

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

Approved by the Board of Directors on 11 September
2024¹

REGIONAL

**INTEGRATED WATER RESOURCES
MANAGEMENT FRAMEWORK**

[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

ALRI	Agency for Land Reclamation and Irrigation
BCF	Blended Concessional Finance
Capex	Capital Expenditure
CDP	Corporate Development Programme
CP	Condition Precedence
CPIU	Central Project Implementation Unit
ETI	Expected Transition Impact
EU	European Union
EUR	Euro
EURIBOR	Euro Interbank Offer Rate
GDP	Gross Domestic Product
GET	Green Economy Transition
GHG	Greenhouse Gas
IFI	International Financial Institution
IMF	International Monetary Fund
KMK	State Unitary Enterprise Khojagii Manziliyu Kommunalii
KR	Kyrgyz Republic
KWRF	Kyrgyz Water Resilience Framework
LGD	Loss Given Default
PD	Probability of Default
PIU	Project Implementation Unit
PP&R	EBRD's Procurement Policies and Rules
PSC	Public Service Contract
PSD	Project Summary Document
RST	Reform Support Team
SDG	Sustainable Development Goal
SIF	Sustainable Infrastructure Fund
SMART	State Owned Enterprises Management Assistance for Reform and Transformation
SSF	EBRD Shareholder Special Fund
TC	Technical Co-operation
TI	Transition Impact
TJ	Republic of Tajikistan
USD	United States Dollar
VAT	Value Added Tax
WRS	Water Resources Services
WSS	Water Supply and Sanitation
WUA	Water Union Association

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning a framework operation in the Kyrgyz Republic and the Republic of Tajikistan are submitted for the consideration of the Board of Directors.

The Integrated Water Resources Management Framework (the “Framework”) aims to unify investment and policy dialogue initiatives to address water access and water quality challenges in the Kyrgyz Republic and the Republic of Tajikistan. The Framework will also enable the management of finite water resources in a cross-sectorial, coordinated, and holistic manner in response to climate change, pollution, and water scarcity in the region.

The Framework will consist of sovereign debt facilities in an aggregate amount of up to EUR 100 million to invest in the improvement of potable water supply, wastewater and irrigation infrastructure in both countries. It is expected to be co-financed by capital grants from international donors or concessional loans from partner international financial institutions. Each sub-project will be supported by a comprehensive technical cooperation package to ensure appropriate preparation, implementation, capacity building and reform measures. This will be proposed for financing by international donors, Sustainable Infrastructure Fund (SIF) or the EBRD Shareholder Special Fund (SSF). [REDACTED].

I am satisfied that the operation is consistent with the Bank’s Strategy for the Kyrgyz Republic and the Republic of Tajikistan, the Bank’s Municipal and Environmental Infrastructure Sector Strategy, the Green Economy Transition Approach and with the Agreement Establishing the Bank.

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

Odile Renaud-Basso

BOARD DECISION SHEET

REGIONAL: INTEGRATED WATER RESOURCES MANAGEMENT FRAMEWORK - DTM 55371	
Transaction / Board Decision	Board approval ² is sought for a framework operation in the Kyrgyz Republic and the Republic of Tajikistan for investments in municipal water supply and sanitation (WSS) and irrigation infrastructure, by way of sovereign debt financing in an aggregate amount of up to EUR 100 million. This will be co-financed with investment grants from international or bilateral donors, the Sustainable Infrastructure Fund or the EBRD Shareholder Special Fund (SSF) or concessional loans from international financial institutions (IFIs). The duration of the proposed framework (the “Framework”) will be five years from the approval date. Approvals for loans of up to EUR 25 million, and not categorised “A” under the Bank’s ESP, will be delegated to Management. Approvals of donor-funded co-investment grants associated with such projects (excluding SSF) will also be delegated to Management unless the rules of the relevant donor fund or account provide otherwise.
Client	The Kyrgyz Republic and the Republic of Tajikistan.
Main Elements of the Proposal	<p><u>Framework coverage:</u> Sub-projects under the Framework for investment in WSS and irrigation in the Kyrgyz Republic and the Republic of Tajikistan. Detailed investment plans will be defined within each sub-project.</p> <p><u>Transition impact:</u> Primary Quality – Well-governed. The Framework will pursue <i>in the Kyrgyz Republic</i> (i) improvements in cost-recovery and tariff collection via (a) the introduction of automated billing systems for WSS and (b) installation of automated control systems and modern energy efficient pumps for irrigation for both countries; (ii) tariff reforms via the implementation of an action plan for long-term tariff policy; and <i>in the Republic of Tajikistan</i> (iii) regionalisation via (a) development of an approach to consolidate utilities and its implementation in WSS sub-sector and (b) supporting transition irrigation management to an approach based on hydraulic boundaries at river basin levels in irrigation sub-sector.</p> <p>Secondary Quality – Green. The Framework will enhance access to piped water supply and improve both water and wastewater quality. It aims to increase water and energy efficiency in the water supply and sanitation networks, optimise water-use, prevent soil and groundwater pollution, and mitigate ecosystem degradation through individual sub-projects. These goals will be achieved by implementing an integrated water resource management approach at the river basin level.</p> <p><u>Additionality:</u> Financing Structure. WSS and irrigation sectors have no access to long-term financing by local financial institutions thus fully rely on IFIs’ and donors’ support.</p> <p>Policy, Sector, Institutional or Regulatory change. The Bank is uniquely positioned for engaging in policy dialogue with the governments and the local authorities on sector issues and associated reforms.</p> <p>Knowledge, innovation, and capacity-building. The clients' institutional capacity growth, including financial and operational performance, procurement, and implementation, is of a high priority for the Bank in each project.</p> <p><u>Sound banking:</u> The Framework provides for direct sovereign lending to the Kyrgyz Republic and the Republic of Tajikistan. The sub-projects will comply with the sound banking principles.</p>
Key Risks	[REDACTED]. The risks will be partially mitigated through loan covenants and project implementation support TCs.
Strategic Fit Summary	The Framework is consistent with the Country Strategy for KR and TJ , the Municipal and Environmental Infrastructure Sector Strategy and the Green Economy Transition Approach.

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

ADDITIONAL SUMMARY TERMS FACTSHEET

Client	The Kyrgyz Republic (KR) and the Republic of Tajikistan (TJ).
EBRD Transaction	Sovereign debt facilities in an aggregate amount of up to EUR 100 million to be proposed for co-financing with investment grants from international or bilateral donors, Sustainable Infrastructure Fund (SIF) or the EBRD Shareholder Special Fund (SSF) and/or concessional loans from international financial institutions (IFIs) to invest in the improvement of potable water supply, wastewater and irrigation infrastructure in KR and TJ. Detailed investment plans will be defined during the sub-project's due diligence. [REDACTED].
Existing Exposure	[REDACTED]
Maturity / Exit / Repayment	The Framework will be valid for 5 years. The proposed loan tenor for each sub-project is up to 20 years [REDACTED].
Existing EPF Investment	N/A.
Potential AMI eligible financing	N/A.
Use of Proceeds - Description	Sub-projects under the Framework will finance investments in municipal water supply and sanitation (WSS) and irrigation infrastructures in KR and TJ.
Investment Plan	Total available financing will be up to EUR 100 million. A detailed investment plan will be developed for each sub-project.
Financing Plan	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> • The Borrowers will be KR and TJ, represented by the respective Ministries of Finance. • The Beneficiaries will be respective cities, utilities and relevant state agencies coordinating investments in the irrigation sub-sector.
Conditions Precedents (CPs) to effectiveness / disbursement	[REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	N/A for sovereign loans.
Other material agreements	N/A.
Associated Donor Funded TC and Blended Concessional Finance	<p>A. Technical Cooperation (TC)</p> <p>The TC package will include (i) Framework-level TCs and (ii) sub-project-level TCs.</p> <p>Framework-level TCs:</p> <ul style="list-style-type: none"> • Kyrgyz Republic: State Owned Enterprises Management Assistance for Reform and Transformation (SMART) Programme for WSS and irrigation comprising two assignments: <ul style="list-style-type: none"> (i) Continue ongoing implementation support of the tariff reform action plan and social support mechanisms [REDACTED] (ii) Complement ongoing tariff reform TC [REDACTED] • Republic of Tajikistan: SMART Programme for WSS and irrigation comprising two assignments: <ul style="list-style-type: none"> (i) Develop and roll out a consolidation approach envisaging mergers of small utilities operating in the same geographic area [REDACTED] (ii) Support establishing new autonomous regional irrigation units. [REDACTED] <p>Sub-project-level TCs:</p> <ul style="list-style-type: none"> • Feasibility Studies to develop a priority investment programme. [REDACTED]

	<ul style="list-style-type: none"> • Project Implementation Supports to support each Beneficiary and its local PIU with physical works and supervision of each sub-projects. [REDACTED]. Coordinated CDPs in WSS to support PSC implementation and corporate improvements[REDACTED] <p>Sub-project-level TCs may be combined for multiple sub-projects to achieve economies of scale. [REDACTED].</p> <p>Cost sharing: In line with the Bank’s cost-sharing policy dated 1 January 2021, cash contributions will not be provided considering the Beneficiaries’ publicly owned status and lack of sufficient funds to make such contribution. The Beneficiaries are to be exempt from paying VAT or other indirect taxes, hence no parallel cost-sharing will be applied.</p> <p>B. Blended Concessional Finance (BCF) Where justified, in line with the EBRD Guidelines for the use of Concessional Finance, the Framework will seek to mobilise concessional co-financing and investment grants from the SSF or other eligible sources of financing. A simplified methodology for justification of concessional level of sub-projects was developed.</p>
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[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

KR and TJ are equally vulnerable to the impacts of climate change and therefore climate adaptation has become a top priority for both countries. However, the current state of WSS and irrigation infrastructure cannot ensure sustainable management of water resources and resilience to climate change shocks. Substantial investments in rehabilitation and modernization of infrastructure are therefore required.

The Framework will build upon the experience gained with the Bank's previous involvement in the WSS and irrigation sectors in KR and TJ through well-designed projects financing critical investment, combined with organising institutional support to the local authorities. The Bank has to date financed 29 WSS projects in 24 cities in KR and 11 projects in 24 cities in TJ.

The Framework will aim to strengthen the Bank's support for sustainable water management in KR and TJ by addressing common sector challenges through bridging investment and policy dialogue under a single roof to support a cross-sectorial and holistic approach to management and supply of finite water resources in the face of climate change, pollution, and water stress. The Framework will continue and expand the standardisation efforts of the Bank's operations across countries to bring efficiency and coherency of interventions in the sector. It will respond to KR and TJ's request to accelerate national water reform more comprehensively in line with the principle of integrated water resource management.

Specifically, The Framework will target the following investment and reforms for each sub-sector and country.

Table 1: Summary of target investments and reforms

Sector	Investments	Reforms	
		KR	TJ
WSS	<ul style="list-style-type: none"> - Rehabilitation of network and treatment facilities. - Introduction of automated billing systems. 	<ul style="list-style-type: none"> - Introduction of automated billing systems. - Signing/updating of PSCs between utilities and municipalities. - Implementation of CDPs by selected utilities. 	Development and implementation of an approach to consolidate small utilities operating in the same geographic area.
		<ul style="list-style-type: none"> - Roll-out of the new tariff methodology at the local level. - Investment planning capacity building. 	
Irrigation	<ul style="list-style-type: none"> - Rehabilitation of the main canals. - Introduction of an automated control system and modern energy 	Introduction of automated control systems and modern energy efficient pumps.	Development and implementation of an action plan to transition irrigation management to an approach based on hydraulic
		Updating and implementing a new tariff methodology.	

	efficient pumps.		boundaries at river basin levels.
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[REDACTED]. The Framework is consistent with the Green Economy Transition (GET) approach. It is aligned with the Municipal and Environmental Infrastructure Sector Strategy. [REDACTED]. The Framework complies with the Bank's Strategy for KR and TJ [REDACTED]. It is also aligned with the Bank's Strategy for the Promotion of Gender Equality and the Equality of Opportunity Strategy (2021-25). The Framework further contributes to 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 irrigation 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.

1.2 TRANSITION IMPACT

The Framework will promote the **Well-governed** transition by pursuing a subset of pre-defined country and sector-level policy reform objectives:

Common objectives: In both countries, the Framework will continue ongoing support to improve cost-recovery and tariff collection via operationalizing automated billing systems for the WSS sub-sector, and automated control systems and modern energy efficient pumps for the irrigation sub-sector. PSCs and CDPs will be main instruments for commercialisation of operations and improvement of tariff collection for the WSS sub-sector.

KR specific objectives: The Framework will continue tariff reform for the WSS and irrigation sub-sectors via a roll-out of the new WSS tariff methodology to cities participating in the Framework and ongoing efforts to update and implement irrigation tariff methodology at the national level.

TJ specific objectives: The Framework will promote regionalisation via developing and rolling-out an approach to consolidate small utilities operating in the same geographic area, where applicable in the WSS sub-sector, and implementation of an approach to transition irrigation management from administrative boundaries to hydraulic boundaries at river basin levels in the irrigation sub-sector.

In both countries, the Framework will also help promote the **Green** transition by increasing access to safe water as well as waste water quality, improving water and energy efficiency in the WSS network, preventing soil and ground-water pollution, and reducing ecosystem degradation through introduction of integrated water resource management approach to the river basin for irrigation sub-sector.

Primary Quality: Well-governed

Obj. No.	Objective	Details
1.1	<i>The project entails a policy dialogue initiative that has</i>	For both countries and sub-sectors, the Framework will develop local level tools and leverage technology to improve cost-recovery and to incentivise increased tariff collection.

	<i>been assessed as Strong Good by the sector economist.</i>	<p>Investment and capacity building support will be provided to develop (with new clients) and improve (with current clients) automated billing systems and control systems, as well as to increase collection rates through complementary policy measures.</p> <p>For KR, the Framework will continue to deliver a pre-existing comprehensive and long-term institutional development programme to implement priority tariff reform actions and secondary legislation to improve financial viability of WSS and irrigation. The tariff methodologies [REDACTED], will be rolled out at the sub-project level to the cities participating in the Framework. Local tariff structure proposals will need to be substantiated in investment plans developed in line with the new national guidelines (Please refer to Objective 1.4). [REDACTED].</p>
1.2	<i>The project mandates the regionalisation/consolidation of infrastructure assets driven by economic efficiency (e.g., with verifiable reductions in infrastructure costs or increased provision or better quality infrastructure for the same cost level).</i>	<p>For TJ, the Framework will support the development of a new incremental consolidation approach envisaging to merge regional and district utilities operating in the same geographic area, where applicable. It supports the development of at least two self-reliant, independent utilities through consolidation of smaller utilities to gain operational efficiency and economy of scale.</p> <p>For TJ, the Framework will also support transition irrigation management from administrative boundaries to hydraulic boundaries and implementation of the basin-level water management approach, by supporting establishment of financially autonomous regional units for water resources monitoring, financial and operational management at river basin levels.</p>
1.3	<i>A study, strategy or plan aimed at improving the operational efficiency will be developed as part of the project.</i>	<p>For both countries in the WSS sub-sector, the Framework will continue to support commercialisation and transformation of a few selected priority utilities via tailored CDPs at the sub-project level. In addition to standard operational and financial improvements, the focus of CDPs will be to support the adoption of a standardized tariff methodology and PSC (for new clients) in KR and to support implementation of gradual consolidation of smaller utilities in TJ.</p>
1.4	<i>The project and associated TC activities will mandate the introduction of municipal or regional authority (i.e., multi-municipality) to plan and coordinate infrastructure provision for the first time in the country.</i>	<p>For KR, guidelines for Capex plans' development, prioritization and identification of investment will be developed at the national level. Local-level support will be provided to utilities to implement the new investment guidelines in KR cities and to develop comprehensive investment plans in consolidated TJ utilities, thus improving longer-term asset management and investment planning capacity on the ground.</p>

Secondary Quality: Green

Obj. No.	Objective	Details
2.1	<i>The percentage of EBRD use of proceeds allocated to the sub-project that qualifies as GET is 50 per cent or higher.</i>	For both countries and sub-sectors, the sub-projects are anticipated to achieve one or more of the following: (i) significant reduction in water losses and/or optimisation of water use; (ii) improvement of water and/or wastewater quality; and (iii) increased access to clean and safe water supply. [REDACTED].
2.2	<i>The Framework contains one or more activity(ies) that can qualify as GET according to the GET TI assessment methodology.</i>	In addition to environment benefits stated under Objective 2.1, the sub-projects are expected to enhance resilience to climate change by reducing water losses and hence decreasing the stress on water resources in the region. The sub-project's GET impacts and benefits will be assessed during due diligence. The irrigation sub-projects involve the installation of modern energy efficient pumps and the introduction of automated management systems to improve energy and water efficiency in the national irrigation system.

[REDACTED]

1.3 ADDITIONALITY

Identified triggers	Description
A subsequent/consecutive transaction with the same client/group either with the same use of proceeds or in the same country (repeat transaction).	Some of the sub-projects proposed for inclusion under the Framework are repeat transactions with the same utilities and/or municipalities. Each sub-project will be assessed individually based on due diligence at the time of submission. Initial inclusion of repeat transactions into the Framework indicative pipeline is warranted due to an identified significant investment need (at the municipal level) and the different nature of investment.

Additionality sources	Evidence of additionality sources
Financing Structure - the EBRD offers a tenor , which is above the market average and is necessary to structure the Projects.	EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions, such as a longer grace period than the market average and restricted foreign currency financing. Such financing is necessary to structure the sub-projects. EBRD investment is needed to close the funding gap. At the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them.
Policy, sector, Institutional or regulatory change - EBRD's involvement in projects is considered additional when it is designed to trigger a change in the policy, sector, institutional or regulatory framework, or enhance practices at the sector or country level.	The Framework will pursue a subset of pre-defined country and sector-level policy reform objectives, as summarised in Section 1.2.

Additionality sources	Evidence of additionality sources
<p>Standard-setting: helping projects and clients achieve higher standards – Client seeks EBRD expertise on higher environmental standards, above ‘business as usual’, and seeks EBRD expertise on best international procurement standards.</p>	<p>Clients seek EBRD expertise on higher financial, operational, and environmental standards, above ‘business as usual’ (e.g., application of PP&R, adoption of emissions standards etc).</p> <p>Clients seek EBRD expertise on best international procurement standards.</p>
<p>Knowledge, innovation, and capacity building - EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the project’s objectives, including support to strengthen the capacity of the client.</p>	<p>Clients' institutional capacity growth, including financial and operational performance, procurement, and implementation, is of a high priority for the Bank in each sub-project, including support to strengthen the capacity of the client.</p>

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Borrower's creditworthiness	Medium / High	[REDACTED]
Implementation risk	High/ Medium	[REDACTED]. To strengthen its implementation capacity, the Project Implementation Unit (PIU) will be created at the level of the Beneficiaries, supported by the TC for design, procurement, project implementation and capacity building. The local PIUs will also be supported by a Central PIU (CPIU) in KR to coordinate activities under all the sub-projects of the Framework to ensure a harmonised approach and economies of scale.
FX risk	Medium/ Medium	[REDACTED]

2. MEASURING / MONITORING SUCCESS

For the Framework, all sub-projects will receive ETI 66, and sub-operations PTI will be awarded at sub-project level. The Framework will be monitored at the framework and sub-project level. Mid-term and end-of-life self-evaluation will be conducted to observe the progress.

Transition Impact Monitoring Indicators and Benchmarks							
Quality	Obj No.	Monitoring Indicator	Corresponding Sub-project Monitoring Indicator/Data source	Details	Base line	Target	Due date
Well-governed	1.1	Number of clients introducing new or updated technology leading to water savings and cost efficiency	New or updated technology introduced.	Operationalization of automated billing systems for WSS sub-projects (both countries).	[REDACTED]	[REDACTED]	[REDACTED]
	1.1	Number of clients introducing new or updated technology leading to water savings and cost efficiency	New or updated technology introduced.	Operationalization of automated control systems and/or installation of modern energy efficient pumps for irrigation sub-projects (both countries).	[REDACTED]	[REDACTED]	[REDACTED]
	1.1	Number of public service contracts signed and implemented	Public service contract signed and implemented.	PSCs signed for new WSS clients/updated for existing WSS clients (both countries).	[REDACTED]	[REDACTED]	[REDACTED]
	1.1	Number of clients reporting tariffs reaching target levels	Tariffs reached target level.	Tariff adjustment towards cost recovery in accordance with the new methodology by each WSS clients (KR). [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	1.2	Number of recommended strategy agreed by authorities	Recommended strategy agreed by authorities.	Development and adoption of a new incremental consolidation approach for utilities (TJ).	[REDACTED]	[REDACTED]	[REDACTED]
	1.2	Number of recommended strategy agreed by authorities	Recommended strategy agreed by authorities.	Development and adoption of an action plan to transition irrigation management from administrative boundaries to hydraulic boundaries at river basin levels (TJ).	[REDACTED]	[REDACTED]	[REDACTED]
	1.3	Number of clients implemented	Performance or Action Plan implemented.	Implementation of CDPs and their recommendations by	[REDACTED]	[REDACTED]	[REDACTED]

		performance or action plan		selected WSS clients (both countries).			
	1.3	Number of clients completing organizational restructuring as targeted	Organisational restructuring completed as targeted.	Number of utilities created through consolidated approach (TJ).	[REDACTED]	[REDACTED]	[REDACTED]
	1.4	Number of recommended strategies agreed by authorities	Recommended strategy agreed by authorities.	Adoption and implementation of national investment guidelines and implementation by WSS clients (KR).	[REDACTED]	[REDACTED]	[REDACTED]
Green	2.1	<i>The percentage of EBRD use of proceeds allocated to the sub-project that qualifies as GET is 50 per cent or higher.</i>	Reduce local pollution and/or Greenhouse Gas (GHG) levels or increase piped water supply and/or improve water or wastewater quality or energy or water efficiency from the relevant municipal activity.	Annual water savings (m3/year)	[REDACTED]	[REDACTED]	[REDACTED]
	2.2	<i>The Framework contains one or more activity(ies) that can qualify as GET according to the GET TI assessment methodology</i>		Annual energy savings (GJ/year)	[REDACTED]		
				Annual reduction in tonnes of CO2 equivalent savings (tonnes CO2 equivalent /year)	[REDACTED]		
				Volume of safe and clean water provided [m3/year]	[REDACTED]		
				Wastewater treated [m3/year]	[REDACTED]		
				Number of customers with access to improved WSS services	[REDACTED]		

3. KEY PARTIES

3.1 BORROWER

The Borrowers are KR and TJ, represented by the respective Ministry of Finance.

3.2 BENEFICIARIES

The Beneficiaries of the Framework will be respective utilities supplying WSS services and respective state agencies responsible for running irrigation systems in both countries.

WSS sub-sector

Utility companies in KR are owned by respective municipalities. In TJ, some large municipalities such as Dushanbe and Khujand have their utilities and many utilities in small cities are subsidiaries under the State Unitary Enterprise “Khojagii Manziliyu Kommunalii” (KMK). There are significant needs to improve financial and operational performance of utilities in both countries. [REDACTED].

Irrigation sub-sector

The Water Resources Services (WRS) under the Ministry of Water Resources, Agriculture and Processing Industry of KR is responsible for abstraction, transportation, and supply of irrigation water to Water Union Associations (WUAs) and other water consumers in KR. All water intakes, pumping stations, main and secondary canals are owned by the state and managed by the WRS.

The Agency for Land Reclamation and Irrigation (ALRI) under the Ministry of Energy and Water Resources of TJ is responsible for development and implementation of the national irrigation and drainage policy, operation and maintenance of irrigation and drainage infrastructure, and flood protection planning and works in TJ. [REDACTED].

4. MARKET CONTEXT

4.1 WSS SUB-SECTOR

WSS infrastructure in KR and TJ is severely deteriorated due to limited investment over the past 30 years. [REDACTED].

In KR, tariffs are set by the respective local Anti-Monopoly Agency and subsequently approved by the respective city council. The Bank engaged in developing a modern nationwide tariff methodology and implementation action plan, as well as the relevant institutional improvements. The action plan was successfully developed mapping out priority reform actions to improve financial viability of the sector.

In TJ, tariffs are regulated by the Anti-Monopoly Service under TJ government and vary for different group of customers: households, budgetary organisations, and commercial. [REDACTED].

4.2 IRRIGATION SUB-SECTOR

Reliance on agriculture creates critical challenges for the irrigation sector in both countries. In KR, [REDACTED] the government struggles with the complexities of managing finite water resources due to issues such as uneven water distribution, inadequate financing and loss of revenue, outdated infrastructure, and poor serviceability. [REDACTED]. Worn-out pressure pipework and pumping units impact the reliability of irrigation systems, while insufficient drainage infrastructure leads to waterlogging and salinization of land.

In KR, tariffs for irrigation services are regulated by the state and are set by the government. There is no statutorily approved methodology for tariff calculations [REDACTED]. The Bank planned to support the Ministry of Agriculture, Forestry, and Water Resources to develop tariff methodology, tariff action plan, institutional strengthening, implementation of the proposed revisions, and capacity-building activities through a TC under the Kyrgyzstan Climate Resilience Water Supply Project. The scope of TC is under discussions with the Ministry.

In TJ, irrigation services are largely financed by government subsidies with limited revenue generated from service fees and the WUA membership fees. A large part of the government subsidies is for electricity costs. [REDACTED]. The World Bank is aiming to develop a national irrigation strategy that provides a 10–15-year roadmap for sector reforms and investment, including a sector-wide assessment of energy use and systematic review of irrigation tariffs and subsidies.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 SOVEREIGN CREDITWORTHINESS

[REDACTED]

5.2 PROJECTED PROFITABILITY FOR THE BANK

Projected profitability will be calculated and presented separately for each sub-project.

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

The Framework is not categorised under the 2019 Environmental and Social Policy. However, each sub-project under the Framework will be categorised at the concept review stage separately and will undergo Environmental and Social Due Diligence based on the proposed priority investment programme. This will include a GET benefits assessment and Paris alignment screening (and any further assessment, if required). The Framework targets an integrated approach to manage water resources in response to the climate change, pollution and water scarcity in KR and TJ and is likely to result in significant environmental and social benefits. Due to limited financial resources and affordability constraints, it is anticipated that it may not be possible to bring most of sub-projects under the Framework into full compliance with EU drinking water quality and wastewater treatment and discharge standards. Therefore, a derogation from Performance Requirement 3 for the sub-projects under the Framework will be sought from the Board. All sub-projects categorised "A" will be submitted to Board for approval regardless of size of the loan. It is expected that the Beneficiaries under the Framework [REDACTED] will require TC support for implementing the Environmental and Social Action Plan. There is no GET component associated with the Framework.

6.2 INTEGRITY

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues will be taken with respect to each sub-project. The files containing the integrity checklists and other required documentation will be properly and accurately completed to proceed with each sub-project. Integrity checks will be conducted separately for each sub-project, according to the Bank's procedures.

6.3 PROCUREMENT

The sub-projects under the Framework are classified as public for procurement purposes and therefore all goods, works and related services to be financed from the Bank's loan and/or grants administered by the Bank shall be procured in accordance to the EBRD PP&R for public sector operations. Detailed investment plans will be defined

during the sub-project feasibility studies. The proposed specific procurement arrangements for each sub-project will be then presented in the respective submission. The contracts under the sub-projects will be procured following open tendering procedure in accordance with the requirements of the EBRD PP&R for public sector operations.

It is anticipated that there will be many low value work contracts [REDACTED] and low value goods contracts [REDACTED] in the more remote regions of KR and TJ. Therefore, to streamline the procedures under the Framework, the current CPIU is expected to keep supporting and supervising the procurement and project implementation in KR. Similar CPIU arrangements are proposed to be established for the sub-projects in TJ. Details of this arrangement will be finalised once the proposed contract packages and Procurement Plans are agreed with the Bank in the respective submission of each sub-project. Where practically possible, the contracts will be bundled for efficiency purposes.

All procurement processes will be managed using EBRD Client e-Procurement Portal.

6.4 OTHER ISSUES

Concessional Finance

Usage of BCF in public sector projects could be justified to extend TIs by eliciting commitments to a policy reform agenda. This approach suggests that the usage of BCF shall be justified in cases that concessional financing acts as a behavioural lever, enabling ambitious policy changes beyond what could be achieved without concessional support. Continuous engagement in critical investment in WSS and irrigation in TJ and KR, largely underfinanced sectors suffering from affordability constraints, equipped the Bank with considerable leverage to promote systemic policy reform agenda over the years.

The Framework continues advancing the Bank's efforts to establish effective WSS and irrigation markets in KR and TJ. A key focus is the gradual implementation of a cost-reflective tariff policy and the commercialisation of utilities. Concessional finance plays a crucial role in this process, as investment in sub-projects which serve as catalysts for reform could not be structured on purely commercial terms due to the viability funding gap. Concessional finance is also justified in this context due to affordability considerations (although earlier mentioned policy reforms are aimed to achieve decreased reliance on grants in the medium term), as well as due to the need to promote higher environmental standards and to align with the IMF/ World Bank debt sustainability recommendations. The Framework can serve as a pilot to showcase the Bank's governance approach to utilize BCF in public sector projects. It highlights how policy reform agendas can provide additionality, justifying concessional resources when used to advance key national development priorities.

Affordability Analysis

The proposed tariffs are expected to remain affordable for all households. However, if the grant is not provided, the resulting tariffs would lead to affordability breaches for both average and poorest households.

ANNEXES TO OPERATION REPORT

ANNEX 1	SUMMARY OF THE STATUS OF WATER PROJECTS IN THE KYRGYZ REPUBLIC AND REPUBLIC OF TAJIKISTAN	
ANNEX 2	STATUS OF KYRGYZ WATER RESILIENCE FRAMEWORK	

ANNEX 1 – SUMMARY OF WATER SECTOR PROJECTS IN THE KYRGYZ REPUBLIC AND THE REPUBLIC OF TAJIKISTAN

Kyrgyz Republic

1. Status of investments

The EBRD has committed over USD 70 million in loans towards essential water and wastewater infrastructure in 25 cities and 29 projects. It has drawn an additional USD 99 million in grant co-financing from donors such as the EU and Switzerland. Collaboration with national authorities has been integral, focusing on enhancing the sustainability of municipal utilities. This includes implementing a formal tariff methodology to ensure full cost recovery and prompt payment of water bills by public institutions and other customers, introducing a PSC mechanism, and crafting a corporate development programme tailored to each utility company.

Table 2: Status of current WSS projects in KR (in million USD)

Project Name	Loan	Grant	Signing date	Implementation status
Bishkek Water Supply Project	5.50	5.00	[REDACTED]	[REDACTED]
Osh Water and Wastewater Rehabilitation	3.00	4.30	[REDACTED]	[REDACTED]
Jalalabad Water Rehabilitation Project	3.00	4.10	[REDACTED]	[REDACTED]
Kant Water sub-project	1.50	3.62	[REDACTED]	[REDACTED]
Talas Water and Wastewater Rehabilitation	2.00	3.00	[REDACTED]	[REDACTED]
Bishkek Water II sub-project	8.00	8.00	[REDACTED]	[REDACTED]
Tokmok Water sub-project	2.00	3.10	[REDACTED]	[REDACTED]
Batken Water sub-project	1.50	2.50	[REDACTED]	[REDACTED]
Naryn Water sub-project	2.00	3.20	[REDACTED]	[REDACTED]
Osh Water II sub-project	2.50	4.88	[REDACTED]	[REDACTED]
KR Water Framework - Cholpon-Ata Water sub-project	1.00	3.10	[REDACTED]	[REDACTED]
KR Water Framework - Kara-Suu Water sub-project	1.00	3.30	[REDACTED]	[REDACTED]
KR Water Framework - Kyzyl-Kiya Water sub-project	1.50	3.50	[REDACTED]	[REDACTED]
KR Water Framework - Uzgen Water	2.50	5.00	[REDACTED]	[REDACTED]
KR Water Framework – Toktogul	1.10	3.20	[REDACTED]	[REDACTED]
KR Water Framework - Balykchy Water	1.10	3.20	[REDACTED]	[REDACTED]
KR Water Framework - Mailuu-Suu Water	1.45	4.20	[REDACTED]	[REDACTED]
KR Water Framework - Karakol Water Supply	5.50	4.50	[REDACTED]	[REDACTED]
KR Water Framework - Myrzaki-Kurshab Regional Water	2.00	3.00	[REDACTED]	[REDACTED]
KR Water Framework - Jalal-Abad Water II sub-project	4.00	4.13	[REDACTED]	[REDACTED]
KR Water Framework - Kerben Water sub-project	2.50	3.00	[REDACTED]	[REDACTED]
KR Water Framework - Isfana Water Project	1.60	2.40	[REDACTED]	[REDACTED]
KR Water Framework - Naryn Water sub-project Extension	2.00	3.50	[REDACTED]	[REDACTED]
KR Water Framework - Nookat Water sub-project	2.20	2.00	[REDACTED]	[REDACTED]
Kadamzhai Water sub-Project	2.00	2.00	[REDACTED]	[REDACTED]
Aidarken Water sub-project	2.00	2.00	[REDACTED]	[REDACTED]
Tash-Komur water sub-project	2.00	2.00	[REDACTED]	[REDACTED]
Kok-Dzhangak water sub-project	2.00	2.00	[REDACTED]	[REDACTED]

Bazar-Korgon Water sub-Project	2.11	2.11	[REDACTED]	[REDACTED]
Total	70.56	99.83		

[REDACTED]

Republic of Tajikistan

1. Status of investment

EBRD has committed around USD 53 million in critical water and wastewater infrastructure with additional USD 72 million attracted as grant co-financing from donors such as EU, Switzerland, and others.

The Bank has been working closely with the national authorities to address the utilities' sustainability via formal adoption of a tariff methodology for securing full cost recovery and the timely payment of water bills from public institutions and other customer groups. It has introduced a PSC mechanism and developing a corporate development programme for each utility.

Table 3: Status of current WSS projects in TJ (in million USD)

Project Name	Loan	Grant	Signing date	Implementation status
South Tajik Water Rehabilitation	2.0	4.8	[REDACTED]	[REDACTED]
Central Tajik Water Rehabilitation	7.0	11	[REDACTED]	[REDACTED]
North Tajik Water Rehabilitation	10.0	12.7	[REDACTED]	[REDACTED]
North Tajik Water Rehabilitation II	7.0	8.3	[REDACTED]	[REDACTED]
Khatlon Water Rehabilitation	5.0	7.0	[REDACTED]	[REDACTED]
Kulob water and wastewater*	8.4	8.4	[REDACTED]	[REDACTED]
Khujand Water Rehabilitation Project	1.2	2.9	[REDACTED]	[REDACTED]
Khujand Water Rehabilitation Project II	2.0	3.6	[REDACTED]	[REDACTED]
Khujand water and wastewater	3.5	5.4	[REDACTED]	[REDACTED]
Tajik Water II - Khorog GBAO	2.0	2.0	[REDACTED]	[REDACTED]
Nurek Water and Wastewater	3.0	3.0	[REDACTED]	[REDACTED]
Fayzobod Water and Wastewater Project	2.0	3.0	[REDACTED]	[REDACTED]
Total	53.1	72.1		

[REDACTED]

ANNEX 2 – STATUS OF KYRGYZ WATER RESILIENCE FRAMEWORK

On 23 Jul 2020 EBRD Board approved the Kyrgyz Water Resilience Framework (KWRF) for water and wastewater investments in the KR. The KWRF continued the Bank's work under the Kyrgyz Republic Water and Wastewater Framework and its extension, approved in 2011 and 2015 respectively. The KWRF aimed to provide a more secure water supply service to population, mainly through increasing system resilience through upgrade of networks, water intake, pumps and reservoirs in smaller municipalities experiencing interruptions in direct access to clean and quality water supply due to outdated infrastructure.

Despite COVID-19 disturbances [REDACTED], the Bank has committed 11 sub-projects over EUR 24 million in loans under the KWRF. It has drawn an additional EUR 24 million in grant co-financing from SSF.

List of sub-projects (signed / Board approved) under KWRF

no	Sub-Project name	Approval date [*]	Loan amount Board approved	Grant amount Board approved	Signed amount	Progress of the project
1	Nookat	6 Oct 2020	EUR 2.2 m	EUR 2m	[REDACTED]	[REDACTED]
2	Kadamzhai	8 Nov 2022	EUR 2m	EUR 2m	[REDACTED]	[REDACTED]
3	Aidarken	8 Nov 2022	EUR 2m	EUR 2m	[REDACTED]	[REDACTED]
4	Tash-Komur	8 Nov 2022	EUR 2m	EUR 2m	[REDACTED]	[REDACTED]
5	Kok-Dzhangak	8 Nov 2022	EUR 2m	EUR 2m	[REDACTED]	[REDACTED]
6	Bazar-Korgon	21 Nov 2023	EUR 3.75m	EUR 3.75m	[REDACTED]	[REDACTED]
7	Talas 2	2 Apr 2024	EUR 3.6m	<u>EUR 3.6m</u>	[REDACTED]	[REDACTED]
8	Shopokov	2 Apr 2024	EUR 2m	<u>EUR 2m</u>	[REDACTED]	[REDACTED]
9	Kemin	2 Apr 2024	EUR 2m	EUR 2m	[REDACTED]	[REDACTED]
10	Myrzaki-Kurshab Extension	16 Apr 2024	EUR 1.5m	EUR 0.75m	[REDACTED]	[REDACTED]
11	Naryn Extension	6 Aug 2024	EUR 1.58m	EUR 0.92m	[REDACTED]	[REDACTED]
Total amount of Board approved[*] sub-projects					EUR 24.63m	
Total amount of signed projects					EUR 12.31m	
Amounts cancelled					N/A	
Headroom available under the Framework					EUR 15.37m*	

*Current pipeline is expected to fully utilize the headroom.

Performance of TI benchmarks

KWRF's key transition objectives supported the Competitive quality through increasing tariffs, implementing CDPs, installing bulk meters and adjusting consumption norms. It also contributed to the Well-governed quality through establishing contractual arrangements between municipalities and utility companies by signing public PSCs and implementing stakeholder participation programmes.

Despite COVID 19 [REDACTED], development of tariff reform recommendations was successfully completed in mapping out priority reform actions to improve financial viability of the sector. Following this work, first-ever specialised tariff methodology for the water sector has been adopted by the government in June 2024. [REDACTED]

The KWRF has demonstrated solid progress towards achieving transition objectives at sub-project level too. In most cases, cities have approved covenanted tariff levels, signed PSCs and received CDP support. [REDACTED]

Transition Impact Monitoring Indicators and Benchmarks (FW)							
Quality	Obj . No.	Framework Monitoring Indicator	Details	Base line	Target	Due date	Achievement status
	1.1	Number of recommended strategy agreed by authorities	Adoption of a standardised tariff methodology by the Agency.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	1.2	Number of recommended strategy agreed by authorities	Development of a standardised PSC by the Agency..	[REDACTED]	[REDACTED]	[REDACTED]	
	1.3	Number of recommended strategy agreed by authorities	Adoption and implementation of a social support programme by the Agency	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	1.4	Number of clients that introduced PSC	Adoption and implementation of the PSC by each Participating Company.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	2.1	Number of clients implemented performance or action plan	Implementation of CDP and its recommendations by each Participating Company and achievement of financial and operational improvements including IFRS compliant reporting.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	2.2	Number of clients achieved cost savings	Minimum 5 per cent reduction of the cost per unit of service by each Participating Company regardless of whether that is charged to users or taxpayers	[REDACTED]	[REDACTED]	[REDACTED]	
	2.3	Number of clients reached target tariff level	Tariff adjustment in accordance with the new methodology by each Participating Company.	[REDACTED]	[REDACTED]	[REDACTED]	
	2.4	Number of clients that improved	(1) 100 per cent bulk meter coverage; (2) collection ratio above 90 per cent; (3) enhancement of individual	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

		operational performance	metering by 20 per cent (Phase II cities only)				
	2.5	Number of individuals with improved access to water services	Number of individuals that would benefit from higher water supply quality.	[REDACTED]	[REDACTED]	[REDACTED]	

3. Lessons Learned

Slow implementation has been a major challenge in projects under the previous frameworks [REDACTED]. The KWRF has improved the Bank's support for project implementation by establishing a CPIU to oversee the implementation of sub-projects. [REDACTED]. The reform agenda continues to be pursued at the national level through policy dialogue.

Learning from the past, [REDACTED] the KWRF benefits from the SMART Program that ensures consistency, quality and alignment of each intervention with the overall reform vision, as they are delivered as a single program, built upon coordination of activities and objectives at the national, city and corporate levels. [REDACTED]