

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

Approved by the Board of Directors on 21 September 2022¹

UZBEKISTAN

**UZBEKISTAN WATER SUPPLY ENERGY
EFFICIENCY 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.

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

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ABBREVIATIONS / CURRENCY CONVERSIONS

CO ₂ e	Carbon dioxide equivalent
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
ILO	International Labour Organization
IPPF	Infrastructure Project Preparation Facility
IWC	Irrigation Water Conveyance
MEI	Municipal and Environmental Infrastructure
MoU	Memorandum of Understanding
MWh	Megawatt hour
MWR	Ministry of Water Resources
NTS	Non-Technical Summary
OHS	Occupational Health and Safety
PIA	Project Implementing Agency
PIU	Project Implementation Unit
PIP	Priority Investment Programme
PIS	Project Implementation Support
POM	PIU Operations Manual
PP&R	EBRD's Procurement Policies and Rules
PS	Pump Station
PS&E	Pump Stations and Energy
RoU	Republic of Uzbekistan
SEP	Stakeholder Engagement Plan
TI	Transition Impact
TC	Technical Cooperation
UZS	Uzbekistan Som
WCA	Water Consumers Association
YE	Year End

CURRENCY CONVERSION

(as of 31 July 2022)

USD 1 = UZS 10,942
 EUR 1 = USD 1.02395

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Republic of Uzbekistan (the "Borrower") are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign loan to the Borrower of up to USD 200 million (EUR 195.3 million).

The operation will enable the Republic of Uzbekistan to modernise [REDACTED] pumping stations used for irrigation water conveyance ("IWC") across the three regions of Fergana valley in the country. The Project will decrease electricity consumption [REDACTED] and CO2 emissions [REDACTED], as well as restore irrigation command area [REDACTED] and potentially create new employment [REDACTED]. The expected transition impact of the Project is associated with the "Green quality" through building climate change mitigation and enhancing energy efficiency, as well as with the "Well-governed quality" through implementing institutional and governance improvements in the IWC sector. The Project is 100 per cent GET eligible, based on the significant energy savings and associated greenhouse gas ("GHG") emission reductions.

The EBRD Shareholder Special Fund ("SSF"), through the Infrastructure Project Preparation Facility ("IPPF"), provided pre-signing technical cooperation ("TC") support for the preparation of the Project. A post-signing TC to support the Project's implementation will be loan-financed. The additional post-signing TC, which will support capacity building and institutional and governance improvements, will be financed by the SSF.

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 – UZBEKISTAN WATER SUPPLY ENERGY EFFICIENCY PROJECT - DTM 50996	
Transaction / Board Decision	Board approval ² is sought for a sovereign loan of up to USD 200 million (EUR 195.3 million) in favour of the Republic of Uzbekistan (the "RoU") to finance modernisation of pumping stations for irrigation water conveyance ("IWC") across the three regions of Fergana valley in the country (the "Project").
Client	The RoU is the borrower. The Project will be implemented by the Ministry of Water Resources (the "Ministry") via its Centre for implementation of foreign investment projects in the water sector.
Main Elements of the Proposal	<p><u>Transition impact:</u></p> <ul style="list-style-type: none"> - Primary Quality – Green. The Project is expected to promote climate change mitigation through energy efficiency savings [REDACTED] and GHG emission reductions [REDACTED]. The Projects assets have been adapted to the impacts of climate change; - Secondary Quality – Well-governed. The Project will support institutional and governance improvements in the IWC sector. <p><u>Additionality</u></p> <ul style="list-style-type: none"> - The Bank will provide long-term financing, which is presently not available from commercial banks. - The Bank will support the Ministry in achieving higher standards through its conditionalities (e.g. PP&R, ESAP). - The Project will contribute to developing the RoU's long-term IWC sector reform. <p><u>Sound banking</u></p> <ul style="list-style-type: none"> - The RoU is the borrower. Implementation risk will be mitigated by engaging experienced Project Implementation Support consultants.
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. Its public debt is low and sustainable.</p> <p><u>Project implementation risk.</u> The risk of the RoU's potentially weak implementation capacity will be mitigated by the involvement of a 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. It has stable hard currency inflows from exports and ample liquid external assets.</p>
Strategic Fit Summary	The proposed Project will promote the sustainability and energy efficiency of IWC infrastructure 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 200 million (EUR 195.3 million) to the Republic of Uzbekistan (the "RoU" or the "Borrower"). The EBRD loan will be co-financed by a USD 30 million (EUR 29.3 million) state budget contribution. The Project will be implemented by the Ministry of Water Resources (the "Ministry" or the "MWR") via its Centre for implementation of foreign investment projects in the water sector (the "Centre").
Existing Exposure	Sovereign exposure to the RoU as of 31 July 2022: Portfolio is USD 1,042 million (EUR 1,018 million; 13 projects) and operating assets are USD 33.8 million (EUR 33.0 million). (OpIDs: 49277; 49358; 49359; 50116; 50117; 50525; 50526; 50691; 50979; 51032; 52135; 50696; 50697).
Maturity / Exit / Repayment	A tenor of 18 years [REDACTED].
Potential AMI eligible financing	None
Use of Proceeds	Loan proceeds will be used to finance (i) the Project's Priority Investment Programme (the "PIP") capex for modernisation of 118 pumping stations with design development, acquisition and installation of pump units and auxiliary equipment and reconstruction of related buildings and external networks and other works [REDACTED] The Project will be implemented in accordance with the Bank's Procurement Policies and Rules ("PP&R") 2022. Progress reports will be submitted on a semi-annual basis. The Borrower will open and maintain a special deposit account for PIU operating and administrative costs. The Project implementation and procurement plan is presented in Annex 2. [REDACTED].
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> • Borrower: Republic of Uzbekistan; • Implementing agency: the Centre with the PIU to be created by the Centre.
Conditions to Disbursement	[REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	Sovereign loan
Other material agreements	n/a
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 and institutional assessment. EUR 475,000, funded by the EBRD Shareholder Special Fund ("SSF"). <p><u>Post-signing:</u></p> <ul style="list-style-type: none"> • TC 2: Institutional, Governance and Digitalisation Improvements for the Ministry to (i) develop recommendations and a road map for the IWC sector governance and institutional improvements; (ii) develop a cost-reflective tariff methodology for irrigation water supply services and support its implementation; (iii) support implementation of digitalisation and integrated information systems for the enhanced asset management practices; and (iv) explore ways to increase a private sector participation and improve the IWC sector's energy efficiency. The assignment's cost is estimated at EUR 700,000, and will be financed by the SSF. <p>Cost sharing: The post-signing TC [REDACTED] for Project Implementation Support will be loan-funded as part of the client's parallel cost sharing contribution.</p> <p>B. Co-investment grants / Concessional finance (Non-TC): None.</p>

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Water scarcity in Uzbekistan is classified as high, with droughts expected to occur on average every five years. The significant reduction to Aral Sea's total area due the lack of water clearly demonstrates the magnitude of the challenge. Climate change is expected to exacerbate this situation further. The Syr Darya River and the Amu Darya River are largely fed by glacier melts. Retreating glaciers, changing rainfall patterns and increasing temperatures could result in a lower snowmelt contribution causing lower river flows and thus water stress, particularly during the main vegetative growing season (summer). High population growth and rapid economic development further increase water stress while millions of people in the RoU still depend directly on irrigated agriculture, a vital sector of the country's economy. Water taken from the natural environment for irrigation is the largest and the most inefficient water user. Key irrigation water conveyance ("IWC") infrastructure built during the Soviet period no longer fits for purpose, while entire communities, particularly in rural areas, depend it for a reliable water supply, without which their incomes and livelihoods would be in jeopardy. Water productivity is among the lowest in the world. Inefficient water use drives the inefficient energy use and associated GHG emissions.

The Government of the RoU (the "Government") developed a strategic vision for more sustainable water use through a number of national development strategies and commitments including Uzbekistan's Nationally Determined Contribution (the "NDC") under the Paris Agreement. Recently adopted Water Management Sector Development Concept for 2020–2030 (the "Concept") aims at the efficient and conscious use of water, energy and land resources. The key directions of the Concept are (i) the improvement of water management systems and processes, (ii) the modernisation of IWC infrastructure and the automation of its management through the introduction of innovative technologies, (iii) the introduction of water-saving technologies, and (iv) the institutional reforms aimed at the commercialisation of the sector starting with separating regulatory and operational functions.

By implementing the proposed Project, the EBRD will support the Government in putting long term vision into practice and satisfy the RoU's demand for investments in the sector as well as support ongoing sector reforms. Accordingly, a Memorandum of Understanding ("MoU") has been signed with the Ministry of Water Resources (the "MWR") in August 2022. The MoU outlines EBRD's support to the reform agenda and the Government's willingness to cooperate with the Bank towards achieving specific objectives for governance and institutional improvements. These will include a framework for separation of MWR's regulatory, operational and management functions with steps towards setting up of an independent sector regulator, corporatisation of relevant public utility entities, development of a cost-reflective tariff methodology, supporting digitalisation for better asset management and exploring ways to increase private sector participation and improve sector's energy efficiency. A dedicated TC support will be provided to contribute to developing the RoU's long-term policies in the sector for transition from state regulation to market-based principles.

The Priority Investment Programme ("PIP") includes the country's most critical and time-sensitive investments into the IWC infrastructure. The Project will involve the modernisation of 118 pumping stations with investment in new energy efficient pumps and ancillary infrastructure. It is expected to decrease the electricity consumption [REDACTED] and CO2 emissions [REDACTED], as well as restore irrigation command area [REDACTED] and create new employment [REDACTED].

The Project is consistent with the Green Economy Transition (the "GET") approach and qualifies for 100 per cent GET. It is aligned with the Municipal and Environmental Infrastructure ("MEI") Sector Strategy which articulates the importance of efficient use of energy resources and increasing the sustainability of IWC infrastructure. The Project complies with the Bank's Strategy for Uzbekistan, which calls for the promotion of green energy and resource solutions through modernising the country's IWC services. It is also aligned with the Bank's Strategy for the Promotion of Gender Equality and the Equality of Opportunity Strategy (2021-25). The Project further contributes to many UN Sustainable Development Goals (SDGs), namely: *SDG 6. Clean Water and Sanitation* (by providing integrated water resources management), *SDG 7. Affordable and Clean Energy* (by improving energy efficiency in the national IWC system), as well as *SDG 9. Industry, Innovation and Infrastructure*, *SDG 11. Sustainable Cities and Communities*, *SDG 12. Responsible Consumption and Production*, and *SDG 17. Partnerships for the SDGs*.

Uzbekistan's economy, affected by the recent COVID-19 pandemic followed by Russia's military invasion of Ukraine and subsequent sanctions on Russia, is well diversified and expected to be the most resilient among Central Asian countries. Nevertheless, the impact of the new crisis is yet to be seen. The major negative effects are likely to materialise through a number of interrelated channels such as decreased remittances (11.4 per cent of GDP in 2021) and returning migrant workers, adding strains on wages and labour market, (ii) breakage of supply chains, affecting production costs, prices of imported consumer goods, and export competitiveness as well as (iii) elevated energy and commodity prices, which on one hand will support FX earnings and budget revenues, while at the same time payments for exports to Russia will be impacted and the country may see further inflationary pressures. In the updated base scenario, the country's economy is expected to grow by a moderate 4.0 per cent in 2022 (against a 7.4 per cent real GDP growth in 2021). 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 the country.

1.2 TRANSITION IMPACT

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

Primary Quality: Green

Obj. No.	Objective	Details
1.1	<i>The percentage of EBRD use of proceeds that supports a green economy transition and therefore qualifies as GET finance exceeds 50%.</i>	The percentage of EBRD proceeds qualifying as GET-eligible is 100 per cent. The Project will modernise [REDACTED] pumping stations used for IWC and hence lead to reduction of electricity consumption and GHG emissions. The Project's assets have been adapted to the impacts of climate change, specifically to cope with flooding and extreme heat events.
1.2	<i>The project results in energy savings that exceed 0.1% of annual national energy consumption, so significantly contributes to improved energy efficiency.</i>	The Project will decrease the electricity consumption [REDACTED], and therefore reduce GHG emissions [REDACTED]. Thus, the Project will achieve environmental improvements that exceed two quantitative physical scale thresholds under the Green TI Quality assessment methodology.

Secondary Quality: Well-Governed

Obj. No.	Objective	Details
2.1	<i>The project and associated TC activities will introduce an autonomous new economic/sector wide regulator (i.e. not just applicable to the project client/stakeholder).</i>	The Bank and the MWR have signed an MoU towards governance and institutional improvements, including separation of regulatory, operational and management functions with steps towards (i) setting up of the independent water sector regulator; (ii) corporatisation of the relevant public utility entities with financial and planning independence; (iii) development of a cost-reflective tariff methodology for irrigation water supply services and supporting its implementation; (iv) supporting implementation of digitalisation and integrated information systems for the enhanced asset management practices; and (v) exploring ways to increase private sector participation and improve the IWC sector's energy efficiency. [REDACTED].

Delivery Risks

[REDACTED]. A key risk is associated with physical implementation, which will be mitigated through retaining a Project Implementation Support, Design and Engineering Supervision consultants to assist the client with the Project's implementation. Another risk relates to the political willingness to implement the sector reform. [REDACTED].

1.3 ADDITIONALITY

Identified triggers	Description
No triggers identified	n/a
Additionality sources	Evidence of additionality sources
Financing structure <ul style="list-style-type: none"> – 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 (e.g., an introduction of cost-reflective pricing of energy, water etc.). 	EBRD will provide a loan with an 18-year tenor [REDACTED] to match the procurement and construction period and economic assets life. 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 Ministry to efficiently manage the environmental and social issues.
Policy, sector, institutional, or regulatory change <ul style="list-style-type: none"> – 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 (e.g., an introduction of cost-reflective pricing of energy, water etc.). 	The Project will contribute to developing the RoU's long-term IWC sector reform with developing a work plan for improving the sector's institutional setup, including separating the Ministry's regulatory and operational functions, increasing private sector participation and improving energy efficiency in the sector. [REDACTED] A TC [REDACTED] will be implemented to support the efforts.
Standard-setting: helping projects and clients achieve higher standards <ul style="list-style-type: none"> – The EBRD PP&R will be applied. 	

<p>– Client seeks/makes use of EBRD expertise on best international procurement standards.</p>	
<p>Knowledge, innovation, and capacity building</p> <p>– 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.</p>	<p>The Ministry's procurement and implementation capacity will be strengthened as part of the Project through a dedicated consultancy support package. This includes procuring state-of-the art energy efficient pumps.</p>

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. External government debt is estimated at 35 per cent of GDP in 2021. [REDACTED]. Strong foreign exchange reserves and low rollover risk (due to the long-term maturities) as well as the Government's plans to limit annual public debt commitments and overall public debt stock mitigate the risk of debt distress.
Implementation risk	High/ Medium	The international consultant(s) will assist the Centre and its PIU with the Project's implementation, including design, procurement and works supervision. 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 the balanced contracts conditions used.
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 and ample liquid external assets.

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]
Creation of new jobs	Creation of additional jobs for [REDACTED] rural residents on land restored with water supply.	[REDACTED]
Benefits for local population	Establishment of a more reliable water supply for agricultural production in the irrigation command area [REDACTED].	[REDACTED]
Maintaining appropriate environmental standards	Successful and timely implementation of ESAP.	[REDACTED]

TI indicator(s), primary Quality: Green

Obj No.	Monitoring indicator	Details	Baseline	Target	Due date	TC
1.1	CO ₂ e emissions reduced (tonnes/year)	GHG emissions reduced [REDACTED] as a result of electricity savings.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Primary energy saved (GJ/year)	Annual electricity consumption decreased [REDACTED].	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

TI indicator(s), secondary Quality: Well-Governed

Obj No.	Monitoring indicator	Details	Baseline	Target	Due date	TC
2.1	Regulatory body established or strengthened as targeted	New regulatory set-up will be developed and include: (i) the unbundling of regulatory and operational functions, (ii) the establishment of an independent water sector regulator.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.2	Legal, institutional or regulatory frameworks in target areas improved	New governance standards will be developed and include: (i) corporatisation of regional irrigation units with financial and planning independence, (ii) adequate metering and volume based billing, (iii) cost-reflective tariff methodology.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Additional Indicators

Indicator type	Monitoring indicator	Details	Baseline	Target	Due date	Donor
Advisory & Policy Indicators	Area of land under sustainable land management practices (ha)	Irrigation command area restored as a result of the Project.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Advisory & Policy Indicators	Generic Indicator	Creating additional jobs for [REDACTED] rural residents on land restored with water supply.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Advisory & Policy Indicators	Physical capacity of the client extended or modernised (specify)	Completion of physical works (rehabilitation of IWC infrastructure) on time and within budget	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Advisory & Policy Indicators	Memorandum of Understanding signed	A MoU setting the basis for cooperation is signed.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Advisory & Policy Indicators	Policy advice delivered: Draft recommendations for improved policy/strategy submitted [REDACTED]	Development and adoption of a roadmap for the sector's institutional set up, as well as governance improvements, including separating the MWR's regulatory and operational functions, and tariff improvements.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Advisory & Policy Indicators	Recommended policy or strategy or regulatory framework/standard agreed by relevant stakeholder (s) [REDACTED]	The implementation of reform proposals in the MoU will start: implementation of the roadmap for the sector's institutional and governance improvements.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER

The EBRD will extend the loan to the RoU for the Ministry's benefit. Uzbekistan is undergoing a major reform process, including FX market liberalisation, a tax and customs regime overhaul, trade liberalisation. There are also profound changes to macroeconomic policy instruments, and various processes designed to strengthen competition in state-dominated sectors. [REDACTED]. From September 2017, the UZS has been allowed to float freely and currency controls have been loosened. After depreciating by 12 per cent on average in 2020, the exchange rate was stable in 2021. Inflationary pressures subsided. Inflation has slowed (10 per cent in 2021 versus 11.1 per cent in 2020) due to currency stabilisation and conservative monetary policies implemented by the central bank. The policy rate was reduced from 16 per cent in early 2020 to 14 per cent in September 2020 and has been maintained at that level. A gradual move towards inflation targeting is envisioned as part of a comprehensive plan for monetary policy reforms.

Uzbekistan's public debt is moderate and sustainable. S&P³ and Fitch⁴ rate the RoU BB-(stable) and Moody's⁵ rates it B1 (positive). In February 2019, Uzbekistan tapped international bond markets with a debut USD 1.0 billion Eurobond placement composed of five-year and ten-year tranches. The total public and publicly guaranteed external debt ratio was 35 per cent of GDP in 2021. The risk of external debt distress is manageable given Uzbekistan's significant foreign exchange reserves, which exceed the government's borrowings. Although a significant portion of reserves consists of monetary gold and deposits in the Fund for Reconstruction and Development, which cannot be readily used to defend against external shocks, Uzbekistan's reserves remain above standard measures of reserve adequacy. Debt servicing costs are low, as most of the debt is of a concessional and a long-term nature.

The economy has performed relatively well during the Covid-19 crisis. In 2020, real GDP grew by 1.6 per cent due to construction and export of gold and further grew by 7.4 per in 2021, led by expansion in industry, services, communication, transportation and retail. However, based on the updated forecast, the economy is projected to expand by a moderate 4.0 per cent in 2022 taking into account possible negative effects of Russia's military invasion of Ukraine.

3.2 IMPLEMENTING AGENCY

The Project will be implemented by the Centre for implementation of foreign investment projects in water sector under the Ministry. The Centre will establish the project dedicated PIU as a separate legal entity, with its operating and administrative costs to be financed from the loan proceeds. The Project's beneficiary, the Ministry, will provide assistance to the PIU via Pump Stations and Energy ("PS&E") units of the respective basin irrigation management departments, which 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. More detailed information is provided in Annex 2.

³ December 2021.

⁴ October 2021.

⁵ December 2021.

4. MARKET CONTEXT

The Law on "Water and water use" issued in 1993 is the main legislative basis for water relations. The law does not envisage charges to end-users.

The Ministry is responsible for the regulation and overall implementation of the Government's vision for the sector, as well as the management and operation of the country's IWC infrastructure.

The IWC infrastructure includes water intake facilities, pumping stations and main and small canals that supply water to the farm-level systems. These assets are state-owned and managed by the Ministry through 13 provincial (basin) irrigation administrations, each of which operates and maintains its own irrigation cluster. Within the MWR, the operation and maintenance of pump stations and wells is assigned to the Management Authority of Pump Stations and Energy, which has subordinate PS&E units in each province. The on-farm irrigation systems are on the balance sheet of the water consumers associations ("WCAs").

WCAs, the main users of water resources, are mainly larger farming enterprises with 100-200 ha of land and smaller "dekhkan" enterprises with less than one ha of land each. A WCA is a non-profit organization of water users which operates and maintains an on-farm irrigation system and distributes irrigation water to agricultural lands within its domain. In 2018 there were 1,503 WCAs registered in the RoU.

While agricultural producers in irrigation schemes pay for irrigation water supply services, these payments are area-based and do not have a direct link to the volumetric amount taken, nor to the type of crop grown; as such the approach does not stimulate productive and economical water consumption. Payments are collected by, and remain with, WCAs. [REDACTED].

The improved sector institutional set up and governance (to be developed with the EBRD's assistance as part of the Project) will enable WCAs and the Ministry to better maintain RoU's IWC infrastructure.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 ECONOMIC ANALYSIS

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised B (2019 ESP). The environmental and social ("E&S") risks and impacts associated with the rehabilitation of 118 pumping stations used for IWC in three regions of Fergana valley have been identified. These will be managed by the implementation of an Environmental and Social Action Plan ("ESAP"). The environmental and social due diligence ("ESDD") for the Project was carried out by an independent consultant; it included an audit of the client's operations and site visits to selected pumping stations. The Project is expected to result in positive impacts on the irrigation coverage, sustainability and reliability. This, in turn, will provide additional opportunities for individual farmers / farming organizations engaged in agriculture.

The results of the ESDD indicates that the client has limited capacity and E&S system in place, and that requirements of national environmental legislation are not fully implemented. There is no E&S Policy and no functional E&S management system in place, nor are any dedicated staff for managing E&S activities. Some permits (e.g. air emissions, waste disposal) were not available during the ESDD. To address these concerns, the ESAP requires the appointment of E&S specialists at the Ministry, the introduction of an E&S and OHS management system, as well as obtaining the water and waste permits. All the HR practices are in line with the stipulations of national legislation and International Labour Organisation ("ILO") fundamental conventions ratified by the RoU. Despite, there is no formalised Human Resources Policy, or a grievance mechanism for workers at the Ministry's regional PS&E units; this is requested in the ESAP.

The main E&S risks during the rehabilitation works are related to hazardous waste generation and soil contamination, as well as potential disturbance of nearby population by noise and air emissions. There are no signed contracts with specialised/licensed waste disposal companies. The management of hazardous substances and materials should be improved (e.g. leakages and spills on the ground, inappropriate storage of oil). Necessary improvements have been included in the ESAP. The requirements of the national occupational health and safety legislation are mostly implemented. However, some gaps in implementation of the national fire and electrical safety as well as sanitary-hygienic provisions were identified during the site visit. Community health and safety risks such as accidental falls into the water and electrocution were also identified during the field visit. Corrective actions are required in the ESAP (fencing or barriers along the open canals in sections passing through the settlements and fencing around the power transformers).

The land plots of the pumping stations ("PS") facilities are state-owned land. As some minor land take will be necessary (for the installation of fencing and in some locations for construction of a PS building) the Ministry is required to develop a procedure for formalising land tenure and identifying any land users (having farming activities /pasture land) around the pumping stations, investigating the extent of the Project-induced impact on their livelihood; and paying compensation to adversely affected people.

Some of PS are equipped with fish protection structures, however the majority are not. The ESAP requires installation of fish protection devices at water intakes and bird surveys at transformer substations (and if/where necessary, installation of protective devices to prevent the death of birds). The implementation of the Project components does not envision any significant excavation and earthworks, nor dredging. No impact on cultural heritage is anticipated. There is mechanism to disclose information and address external stakeholders'

grievances. Therefore, a Stakeholder Engagement Plan and grievance mechanism observing Covid-19 measures, have been developed for the Project.

Replacing pumps to their initial design capacity may lead to a water abstraction increase. At the same time, the introduction of automation will allow better demand-based water delivery to WCAs and farmers. In combination with auxiliary measures to reduce water delivery losses and strengthening on-farm water application (as envisioned under the Long Term Investment Program of the Government of Uzbekistan, for which this Project is an initial step), the de-facto per-hectare water volume supplied is envisioned to be reduced, as more precise flow control in volume and time will be provided.

The proposed mitigation measures have been summarized in the Environmental and Social Management and Monitoring Plan ("ESMMP"); this is as a standalone document to be attached to tender documentation for selection of the Project's contractors and its implementation has been captured in the ESAP, which has been agreed with the client. The latter has been developed to ensure the Project is structured to meet the PRs. The Bank will monitor implementation of the ESAP through review of Annual Environmental and Social Reports ("AESR"), communications with the client and site visits as necessary.

6.2 INTEGRITY

In conjunction with OCCO, integrity due diligence was undertaken on the Ministry, its senior management and other relevant parties. [REDACTED]. It has been concluded that [REDACTED] the Project does not pose an unacceptable integrity or reputational risk to the Bank.

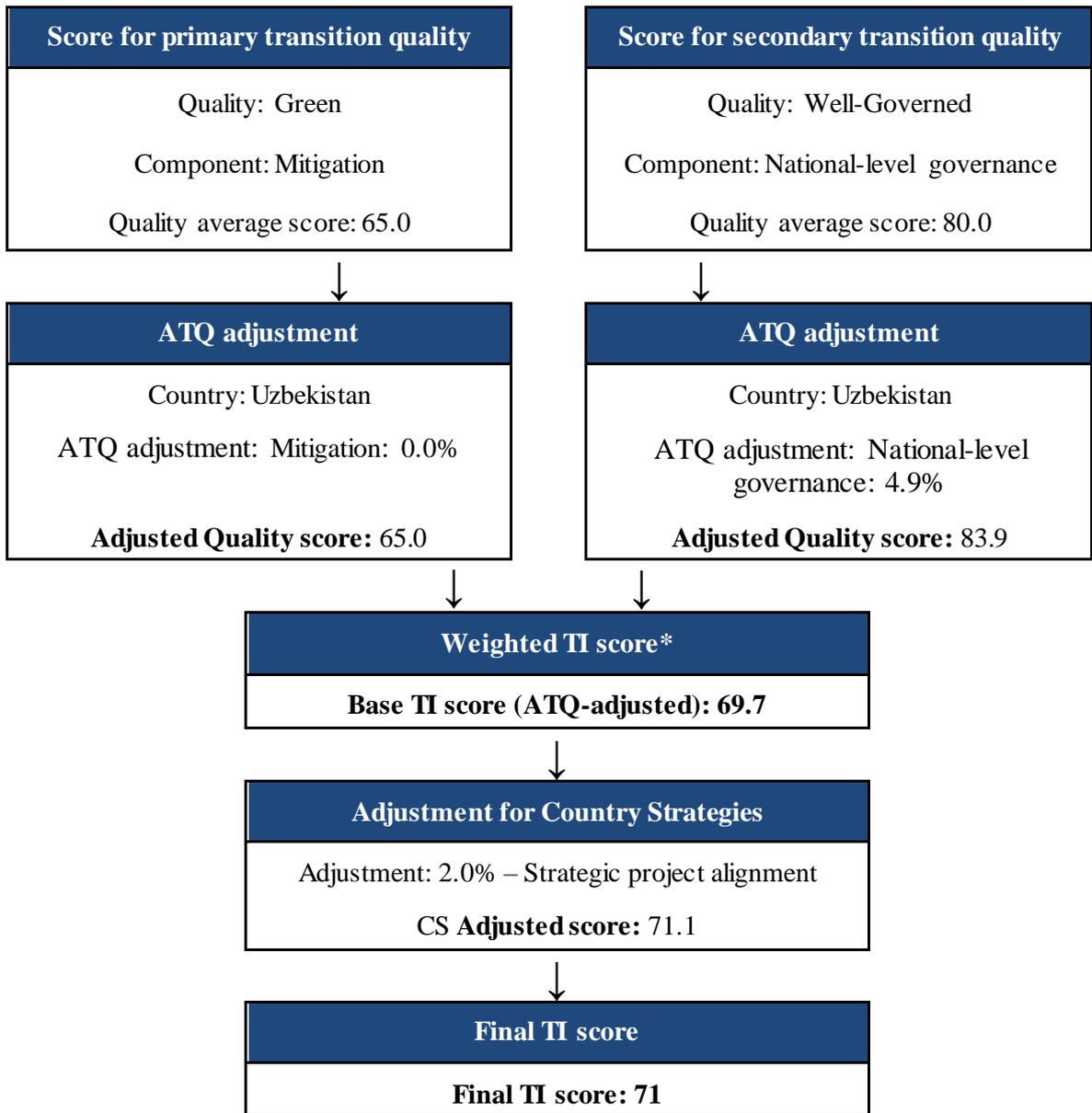
[REDACTED]. The Project's procurement will be carried out in line with the Bank's PP&R. The PIU under the Centre, will be assisted by the experienced procurement and implementation support consultants also selected in line with the Bank's PP&R. The RoU is a client of many IFIs, including the World Bank and the Asian Development Bank, who finance key infrastructure projects throughout the country.

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, and the Project files contain the integrity checklists and other required documentation, which have been properly and accurately completed to proceed with the Project.

ANNEXES TO OPERATION REPORT

ANNEX 1	TRANSITION IMPACT SCORING CHART
ANNEX 2	PROJECT IMPLEMENTATION AND PROCUREMENT PLAN
ANNEX 3	GREEN ASSESSMENTS

ANNEX 1 – TRANSITION IMPACT SCORING CHART



*The Primary Quality score is weighted 75% for the calculation of the Base TI Score. The Secondary Quality is weighted 25%.

ANNEX 2 – PROJECT IMPLEMENTATION

[REDACTED]. The Project will be implemented by the Ministry's Centre through the Project dedicated PIU, to be established as a separate legal entity. The Centre is experienced in the similar projects implementation financed by other IFIs, though no experience with the EBRD PP&R, including two-stage tendering which is envisaged for the Project. Real capacity will be significantly influenced by the qualification, dedication and empowerment of the PIU staff to be hired.

Contracts risk assessment – Moderate

The Project mainly consists of moderate risk contracts, the highest of which are contracts that face unforeseen underground conditions.

Project implementation arrangements:

The Ministry's Centre will be designated in the legal agreements as the Project Implementing Agency ("PIA"). The Centre will establish a dedicated Project project Implementation Unit ("PIU"), which will be responsible for the Project's day-to-day management during the entire Project implementation period. The PIU, appropriately supported by the qualified consultants, will be responsible for, among others, preparing project implementation plans, procurement documents and progress reports, as well as managing all contacts, including consultancy contracts, though all contracts are to be signed by the PIA. The Project's beneficiary, the Ministry, through its PS&E units, will assist the PIU in the Project's implementation through, amongst other, review of the Project's technical parameters including future operational and maintenance requirements and required staff training. The Ministry also will also be a contracting party for the grant-funded Institutional Governance and Digitalisation Improvements component the selection for which will be managed by the PIU.

The PIU's function, terms of reference and staff qualifications have to be acceptable to the Bank. It is envisioned that these will be monitored through the following arrangements. The Centre and the PIU shall (i) adopt and operate in accordance with the PIU Operations Manual ("POM"), which is expected to set out the institutional, disbursement, procurement and financial management arrangements (including appointment of core staff and their performance management as well as budgeting, project related internal controls, external auditing, financial reporting and accounting procedures) for the Project's implementation in line with the PP&R; (ii) carry out the Project in accordance with the PP&R and POM; and (iii) not amend, suspend, repeal or waive any provisions in the POM without the Bank's prior written agreement. [REDACTED].

According to the local legislation, the PIU cannot be established until the Project is duly approved at the national level. Therefore, the Centre has appointed temporary Project manager to handle competitive selection of the Project Implementation Support ("PIS") consultant(s) under advance contracting provisions. The Project manager is supported in this by an individual qualified consultant, mobilised by the Bank. This consultant is also charged with supporting the client with the PIU establishment and drafting the initial version of POM to be later finalised by the PIS consultant(s), as necessary.

The PIS consultant(s) will assist the Centre and the PIU by (i) preparing basic designs as well as conducting engineering, topographic and other investigations and environmental and social impact assessments as required by local law for the detailed design stage, (ii) preparing the full package of the tender documents, including technical specifications and other parts of the employer's requirements, (iii) supporting management of the tendering process in ECEPP, (iv) evaluation of the

submitted tenders and preparing the evaluation reports, (v) supervision of works, (vi) support with ESAP implementation, and (vii) Project reporting.

Procurement arrangements:

Goods, works and services, including consultancy services, financed from the loan and grants, except for the PIU's operating and administrative costs, will be procured via ECEPP under open competitive procedures in accordance with the requirements of Section III, Article 3 of the Bank's Procurement Policies and Rules, 2022 edition, for public sector operations. The Bank's appropriate standard procurement documentation will be used.

All Client-led loan- and grant-financed contracts will be subject to prior review by the Bank.

[REDACTED]. The PIU's core staff will be selected using national procedures, following an interview with the Bank's project team, including the country dedicated Project Implementation Adviser from PPAD, prior to their appointment. The PIU will procure the office's equipment, hardware and software and licenses which are necessary for the international forms of contracts, e.g. FIDIC, if used in the project procurement. Office supplies are required to be procured using national procurement procedures and to be in accordance with the budget agreed upon with the Bank. [REDACTED].

ANNEX 3 – GREEN ASSESSMENTS

Introduction

The Project will help to address inefficient water use, which drives the inefficient energy use and associated GHG emissions. Modernisation of 118 [REDACTED] pumping stations with investment in new energy efficient pumps and ancillary infrastructure will help to substantially decrease electricity consumption and associated GHG emissions. Furthermore the Projects assets have been adapted to the increase their resilience to the impacts of climate change, specifically flood risk and extreme heat events.

The Project is assessed as aligned with the goals of the Paris Agreement. It meets EU sustainable finance taxonomy “substantial contribution” criteria and as such is aligned for BB1. For BB2, measures are to be introduced ensuring the assets financed by the Bank are resilient to anticipated climate change impacts, in particular extreme heat events and flood risk. The Project's GET mitigation impact is based on energy efficiency savings, and is attributed as 100 per cent GET. 19 per cent GET adaptation is also attributed to the Project (total 100 per cent GET in all categories) based on the Climate Resilience Outcome of reduced weather-related disruption to the supply of water, resulting from climate resilient pumping stations. Climate-related financial risk assessments are not applicable to sovereign transactions.

Paris alignment assessment

Alignment with the mitigation goals of Paris Agreement

The Project is assessed as meeting the substantial contribution criteria of the EU sustainable finance taxonomy under the category of ‘renewal of water collection, treatment and supply systems’, given that:

- the Project does not imply a change in volume of flow supplied (as it is allocated dependent on overall flow availability in the basin and is not anticipated to change), and
- the Project results in a reduction in electricity consumption [REDACTED], corresponding to a [REDACTED] reduction in pumping energy for the same volume of water delivered, well above the net average energy consumption threshold [REDACTED].

Given that the Project meets EU substantial contribution criteria for climate mitigation, the Project is assessed as PA BB1 aligned.

Alignment with the adaptation goals of Paris Agreement

Step 1: The Project was screened as being exposed to potentially material climate hazards, in particular flooding and extreme temperatures.

Step 2: These risks were assessed as material, and a full climate risk assessment was undertaken as part of the Feasibility Study. It followed the Technical Note entitled "Integrating Climate Change Information and Adaptation in Project Development", which has been developed by EBRD and other financing institutions belonging to the European Financing Institutions Working Group on Adaptation to Climate Change (EUFIWACC). The main implications of climate change that are relevant to IWC infrastructure and services include: (i) rising temperatures leading to glacier melting with impacts on river systems, flows and water quality; (ii) changes in water availability and supply; (iii) asset protection and maintenance; and (iv) changes in water demands.

As a response, the project incorporates adaptation responses to ensure assets are resilient to extreme temperatures and floods. Specifically:

- the design shall ensure the maximum operating temperature for temperature sensitive assets can accommodate anticipated increase in maximum ambient temperature, in line with RCP 6.0, 2040-2059);
- the design shall ensure sensitive equipment (in particular electrical) should be situated well above 1 in 500 year flood levels. Appropriate safety factors should be applied when dimensioning other assets such as drainage, in the order of 50 per cent above typical design input assumptions on flows.

It was also assessed whether the specifications in terms of pumping capacity (m³/h) of the pumping systems need to be adapted in the face of changing hydrological conditions. Whilst some seasonal variability is anticipated, over the lifespan of the assets, the peak demand flow remains in excess of 90 per cent of the design flow. As such, a re-dimensioning of the assets was not assessed as appropriate. There may be a need for introducing water storage in future to address shifting seasonality of flows, but this can be introduced as needed into the planned schemes.

Step 3: Given that the Project does not result in increased water abstraction (flows to the schemes are regulated by transboundary and national water authorities), the Project is unlikely to have a wider impact on the system in which it operates.

As such, the Project is assessed as aligned for BB2.

GET attribution

The Project consists of energy efficiency improvements in the water sector and is 100 per cent GET eligible. The GET mitigation attribution of 100 per cent arises from the improved performance of pumping systems compared with baseline. The expected decrease in electricity consumption [REDACTED], leading to a GHG emissions reduction [REDACTED] of carbon dioxide equivalent ("CO₂e") per year [REDACTED].

GET adaptation attribution of 19 per cent arises from the expected climate resilience outcome of reduced weather-related disruption to water supply, that the improved climate resilient pumping stations are expected to deliver.

Economic Assessment

According to the "Methodology for the economic assessment of EBRD projects with high greenhouse gas emissions", a mandatory economic assessment incorporating a shadow price of carbon will be required for investments with known use of proceeds, which have absolute GHG emissions of more than 100,000 tonnes of CO₂e per year after EBRD investment, or increase GHG emissions by more than 25,000 tonnes of CO₂e per year after EBRD investment compared to the pre-project scenario.

For this Project, there is a significant net decrease in emissions of [REDACTED] CO₂e per year after EBRD investment already in the first year of operation.

In terms of absolute emissions, the current estimated emissions in the first year of operation [REDACTED] are above the threshold [REDACTED]. However, with increasing renewables penetration in the Uzbekistan's grid, the average annual absolute emissions over the lifespan of the asset are anticipated to be [REDACTED] tonnes of CO₂e per year [REDACTED]. As such, the Project was not subject to an economic assessment.