

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

Approved by the Board of Directors on 20 November 2024<sup>1</sup>

**TÜRKİYE**

**GrCF2 W2 E2 - EQR - GAZIANTEP DUZBAG WATER  
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]*

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<sup>1</sup> 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

AESR	Annual Environmental and Social Report	GET	Green Economy Transition
AIIB	Asian Infrastructure Investment Bank	GHG	Green House Gas
BRC	Benefic Cost Ratio	GMM	Gaziantep Metropolitan Municipality
BS	Balance sheet	GrCF	Green Cities Framework
CAGR	Compound average growth rate	IFC	International Finance Corporation
CAPEX	Capital expenditure	IFI	International Financial Institution
CAPEX	Capital Expenditure	IFRS	International Financial Reporting Standards
CDP	Corporate Development Programme	ILBANK	State Development Agency for Municipal Sector
CDS	Credit default swap	IRR	Internal Rate of Return
CNG	Compressed Natural Gas	ISO	International Organization for Standardization
CPI	Consumer price index	JICA	Japan International Cooperation Agenc
DD	Due diligence	KPI	Key Performance Indicator
DSCR	Debt Service Cover Ratio	LTM	Last twelve month
DSCR	Debt Service Cover Ratio	MEI	Municipal and Environmental Infrastructure
DWTP	Drinking water treatment plant	MoEUCC	Ministry of Environment, Urbanization and Climate Change
EBITDA	Earnings before interest, tax, amortization and depreciation	NPV	Net present value
EIB	European Investment Bank	NTS	Non-Technical Summary
EIRR	Economic Internal Rate of Return	OCCO	Office of the Chief Compliance Officer
ENPV	Economic net present value	PIP	Priority investment plan
EPG	Economics, Policy and Governance	PIU	Project Implementation Unit
ESAP	Environmental and Social Action Plan	PP&R	EBRD Procurement Policies & Rules
ESDD	Environmental and Social Due Diligence	PWWTP	Package wastewater treatment plant
EU	European Union	RAROC	Risk adjusted return on capital
EUR	Euro	SEMED	The Southern and Eastern Mediterranean
FATF	Financial Action Task Force	SRG	Sector Risk Guidance
FIDIC	International Federation of Consulting Engineers	SSF	EBRD Shareholder Special Fund
FOPIP	Improvement Programme	TC	Technical Cooperation
FX	Foreign Exchange	TI	Transition Impact
FX	Foreign Exchange	TRY	Turkish Lira
GCAP	Green City Action Plan	USD	United States Dollar
GDP	Gross Domestic Product	WWTP	Wastewater treatment plant

### CURRENCY CONVERSION

EUR 1 = TRY 37.3730 (as of 11 October 2024)

EUR / TRY <sup>2</sup>	2020	2021	2022	2023
EoP	9.0079	14.6823	19.8816	32.6937
Average	8.0140	10.4408	17.3818	25.6750

<sup>2</sup> Central Bank of Türkiye's official daily exchange rates.

## PRESIDENT’S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Republic of Türkiye (the “Borrower”), represented by the Ministry of Treasury and Finance (“MoTF”), for the benefit of Gaziantep Water and Sewage Administration (“GASKI”), are submitted for consideration by the Board of Directors. The implementing agency will be İller Bankası A.Ş. (“İLBANK”).

The facility will consist of a sovereign loan of up to EUR 110 million to finance the construction of 700,000 m<sup>3</sup>/d capacity Duzbag Drinking Water Treatment Plant (“DWTP”) and its ancillary structures, in the city of Gaziantep, Türkiye (the “Project”).

The expected transition impact of the Project is derived from (i) the **Green** quality, as the Project will improve the reliability and quality of critical drinking water services for the current and projected population in Gaziantep, a city heavily impacted by the devastating 6 February 2023 earthquakes, and (ii) the **Competitive** quality, as the Project will support the development of a Financial and Operational Performance Improvement Programme, to support GASKI to strengthen its corporate position. The Project is 100% GET.

The Project will also serve as the first follow-on investment under Gaziantep Green City Action Plan (“GCAP”), hence the transaction is submitted under the Green Cities Framework 2, Window 2, Extension 2 (“GRCF2 W2 E2”).

The Project is gender additional through strengthening GASKI’s capacity in incorporating gender-responsive elements into the design and delivery of water and wastewater services.

All TC supports for this operation are provided by the EBRD Shareholder Special Fund.

I am satisfied that the operation is consistent with the Bank’s Strategy for Türkiye, the Municipal and Environmental Infrastructure (MEI) Sector Strategy, the Green Economy Transition 2.1, the Strategy for the Promotion of Gender Equality and with the Agreement Establishing the Bank.

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

**Odile Renaud-Basso**

## BOARD DECISION SHEET

TÜRKİYE – EQR - Gaziantep Duzbag Water Project – DTM 55262 Framework: Green Cities Framework 2 – Window II Extension 2 – DTM 53170	
<b>Transaction / Board Decision</b>	Board approval <sup>3</sup> is sought for a sovereign loan of up to EUR 110 million to the Republic of Türkiye (“ <b>Borrower</b> ”) represented by the Ministry of Treasury and Finance (“ <b>MoTF</b> ”), for the benefit of Gaziantep Water and Sewage Administration (“ <b>GASKI</b> ”), to finance the construction of 700,000 m <sup>3</sup> /d Duzbag Drinking Water Treatment Plant and its ancillary structures in Gaziantep, Türkiye (the “ <b>Project</b> ”). The implementing agency will be Iller Bankasi A.S. (“ <b>ILBANK</b> ”), as ILBANK has been authorised to implement all IFI’s critical infrastructure financing facilities in the earthquake region. The operation is proposed as a follow-on investment under the Green Cities Framework 2 – Window II Extension 2 (“ <b>GrCF2 W2 E2</b> ”).
<b>Client</b>	The Borrower is the Republic of Türkiye, represented by the MoTF. ILBANK will be the implementation agency and GASKI, the water utility of Gaziantep and an affiliated entity of Gaziantep Metropolitan Municipality (“ <b>GMM</b> ”), will be the beneficiary of the loan.
<b>Main Elements of the Proposal</b>	<p><u>Transition impact</u></p> <p><b>Primary Quality - Green:</b> Is derived through improvement of the reliability and quality of critical drinking water services which is under stress due to the sudden population increase after the earthquakes. The Project will also serve as the first follow-on investment to Gaziantep Green City Action Plan (“<b>GCAP</b>”), addressing the priority environmental challenge of water resources management identified in Gaziantep GCAP.</p> <p><b>Secondary Quality - Competitive:</b> Is derived through supporting GASKI to develop and implement a Financial and Operational Performance Improvement Program to strengthen its corporate position.</p> <p><b>Additionality:</b> The Bank’s financing is additional due to the financing structure, risk management, standard setting and knowledge, innovation, and capacity building. The Bank is providing long-term financing, which is not available in the commercial market, and help the client to take climate action.</p> <p><b>Gender SMART:</b> The Bank will support the GASKI in enhancing its capacity to deliver gender-responsive services and increase the awareness and participation of women in these services through a dedicated outreach and awareness raising campaign.</p> <p><b>Sound banking:</b> The loan is provided to the Sovereign.</p>
<b>Key Risks</b>	<p><u>Sovereign risk profile:</u> Türkiye is rated B+, B1 and BB- by S&amp;P, Moody’s, and Fitch, respectively.</p> <p><u>Contracting/Implementation risk:</u> Advance Procurement support will be provided to ensure the contracting process will be compliant with the EBRD PP&amp;R. Monitoring and Implementation Support consultants will be mobilized to ensure the successful implementation of the Project.</p>
<b>Strategic Fit Summary</b>	The proposed Project is consistent with the Bank’s strategy for Türkiye, which emphasises increased environmental performance with a focus on emissions reductions under EBRD Green Cities. The Project is also in line with the Bank’s Municipal and Environmental Infrastructure (MEI) Sector Strategy as it supports green and sustainable investments and is fully in line with the Green Economy Transition 2.1, and the Strategy for the Promotion of Gender Equality.

<sup>3</sup> Article 27 of the AEB provides the basis for this decision.

## ADDITIONAL SUMMARY TERMS FACTSHEET

<b>EBRD Transaction</b>	A sovereign loan of up to EUR 110 million to the Republic of Türkiye (“ <b>Borrower</b> ”) represented by the Ministry of Treasury and Finance (“ <b>MoTF</b> ”). The implementing agency will be İller Bankası A.Ş. (“ <b>ILBANK</b> ”), as ILBANK has been authorised to implement all IFI’s critical infrastructure financing facilities in the earthquake region. The beneficiary of the loan will be Gaziantep Water and Sewage Administration (“ <b>GASKİ</b> ”), an affiliated institution of Gaziantep Metropolitan Municipality (“ <b>GMM</b> ” or the “ <b>City</b> ”). The proceeds will be used to finance the construction of 700,000 m <sup>3</sup> /d Duzbag Drinking Water Treatment Plant (“ <b>DWTP</b> ”) (the “ <b>Project</b> ”). The proposed operation will be the first follow-on investment to Gaziantep Green City Action Plan (“ <b>GCAP</b> ”) under GrCF2 W2 E2.
<b>Existing Exposure</b>	<u>Sovereign exposure</u> : EUR 259.2 million under Ispartakule - Cerkezkoý Railway Line Project and Türkiye COVID-19 Equipment Emergency Response. <u>Indirect sovereign exposure</u> : EUR 486.3 million to the MoH of Turkey under the Hospital PPP Projects and EUR 79.0 million to the MoTF under the Eurasia Tunnel Project.
<b>Maturity / Exit / Repayment</b>	The loan tenor is up to 18 years [REDACTED]
<b>Potential AMI eligible financing</b>	None.
<b>Use of Proceeds - Description</b>	The proceeds of the Bank’s loans will be used for the construction of a 700,000 m <sup>3</sup> /day capacity DWTP and ancillary structures, and procurement of construction supervision.
<b>Investment Plan CA</b>	[REDACTED]
<b>Financing Plan</b>	[REDACTED]
<b>Key Parties Involved</b>	<ul style="list-style-type: none"> <li>• The Republic of Türkiye, represented by MoTF as the Borrower.</li> <li>• ILBANK, as the project implementation agency.</li> <li>• GASKİ, as the contracting authority and the beneficiary.</li> </ul>
<b>Conditions to subscription / disbursement</b>	[REDACTED]
<b>Key Covenants</b>	[REDACTED]
<b>Security / Guarantees</b>	Sovereign loan, unsecured.
<b>Other material agreements</b>	<ul style="list-style-type: none"> <li>• Standard Terms and Conditions for the Bank’ Sovereign Operations with MoTF.</li> <li>• Project Agreement with GASKİ and ILBANK.</li> </ul>
<b>Associated Donor Funded TC and Blended Concessional Finance</b>	<p><b>Pre-signing:</b></p> <p><b>TC 1 – Technical Assessment:</b> The objective is to review and ensure that feasibility and all technical information required for the tender process is fully up to date, and to confirm that the final documentation related to the project’s financing meets the Bank’s standards and requirements. The cost of the assignment was EUR 75,000 and financed by the EBRD Shareholder Special Fund (“<b>SSF</b>”).</p> <p><b>TC 2 - Environmental and Social Assessment:</b> Consultancy support to GASKİ for identifying and assessing potential existing and future environmental and social impacts, assessing compliance with applicable laws, EBRD ESP and PRs, and draft E&amp;S Assessment Report, Stakeholder Engagement Plan, Environmental and Social Action Plan and Non-Technical Summary. The cost of the assignment was EUR 75,000 and financed by SSF.</p> <p><b>TC 3 - Advance Procurement Support:</b> Consultancy support to GASKİ for the contracts proposed for financing by the EBRD, including (i) review of the design documents and</p>

	<p>technical specifications prepared by a local consultant, (ii) preparation of the Tender Documentation and (iii) management of procurement process up to the contract/s award, to ensure compliance with the EBRD PP&amp;R. The cost of the assignment was EUR 74,990 and financed by SSF.</p> <p><b>Post-signing:</b></p> <p><b>TC 4 - Monitoring and Implementation Support:</b> Project Monitoring Services to GASKI to include support with monitoring of the project implementation and with the reporting requirements, including ESAP. The estimated cost of the assignment is EUR 200,000 and is proposed to be financed by SSF.</p> <p><b>TC 5 - Financial and Operational Performance Improvement Programme (FOPIP):</b> Consultancy to assist GASKI for the development of a FOPIP with the overall objective to improve its operational efficiency, environmental, social, gender and fiscal management to strengthen its corporate position. The FOPIP will establish a comprehensive set of KPIs for measurable improvements in operational efficiency and levels of service, increasing the revenue collection rates and implementing cost reduction measures, developing a tariff formula and tariff policies, capacity building, improving reporting standards and assistance with decision support mechanisms. FOPIP will also aims to strengthen GASKI's capacity to incorporate gender-responsive elements into the design and delivery of its services, while enhancing awareness and participation of women in Gaziantep. The estimated cost of the assignment is up to EUR 100,000 and is proposed to be financed by SSF.</p> <p><b>Cost sharing:</b> In line with the Bank's client contributions policy dated 1 January 2021, cash contributions will not be provided, considering the client's public ownership [REDACTED]</p>
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[REDACTED]

## 1. STRATEGIC FIT AND KEY ISSUES

### 1.1 STRATEGIC CONTEXT

Gaziantep is the 9<sup>th</sup> largest city in Türkiye with 2.2 million inhabitants. However, the City's actual official population has reached 2.6 million, which include c. 430,000 Syrian refugees residing under temporary protection since the outbreak of the civil war in Syria. This unprecedented population increase further exacerbated with the migration of c. 150,000 victims from the surrounding region in the aftermath of the 6 February 2023 earthquakes, which had a devastating impact in 11 provinces including Gaziantep, claiming the lives of more than 50,000 people and resulting in damages around US\$ 104 billion or 11 per cent of Türkiye's GDP. Consequently, pressure began to mount on the city's municipal services, which have been already suffering due to drastic population increase.

One of the primary challenges in Gaziantep is the insufficient water treatment capacity due to population growth, and increased demand from industries and agriculture. The city's only DWTP, which has capacity of 400,000 m<sup>3</sup>/d, is no longer capable of meeting the increased demand, although it is being operated over its design capacity. This results in frequent water cuts and compromises from water quality which have a negative effect on public health and wellbeing, as well as economic activity. As the population of the Project area is expected to reach 3.5 million by 2050, and the average water demand is expected to increase to 700,000 m<sup>3</sup>/d by 2041 (from 600,000 m<sup>3</sup>/d today<sup>4</sup>), building up the required treatment capacity has become an urgent need.

The Project will help provide a new 700,000<sup>5</sup> m<sup>3</sup>/d of water treatment capacity to the city of Gaziantep and ensure the provision of safe and continuous drinking water. The Project has

<sup>4</sup> The demand in excess of the city's actual water treatment capacity is met by underground wells.

<sup>5</sup> The net additional capacity increase of the system will be 300,000 m<sup>3</sup>/d as the existing DWTP will be decommissioned once the new DWTP become operational.



been included in the Turkish government's earthquake response critical infrastructure needs list that are being financed through IFIs' sovereign loans.

After the earthquake, ILBANK and Ministry of Environment have carried a detailed assessment of the critical infrastructure needs in the earthquake region and came up with a list of EUR 2 billion worth of urgent investment needs. EBRD, World Bank, EIB, IsDB and JICA has been working closely to address the financing need through each IFI focusing on different projects from the list. Given ILBANK's central role in identifying the needs and its technical capacity, ILBANK has been tasked by the central government to act as implementation agent for all IFI's earthquake response facilities. The Project is the Bank's first sovereign earthquake response in infrastructure sector.

Gaziantep is the third city from Türkiye that joined EBRD Green Cities program and Gaziantep GCAP has been fully adopted by the city in 2023. The Gaziantep GCAP identifies the city as a water-scarce province that relies on transmission lines from other provinces and requires additional measures to integrate resilience into its water sector, considering its exposure to seismic hazards and limited domestic water resources. The Project will serve as the first follow-on investment under Gaziantep GCAP to address the priority environmental challenge of water resources management, hence the Project is presented under GrCF2 W2 E2.

The Project is consistent with the Bank's Country Strategy for Türkiye which emphasises increasing energy and resource efficiency, climate resilience and environmental performance with a focus on emissions-reductions initiative under EBRD Green Cities the Strategy for the Promotion of Gender Equality, which focuses on promoting gender equality through access to services, and Municipal and Environmental Infrastructure (MEI) Sector Strategy as it supports green and sustainable investments. The Project is also fully in line with the Green Economy Transition Approach 2.1.

The Project contributes to UN Sustainable Development Goals (SDGs), including SDG 3. Good Health and Well-Being, SDG 5. Gender Equality, SDG 6. Clean Water and Sanitation, SDG 11. Sustainable Cities and Communities, SDG 13. Climate Action.

## 1.2 TRANSITION IMPACT

The GrCF2 represents a strategic and multi-project approach seeking to help identify and address environmental challenges in selected large cities in our countries of operation. The primary goal is to achieve significant environmental improvements and to promote the Green transition quality within the relevant cities. In addition to the environmental objective, the GrCF2 also promotes sustainable cities through inclusive, resilient, well-governed and smart urban development. These transition objectives are supported by the development and implementation of a city-specific GCAP aiming to identify environmental challenges, facilitate better coordination and buy-in among stakeholders and help to prioritise and develop the best ways to address the environmental challenges through targeted investments, services, and policy instruments. The Project will contribute to achieving Framework objectives in the following ways:

**Green:** The Project will primarily help to promote the Green transition quality by improving reliability and quality of critical drinking water services, which is under stress due to the sudden population increase after the earthquake. By deploying a new 700,000<sup>6</sup> m<sup>3</sup>/d of water treatment capacity, the Project will ensure the provision of safe and clean drinking water for the current and projected population in Gaziantep. The Project will be the first follow-on

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<sup>6</sup> The net additional capacity increase of the system will be 300,000 m<sup>3</sup>/d as the existing DWTP will be decommissioned once the new DWTP become operational.

investment to Gaziantep GCAP, by addressing the priority environmental challenge of water resources management (Action WA1). The Project meets environmental criteria of GrCF2 W2 E2 by employing EU environmental standards. The project also includes best practices such as an automated analysis system for monitoring water quality, automated systems for chemical dosing and technologies that optimize chemical use to reduce overall chemical consumption. The Project is therefore eligible for inclusion under EBRD Green Cities. Furthermore, the Project will reduce the climate impact of Gaziantep's highly energy-intensive water supply system, through a more efficient use of gravity with a new DWTP to be built at a higher altitude. In this way, the Project will result in lower CO<sub>2</sub> emissions per m<sup>3</sup> of water compared to the baseline. The commissioning of a new DWTP will also enable GASKI to decommission its existing DWTP, which poses operational, health and safety risks due its proximity to houses. The Project is expected to quality 100 per cent GET under the “other environmental benefits” category.

**Competitive:** The Project will also contribute the Competitive transition quality by supporting the development of a Financial and Operational Performance Improvement Programme (“FOPIP”), to support GASKI improve its operational efficiency, environmental, social, and financial management to strengthen its corporate position. Through the implementation of a FOPIP, GASKI will be assisted in the development of Key Performance Indicators (“KPIs”) for measurable improvements in operational efficiency and levels of service such as increasing the revenue collection rates and implementing cost reduction measures. FOPIP will also aim in the improvement of GASKI’s decision-making procedures and internal and external control mechanisms.

### 1.3 ADDITIONALITY

Identified triggers	Description
No triggers identified	n/a
Additionality sources	Description of additionality sources
<b>Financing Structure</b> EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions, e.g., a longer grace period. Such financing is necessary to structure the Project.	The Bank will provide long term financing for the construction of vital drinking water infrastructure. Such long-term sovereign financing is not available from commercial banks.
<b>Risk Mitigation</b> 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.	The Bank has conducted a thorough technical, environmental, social and gender due diligence to help GASKI to mitigate ESG-related risks.
<b>Policy, sector, institutional, or regulatory change</b> 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’s involvement in the project is considered additional as it will allow the Republic of Türkiye to respond more effectively to the earthquake crisis.
<b>Standard-setting: helping projects and clients achieve higher standards</b> - Client seeks/makes use of EBRD expertise on best international procurement standards.	EBRD credit, transition impact, procurement and environmental (as reflected in the GET contribution) related conditionalities go beyond what commercial funding sources

<p>- Client seeks EBRD expertise on higher environmental standards, above ‘business as usual’ (e.g., adoption of emissions standards, climate-related ISO standards etc.).</p> <p><b>Gender SMART:</b> Client seeks/makes use of EBRD expertise for the adoption of gender standards and/or equal opportunities action plans</p>	<p>would require, promoting performance improvements and greater transparency.</p> <p>The TC-supported FOPIP will also focus on strengthening GASKI's capacity in incorporating gender-responsive elements into the design and delivery of water and wastewater services and enhancing the awareness and participation of women in Gaziantep in these services through a dedicated outreach and awareness raising campaign.</p>
<p><b>Knowledge, innovation, and capacity building</b></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 Bank has relevant sector knowledge and will mobilise TC funding to support GASKI in implementing the Project and the development of the FOPIP. The Project will be procured under EBRD's PP&amp;R.</p>

#### 1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Fiscal/Macro-economic risk	Medium/Medium	<p>The proposed transaction is a sovereign loan to the Republic of Türkiye, represented by the MoTF as the Borrower, for the benefit of GASKI.</p> <p>As a result of post-election structural reforms and return to orthodox monetary policies all three major rating agencies have upgraded Türkiye's credit rating to B1/B+/BB- level with positive/stable outlook recently.</p>
Implementation risk	Medium/Medium	<p>The Project will be implemented by ILBANK, and the contracting authority will be GASKI under the supervision of ILBANK. The Bank has not worked with ILBANK and GASKI before.</p> <p>ILBANK is quite experienced in implementing IFI financed projects as ILBANK has been the intermediary of IFI loans (such as World Bank, EIB, AfD etc.) for over 10 years. To mitigate the implementation risk, GASKI and ILBANK will be supported by (i) a grant-funded procurement consultant and (ii) a TC consultant will be employed to assist with the project implementation (including the delivery of ESAP), and reporting.</p> <p>The EBRD PP&amp;R will apply and the Bank (via project team including dedicated PIU) will be closely involved in the key procurement and implementation decisions while sharing its experience and expertise on how to best prevent and address respective risks.</p>

		Although GASKI is experienced in operating similar treatment plants, the works contractor will be responsible for the Operations & Maintenance in the first year of operation. GASKI's personnel will receive the necessary trainings before the handover of the asset to GASKI.
Cost over-run risk	Medium/ Medium	<p>The cost of key construction materials can fluctuate significantly due to Türkiye's current inflationary environment, global supply and demand changes, tariffs, trade restrictions, or shortages, potentially leading to budget overruns. Additionally, inflation-related minimum wage increases could further strain the budget.</p> <p>To mitigate these risks, the budget study provided by the technical consultant includes a contingency specifically for unexpected costs.</p>

## 2. MEASURING / MONITORING SUCCESS

<i>Overall objectives of project</i>	<i>Monitoring benchmarks</i>	<i>Implementation timing</i>
<ul style="list-style-type: none"> <li>- On-time project implementation</li> <li>- FOPIP development</li> </ul>	<ul style="list-style-type: none"> <li>- Completion according to the timeline and within the budget</li> <li>- Development and implementation of FOPIP</li> </ul>	[REDACTED]

This sub-Project will be monitored individually. Information collected at this level will be aggregated and used to inform the Framework level monitoring.

### Transition Impact Monitoring Indicators (FW)

<i>Transition Impact Monitoring Indicators and Benchmarks (FW)</i>								
<b>Primary quality: Green</b>								
Obj · No.	FW Monitoring Indicator	Corresponding Sub-Project Monitoring Indicator	Details (FW)	Details for Specific Sub-Project	Baseline (Sub- Project)	Target (Sub- Project)	Due date (FW)	TC- related <sup>7</sup>
1.1	Number of recommended policy or strategy agreed by relevant stakeholder(s)	Recommended policy or strategy agreed by relevant stakeholder(s)	<p><b>New Green City Action Plans:</b> 30 new GCAPs finalised and submitted for approval by relevant authorities and includes priority actions and a monitoring strategy in each participating City.</p> <p>Baseline target of the GrCF and GrCF2</p>	Gaziantep's GCAP was approved by the City Council in 2023 including an implementation and monitoring strategy.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

<sup>7</sup> Select "Y" if this project has an associated TC and this indicator is related to that TC.

			combined is 20 GCAPs.					
1.2	Performance or action plan implemented by the client	Performance or action plan implemented by the client	<b>Strong follow-on support:</b> 50% of transactions (under GrCF2 and future extensions) are follow-on investments addressing priority environmental challenges identified in the GCAPs.	The Project is the City's first follow-on investment under the GCAP, which addresses the priority challenge of water resources management.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Performance or action plan implemented by the client	Performance or action plan implemented by the client	<b>Multiple green investments:</b> Each participating city makes on average at least 3 investments (with or without EBRD financing) that address priority environmental challenges identified by the GCAP, where all EBRD financed projects will meet the extended Framework's eligibility criteria for investments.	The Project targets environmental impacts beyond climate change and meets GrCF2 eligibility criteria as it employs best practices and recognised standards in the sector and complies with relevant EU directives.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.4	Performance or action plan implemented by the client	Performance or action plan implemented by the client	<b>Effective GCAP implementation:</b> The Framework achieves at least 50 per cent of all verifiable targets, set in the GCAP, within 5 years after the respective GCAP finalisation (including both investments and well-defined policy measures).	The Project addresses one of the priority environmental challenges identified in Gaziantep GCAP, namely water resources management.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.5	Improved environmental standards	Improved environmental standards	<b>Environmental impact:</b> The Framework achieves significant environmental improvements for at least one priority environmental challenge, i.e., the promotion or protection of certain performance levels (colour codes) for priority environmental challenges as specified in the GCAPs, for more than 50 per cent of the Green Cities.	While the Project increases drinking water treatment capacity in the city, the relevant environmental improvements within the respective cities will not be monitored at project level.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Secondary quality: Competitive								
Obj · No.	FW Monitoring Indicator	Corresponding Sub-Project Monitoring Indicator	Further Details Sub- Project level	Details for Specific Sub- Project	Baseline (Sub- Project)	Target (Sub- Project)	Due date (Sub- Project)	TC- related?
5.2	Number of clients completing organisational restructuring as targeted	Organisational restructuring completed as targeted	Specific organisational measures (e.g., CDP or FOPIP) to reduce costs is introduced and material cost reductions benchmarked and monitored (i.e., minimum 10 percent reduction in operational cost) or unit price verified.	FOPIP will establish a comprehensive set of KPIs for measurable improvements in operational efficiency and levels of service such as increasing the revenue collection rates, implementing cost reduction measures, and decreasing non-revenue water ratio.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

### Additional Indicators

Objective	FW level aggregate indicator	Indicator (sub- Project)	Details (sub project)	Baseline (Sub- Project)	Target (Sub- Project)	Due date (Sub- Project)	TC- related?
<b>Core client indicator s</b>	Total population benefitting (individuals)	Total Population benefitting from access to drinking water (individuals)	Total Population benefitting from access to drinking water (individuals)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	CO2e emissions reduced (tonnes/year)	CO2e emissions reduced (tonnes/year)	CO2 Emissions will be reduced by 18%	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
<b>Gender SMART</b>	Number of stakeholders with practices improved (e.g., inclusive infrastructure services/design, inclusive HR policies and practices, equal opportunities, inclusive procurement practices)	Relevant stakeholders will develop and adapt new or substantially improved policies and practices to accommodate previously excluded target groups, on topics such as infrastructure service delivery and design (accessibility, safety and security, etc.),	Through dedicated FOPIP support, the Project will strengthen GASKI's capacity in incorporating gender-responsive elements into the design and delivery of water and wastewater services (proposing infrastructure or service modifications, incorporating feedback mechanisms for women to report issues or suggestions related to water services) and enhancing the awareness and participation of women in these services in Gaziantep through an outreach and awareness raising campaign (2-3 information sessions for women in local community centres will be held).	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]



		HR policies and practices, support for equal opportunities and/or inclusive procurement approaches					
	Physical capacity of the client extended or modernised (specify)	Physical capacity of the client extended or modernised (specify)	The construction of a drinking water treatment plant with a 700,000 m3/d capacity	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

### 3. KEY PARTIES

#### 3.1 BORROWER: THE REPUBLIC OF TÜRKİYE (REPRESENTED BY MOTF)

The proposed transaction is a sovereign loan to the Republic of Türkiye, represented by the MoTF. MoTF is headed by the Minister of Treasury and Finance. The current Minister is Mehmet Simsek, serving in office since 4 June 2023. Mehmet Simsek previously served as the Deputy Prime Minister for Economic and Financial Affairs (2015-2018), the Minister of Finance (2009-2015), and as the Minister of Economy (2007-2009). Please refer to the sovereign risk assessment in Section 5.1 for more information on the Borrower.

#### 3.2 IMPLEMENTATION AGENCY: ILBANK

ILBANK, as the implementation agency, is a development and investment bank owned by municipalities and provincial special administrations. ILBANK serves a total of 1,473 local government units, composed of 1,390 municipalities, 51 special provincial administrations and 30 water and sewage administrations through its functions in its head office located in Ankara, Türkiye, and its 17 regional directorates. As of YE-2023, ILBANK employs 2,859 people.

The main activity of ILBANK is to provide financing to local governments for urban infrastructure projects. ILBANK's other activities include, project development, technical cooperation, distribution of the funding allocated from the national budget to local governments, and resource development. In addition to its own funds, ILBANK cooperates with domestic and foreign financial institutions and channels the funds raised to local governments for the financing of urban infrastructure projects.

ILBANK has been authorised to implement all IFIs financing facilities targeted at Türkiye's relief efforts in the earthquake region. ILBANK is working jointly with World Bank, EIB, IsDB, JICA and EBRD given EUR 2 bn worth of critical infrastructure projects under the Türkiye earthquake response program have been split between the IFIs. ILBANK has already been channelling funds of IFIs like World Bank and EIB for over 10 years that are targeted towards Turkish municipalities' infrastructure needs.

#### 3.3 BENEFICIARY: GASKI

GASKI, as the beneficiary, is the public utility responsible for providing water distribution and sewage services in the provincial boundaries of Gaziantep. It is an affiliated entity of GMM and operates with an independent budget. General Director of GASKI is elected upon the proposal of the Mayor and approved by the Minister of Interior Affairs. The Municipal

Council of GMM acts as the General Assembly of GASKI, and the Mayor chairs its Board of Directors. GASKI has its own assets, management, revenues and borrowing capacity.

As of YE-2023, GASKI has c. 779k subscribers, covering a population of c.2.2m. Its service area spans 7,222 km<sup>2</sup>. GASKI employs 2,141 people. GASKI has 280 km of water transmission lines, 4,535 km of drinking water network and 3,457 km of sewage network. It operates 5 DWTPs (Hacibaba DWTP being the largest with 400,000 m<sup>3</sup>/day capacity) and 27 WWTPs. The non-revenue water ratio of GASKI realized at 27.9 per cent in 2022, however increased to 32.5 per cent due to damages on its network caused by the 6 February 2026 earthquakes.

GASKI works in cooperation with several international organisations and financial institutions such as the EU, through the EU Regional Trust Fund in Response to the Syrian Crisis (the EU Madad Fund) and JICA for its investment projects. Please refer *Annex 5* for further information on GASKI.

## 4. MARKET CONTEXT

There are 1,397 municipalities in Türkiye which provide municipal services (i.e., water, wastewater, transport, road construction, zoning plans etc.). These municipalities are grouped as follows: (i) Metropolitan Municipality; (ii) City Municipality; (iii) District Municipality within a Metropolitan Municipal Area; and (iv) District Municipality. Municipalities are headed by a mayor and municipal council administering an autonomous budget, audited by the Ministry of Interior and Court of Accounts on a random basis. Both the mayor and municipal council members are elected every five years.

The legal and administrative framework for urban drinking water and wastewater provision in Türkiye is highly centralised. In general, municipalities are responsible for providing both drinking water and wastewater services while the central government is responsible for larger scale strategic capital investments such as major irrigation projects, flood control, swamp reclamation and hydropower development. The municipal drinking water and wastewater services is provided via municipality owned utilities, which operate autonomously in these cities. The water utility companies are established and governed under the municipal laws.

Tariffs for sale of drinking water and wastewater services are set at the General Assembly of GASKI at the beginning of each fiscal year, according to a formula stated in the law (all cost-plus profit margin). Tariffs can vary substantially across cities. Cost recovery is generally high. The water tariff for each subscriber group is determined with a cost-plus profit margin method and updated with monthly inflation. Wastewater tariffs, on the other hand, are determined as a certain percentage of water tariffs. Discounted tariffs are applied to certain subscriber groups and certain regions as per the regulations. Households, the largest subscriber group by consumption, are charged according to their average consumption (i.e., a graded tariff scheme is applied). Tariff levels should be determined by taking into account the "user pays" and "polluter pays" principles as well as social affordability considerations.

As per the regulation on water allocations, the order of priority in water allocation is as follows: (i) drinking and municipal water consumption, (ii) environmental flow requirement, (iii) agriculture and aquaculture consumption, (iv) energy and industrial flow requirements, (v) trade, tourism and mining flow requirements.



## 5. FINANCIAL / ECONOMIC ANALYSIS

### 5.1 FINANCIAL PROJECTIONS OF THE BORROWER

In 2023, Türkiye shifted back to more traditional economic policies, tightening monetary and fiscal measures to combat inflation. The central bank raised the policy rate by a total of 4,150 basis points from June 2023 to March 2024, maintaining it at 50 per cent while also using sterilization tools and implementing macroprudential measures to enhance monetary policy effectiveness. Additionally, in May 2024, the MoTF introduced a public savings and efficiency package that tightened the fiscal stance, excluding earthquake-related spending, to support disinflation and address a widening fiscal deficit.

Türkiye's return to orthodox economic policies, along with its removal from the Financial Action Task Force (FATF) grey list in June 2024, boosted investor confidence. The country's CDS premium fell sharply from over 700 basis points in May 2023 to below 300 basis points, while sovereign eurobonds were issued on favourable terms, and several major rating agencies upgraded Türkiye's sovereign ratings. Türkiye is rated B+ (Positive), B1 (Positive) and BB- (Stable) by S&P, Moody's, and Fitch respectively.

Türkiye's external position has shown significant improvement, with the 12-month cumulative current account deficit decreasing from a peak of US\$ 57 billion in May 2023 to US\$ 19.1 billion in July 2024. Foreign exchange reserves rose substantially from US\$ 97.1 billion in May 2023 to US\$ 147.9 billion in July 2024, and net reserves turned positive for the first time since March 2020. However, short-term external debt, with maturities of one year or less, rose to US\$ 236.6 billion in June 2024, making up 20 per cent of GDP.

Tighter economic policies led to a slowdown in growth and a shift in growth drivers for Türkiye. The economy grew by 3.8 per cent year-on-year in the first half of 2024, down from 4.6 per cent in the same period in 2023, with the second quarter seeing the lowest growth rate (2.5 per cent) since the pandemic.

Economic growth in Türkiye is expected to fall to 2.7 per cent in 2024 before rising to 3 per cent in 2025, primarily due to the cooling effects of tighter policies and weakened private consumption. Significant risks to this forecast include ongoing high inflation, the negative effects of a stronger TRY on exports and tourism, elevated geopolitical tensions in the region, and challenging global financing conditions amid substantial short-term external funding requirements.

Please see *Annex 3* for more detailed analysis.

BASE CASE	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Nom. GDP (\$ per cap)	12,948	15,159	17,219	18,182	19,269	20,416	21,528	22,702	23,943	25,256	26,647
Real GDP growth (%)	5.1	2.7	3.0	3.5	4.0	4.0	3.5	3.5	3.5	3.5	3.5
CPI (% change, ann avg)	53.9	59.0	34.0	21.0	17.0	14.0	11.0	11.0	11.0	11.0	11.0
LCU/USD (ann avg)	23.7	33.0	40.0	47.3	54.2	60.4	65.6	71.3	77.4	84.1	91.3
RER vs. \$ (% =+appn)	3.1	11.0	7.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LCU/Euro (ann avg)	25.6	35.7	43.7	52.3	60.9	69.0	76.1	83.7	92.1	101.4	111.6
RER vs. Eur (% =+appn)	-0.7	11.7	7.9	-0.6	-1.3	-1.3	-1.2	-1.0	-1.1	-1.1	-1.1
Nom. wages (\$ per mth)	861	1011	1151	1218	1295	1377	1456	1540	1629	1723	1823
LCU wage growth (%)	61.7	63.3	38.0	25.2	21.7	18.6	14.9	14.9	14.9	14.9	14.9
Real LCU wage growth (%)	5.1	2.7	3.0	3.5	4.0	4.0	3.5	3.5	3.5	3.5	3.5

Source: EBRD Türkiye Macroeconomic Scenarios, September 2024

### 5.2 ECONOMIC ANALYSIS

The Project demonstrates both good economic internal rate of return ("EIRR") and economic net present value ("ENPV"), based on benefits to investment costs, operational costs, and

maintenance costs. Emissions calculations are derived by the assessment by the Bank's external consultant. [REDACTED]

### **5.3 PROJECTED PROFITABILITY FOR THE BANK**

[REDACTED]

## **6. OTHER KEY CONSIDERATIONS**

### **6.1 ENVIRONMENT**

Categorized B (2019 ESP) [REDACTED]. Construction of a Drinking Water Treatment Plant ("DWTP") is associated with site specific E&S impacts that can be readily identified and mitigated through ESAP. The Project's E&S impacts are mainly restricted to the construction phase and include health and safety risks and impacts to workers and communities, land acquisition, exposure to noise, dust and vibration, contractor management, waste and traffic management, stakeholder engagement, emergency response, sustainability of the water resources, among others.

The independent Environmental and Social Due Diligence (ESDD) was undertaken by TC funded consultants as part of the Feasibility Study. The ESDD included a review of GASKI's E&S management systems and capacity to implement the Project in line with the Bank PRs, and legal compliance with EU standards for drinking water quality and national permitting procedures. The ESDD concluded that GASKI has the overall capacity to implement the Project in compliance with national laws, but additional resources are required to comply with the Bank's PRs.

GASKI does not have a formal Environmental and Social Management System (ESMS) in line with PR1; and it would be required under ESAP, including project specific ESMPs and procedures covering construction and operations. GASKI's HR policies generally align with PR2 but need improvements in handling grievances, privacy, retaliation risks, GBVH complaints, and contractor monitoring. Regular labour and OHS audits will be done as per ESAP. The Project will provide a total treatment capacity of 700,000 m<sup>3</sup>/d through two units and includes constructing a transformer and a 1.2 km powerline along the existing GASKI-owned one. Water will be supplied to the DWTP from the Göksu River via an 81 km water pipeline, including a 3.5 km tunnel, and distributed to the city via a 22 km network. The chemical parameters monitoring of drinking water in comparison to EU drinking water requirements would be required under the ESAP.

The Kartalkaya Dam, built in the 1970s, and some of the water network pipelines sustained earthquake-related damage. Design measures for the project and repair measures for the existing damage are agreed with GASKI and will be incorporated into the tendering packages. For future associated facilities such as Duzbag Dam, dam safety assessment will be required by competent authorities. Review of hydrological studies of the water sources feeding the new DWTP confirm that extraction is sustainable, sufficient for long-term use, and resilient to dry periods. The project aligns with policies supporting water security, drought resilience, and climate adaptation.

The DWTP is located in a remote area, with villages 1-3 km away, though farmlands with housing lie adjacent to the project site. The ESDD identified blasting as the main source of vibration, potentially affecting nearby structures. ESAP requires contractor to implement a blasting management plan, noise and dust control measures, traffic management plan, and restrict access to the site. The land acquisition footprint is about 22 ha, mainly private parcels

with about 42 landowners. The land acquisition process started in 2018 and is expected to be completed before construction start in 2025. GASKI issued official evacuation notices to the asset owners following court acquisition decisions. Compensation for these assets was provided according to local legislation, and to bring it in compliance with PR5, GASKI will be required to offer additional livelihood support packages to the affected people in line with the ESAP. The 65 pistachio and 62 olive trees on two parcels will be relocated. GASKI has acquired easement rights for powerlines and water pipelines associated facilities.

The Project site is outside protected areas, however, a powerline crosses Golbasi Lake (IBA) and a water pipeline crosses Araban Hills (KBA) and Yesilce (IBA), that can impact priority biodiversity features. Under a precautionary principle to minimize impacts from associated facilities the ESAP requires a Biodiversity Management Plan (BMP), including pre-construction biodiversity surveys, training for all construction staff, and vegetation restoration monitoring.

The ESDD confirmed that there are no known cultural heritage sites within the Project site; however, the registered Aktoprak Mound is near the Duzbag DWTP discharge line. GASKI will submit the project, including the discharge line, to the Cultural Heritage Board for approval before construction, implement a Chance Find Procedure, and appoint an archaeologist.

All residual environmental and social issues related to the project and associated facilities, including biodiversity and past land impacts, were assessed in the ESDD, and mitigation measures were incorporated into the ESAP. The ESAP is developed and agreed with the client before the Board. The SEP and NTS will be disclosed on GASKI's website. The SEP including grievance management for external stakeholders, will be implemented throughout construction with the support of community liaison officers to be hired for the project. GASKI will be supported through a Project Implementation Support Unit (PIU), including E&S consultants, to help GASKI to implement and monitor the ESAP.

## **6.2 INTEGRITY**

Integrity due diligence has been undertaken on the Borrower, ILBANK (as the implementation agency), Gaziantep Metropolitan Municipality (as the municipality of the Project), GASKI (as the beneficiary), and other related parties. [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, 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	Project Information
ANNEX 2	Economic Assessment of the Project
ANNEX 3	Sovereign Macroeconomic Risk Assessment
ANNEX 4	ILBANK
ANNEX 5	GASKI
ANNEX 6	Information on Earthquakes
ANNEX 7	Earthquake Responses of Major IFIs
ANNEX 8	Green Assessments
ANNEX 9	Implementation Progress of GRCF2 W2 E2
ANNEX 10	Project Implementation

## ANNEX 1 - PROJECT INFORMATION

Gaziantep is a city located in southeastern Türkiye, known for its rich cultural heritage and strong agricultural and industrial production. Located approximately 40 km from the Syrian border, it is the 9<sup>th</sup> largest city in Türkiye with 2.2<sup>8</sup> million inhabitants. Gaziantep is also home to approximately 430 thousand Syrian refugees (20 per cent of the city's population), which makes the city's actual population 2.6 million. In addition, following the 6 February 2023 earthquakes, approximately 150,000 earthquake victims are estimated to have migrated to Gaziantep. The population of the Project area is expected to reach 3.5 million by 2050.

Gaziantep is a city with limited local water resources. In the city centre, there are only 13 wells that supply water. These wells meet only about 1-2% of the city's water needs. There are no other sources of drinking water within Gaziantep's borders. A significant portion of the water supply depends on the surface water sources in Kahramanmaraş.

The city's reliance on these limited sources has led to frequent water shortages, particularly during dry seasons. As an interim measure, GASKI commissioned the Duzbag Regulator in 2019, which supplies water from Goksu River to GASKI's Hacibaba DWTP via a 141 km transmission line, also built in 2019. Before the Duzbag regulator, the city relied on water supply from the Kartalkaya Dam located in Kahramanmaraş, Mizmilli Wells, also in Kahramanmaraş; and the 13 urban wells. Today, these sources work together to meet the city's water demand. The main pillar of GASKI's future water supply system is the Duzbag Dam, which is still in project phase, and its implementation schedule is uncertain due to its sizeable investment requirement.

Extensive damage to existing water infrastructure caused by seismic activities during and following the earthquake of February 6, 2023, has drastically increased the urgency of water infrastructure investments. The share of Duzbag Regulator in the city's water supply, which was 56 to 60 percent before the earthquake, decreased to 43 per cent in 2023 due to water quality and loss issues following the earthquake and ongoing repairs on the transmission line.

The existing Hacibaba DWTP (400,000 m<sup>3</sup>/d), which has been the mainstay of Gaziantep's water treatment for decades, is no longer capable of meeting the increased demand. The plant's capacity is stretched thin due to the rising population and industrial growth, although new surface water resources are being made available. Therefore, the immediate problem that Gaziantep's water system is facing today is the insufficient drinking water treatment capacity. Additionally, Hacibaba DWTP is located within the city centre with a close proximity to houses, posing a risk both for the plant and for the residents living nearby.

Therefore, Gaziantep is in urgent need to accommodate the current and projected increase in the demand for drinking water. To address this challenge GASKI is planning to commission Duzbag DWTP, which will replace the existing Hacibaba DWTP.

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<sup>8</sup> Gaziantep's official population grew from 1.5 million in 2007 to 2.2 million in 2023, which demonstrates its rapid growth in excess of the external factors mentioned.

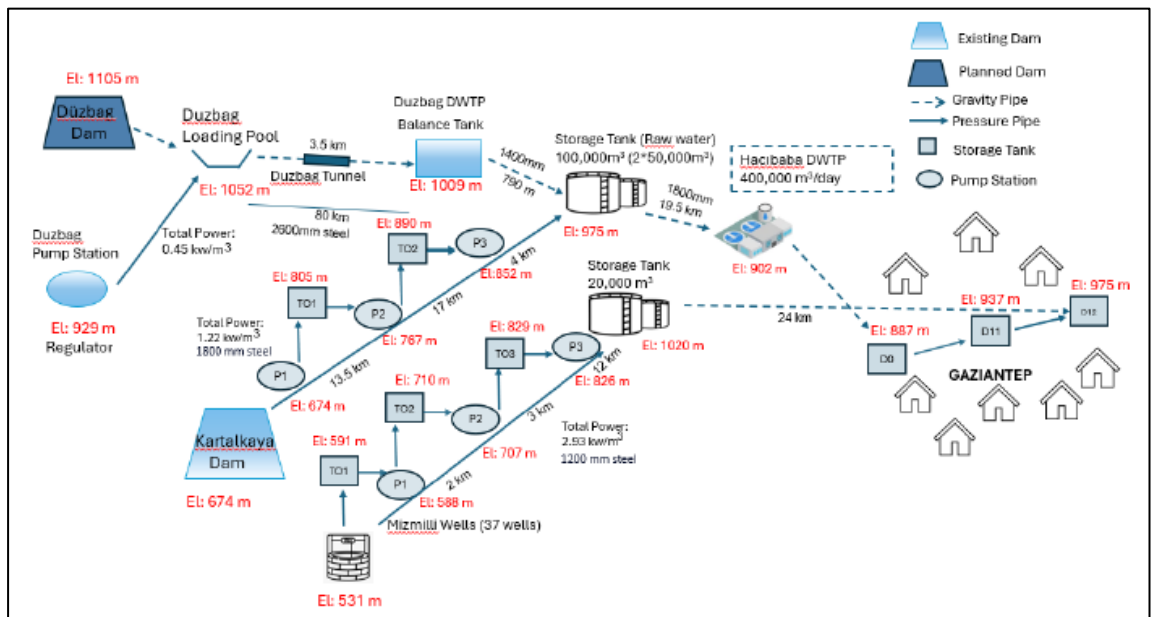




Picture 1: Türkiye Gaziantep Map with Administrative Boundaries and Districts



Picture 2: Main Water Sources of Gaziantep City Centre



Picture 3: Gaziantep's Existing Water Supply System

The Project will be constructed in Sehitkamil District of Gaziantep Province, in the north, north-east of the city centre, on a 55-hectare area with a slope of 6~10% located at 950-1000

m elevation. The DWTP will be constructed in two phases; Phases 1 and 2, which together named as Duzbag DWTP, will have a combined capacity of 700,000 m<sup>3</sup>/day (i.e., two units with 350,000 m<sup>3</sup>/day capacity each). Phase 3 of the project (i.e., Kartalkaya DWTP) will be implemented in the future and is outside of the EBRD's project scope. The water of Duzbag DWTP will be supplied by the Kartalkaya Dam and the Duzbag Regulator. Upon completion of the Duzbag DWTP (Phase 1-2), the Hacibaba DWTP will be decommissioned, although the 60,000 m<sup>3</sup> storage tank at Hacibaba DWTP will remain operational. Once the Duzbag DWTP is commissioned, water will be delivered to the tanks via gravity, eliminating the need for pumping between them.



Picture 4: Duzbag Drinking Water Treatment Plant (the Project)

The Project's total cost is EUR 110.0 million. [REDACTED]

## **ANNEX 2 - ECONOMIC ASSESSMENT OF THE PROJECT**

[REDACTED]



## ANNEX 3 - SOVEREIGN MACROECONOMIC RISK ASSESSMENT

BASE CASE	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Nom. GDP (\$ per cap)	12,948	15,159	17,219	18,182	19,269	20,416	21,528	22,702	23,943	25,256	26,647
Real GDP growth (%)	5.1	2.7	3.0	3.5	4.0	4.0	3.5	3.5	3.5	3.5	3.5
CPI (% change, ann avg)	53.9	59.0	34.0	21.0	17.0	14.0	11.0	11.0	11.0	11.0	11.0
LCU/USD (ann avg)	23.7	33.0	40.0	47.3	54.2	60.4	65.6	71.3	77.4	84.1	91.3
RER vs. \$ (%. =+appn)	3.1	11.0	7.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LCU/Euro (ann avg)	25.6	35.7	43.7	52.3	60.9	69.0	76.1	83.7	92.1	101.4	111.6
RER vs. Eur (%. =+appn)	-0.7	11.7	7.9	-0.6	-1.3	-1.3	-1.2	-1.0	-1.1	-1.1	-1.1
Nom. wages (\$ per mth)	861	1011	1151	1218	1295	1377	1456	1540	1629	1723	1823
LCU wage growth (%)	61.7	63.3	38.0	25.2	21.7	18.6	14.9	14.9	14.9	14.9	14.9
Real LCU wage growth (%)	5.1	2.7	3.0	3.5	4.0	4.0	3.5	3.5	3.5	3.5	3.5

Source: EBRD Türkiye Macroeconomic Scenarios, September 2024

PESSIMISTIC CASE	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Nom. GDP (\$ per cap)	12,948	15,159	15,299	15,753	16,282	16,823	17,299	17,789	18,295	18,819	19,362
Real GDP growth (%)	5.1	2.7	1.4	1.9	2.4	2.4	1.9	1.9	1.9	1.9	1.9
CPI (% change, ann avg)	53.9	59.0	37.4	22.7	18.7	15.7	12.7	12.7	12.7	12.7	12.7
LCU/USD (ann avg)	23.7	33.0	45.5	55.1	64.6	73.8	82.2	91.6	102.0	113.6	126.5
RER vs. \$ (%. =+appn)	3.1	11.0	-2.7	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
LCU/Euro (ann avg)	25.6	35.7	49.6	60.9	72.6	84.4	95.4	107.6	121.4	137.0	154.6
RER vs. Eur (%. =+appn)	-0.7	11.7	-2.6	-1.6	-2.3	-2.3	-2.2	-2.0	-2.0	-2.1	-2.1
Nom. wages (\$ per mth)	861	1011	1022	1056	1094	1134	1170	1207	1245	1284	1325
LCU wage growth (%)	61.7	63.3	39.3	25.1	21.6	18.5	14.9	14.9	14.9	14.9	14.9
Real LCU wage growth (%)	5.1	2.7	1.4	1.9	2.4	2.4	1.9	1.9	1.9	1.9	1.9

Source: EBRD Türkiye Macroeconomic Scenarios, September 2024

### Türkiye Sovereign Ratings

Fitch: BB- / Stable (long term issuer default rating – September 2024)

Moody's: B1 / Positive (long term issuer rating – July 2024)

S&P: B+ / Positive (long-term sovereign credit rating – May 2024)

### General Outlook:

Turkish economy grew by 5.1 per cent in 2023, and this positive momentum continued in 1Q 2024 with a YoY growth of 5.7 per cent, driven primarily by strong domestic demand. Growth moderated YoY in 1H 2024 to 3.8 per cent and according to the Bank's latest projections, expected to moderate further to 2.7 per cent in 2024 and 3 per cent in 2025, reflecting the impact of tighter monetary policy.

Since mid-2023, a tighter monetary policy has contributed to greater market stability in 2024, yielding positive outcomes in inflation, domestic confidence in the TRY, and increased foreign capital inflows. After peaking at 75.4 per cent in May 2024, annual inflation decelerated to 52 per cent in August. It averaged 65.9 per cent in the first 8 months of 2024. In its 2025-2027 Medium-Term Plan announced in September 2024, the government revised its 2024 year-end inflation target to 41.5 per cent, from 33 per cent earlier, reflecting persistence of the inflationary pressures. Whereas, in its latest inflation report in August 2024, the central bank kept its year-end target inflation rate at 38 per cent. The central bank is expected to keep the monetary stance tight throughout 2025.

Monetary tightening has also restored confidence in and increased the attractiveness of the TRY, evidenced by a rise in TRY deposits. As of September 2024, the share of FX protected deposits in total deposits fell below 9 per cent, from 18 per cent in January 2024.

The return to orthodoxy, coupled with Türkiye's removal from the Financial Action Task Force (FATF) grey list in June 2024, helped improve investor confidence. Türkiye's CDS premium declined significantly from its peak of more than 700 basis points in May 2023 to below 300 basis points, sovereign eurobonds were issued at favourable terms, and more major

rating agencies upgraded Türkiye's sovereign ratings. On the back of strong market sentiment, and restored investor confidence, the markets seen a record US\$ 26.2 billion in primary issuance from Türkiye in the first 9 months of 2024 (2023: US\$ 17.6 billion).

Türkiye's external position has also improved. The 12-month cumulative current account deficit declined steadily to US\$ 19.1 billion in July 2024, from the peak of US\$ 57 billion in May 2023, driven by lower imports of goods due to weaker domestic demand and constrained consumer lending, and stronger exports of services, particularly record tourism receipts. the level of foreign exchange reserves improved substantially, from US\$ 97.1 billion in May 2023 to US\$ 147.9 billion in July 2024. Net reserves (excluding currency swaps) turned positive for the first time since March 2020.

On the other hand, the February 2023 earthquakes devastated the capital stock in south-central Türkiye. The government continues to prioritize reconstruction through loans and international funding aimed at rebuilding the areas affected by the disaster.

### **Financial and Non-Financial Risk Assessment**

(Source: S&P Global Market Intelligence)

#### **Debt load**

A weak lira exacerbates Türkiye's external debt problems. Although total external debt has been falling in recent years, it remains well up from a decade earlier, by more than one third in nominal dollar terms. As a share of GDP, total external debt as of end-2023 was estimated at around 44 per cent of GDP, easing from recent years when debt had been over 50 per cent of GDP. These debts remain difficult to repay even as they eased in 2023. The weaker lira has made it more expensive to repay external debt denominated in foreign currencies, with potential financing diverted by still enlarged current-account deficits and the unsteady inflows of foreign capital.

#### **Debt service**

Continued lira weakness even in the face of tightening monetary policy makes debt servicing more difficult. In 2023, banks successfully rolled over the bulk of their syndicated loans, despite coming on the heels of the string of bank failures in the US and Europe in the first part of the year. Rolling over large levels of existing debt continues to come at a high price with high interest rates and deteriorating terms, exacerbating debt servicing obligations. Debt servicing obligations remain elevated in 2024 - 28, averaging around one-third of total foreign exchange earnings throughout the next three to four years. The corporate sector continues to approach banks and other creditors to restructure their obligations.

#### **Current account balance, including FDI inflows, % GDP**

Tighter monetary policy is reducing the current-account deficit and driving up potential foreign capital inflows, reducing risks associated with Türkiye's external balances. However, the shift to a more defensive position is not guaranteed given President Erdoğan's previous reversals of policy, leaving external accounts vulnerable should a shift back toward expansionary policies occur in 2025 or beyond. For now, however, risks associated with the current account have fallen and will remain low as long as monetary policy remains defensive, with annual gaps only around 2.0 to 2.5 per cent of GDP in 2024 - 28, with inflows of foreign direct investment rising.

#### **Short-term import cover, month**

Official foreign currency reserves as of July 2024 covered approximately 2.5 months of imports. Coverage is below what would be comfortable, particularly for a country that regularly runs a current-account deficit. However, on the bright side, since monetary policy

normalization in mid-2023, the dependence upon debt-creating short-term swaps to build their foreign currency reserves has dropped. As of mid-2023, net usable reserves - omitting short-term swaps and commercial bank holdings that do not belong to the central bank - were in deficit by the equivalent of 3.4 months of imports. By July 2024, these usable reserves were back into surplus, albeit a small one of 0.7 month of imports. Assuming monetary policy remains defensive through the end of 2025, these reserve levels should further recover, potentially beginning to push up the headline figure to closer to three months of imports.

### **Foreign-exchange earnings volatility**

Türkiye's sources of hard currency earnings are diverse. Exports consist of a wide range of manufactures, from textiles and apparel to automobiles, as well as temperate and semitropical agricultural products. Tourism is a major contributor to export earnings. Tourism revenues recovered strongly in 2022–23, providing some boost to overall foreign exchange earnings, even as weak European demand constrained merchandise export growth.

### **Private sector debt**

According to the central bank, Turkish private sector has c.US\$ 40 billion of medium-long-term debt maturing from mid-2024 to mid-2025. Although both banks and corporations have been generally successful in rolling over their syndicated loans in recent years, these loans remain on short terms. Meanwhile, although non-performing loans remain modest by emerging market standards, Stage II loans - in near default - have risen rapidly since 2018 in spite of widespread debt restructuring, rapid nominal credit growth rates and negative real lending rates. As of 1Q 2024, nonfinancial corporations' exposure to direct foreign currency risks remained elevated but had come down from a peak of US\$ 223 billion (25 per cent of GDP) to US\$ 89 billion (8.4 per cent of GDP).

Debt indicators	2020	2021	2022	2023	2024	2025	2026	2027	2028
Foreign exchange earnings (USD, bil.)	206.8	286.2	342.5	350.9	342.3	344.9	354.2	362.2	368.4
Portfolio investment, net (USD, bil.)	-9.6	0.8	-13.7	8.3	23.9	24.1	22.2	19.3	17.5
Portfolio investment, net (% of GDP)	-1.3	0.1	-1.5	0.8	2.1	1.9	1.6	1.3	1.2
Foreign direct investment, net (USD, bil.)	4.4	6.4	8.7	4.7	8.9	9.8	10.8	11.1	11.0
Foreign direct investment, net (% of GDP)	0.6	0.8	1.0	0.4	0.8	0.8	0.8	0.8	0.7
Foreign exchange reserves, excl. gold (USD, bil.)	50.0	72.7	82.9	92.7	82.2	77.0	74.8	72.8	71.2
Import cover (months)	2.6	3.1	2.6	2.9	2.8	2.6	2.5	2.3	2.2
Total external debt (USD, bil.)	428.5	436.4	458.0	499.9	511.4	529.0	557.2	596.3	624.3
Total external debt (% of GDP)	59.6	53.3	50.6	45.3	45.3	42.0	40.4	41.3	42.2
Total external debt (% of forex earnings)	207.2	152.5	133.7	142.5	149.4	153.4	157.3	164.7	169.5
Short-term external debt (USD, bil.)	111.6	118.4	148.6	175.2	179.2	189.6	202.2	212.7	219.6
Short-term external debt (% of total external debt)	26.0	27.1	32.4	35.1	35.0	35.8	36.3	35.7	35.2
Short-term external debt (% of international reserves)	223.0	162.8	179.3	189.0	218.0	246.3	270.4	292.3	308.4
Total external debt service (USD, bil.)	70.8	74.3	66.6	73.2	162.9	131.7	118.1	117.3	114.1

## ANNEX 4 - ILBANK

Founded in 1933 under the name of Bank of Municipalities (*Belediyeler Bankası*) according to law numbered 2301, İller Bankası A.S. (“ILBANK”) is a development and investment bank owned by municipalities and provincial special administrations (*il özel idareleri*). ILBANK’s organisation status transformed into an incorporation with the last numbered 6107 in 2011. As an affiliated institution of the Ministry of Environment, Urbanization and Climate Change (“MoEUCC”), ILBANK serves a total of 1,473 local government units, composed of 1,390 municipalities, 51 special provincial administrations and 30 water and sewage administrations through its functions in its HQ located in Ankara, Türkiye, and its 17 regional directorates. As of YE-2023, ILBANK employs 2,859 people.

As of YE-2023, ILBANK has total assets of TRY 150 billion (EUR 4.6 billion), and shareholders’ equity of TRY 49 billion (EUR 1.5 billion). ILBANK’s capital consists of 2 per cent monthly deductions to be made from the total shares of the tax revenues to be distributed every month by the MoTF (under the Law no. 5779 on Allotments of General Budget Revenues to be Allocated to Special Provincial Authorities and Municipalities dated 2 July 2008), and of 30 per cent of its annual profits. For this reason, there is no capital group, which has either direct or indirect control over ILBANK’s capital.

The main activity of ILBANK is to provide financing (short, medium and long-term cash and non-cash loans) to local governments for urban infrastructure projects. ILBANK’s other activities include, project development, technical cooperation (planning, project implementation, consultancy, and supervision), distribution of the shares allocated from the national budget to local governments, and resource development. In addition to its own funds, ILBANK cooperates with domestic and foreign financial institutions and channels the funds raised to local governments for the financing of urban infrastructure projects. The type of projects funded by or through ILBANK include water and wastewater plants, water transmission and distribution lines, sewage networks, solid waste plants, road, bridges and related structures, renewable energy plants, light rail systems, superstructures and procurement of machinery and equipment.

The IFIs which ILBANK is in cooperation with include the World Bank, French Development Agency, Japan International Cooperation Agency, European Investment Bank, European Council Development Bank, United Nations Development Program, European Bank for Reconstruction and Development and Islamic Development Bank.

Board of Directors of ILBANK consists of 7 members, together with the General Manager. 4 of the members of the Board of Directors are appointed by the MoEUCC, and two are elected by the General Assembly among the two candidates proposed by the Ministry of Internal Affairs among the Mayors and Provincial Special Administration representatives who attended the General Assembly to represent Municipalities and Special Provincial Administrations.

## ANNEX 5 - GASKI

On April 25, 1989, the Gaziantep Water and Sewerage Administration General Directorate (GASKI) was established with law number 3305, to ensure that water and sewerage services of the Gaziantep Metropolitan Municipality are managed by a separate organization. In accordance with law number 6336, as of 2014, GASKI's service area expanded to cover the entire provincial borders. GASKI is an affiliated institution of Gaziantep Metropolitan Municipality.

The Gaziantep Metropolitan Municipality Council serves as the GASKI General Assembly, with the Mayor of Gaziantep Metropolitan Municipality also acting as the president of the council. The working procedures and principles of the General Assembly are governed by the provisions of the Municipal law number 5393 (2560, Article 5; 5216, Article 12). The Mayor also chairs GASKI's Board of Directors. GASKI has its own assets, management, revenues and borrowing capacity.

As of YE-2023, GASKI has c. 779k subscribers, covering a population of c.2.2m. Its service area spans 7,222 km<sup>2</sup>. GASKI employs 2,141 people. GASKI has 280 km of water transmission lines, 4,535 km of drinking water network and 3,457 km of sewage network. It operates 5 DWTPS (Hacibaba DWTP being the largest with 400,000 m<sup>3</sup>/day capacity) and 27 WWTPs. The non-revenue water ratio of GASKI realized at 27.9 per cent in 2022, however increased to 32.5 per cent due to damages on its network caused by the 6 February 2026 earthquakes.

GASKI has worked in cooperation with several international organisations and financial institutions such as the EU, through the EU Regional Trust Fund in Response to the Syrian Crisis (the EU Madad Fund) and JICA for its investment projects.

<b>GASKI</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
<b>Economic Breakdown of Budgetary Expenses and Revenues in EUR</b>			
Personnel Expenses	5,388,103.53	5,464,594.74	10,742,103.03
SSI Expenses	850,005.24	844,925.93	1,316,363.37
Goods and Service Purchases	54,086,114.92	89,165,968.88	83,416,301.06
Interest Expenses	7,881,541.23	5,598,874.19	9,102,337.80
Current Transfers	682,524.59	677,531.90	744,347.13
Capital Expenditures	21,522,873.65	51,407,310.08	50,431,810.22
Capital Transfers	0.00	1,612,058.72	0.00
<b>Budget Expenditures</b>	<b>90,411,163.18</b>	<b>154,771,264.43</b>	<b>155,753,262.61</b>
Initiative and Property Revenues	70,442,629.72	71,233,912.86	80,671,045.45
Donations and Aids Received	3,065,265.06	6,915,646.18	15,834,194.57
Other Revenues	19,307,352.68	24,481,321.99	27,998,529.05
Capital Revenues	-	6,405,262.55	1,347,271.15
<b>Budget Revenues</b>	<b>92,815,247.47</b>	<b>109,036,143.57</b>	<b>125,851,040.22</b>



## ANNEX 6 - INFORMATION ON EARTHQUAKES

On February 6<sup>th</sup>, 2023, two major earthquakes hit Türkiye, with the epicentres in Pazarcık (Mw 7.7; focal depth: 8.6 km) and Elbistan (Mw 7.6; focal depth: 7 km) districts of Kahramanmaraş, at 04:17 and 13:24 local time, respectively. On February 20<sup>th</sup>, 2023, another earthquake with a magnitude of Mw 6.4 occurred, with the epicentre of Yayladağı, Hatay, at 20:04 local time. These earthquakes, all of which are unprecedented in recent history in terms of magnitude and coverage, caused major devastation in a total of 11 provinces. These earthquakes claimed the lives of more than 50,000 people, wreaked damage on over half a million buildings as well as communication and energy structures and led to significant financial losses. The total population of the 11 provinces affected by the earthquake was registered as 14,013,196 people in 2022, accounting for 16.4 per cent of the national demographic. While 13,553,283 people in this population (96.7 per cent of the total) live in provincial and district centres, the rest (459,913 people and 3.3 per cent of the total - except for the population in rural areas of metropolitan municipalities) lives in towns and villages. Additionally, 1,738,035 people in the earthquake-affected region comprise Syrians under temporary protection and international protection applicants and status holders.

The provinces affected by the earthquake had a share of 9.8 per cent of the GDP in 2021 and generate approximately US\$ 79 billion of national income. The per capita national income level in the region falls significantly short of the national average. Taking the 2021 data into consideration, the average per capita GDP of the 11 earthquake-affected provinces is calculated as US\$ 5,924.

The most prominent component of the burden imposed by the earthquake on the Turkish economy is the damage in housing units by 54.9 per cent (TRY 1,074 billion; US\$ 56.9 billion). The second largest damage is the US\$ of public infrastructure and damage to public service buildings (TRY 242.5 billion; US\$ 12.9 billion). The damage incurred by the private sector except housing is estimated at TRY 222.4 billion (US\$ 11.8 billion). This category includes manufacturing industry, energy, communications, tourism, healthcare, education sectors and damage to small traders and houses of worship. Considering the losses to the insurance sector, revenue losses of traders, and macroeconomic impacts, it is estimated that the total burden of the earthquake disaster on the Turkish economy is TRY 2 trillion (US\$ 103.6 billion).



## **ANNEX 7 - EARTHQUAKE RESPONSES OF MAJOR IFIs**

[REDACTED]

## ANNEX 7 - GREEN ASSESSMENTS

### SUMMARY

- The Project includes the construction of a DWTP with a capacity of 700,000 m<sup>3</sup>/d in Gaziantep, Türkiye. The Project also aims to reduce the vulnerability of the city towards droughts and water scarcity in the coming decades.
- The Project is determined **aligned with both mitigation and adaptation goals of the Paris Agreement**.
- The Project is attributed **100% GET**.
- The Project is eligible for **EBRD Green Cities** as it meets the criteria for environment projects and will serve as a follow-on investment for Gaziantep GCAP.
- Climate-related financial risks have been assessed [REDACTED]

### PARIS ALIGNMENT ASSESSMENT

#### *Alignment with the mitigation goals of Paris Agreement - General screening*

The project is determined as aligned with the mitigation goals of the Paris Agreement based on the application of the Bank's Paris alignment approach for direct finance.

- The projects activity is included in the 'MDBs' aligned list' under the category "water supply system"
- There are no activities included in the 'non-aligned list'.
- The project is consistent with the substantial contribution criteria of the EU Taxonomy by contributing to water (Water supply).

**Conclusion:** The project is assessed as aligned with the mitigation goals of Paris Agreement (**BB1 aligned**).

#### *Alignment with the adaptation goals of Paris Agreement*

The project is determined as aligned with the adaptation goals of the Paris Agreement as it satisfies all three steps of the assessment. All material physical climate risks have been addressed.

**Conclusion:** The project is assessed as aligned with the adaptation goals of Paris Agreement (**BB2 aligned**).

### GET ATTRIBUTION

- The Project is attributed climate and environment GET finance.
- GET impact expected out of the investment is the improvement of:
  - Climate Adaptation: The Project aims to reduce the vulnerability of the city towards droughts and water scarcity in the coming decades. Türkiye, including Antep region is projected to suffer from persistent, high levels of water stress caused by both a growing population and changes in precipitation patterns and temperature patterns. The existing water source supplying Hacibaba DWTP is insufficient in meeting the city's drinking water demand during drought periods. More resilient water sources from natural reserves remain untreated and therefore cannot be distributed to the city. The project mitigates pressure on these climate vulnerable sources by diversifying water supply options by strengthening water infrastructure and providing the required treatment capacity. Thus, the project will reduce City's vulnerability to water shortages and drought-induced disruptions.
  - Environment (Sustainable use and protection of water and marine resources): The investment programme is undertaken by the Company due to the future demand of water in the city. Gaziantep's population is expected to grow over 60% by 2050 and GASKI is investing to meet the demand by increasing water treatment capacity. The project complies with relevant EU directives and employs best practices in the sector. The Project will help GASKI increase drinking water supply in the city, resulting in net environmental benefits.
- The Project meets environment criteria of **EBRD green cities** by employing EU environmental standards. The project also includes best practices such as an automated analysis system for monitoring water quality, automated systems for chemical dosing and technologies that optimize chemical use to reduce overall chemical consumption. The Project is therefore eligible for EBRD Green Cities and serves as a follow-on project for Gaziantep.



**Conclusion:** *The Project is 100% GET.*

[REDACTED]

## **ANNEX 8 - IMPLEMENTATION PROGRESS OF GRCF/GRCF2**

Since 2016, the GrCF and GrCF2 have mobilised nearly EUR 5 billion in EBRD and donor funding. The Green Cities Framework (GrCF), approved by the Board in November 2016, set an ambitious agenda for the Bank's municipal business, with the over-arching aim being 'to serve as a sector-wide catalyst for addressing environmental challenges at the City level'. After only 2 years of operation, the Framework proved its ability to act as such a catalyst with the utilisation of the entire EUR 250 million headroom. As a consequence, in October 2018 a new Framework was approved by the Board, Green Cities Framework 2 (GrCF2), with a headroom of EUR 1.1 billion, with EUR 700 million from the Bank's own capital and the remainder from the Green Climate Fund (GCF) and other donors. Given the sizeable amount from the GCF, in the form of concessional loans and grants for both capex and TC and the requirement to confirm to GCF the availability of Bank co-financing. GrCF2 is divided three windows: Window I for GCF co-financing, Window II for non GCF co-financing/non-InvestEU and Window III for InvestEU. Extensions of GrCF2 WII were approved in November 2020 for EUR 950 million and in November 2021 for EUR 2,000 million. In 2022, Window III was created offering InvestEU Guarantees to EU Member States.

[REDACTED]

## ANNEX 9 - PROJECT IMPLEMENTATION

### Procurement classification – *Public (sovereign)*

[REDACTED]

GASKI, as the contracting authority, has no previous experience in implementing EBRD financed projects. To mitigate procurement risks, GASKI will be supported by an experienced advance procurement consultant to assist during project preparation, design and procurement and by a PIS consultant to assist during project/contracts implementation, including ESAP monitoring. In addition, an independent construction supervision consultant will be hired as Project Engineer.

*Contracts risk assessment*

*“Moderately Low”*

The Project will involve a main works contract for the construction of Drinking Water Treatment Plants (DWTP) and auxiliary assets (FIDIC Red Book), in which GASKI does not possess wide experience. However, DWTPs are relatively standard technologies, and GASKI has long lasting experience in managing similar contracts. To mitigate the risks, GASKI will be supported by internationally experienced consultants (refer to *GASKI’s capacity assessment related risk*).

### **Project implementation arrangements:**

The EBRD financed project will be implemented through a PIU that will be established within GASKI and to be supervised by ILBANK. A donor-funded PIU consultant will support GASKI in adherence to and reporting for the EBRD and loan agreement requirements.

The Bank’s investment will be complemented by a TC assignment for the development of a FOPIP for GASKI.

[REDACTED]