

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 26 May 2021¹

UZBEKISTAN

**NAMANGAN REGIONAL WATER AND WASTEWATER
PROJECT**

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

¹ As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

TABLE OF CONTENTS

	Page
TABLE OF CONTENTS	2
ABBREVIATIONS / CURRENCY CONVERSIONS	3
PRESIDENT’S RECOMMENDATION	4
BOARD DECISION SHEET.....	5
ADDITIONAL SUMMARY TERMS FACTSHEET	6
1. STRATEGIC FIT AND KEY ISSUES	8
1.1 STRATEGIC CONTEXT	8
1.2 TRANSITION IMPACT.....	9
1.3 ADDITIONALITY.....	9
1.4 SOUND BANKING - KEY RISKS	10
2. MEASURING / MONITORING SUCCESS	11
3. KEY PARTIES.....	12
3.1 BORROWER.....	12
3.2 IMPLEMENTING AGENCY	12
3.3 THE COMPANY	12
4. MARKET CONTEXT	13
5. FINANCIAL / ECONOMIC ANALYSIS.....	13
5.1 FINANCIAL PROJECTIONS	13
5.2 SENSITIVITY ANALYSIS	13
5.3 ECONOMIC ANALYSIS	13
5.4 PROJECTED PROFITABILITY FOR THE BANK.....	13
6. OTHER KEY CONSIDERATIONS	13
6.1 ENVIRONMENT	13
6.2 INTEGRITY.....	15
6.3 AFFORDABILITY ANALYSIS	15
ANNEX 1 - HISTORICAL FINANCIAL STATEMENTS	17
ANNEX 2 - TRANSITION IMPACT SCORING CHART	18
ANNEX 3 - PROJECT IMPLEMENTATION.....	19

ABBREVIATIONS / CURRENCY CONVERSIONS

CAGR	Compounded Annual Growth Rate
CDP	Corporate Development Programme
DSCR	Debt Service Cover Ratio
EBITDA	Earnings Before Interests, Tax, Depreciation and Amortisation
EHS	Environment, Health and Safety
EIRR	Economic Internal Rate of Return
E&S	Environmental and Social
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
ESP	Environmental and Social Policy
FY	Financial Year
GDP	Gross Domestic Product
GET	Green Economy Transition
HR	Human Resources
IFI	International Financial Institution
IPPF	Infrastructure Project Preparation Facility
MEI	Municipal and Environmental Infrastructure
NTS	Non-Technical Summary
PIU	Project Implementation Unit
PIP	Priority Investment Programme
PP&R	EBRD's Procurement Policies and Rules
RoU	Republic of Uzbekistan
SEP	Stakeholder Engagement Plan
TI	Transition Impact
TC	Technical Cooperation
UZS	Uzbekistan Som
WWTP	Waste Water Treatment Plant
YE	Year End

CURRENCY CONVERSION

(as of 05.04.2021)

USD 1 = UZS 10,500

EUR 1 = USD 1.17

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Republic of Uzbekistan for the benefit of Limited Liability Company Namangan Suv Ta'minoti (the "Company"), a state-owned company incorporated in Uzbekistan, are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign loan to the Republic of Uzbekistan in the amount of up to USD 70 million (EUR 59.8 million equivalent) for the benefit of the Company.

The operation will enable the Company to rehabilitate and expand water and wastewater infrastructure in the Namangan Region. The project expects to increase the number of people benefitting from good quality water supply services by 170,000, as well as reduce water losses [REDACTED] per year. The project's expected transition impact is associated with the 'Green quality' through introducing a sustainable approach to environmental asset management and building climate change resilience. It is also associated with the 'Resilient quality' through improving the Company's financial management and operational processes, securing the recovery of operating and maintenance costs. The project is 100 per cent GET-eligible.

Significant additional long-term investments would be required to make the Namangan Region's water and wastewater systems compliant with EU requirements. At the same time, financial sources for the long-term investment programme have not been identified. Therefore, due to affordability constraints and limited financial resources, derogation from the EBRD's Environmental and Social Policy (2014) is sought. [REDACTED]

I am satisfied that the operation is consistent with the Bank's Strategy for Uzbekistan , the Municipal and Environmental Infrastructure ("MEI") Sector Strategy , the Green Economy Transition ("GET") approach and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loan substantially on the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

UZBEKISTAN – NAMANGAN REGIONAL WATER AND WASTEWATER PROJECT DTM 51032	
Transaction / Board Decision	Board approval ² is sought for a sovereign loan of up to USD 70 million (EUR 59.8 million) in favour of the Republic of Uzbekistan (the “RoU”) for the benefit of the state-owned Limited Liability Company Namangan Suv Ta’minoti (the “Company”) to finance water and wastewater investments in the Namangan Region (the “Project”).
Client	The RoU is the borrower. The Project will be implemented by state owned JSC Uzsuvtu’minot, with the Company as project beneficiary. [REDACTED]
Main Elements of the Proposal	<p><u>Transition impact:</u> Primary Quality – Green. The Project is expected to enhance resilience to climate change and enable sustainable and efficient use of water by restoring supply of water to rural areas, increasing the number of people connected to the centralised water supply network and reducing water losses; Secondary Quality – Resilient. The Project will focus on [REDACTED] financial sustainability of the Company through recovery of operating and maintenance costs, improvements to financial management and operational processes.</p> <p><u>Additionality:</u> The Bank will provide long-term financing, which is presently not available from commercial banks. The Bank will support the Company in achieving higher standards through its conditionalities (e.g. PP&R, ESAP, tariff increase [REDACTED]). A Corporate Development Programme (the “CDP”) TC will improve the Company’s institutional, operational and financial capacity.</p> <p><u>Sound banking:</u> The RoU is the borrower.</p>
Key Risks	<p><u>Borrower’s creditworthiness.</u> The RoU is a creditworthy borrower, rated BB- by S&P and Fitch and B1 by Moody’s. Uzbekistan’s public debt is low and sustainable. [REDACTED]</p> <p><u>Project implementation risk.</u> The risk [REDACTED] will be mitigated by the involvement of the experienced Project Implementation Support, Design and Engineering Supervision consultants.</p> <p><u>FX risk.</u> The RoU is expected to be able to manage the FX risk effectively. The RoU has stable hard currency inflows from exports [REDACTED]</p>
Strategic Fit Summary	The proposed Project will promote the sustainability and energy efficiency of water supply and wastewater treatment services in line with the Bank’s MEI Sector Strategy and the Strategy for Uzbekistan . The Project fully supports the Bank’s GET Approach .

² Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	A sovereign loan of up to USD 70 million (EUR 59.8 million) to the Republic of Uzbekistan (the “RoU” or the “Borrower”) for the benefit of the state-owned Limited Liability Company Namangan Suv Ta’minoti (the “Company”). The Project will be implemented by the state owned JSC Uzsuvt’a’minot (“Uzsuvt’a’minot”). [REDACTED]
Existing Exposure	Sovereign exposure to the RoU: Portfolio USD 875 million (EUR 723 million; eleven projects). The Company is a beneficiary of Namangan Water Project [REDACTED]
Maturity / Exit / Repayment	The loan tenor is 18 years [REDACTED]
AMI eligible financing	None
Use of Proceeds	The proposed EBRD loan will finance (i) the rehabilitation and expansion of water and wastewater infrastructure in the Namangan Region (the “Region”), including construction and reconstruction of water intakes, water distribution stations, water mains, water distribution networks, a water treatment plant, wastewater treatment plants, wastewater pumping stations, wastewater networks, (ii) supply of specialised vehicles and water flow metering systems, (iii) Project Implementation Support, Design and Engineering Supervision consultants and (iv) front-end fee. [REDACTED] Procurement will be in accordance with the Bank’s PP&R. Progress reports will be submitted on a semi-annual basis. The Project implementation arrangements and procurement plan are presented in Annex 3.
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> • Borrower: Republic of Uzbekistan; • Implementing agency: Uzsuvt’a’minot; • Beneficiary: Namangan Suv Ta’minoti.
Conditions to subscription / disbursement	<ul style="list-style-type: none"> • Project Agreement signed; • Subsidiary Agreement signed; • Project Implementation Unit established with the terms of reference and sufficient and qualified staffing, both acceptable to the Bank.
Key Covenants	[REDACTED]
Security / Guarantees	Sovereign loan
Other material agreements	<ul style="list-style-type: none"> • Project Agreement with the Company and Uzsuvt’a’minot; • Subsidiary Agreement between the Borrower, Khokimiyat of Namangan region, Uzsuvt’a’minot and the Company.
Associated Donor Funded TC and co-investment grants/concessional finance	<p>A. Technical Cooperation (TC)</p> <p><u>Pre-signing:</u></p> <ul style="list-style-type: none"> • TC 1: Technical, financial, environmental and social due diligence. [REDACTED] <p><u>Post-signing:</u></p> <ul style="list-style-type: none"> • TC 2: Corporate Development Programme for Namangan Suv Ta’minoti will be implemented as part of Namangan Water Project [REDACTED] • TC 3: Lender’s Monitor to assist the Bank in monitoring preparation and implementation of the EBRD-financed projects in the water and wastewater sector. [REDACTED]

	<p>Reimbursement: The above assignments will be non-reimbursable transactional TCs. [REDACTED]</p> <p>Cost sharing: The RoU/Company will cover [REDACTED] all VAT and other indirect taxes applied to the post-signing TC assignment, as a parallel cost sharing contribution to the Project (VAT is levied at 20 <i>per cent</i> in Uzbekistan). Additionally, the RoU/Company will provide “in-kind” contributions in the form of office space, etc., for the CDP consultant [REDACTED].</p> <p>B. Co-investment grants / Concessional finance (Non-TC) None.</p>
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[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Uzbekistan's water scarcity is classified as high, with droughts expected to occur on average every five years. The significant reduction to the Aral Sea's total area due lack of water demonstrates clearly the magnitude of the challenge. Climate change is expected to further exacerbate this situation. Namangan is located on the right bank of the Syr Darya River, which is largely fed by glacier melts. Retreating glaciers, changing rainfall patterns and increasing temperatures could result in a lower snowmelt contribution, especially from glaciers, causing lower river flows and water stress, particularly during the main vegetative growing season (summer). Key water and wastewater infrastructure was built during the Soviet period, but was abandoned in recent years due to lack of financial resources and now requires substantial renovation and restoration of capacity; the dilapidated infrastructure is no longer sufficient to meet current demands, or to cope with the anticipated water stress and extreme weather events. The proposed Project will contribute directly to the ambitions of the United Nations Sustainable Development Goal №6 by providing increased access to clean drinking water and effective sanitation.

In recent years Uzbekistan has partnered with a number of international financial institutions (including the World Bank, Asian Development Bank, European Investment Bank), which have committed more than USD 3.0 billion to the rehabilitation of water and wastewater infrastructure across Uzbekistan. However, given the dire state of infrastructure this amount only covers a small part of the Government of Uzbekistan's ambitious plan to rehabilitate the country's water and wastewater infrastructure. By implementing the proposed Project, the EBRD will join forces with other IFIs to satisfy the Government's growing demand for investments, and support ongoing sector reforms.

The Project is in line with the national programme envisaging connecting Uzbekistan's rural population to the centralised water supply system. Currently, drinking water supply and quality in the Namangan, Pap and Chust districts of the Namangan Region (totalling 170,000 inhabitants) is very poor and many households lack a connection to the centralised water supply system. To address this issue, the EBRD will finance the construction and reconstruction of water intakes, water distribution stations, water mains, a water treatment plant and water distribution networks in seven rural settlements (Pap, Uygur, Chust, Tashbulak, Jumashuy, Chartak and Kyzyl-Rovat). New connections will be equipped with water meters to ensure that water usage is properly measured. The Project is expected to increase the number of people benefitting from good quality water supply services by 170,000 (including connection of 115,000 people) and reduce water losses [REDACTED]. The Project will also finance construction of wastewater treatment plants, wastewater pumping stations and wastewater networks in the city of Chust and Jumashuy settlement in the Namangan Region, where a wastewater treatment system does not exist. The Priority Investment Programme ("PIP") includes the Namangan Region's most critical investments in water and wastewater infrastructure, as identified by the feasibility study consultant and agreed upon with the Government of Uzbekistan.

In October 2018, the Bank signed the Namangan Water Project with the RoU, under which the Company is the project beneficiary. The loan was declared effective in October 2019 and the first disbursement was made [REDACTED]. The Namangan Water Project focusses on rehabilitating (i) the city of Namangan's water supply system to secure good quality water supply services for its 280,000 inhabitants (including connection of 80,000 people) and (ii) rehabilitating the wastewater treatment plant in the city of Pap. Therefore, the proposed Project complements the existing

Namangan Water Project and has a regional dimension, while the original Namangan Water Project focussed mainly on investments in big cities.

The Project complies with the MEI Sector Strategy. This articulates the importance of providing access to enhanced infrastructure and increasing the sustainability of water services. It also complies with the Strategy for Uzbekistan, which calls for the promotion of green energy and resource solutions through modernising the country's water services. The Project will address increasing water stress by reducing water losses and is fully in line with the Bank's GET approach.

The recent outbreak of the COVID-19 has had a negative impact on the economy of Uzbekistan. However, the country's economy is well diversified [REDACTED]. In response to the global slowdown caused by the pandemic, the government has approved a set of anti-crisis measures. These include setting up a USD 1 billion anti-crisis fund to support entrepreneurship, implementation of infrastructure projects, and expansion of social support as well as providing tax and loan repayment holidays to the affected sectors. Despite these measures, domestic consumption and investment are likely to tighten. As a result, the real GDP only grew by 1.1 per cent in 2020 (compared to 5.6 per cent in 2019). [REDACTED] In this context the Project is all the more important for Uzbekistan as it will create a significant amount of jobs and improve social economic conditions in Namangan region.

1.2 TRANSITION IMPACT

The table below sets out the Project's TI Objectives. The relevant Monitoring Indicators and their delivery timing are shown in Section 2.

No.	Objective	Details
Primary TI Quality: Green		
1.1	The percentage of EBRD use of proceeds allocated to the project that qualifies as GET is 50 <i>per cent</i> or higher.	The share of GET-compliant EBRD proceeds is 100 <i>per cent</i> . The Project will build resilience to climate change by financing improvements to water and wastewater infrastructure in the Namangan Region. The Project qualifies as a positive environmental activity.
Secondary TI Quality: Resilient		
2.1	User charges will be increased to achieve operating cost recovery from the users of infrastructure [REDACTED]	The Project will contribute to achieving cost recovery at the Company, where tariffs will fully cover operating and maintenance expenditures. The CDP will improve the Company's institutional, operational and financial capacity. [REDACTED]

Delivery Risks

The risks are high. The main risk, associated with implementation, will be mitigated through retaining a Project Implementation Support, Design and Engineering Supervision consultant to supervise procurement and civil works. [REDACTED]

1.3 ADDITIONALITY

Identified triggers	Description
A subsequent/consecutive transaction with the same client/group either with the same use of proceeds or in the same country (repeat transaction)	This is the sixth sovereign loan to rehabilitate water infrastructure in the country.

Additionality sources	Evidence of additionality sources
Financing structure - EBRD offers a tenor [REDACTED] which are above the market average and is necessary to structure the project.	The EBRD will provide a loan with a 18-year tenor to match economic life of assets. Such terms are not currently available from commercial banks.
Risk mitigation - EBRD helps the client to mitigate environmental, social and governance (ESG) risks through identification of risks related to the depletion of natural capital assets, raw materials and water availability, etc., and to manage these risks.	Implementation of an ESAP will enable the Company to efficiently manage the environmental and social issues.
Policy, sector, institutional, or regulatory change - EBRD's involvement in a project is considered additional when it is designed to trigger a change in the policy , sector, institutional or regulatory framework, or enhance practices at the sector or country level.	The EBRD will set the appropriate tariff-related covenants in the loan agreements [REDACTED]
Standard setting - Client seeks/makes use of EBRD expertise on higher financial standards, including through financial covenants .	The Project's legal agreements contain financial covenants [REDACTED], to contribute to the Company's financial discipline.
Standard setting: helping projects and clients achieve higher standards - Client seeks/makes use of EBRD expertise on higher inclusion and gender standards	The Project will enable the Company to develop a gender inclusive HR Policy, which promotes gender equality through creating the conditions for increasing female participation in managerial, technical and engineering roles. In addition, the Company will introduce a policy and procedures to address Gender-based violence and harassment (GBVH) in the workplace, raise its awareness among staff and introduce effective and safe grievance mechanism.
Standard setting - Client seeks/makes use of EBRD expertise on best international procurement standards .	The EBRD PP&R will be applied.
Knowledge, innovation, and capacity building - EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the project's objectives, including support to strengthen the capacity of the client .	[REDACTED]The CDP will be designed in line with EBRD's past experience in the sector, and will improve the Company's institutional, operational and financial capacity.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Borrower's creditworthiness	Medium/ High	The RoU is a creditworthy borrower rated BB- by S&P and Fitch, and B1 by Moody's. Uzbekistan's public debt is low and sustainable. [REDACTED]
Implementation risk	High/ Medium	The international consultant(s) will assist the PIU with the Project's implementation. Application of EBRD PP&R

		and the Bank's prior review of the key procurement documentation and decisions should ensure selection of the experienced and creditworthy contractors and suppliers to perform the works and supply the goods as well as the balanced contracts conditions used. Engineering supervision funded from loan proceeds will further mitigate implementation risks.
FX risk	Medium/ Medium	The RoU is expected to be able to manage the FX risk effectively. The RoU has stable hard currency inflows from exports [REDACTED]

2. MEASURING / MONITORING SUCCESS

Overall objectives of project	Monitoring benchmarks	Implementation timing
Timely implementation of the Project	Completion according to the timeline and within the budget.	[REDACTED]
Maintaining appropriate environmental standards	Successful and timely implementation of ESAP.	[REDACTED]

Transition Impact Monitoring Indicators and Benchmarks							
Quality	Obj. No.	Monitoring Indicator	Details	Baseline	Target	Due date*	Donor
Green	1.1	Number of individuals benefiting from improved water supply services	Number of people with access to good quality water	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	1.2	Number of individuals benefiting from new water and wastewater connections	Number of people connected to water supply and wastewater network for the first time	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	1.3	Water saved (m3/year)	Expected decrease of water losses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	1.4	Wastewater treated (m3/year)	Amount of wastewater treated to EU standards due to the Project	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Resilient	2.1	Operational performance of the client (cost recovery) achieved	Tariffs fully cover operating and maintenance costs	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER

The EBRD will extend the loan to the RoU for the Company's benefit. Uzbekistan is undergoing a major reform process, including FX market liberalisation, a tax and customs regime overhaul, trade liberalisation, profound changes to macroeconomic policy instruments, and various processes designed to strengthen competition in state-dominated sectors. [REDACTED]

Since September 2017, the UZS has been allowed to float freely and currency controls have been loosened. This resulted in depreciation of the USD/UZS exchange rate [REDACTED]. Average annual inflation accelerated from 12.5 *per cent* in 2017 to 17.8 *per cent* in 2018. It eased to 15.2 *per cent* in 2019. In response to inflationary expectations, the central bank reduced its policy rate to 14.0 *per cent* in September 2020. [REDACTED]

Uzbekistan's public debt is low and sustainable. S&P and Fitch rate the RoU BB- and Moody's rate it B1. In February 2019, Uzbekistan tapped international bond markets with a debut USD 1.0 billion Eurobond placement. It was composed of five-year and ten-year tranches. [REDACTED] Risk of external debt distress is manageable given Uzbekistan's significant foreign exchange reserves, which exceed the government's borrowings. [REDACTED] Uzbekistan's reserves remain well above standard measures of reserve adequacy. Debt servicing costs are low, as most of the debt is of a concessional and long-term nature. [REDACTED]

Prior COVID-19 crisis the real GDP grew by 5.6 *per cent* in 2019. While in 2020, as a result of pandemic and several lockdowns, the economy only grew by 1.1 *per cent*. [REDACTED] Structural reforms and an improved business environment should support private investment.

3.2 IMPLEMENTING AGENCY

The Project will be implemented by the PIU under Uzsuvt'a'minot. The Project's beneficiary, Namangan Suv Ta'minoti, will provide local administrative assistance to the PIU and will be involved in the Project's implementation through review of the Project's technical parameters including future operational and maintenance requirements and required staff training. Detailed information is provided in Annex 3.

3.3 THE COMPANY

- The Company provides water and wastewater services throughout the Namangan Region, which has a population of 2.7 million, two-thirds of which live in rural areas. The Region is located in eastern Uzbekistan, bordering the Kyrgyz Republic. The city of Namangan is the Namangan Region's administrative centre, populated by over 600,000 people.
- The Company's service area covers about 1.3 million of the region's population, of which around 61 *per cent* are connected to the water network and 14.5 *per cent* to the wastewater network. The total length of the water and wastewater networks operated by the Company is 2,600 kilometres and 358 kilometres, respectively. The Company employs 1,890 people.[REDACTED]

4. MARKET CONTEXT

- The Company is the state-owned sole provider of water and wastewater services in the Namangan Region.
- Provision of water and wastewater services is regulated by the state. Tariffs are subject to approval by the Ministry of Finance of the RoU (“MinFin”).
- The World Bank leads the country’s water sector tariff reform. In April 2019, a government decree introducing a new “cost plus” tariff-setting methodology and full cost recovery principles was adopted (effective from 2020). The EBRD coordinates the tariff reform’s implementation with the World Bank and other IFIs. [REDACTED]

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 ECONOMIC ANALYSIS

[REDACTED]

5.4 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised B (EBRD’s ESP 2014). The Environmental and Social Due Diligence (ESDD) phase of the proposed PIP was carried out as part of its feasibility study by an independent international consultant. It included a review of current Environmental and Social (E&S) practices, an assessment of the Project’s potential E&S impacts and a review of the Company’s E&S provisions and management capacities.

The PIP, together with the ESAP, will enable a larger proportion (170,000 people) of the local population to access reliable clean drinking water. They will achieve compliance with national and EU drinking water quality standards and will bring the wastewater treatment in Chust in line with the Urban Wastewater Treatment Directive. Still, long-term investments will be required for large-scale extensions, as well as improvements to the water supply and sewage system to achieve compliance with national and EU requirements for the whole population. The further expansion of and improvement to the water supply system needs to be included in the long-term investment programme. At this time, financing from the Company’s own revenues for the long-term investment programme cannot be confirmed and no potential sources of external funding have been identified. Therefore, accounting for constraints arising from affordability and limited financial resources, derogation will be sought from the EBRD’s Environmental and Social Policy (2014).

Issues with the current water supply in the Namangan Region include insufficient capacity and the technical deterioration of water distribution infrastructure. Drinking water is of poor quality (exceeding limits for turbidity and coliform parameters) due to the network’s poor condition, low efficiency of water disinfection and inadequate quality of water treatment. Water quality monitoring is sporadic and inefficient. The Company’s E&S management systems are inadequate and require

improvement. Overall, the ESDD phase identified a number of non-compliance issues, which will be mostly addressed by corrective measures included in the ESAP.

To ensure the necessary degree of water treatment, the Company will be required to undertake consistent water chlorination in accordance with the norms. Compliance with national and EU potable water standards regarding turbidity can be addressed by: (i) additional water treatment at the Kurashkhana Water Treatment Plant (included into the PIP for the original Namangan Water Project); and (ii) selecting and following the proper operational mode for the whole water supply system, e.g. closure of water supply from surface water sources in periods of high flooding (and extreme turbidity) with simultaneous water supply from modernised underground sources (Zhidakapa water intake). These items will be included into the ESAP. Enhanced water quality monitoring will also be introduced.

The Project's negative impacts are mostly short-term and relate to its construction stage. Most impacts will be localised within construction sites, apart from investments related to modernising water mains and distribution networks. These impacts include noise generated by equipment, local short-term increases in traffic intensity and corresponding increases in air pollution levels, soil and landscape disturbances during excavation works, as well as potential temporary economic displacement. The proper organization of works can mitigate these impacts.

The ESDD phase has concluded that the PIP's overall implementation will result in long-term positive social impact through the provision of better services to the population. These include improving water supply services, creating possibilities for new connections to the water supply system, raising drinking water quality to meet national and EU standards, reducing sanitary and epidemiological risks, tangibly reducing water losses, and improving occupational safety and working conditions for the Company's personnel.

If all the additional measures (chlorination, proper operational mode of water supply, proper water quality monitoring and immediate follow-up measures) are fully implemented in line with the ESAP, it is expected that water quality parameters will meet both local and EU requirements for the population covered under the PIP. The ESAP also requires the Company to implement a number of improvements designed to meet the EBRD's PRs, *inter alia*, increasing the Company's EHS capacity, developing EHS procedures relating to the main EHS risks, instituting HR policies, including introducing worker grievance mechanisms, developing a contractors' EHS and labour management and monitoring programme, and implementing the SEP together with a public grievance mechanism. The ESAP has been agreed with the Company and the Government prior to the Board meeting.

The EBRD will monitor the Project's and ESAP's implementation, as well as the Company's environmental and social performance by reviewing the Company's annual environmental and social reports and undertaking monitoring visits as needed. A Stakeholder Engagement Plan (SEP) and a non-technical summary (NTS) have also been developed for the Project.

6.2 INTEGRITY

In conjunction with OCCO, integrity due diligence was undertaken on Uzsuvtá'minot, the Company (including its senior management) and other relevant parties. [REDACTED] This project does not pose an unacceptable reputational risk to the Bank. [REDACTED]

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the Project. The Project files contain the integrity checklists and other required documentation, which have been properly and accurately completed to proceed with the Project.

6.3 AFFORDABILITY ANALYSIS

Affordability analysis shows that water and wastewater services are expected to remain affordable for both average and low-income households throughout the loan's lifetime given the RoU's debt service support.

ANNEXES TO OPERATION REPORT

ANNEX 1: HISTORICAL FINANCIAL STATEMENTS

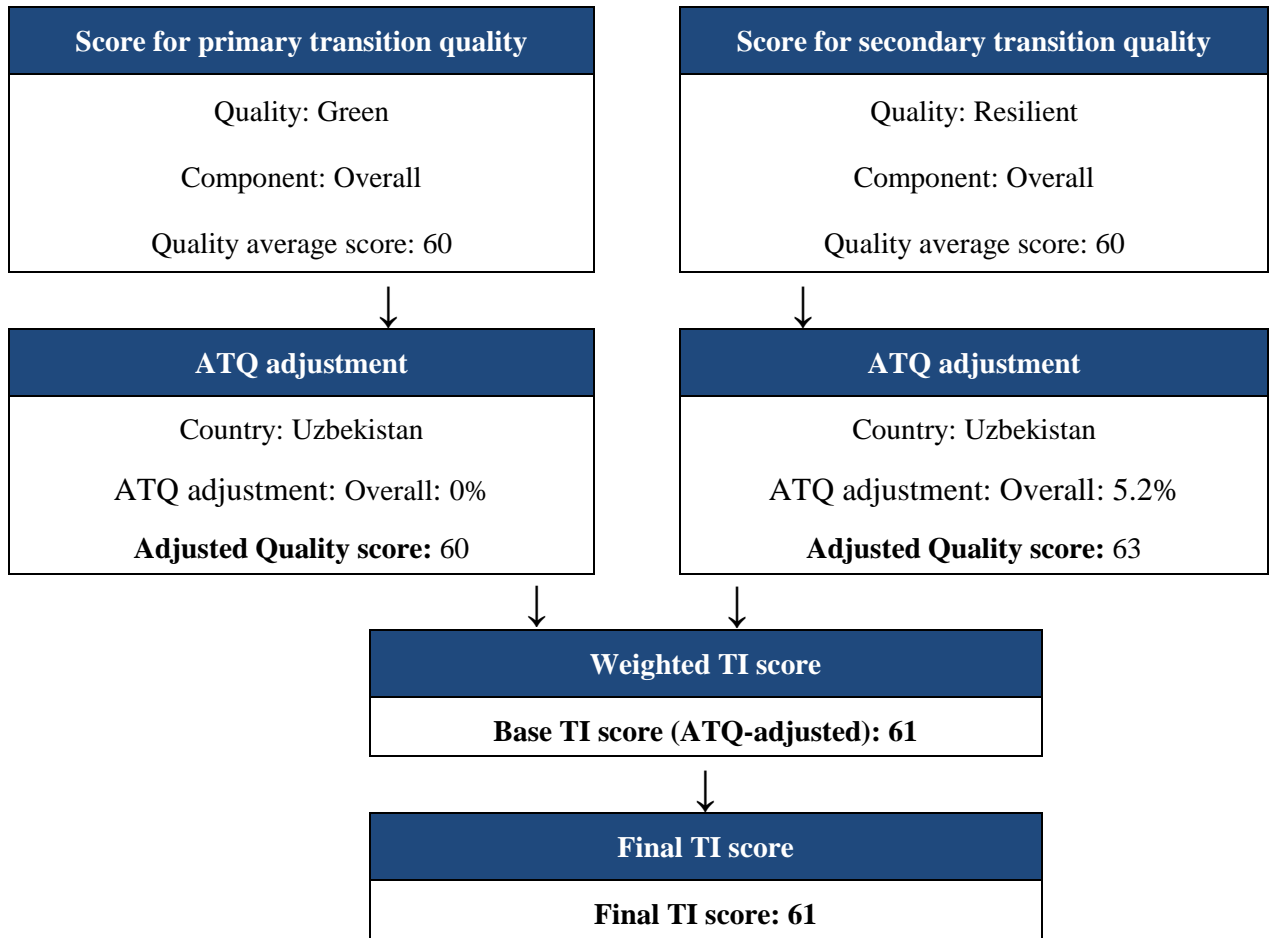
ANNEX 2: TRANSITION IMPACT SCORING CHART

ANNEX 3: PROJECT IMPLEMENTATION AND PROCUREMENT PLAN

ANNEX 1 - HISTORICAL FINANCIAL STATEMENTS

[REDACTED]

ANNEX 2 - TRANSITION IMPACT SCORING CHART



ANNEX 3 - PROJECT IMPLEMENTATION

Procurement classification – *Public sovereign*

[REDACTED]The Project will be implemented by the PIU under Uzsuvtva'minot. The PIU will be assisted by independent and internationally experienced consultants throughout the Project's implementation. The Project beneficiary, Namangan Suv Ta'minoti, will provide local assistance to the PIU and will be involved in review of technical requirements to ensure efficient integration of the Project's deliverables into Namangan Suv Ta'minoti's affected infrastructure.

[REDACTED]The Project mainly consists of moderate risk contracts, the highest of which are contracts that face unforeseen underground conditions, as well as questionable water quality.

Project implementation arrangements:

The PIU, established within Uzsuvtva'minot and financed from its budget, will be responsible for the Project's day-to-day management during the entire Project implementation period. The PIU will be responsible for, among others, preparing project implementation plans, procurement documents and progress reports, as well as managing all contracts, including consultancy contracts, though all contracts are expected to be signed by Uzsuvtva'minot.

The PIU will be supported by the independent consultants, selected in accordance with PP&R.[REDACTED] Tendering for the goods will be combined for both Namangan as well as other projects to optimise further procurement arrangements, seeking to achieve the most advantageous tender results. [REDACTED]

PIU consultancy support for Procurement and Design services will be competitively tendered, combining its scope with the Tashkent Water (OpId 49277) and Surkhandarya Water (OpId 50979) projects, while Supervision Services will be competitively tendered separately for each respective project. [REDACTED]

The PIU Procurement and Design Consultants will assist the PIU with (i) preparing designs, including conducting ground, water and other investigations as necessary, (ii) preparing tender documents, including technical specifications and other parts of the employer's requirements, (iii) managing tenders in ECEPP, (iv) conducting evaluation of the submitted tenders, (v) administering the signed Supply contracts, (vi) design supervision functions as defined in local legislation, and (vii) loan reporting.

The Supervision Consultant will provide works contracts administration services, including financial, engineering, environmental, health and safety supervision of works and will carry out the Engineer's function and duties as defined in the FIDIC Contracts Conditions used in the works contracts.

The Bank will engage the Lender's Monitor (LM), subject to funding availability, to support the Bank with monitoring the Project. [REDACTED]

Procurement arrangements:

Goods, works and services financed from the loan will be procured using open tendering or simplified open tendering procedures in accordance with the requirements of Section III, Article 3 of the Bank's Procurement policies and Rules (PPR) for public sector operations. The Bank's Standard Procurement Documentation will be used and all tenders will be conducted via the ECEPP.

All consultants will be procured in accordance with Section III, Article 5 of the Bank's PP&R.

All loan-financed contracts will be subject to prior review by the Bank.

The PIU's core staff will be selected using national procedures, following an interview with the Bank prior to their appointment. [REDACTED]

Other: The components of the nature similar to those included in other EBRD-financed projects in the remit of the same Project Implementing Agency may be procured under the combined tenders covering scope of more than one loan, if proved advantageous in line with PP&R. This will be subject to a separate review and Bank's no-objection, subject to Bank's sign-off