withholding taxes assessed on PCU staff salaries; and (iii) resettlement costs.¹⁰

E. Implementation Arrangements

16. Advance action has been requested by the executing agency for the early recruitment of the project management consultants (PMCs) and detailed design consultants.

17. The UCSA is the executing agency of the project. The existing PCU in the UCSA, responsible for all ADB-financed project implementation, will be strengthened by recruiting additional staff who will assist in managing, administering, and executing the project. The UCSA will be responsible for, among others, procurement, contract management, financial management, project administration, and safeguards compliance and reporting.

18. The TPS will be the implementing agency of the project, with its Strategic Development Department as the implementation unit. The TPS will be (i) the employer in all contracts under the project, (ii) the owner of all constructed and rehabilitated facilities, (iii) the holder of the imprest account, and (iv) responsible for the preparation of the project financial statements and entity financial statements.

⁹ ADB financing of PCU 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 PCU are viewed as reasonable and consistent with project management costs incurred and financed by ADB under the ongoing Djizzak Sanitation System Development Project and the four tranches under the ongoing multitranche financing facility.

¹⁰ ADB has funded land acquisition and resettlement costs for the projects financed under the ongoing multitranche financing facility. Resettlement costs will be eligible for ADB financing only if they comply with all applicable requirements under ADB's Safeguard Policy Statement (2009) and the ADB-approved resettlement plan.

19. The UCSA and the TPS will jointly report to the Interagency Council once every quarter. The tentative implementation arrangements are summarized in Table 3 and described further in the project administration manual (PAM).¹¹

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	October 2016 to October 2022		
Estimated completion date	31 October 2022	Loan closing date	30 April 2023
Management			
(i) Oversight body	Interagency Council ^a Chair: Cabinet of Ministers		
(ii) Executing agency	UCSA		
(iii) Coordination unit	PCU within UCSA		
(iv) Implementing agency (IA)	TPS		
(v) Implementation unit	TPS Strategic Development Department		
Procurement (works and goods) ^b	International competitive bidding (plant)	1 contract	\$21,094,820
	International competitive bidding (works)	4 contracts	\$109,378,764
	National competitive bidding (works)	2 contracts	\$1,300,067
	National competitive bidding (goods)	2 contracts	\$840,525
	Shopping	1 contract	\$76,030
Consulting services ^b	PMC: QCBS	International: 68 person-months National: 209 person-months	\$3,251,280
	Detailed design: QCBS	National: 250 person-months	\$890,000
	Capacity building program: QCBS	National: 74 person-months	\$500,000
	Audit: LCS	International	\$192,310
	Training awareness gender action plan: CQS	International or national	\$43,390
Advance contracting	Advance contracting for the PMC and detailed design consultants		
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, CQS = consultants' qualifications selection, LCS = least-cost selection, PCU = project coordination unit, PMC = project management consultant, QCBS = quality- and cost-based selection, TPS = Tashkent Provincial *Suvokova* (state unitary enterprise), UCSA = *Uzkommunkhizmat* (Uzbekistan Agency).

^a The composition of the Interagency Council is approved by the Cabinet of Ministers Resolution 229. It includes representatives of the Ministry of Finance, UCSA, Tashkent provincial government, and Tashkent Provincial *Suvokova*.

^b All contract costs are only estimates.

Source: Asian Development Bank.

III. DUE DILIGENCE

A. Technical

20. The project design addresses water supply shortages, quality, and operational and maintenance issues. Alternative technical options were analyzed and the optimum design solution was identified based on local water resource availability, investment efficiency, future operational expenditures, and the potential social and environmental impacts. The proposed project development technology is based on sustainable criteria with respect to the conservative use of water resources, use of materials, and construction technologies. The new WTP will be

¹¹ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

constructed to produce 105,000 cubic meters of drinking water daily, sufficient to cover the projected water demand of the proposed service area for at least a 25-year horizon. About 423 km of pipelines,¹² integrated with existing distribution systems and 17 pumping stations, will secure the distribution of safe and continuous drinking water through the proposed regional water supply system. Potential nonrevenue water issues will be addressed primarily through the implementation of universal consumer metering. Fiberglass and polyethylene pipes, characterized by extremely low roughness coefficients, will be utilized in the network. The proposed technology is compatible with local conditions and the capacity of the TPS.

B. Economic and Financial

21. **Economic analysis.** Benefits are derived primarily from (i) incremental water consumption calculated according to the willingness to pay of the consumers, existing water demand, and water demand projections; and (ii) resource cost savings from nonincremental water sales as a result of households switching from alternative water sources. The public health benefits from the project were quantified by estimating the medical savings from improved access to clean water and the savings in the disability-adjusted life years stemming from the reduced exposure to untreated water. The resulting base-case economic internal rate of return is 14.54%, which exceeds the economic opportunity cost of capital of 12%, which confirms the economic viability of the project. A sensitivity analysis, undertaken to further test economic viability, determined that the project will remain economically robust under the following scenarios: (i) a 10% increase in investment cost possibly arising from a delayed implementation schedule or inflation being higher than expected; (ii) a 10% increase in O&M costs, which can result from personnel salaries and other costs being higher than budgeted; (iii) a 10% decline in benefits possibly resulting from consumption benefits, resource savings, and health benefits being lower than projected; (iv) a combination of scenarios (i), (ii), and (iii); and (v) a delay in subproject benefits by 1 year.

22. **Financial analysis.** Government sector reforms, including DCM 306, define the plan for financial sustainability of provincial *suvokovas*. Accordingly, the financial sustainability analysis is conducted from the perspective of the TPS, the entity responsible for the operation and management of WSS in Tashkent province. Although the tariff adjustment methodology is designed to allow the TPS to recover O&M costs, depreciation, and interest on borrowings, it is insufficient to cover principal repayment of debt service. The TPS does, however, have a consistent track record of 6-monthly tariff revisions, which is sufficient to allow it to fully recover its operating costs, ensuring sustainable operations. The tariff therefore is insufficient to yield a positive financial internal rate of return, and a full cost–benefit analysis has not been performed. As the project will lead to the addition of net fixed assets of about SUM600 billion in 2022 (about 20 times the net fixed assets in the books of the TPS as of 2016), tariffs will need to be increased by about 47% in real terms in 2022 to accommodate the higher depreciation charges and interest costs of the ADB loan.¹³ The newly formed TPS will also need to invest substantial additional amounts in the future for the remaining portions of its network, although plans and detailed cost estimates are yet to be prepared. To address the financial sustainability of the TPS, the government is committed to support TPS debt servicing.

¹² Ranging from 76 millimeters to 1,000 millimeters in diameter.

¹³ The TPS is expected to undertake substantial additional capital investment, besides the current ADB-assisted project, to improve the WSS network, which will lead to a substantial increase in its depreciation and debt service obligations.

C. Governance

23. The TPS was constituted as a state unitary enterprise following the DCM 306 by merging 18 existing towns and district *vodokanals* and other water utilities in Tashkent province. The TPS was established and registered on 25 May 2016. The financial management assessment of the TPS concluded that the overall financial management risk rating is *substantial*, for the following reasons: (i) the TPS was constituted in its present form only in December 2015 and is still consolidating its operations, (ii) the TPS has no prior experience in implementing a large project supported by any international agency, (iii) the TPS will be recruiting staff who may have no or limited experience of ADB-financed projects, and (iv) a financial manual for the project operations is yet to be prepared. Given the substantial risks, the principal mitigation measure proposed is that the UCSA, with its prior experience in implementing large capital expenditure projects with international financial support, will supervise and guide the TPS. Financial management consultants will be made available to the TPS to support its financial management activities, under the overall supervision of the UCSA.

24. The government is strongly committed to institutional strengthening and improving the performance of WSS management. Government resolutions propose to implement wide-ranging and comprehensive national reforms to transform the subsector and substantially improve governance. Cumulatively, these actions represent a major step and provide a foundation for significant governance reform. They provide for improved accountability in WSS, with a reporting mechanism that reaches the highest levels of government. They also provide the tools needed for utility benchmarking, including consumer databases, metering, automated billing and collection, and improved management and financial management system functions.

25. Procurement management assessments have concluded that the 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. The PCU will be staffed with experienced personnel that have received training in ADB project administration and implementation. ADB will provide additional procurement oversight.

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

D. Poverty and Social

27. The project will contribute to improved living standards, especially in rural settlements. The provision of safe, potable water will significantly reduce the expenditures and time resources spent by households and businesses to cope with water absence and shortages. Improving the institutional and management capacity of the TPS will enhance the provision of reliable water supply services, support fair and transparent billing, and reduce water supply conflicts. Although 76.0% of households in the project area used piped water as a main source of potable water, only 23.6% of connected households were provided with piped water 24 hours a day, 7 days a week during the week prior to the poverty and social assessment survey. Further, it was found that almost 8% of households primarily use potentially unsafe water from open sources for drinking and cooking needs. Only 36.0% of households have a bathroom with piped water supply. The project investments will serve 264,500 people (340,670 people up to

2043) in 58 settlements, public institutions, and private enterprises with reliable and safe water supply.¹⁴

28. WSS constraints on households negatively affect the quality of life of all family members especially women, who are primarily responsible for water delivery; cooking; cleaning; and caring for children, the sick, and the disabled. Project implementation will reduce unproductive labor costs, saving a minimum of 3 working days for women in each household for each month, which is bound to stimulate women's economic activities. Key features of the project's gender action plan¹⁵ include (i) assignment of a social development and gender specialist in PCU; (ii) facilitation of women's participation in project-associated activities; (iii) employment opportunities for women (including at least 30% of new laboratory staff and 30% of customer care workers); (iv) equitable women's pay in the project management and implementation team; (v) a total of 99 community hygiene promotion and sanitation awareness trainings (at least 30% of participants will be women); (vi) equal opportunity and/or access to training for female staff of the TPS and its branches; (vii) establishment of a gender-sensitive customer care and/or complaints unit; and (viii) gender-sensitive outreach activities, including TV, radio spots, and newspaper articles. The project is classified as *effective gender mainstreaming*.

E. Safeguards

29. **Environmental safeguards.** The project is classified category B for environment according to the ADB Safeguard Policy Statement (2009). Mitigation measures to address all construction and operational impacts have been included in the environmental management plan (EMP) prepared as part of the initial environmental examination. The initial environmental examination was disclosed on the ADB website on 19 August 2016. Impacts from the project are expected to be short term and limited. Impacts are mostly related to construction and rehabilitation of the trunk main, distribution centers, and distribution networks. These include dust, noise, vibration, hazardous solid wastes,¹⁶ labor and public safety, temporary blockage of household access, traffic disturbance, and production and transportation of construction materials. Environmental impacts during the operation phase include the increase of water use from the water sources, disposal of WTP sludge, accidental leakage from chlorination, noise from the WTP and pumping stations, and increase in sewage production compared to the capabilities of community facilities.

30. The PCU within the UCSA will be responsible for EMP implementation in order to comply with ADB's safeguards requirements and national environmental regulations. For this, the PCU will be required to designate a qualified, full-time safeguards specialist, who will be assisted by the PMC environmental specialists in overseeing the implementation of the EMP. The cost for implementing the EMP will be financed by the project as follows: (i) the cost of mitigation measures and environmental monitoring will be included in the construction contracts, and (ii) the cost of environmental supervision will be included in the PMC consulting service contract. A grievance redress mechanism to handle both environmental and social safeguard issues will be established after project effectivity. The PCU will submit semiannual environmental monitoring reports to ADB and relevant government authorities, and these reports will be disclosed to the public on the UCSA (in Uzbek) and ADB (in English) websites.

31. **Social safeguards.** The project is classified category B for involuntary resettlement according to requirements set out in the Safeguard Policy Statement. A land acquisition and

¹⁴ Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

¹⁵ Gender Action Plan (accessible from the list of linked documents in Appendix 2).

¹⁶ Including asbestos-containing materials, scrap metals, and oils from old equipment.

resettlement plan (LARP) has been prepared that contains a social impact assessment based on the preliminary project design. The LARP was disclosed on the ADB website on 18 August 2016. It suggests that the project will permanently acquire a total of 13 land plots in 8 villages, covering 22.3 hectares of land for a proposed new WTP and new water distribution centers. The losses include arable crop cultivation as well as orchard land and trees. A total of nine households (48 persons) will be affected, with two households expected to be severely affected by economic displacement. There will be no physical displacement. In addition, there will be temporary impacts on assets and/or income from water pipeline laying. The cost for implementing the LARP is estimated at \$1.2 million, which includes a 10% contingency.

32. The LARP details the impacts and proposes mitigation of the identified impacts of land acquisition as well as temporary impacts that include an entitlement matrix to address the impacts. Provisions have been made for the loss of land, crops, fruit trees, timber trees, temporary job loss of wage earners, allowances for severe impacts, and temporary impacts. Other relevant details include asset valuation, compensation provisions, organizational set-up, a grievance redress mechanism, and compliance with ADB information disclosure and consultation requirements. The UCSA has experience of implementing ADB projects involving involuntary resettlement. Additional capacity enhancement is proposed by linking with ADB's Technical Assistance for Mainstreaming Land Acquisition and Resettlement Safeguards in the Central and West Asia Region, in which Uzbekistan is a participant.¹⁷

33. The project has been classified category C for indigenous peoples. There are no indigenous peoples' communities in the project area or in the country in general, as defined in the Safeguard Policy Statement for operational purposes. Accordingly, no indigenous peoples planning documents are required.

F. Risks and Mitigating Measures

34. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.¹⁸ The integrated benefits and impacts of the project are expected to outweigh the costs.

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Financial management capacity of the TPS is weak.	The UCSA will supervise and guide the TPS in financial management. TPS will (i) recruit accounting staff; (ii) recruit a project management consultant team including a qualified international financial management specialist and a qualified national financial management specialist to provide necessary support and to strengthen internal control of the TPS and PCU; (iii) develop a financial management training plan and train all project financial staff before and during project implementation; (iv) prepare a financial management manual incorporating both government and ADB requirements; (v) upgrade its accounting software 1C to allow access to all 18 branches; and (vi) ensure that the terms of reference for the required external audits are agreed with ADB.
Prolonged government approval procedure by oversight agency	There will be close coordination with concerned government agencies to avoid delay in international contractor and/or supplier registration. PCU and implementing agency staff will participate in ADB procurement training.

¹⁷ ADB. 2009. *Proposed Technical Assistance for Mainstreaming Land Acquisition and Resettlement Safeguards in the Central and West Asia Region*. Manila (TA7433-REG).

¹⁸ Risk Assessment and Risk Management Plan (accessible from the linked document list in Appendix 2).

Risks	Mitigating Measures
Since the TPS has only been recently established under DCM 306, its institutional capacity is limited.	Project capacity building consultants will assist to strengthen TPS consumer accountability and service sustainability.
Revenue-generation difficulties resulting from insufficient billing and collection.	DCM 306 is enhancing the financial capacity of the TPS by mandating a unified tariff across Tashkent province. The MOF and Tashkent provincial government will assist the TPS in strengthening financial management, establishing billing and collection systems, and implementing 100% consumer metering activities.

ADB = Asian Development Bank, DCM = Decree of Cabinet of Ministers, MOF = Ministry of Finance, PCU = project coordination unit, TPS = Tashkent Provincial *Suvokova* (state unitary enterprise), UCSA = *Uzkommunkhizmat* (Uzbekistan Agency).

Source: Asian Development Bank.

IV. ASSURANCES AND CONDITIONS

35. The government, UCSA, and TPS 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.

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

37. It will be a condition to loan effectiveness that (i) the borrower shall have issued a resolution specifying, among other things, the general project scope, the project's exemption from taxation within the territory of the borrower, and the project's implementation arrangements; and (ii) the subsidiary loan agreement (pursuant to which the borrower will relend the entire proceeds of the loan to the TPS), in form and substance satisfactory to ADB, shall have been executed and delivered and shall be fully effective and legally binding upon such parties.

V. RECOMMENDATION

38. 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 SDR86,537,000 to the Republic of Uzbekistan for the Tashkent Province Water Supply 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

xx September 2016

DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned With Improved living standards, health, and economy in Tashkent province (defined by project).			
Project Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Improved access to reliable, sustainable, and affordable water supply services in Kibray and Zangiota districts of Tashkent province	a. 100% of the population of 58 settlements (Zangiota 38 settlements, Kibray 20 settlements) connected to the Kadirya regional water supply system have access to reliable and safe water supply by 2022 (baseline 2016: 32,880 households and 159 commercial entities with irregular service) b. Kadirya regional water system provide 24 hours a day water supply to 58 settlements (Zangiota 38 settlements, Kibray 20 settlements) by 2022 (baseline 2016: 12.6 hours/day) c. Public satisfaction with quality of water supply increased to 90% by 2022 (baseline 2016: 46%) d. Bills collection for water supply services increased to 95% by 2022 (baseline 2016: 85%)	a–d. Executing agency project completion report and survey report	Revenue generation difficulties resulting from insufficient billing and collection
Outputs 1. Kadirya regional water supply system improved	1a. Water treatment plant newly constructed with capacity of 105,000 m ³ /day that meets appropriate water quality standards by 2021 (baseline: not applicable) 1b. 58.3 km of transmission lines rehabilitated according to agreed specification by 2021 (baseline: not applicable) 1c. 17 distribution centers (8 new, 9 rehabilitated) with 365.0 km distribution network newly constructed and/or rehabilitated according to agreed specifications by 2021 (baseline: not applicable) 1d. One newly equipped water quality laboratory fully staffed by 2021 and at least 30% of staff are women (baseline: none) 1e. Warehouse with central maintenance workshop operated by TPS starting from 2021 (baseline: none)	1a–1e. TPS project progress, executing agency project completion report	Prolonged government approval procedure by oversight agency
2. Improved financial, operational, and system management of the Tashkent Provincial <i>Suvokova</i> for Kibray and Zangiota district branches	2a. All technical and financial management staff of the TPS and its district branches (at least 30% are women) trained by 2020 (baseline: not applicable) 2b. Customer care units set up and staffed with 30% women at the TPS and its Zangiota and Kibray district branches by 2021 (baseline: none)	2a–2h. TPS project progress reports, executing agency project completion report	High turnover of trained staff affects performance

Project Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	<p>2c. Household water meters installed in 100% of connected households in the Zangiota and Kibray project area from 2022 and onwards (baseline 2016: 15%)</p> <p>2d. Computerized financial management system implemented starting 2021 (baseline: none)</p> <p>2e. Sex-disaggregated project performance benchmarking system developed by 2021 (baseline: none)</p> <p>2f. Sex-disaggregated human resource database developed (baseline: none)</p> <p>2g. 50% of the project households covered under public awareness campaign, primarily targeted at women and girls. About 80,000 women and girls of school age are covered in 2018–2022 (baseline: none)</p> <p>2h. 50% of members of hygiene promotion team are women (baseline: none)</p>		
<p>Key Activities with Milestones</p> <p>1. Kadirya regional water supply system improved</p> <ul style="list-style-type: none"> (i) Mobilize consultants by Q3 2017 (ii) Complete advance actions by Q2 2017 (iii) Award civil works contract(s) by Q3 2018 (iv) Complete equipment procurement by Q2 2021 (v) Complete civil works contract(s) by Q4 2021 <p>2. Improved financial, operational, and system management of the Tashkent Provincial <i>Suvokova</i> for Kibray and Zangiota district branches</p> <ul style="list-style-type: none"> (i) Mobilize consultants by Q3 2017 (ii) Develop and implement capacity building programs by Q2 2020 (iii) Complete procurement contract(s) by Q2 2020 (iv) Conduct consumer survey by Q4 2021 <p>Project Management Activities</p> <p>Strengthen project coordination unit in UCSA. Convene regular Interagency Council meetings. Prepare and submit project progress reports.</p>			
<p>Inputs</p> <p>ADB: \$120.90 million (loan) Government: \$22.93 million</p>			
<p>Assumptions for Partner Financing</p> <p>Not applicable.</p>			

ADB = Asian Development Bank, km = kilometer, m³ = cubic meter, TPS = Tashkent Provincial *Suvokova* (state unitary enterprise); UCSA = *Uzkommunkhizmat* (Uzbekistan Agency).
 Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=46135-004-3>

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. Economic Analysis
8. Financial Analysis
9. Country Economic Indicators
10. Summary Poverty Reduction and Social Strategy
11. Gender Action Plan
12. Initial Environmental Examination
13. Land Acquisition and Resettlement Plan
14. Risk Assessment and Risk Management Plan

Supplementary Documents

15. Detailed Economic Analysis
16. Financial Management Assessment
17. Project Procurement Risk Assessment Report