

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

Approved by the Board of Directors on 7 May 2025¹

TÜRKIYE

EQR HATAY ARSUZ WASTEWATER PROJECT

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

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

¹ As per section 1.4.8 of EBRD's Directive on Access to Information (2024), 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

%	Percentage	ISO	International Organization for Standardization
AESR	Annual Environmental & Social Report	JICA	Japan International Cooperation Agency
AFD	Agence Française de Développement	JPY	Japanese Yen
AIB	Asian Infrastructure Investment Bank	k	Thousand
c.	Circa	km	Kilometre
Capex	Capital expenditures	KPI	Key performance indicator
CEB	Council of Europe Development Bank	LALRF	Land Acquisition and Livelihood Restoration Framework
CO2e	Carbon dioxide equivalent	LCU	Local currency units
CPI	Consumer Prices Index	LGD	Loss Given Default
CT	Carbon Transition	m	Million
DSD	Deep sea discharge	m3	cubic meter
E&S	Environmental and Social	m3/d	cubic meter per day
e.g.	for example	m3/yr	Cubic meter per year
ECEPP	EBRD Client e-Procurement Platform	MDB	Multilateral Development Banks
EHS	Environment, Health, and Safety	MoEUCC	Ministry of Environment, Urbanization and Climate Change
EIA	Environmental Impact Assessment	MoTF	Ministry of Treasury and Finance
EIB	European Investment Bank	MoU	Memorandum of Understanding
EIRR	Economic Internal Rate of Return	n/a	Not applicable
ENPV	Economic Net Present Value	OHS	Occupational Health & Safety
EQR	Earthquake Response	OPEC	Organization of the Petroleum Exporting Countries
ESA	Environmental and Social Assessment	P.E.	Population Equivalent
ESAP	Environmental and Social Action Plan	PC	Physical Climate
ESDD	Environmental and Social Due Diligence	PD	Probability of Default
ESG	Environmental, Social, and Governance	PIA	Project Implementation Adviser
ESMP	Environmental and Social Management Plan	PIU	Project Implementation Unit
ESP	Environmental and Social Policy	PP&R	Procurement Policies and Rules
etc.	et cetera	PPAD	Procurement Policy and Advisory Department
ETDB	Economic Cooperation Organization Trade and Development Bank	PR	Performance Requirements
EU	European Union	PSD	Project Summary Document
EUR/€	Euro	RAROC	Risk adjusted return on capital
FATF	Financial Action Task Force	SDG	Sustainable Development Goal
FIDIC	International Federation of Consulting Engineers	SEP	Stakeholder Engagement Plan
GBVH	Gender-based violence and harassment	SIF	Sustainable Infrastructure Fund
GDP	Gross domestic product	SSF	Shareholder Special Fund
GET	Green Economy Transition	TC	Technical Cooperation
GHG	Greenhouse gas	tCO₂eq/year	Tonnes of carbon dioxide equivalent per year
GPMP	Green Project Monitoring Plan	TI	Transition Impact
HATSU	Hatay Water and Sewage Administration	TRY	Turkish Lira
HMM	Hatay Metropolitan Municipality	UN	United Nations
HR	Human Resources	UNDP	United Nations Development Programme
i.e.	that is	USD/\$	United States Dollar
IFI	International Financial Institution	WWTP	Wastewater Treatment Plant
ILBANK	İller Bankası A.Ş.	YE	Year end
IsDB	Islamic Development Bank	YoY	Year over year

CURRENCY CONVERSIONS

EUR 1 = TRY 40.9326 (as of 26 March 2025)

EUR / TRY ²	2021	2022	2023	2024
EoP	14.6823	19.9349	32.5739	36.7429
Average	10.4408	17.3642	25.6852	35.4779

² 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 final beneficiary, Hatay Water and Sewage Administration (“HATSU”), are submitted for consideration by the Board of Directors. The Project will be carried out by HATSU with the oversight and supervision of İller Bankası A.S. (“İLBANK”), affiliated with the Ministry of Environment, Urbanization and Climate Change of the Republic of Türkiye.

The facility will consist of a sovereign loan of up to EUR 100 million to finance the construction of the Arsuz sewage network up to 290 km, the Ucgulluk Wastewater Treatment Plant (“WWTP”) with a capacity of 21,000 m³/d, and procurement of ancillary services in the Arsuz district of the city of Hatay, Türkiye (the “Project”). Hatay was heavily impacted by the devastating 6 February 2023 Kahramanmaraş earthquakes.

The expected transition impact of the Project is derived from (i) the **Green** quality, as the Project will increase wastewater treatment capacity and enhance environmental protection by connecting households to a centralized sewage system, ensuring treatment at the new Ucgulluk WWTP, aligning with EU standards in the Arsuz district of Hatay, and (ii) the **Resilient** quality, as the Project will strengthen Hatay’s ability to withstand natural disasters by promoting greater disaster preparedness and climate risk management. The Project qualifies as 100% GET. The Project is gender additional through the introduction of sex-disaggregated data collection and reporting, for the first time by HATSU, to support gender-responsive water and wastewater service delivery related to accessibility, effective usage and governance as well as women’s higher participation in water-related employment in Hatay.

TC support for this operation is funded by the Sustainable Infrastructure Fund (“SIF”) and the EBRD Shareholder Special Fund (“SSF”).

I am satisfied that the operation is consistent with the Bank’s Strategy for Türkiye, the Infrastructure 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

TÜRKIYE – EQR Hatay Arsuz Wastewater Project – DTM 55489	
Transaction / Board Decision	Board approval ³ is sought for a sovereign loan of up to EUR 100 million to the Republic of Türkiye (the “ Borrower ”) represented by the Ministry of Treasury and Finance (“ MoTF ”), for the final beneficiary, Hatay Water and Sewage Administration (“ HATSU ” or the “ Final beneficiary ”), to finance the construction of (i) the Arsuz sewage network up to 290 km and pumping stations, (ii) the Ucgulluk WWTP with a capacity of 21,000 m ³ /d, (iii) the deep sea discharge, and (iv) procurement of construction supervision services in the Arsuz district of Hatay, Türkiye (the “ Project ”). The Project will be implemented by HATSU with the oversight and supervision of Iller Bankasi A.S. (“ ILBANK ”), affiliated with the Ministry of Environment, Urbanization and Climate Change (“ MoEUCC ”) of the Republic of Türkiye.
Client	The Borrower is the Republic of Türkiye, represented by the MoTF. HATSU, the water utility of Hatay and an affiliated entity of Hatay Metropolitan Municipality (“ HMM ” or the “ City ”), will be the final beneficiary of the loan. ILBANK has been authorised to oversee and ensure implementation of infrastructure, construction, and superstructure projects in the earthquake region.
Main Elements of the Proposal	<p>Transition impact:</p> <p>Primary Quality: Green is derived from the treatment of wastewater to high effluent standards equivalent to EU norms, increasing the efficiency of the collection system, and reducing greenhouse gas (“GHG”) emissions. This is particularly critical as Arsuz district lacks its own WWTP, and only 20 per cent of the district is connected to a piped sewage system, further straining the region amid its growing population. The Project qualifies as 100% GET.</p> <p>Secondary Quality: Resilient is derived from strengthening HATSU’s operational resilience from natural disasters via promoting greater disaster preparedness and climate risk management. HATSU will benefit from the Capacity Building Programme TC, funded by the EBRD’s SSF.</p> <p>Additionality: The Bank's additionality stems from financing structure, risk management, standard setting and knowledge, innovation, and capacity building. The Bank is providing long-term financing that is unavailable in the commercial market.</p> <p>Gender Additionality: The Project is gender additional as HATSU will introduce sex-disaggregated data collection and reporting, for the first-time, to support gender-responsive and inclusive water and wastewater service delivery related to accessibility, effective usage and governance as well as women’s participation in water-related employment in Hatay.</p> <p>Sound banking: The loan is provided to the Sovereign.</p>
Key Risks	<p>Sovereign risk profile: Türkiye is rated BB-, B1 and BB- by S&P, Moody’s, and Fitch, respectively.</p> <p>Contracting/Implementation risk: Advance Procurement Support TC will be provided to ensure the contracting process will be compliant with the EBRD PP&R. Monitoring and Implementation Support consultant will be mobilized to assist with project implementation monitoring and compliance with the EBRD’s reporting requirements.</p>
Strategic Fit Summary	The proposed Project is consistent with the Bank’s strategy for Türkiye, which aims to support earthquake recovery and improve climate risk management, as well as with the Bank’s Infrastructure Sector Strategy, as it aims to strengthen infrastructure resilience and enhance climate action. The Project is also fully in line with the Green Economy Transition Approach 2.1, and the Strategy for the Promotion of Gender Equality.

³ Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	A sovereign loan of up to EUR 100 million to the Borrower represented by the MoTF. The loan will [REDACTED] finance construction of (i) the Arsuz sewage network up to 290 km and pumping stations, (ii) the Ucgulluk WWTP with a capacity of 21,000 m ³ /d, (iii) the deep sea discharge, and (iv) procurement of construction supervision services in the Arsuz district of Hatay, Türkiye. The Project will be implemented by HATSU with the oversight and supervision of ILBANK, affiliated with the MoEUCC. ILBANK has been authorised to supervise infrastructure, construction, and superstructure projects in the earthquake region while being the implementation agency in certain municipalities which has no or limited IFI experience.
Existing Exposure	<u>Sovereign exposure:</u> EUR 359 million [REDACTED] under Gaziantep Duzbag Water Project, Ispartakule - Cerkezkoj Railway Line Project, and Türkiye COVID-19 Equipment Emergency Response. <u>Indirect sovereign exposure:</u> EUR 747 million [REDACTED] under the 8 Hospital PPP Projects (EUR 476 million), the Türkiye Eurasia Tunnel Project (EUR 76 million), and the Nakkas Motorway Project (EUR 195 million).
Maturity / Exit / Repayment	The loan tenor is up to 18 years [REDACTED].
Potential AMI eligible financing	None.
Use of Proceeds - Description	The proceeds of the Bank's loans will be used for construction of (i) the Arsuz sewage network up to 290 km and pumping stations, (ii) the Ucgulluk WWTP with a capacity of 21,000 m ³ /d, and (iii) deep sea discharge, and (iv) procurement of construction supervision services in the Arsuz district of Hatay, Türkiye.
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> • The Republic of Türkiye, represented by MoTF, as the Borrower. • ILBANK, as the project oversight and supervision agency. • HATSU, as the contracting authority, implementation agency and the final beneficiary.
Conditions to subscription / disbursement	[REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	Sovereign loan, unsecured.
Other material agreements	<ul style="list-style-type: none"> • Standard Terms and Conditions for the Bank' Sovereign Operations with MoTF. • Project Agreement with HATSU and ILBANK.
Associated Donor Funded TC and Blended Concessional Finance	<p>Pre-signing: TC 1 – Feasibility Study and Environmental & Social Due Diligence for assessment and development of the Priority Investment Plan, including procurement and contracting strategy; assessment of compliance with the EBRD Environmental and Social Policy (“ESP”) and PRs, including the development of the Environmental and Social Action Plan (“ESAP”), Non-Technical Summary, and Stakeholder Engagement Plan. The cost of the assignment was EUR 350,000 and funded by SIF.</p> <p>TC 2 – Advance Procurement Support, to include consultancy support to HATSU to ensure compliance with the EBRD PP&R. The cost of the assignment was EUR 74,860 and funded by SSF.</p> <p>Post-signing: TC 3 – Monitoring and Implementation Support: Monitoring Services to support with monitoring of the project implementation and with the reporting requirements, including support on the implementation of the ESAP. The estimated cost of the assignment is up to EUR 350,000 and funded by the SSF Work Plan 2023-2024.</p>

	<p>TC 4 – Capacity Building for EQR Municipalities in Türkiye for the benefit of Adiyaman, Hatay, Malatya, and Osmaniye Municipalities and their respective municipal water companies, with a particular focus on strengthening their crisis response, asset management, and non-financial risk management; approved under SOEs Management Assistance Reform and Transformation (“SMART”) - TC Support Programme 2024/2025 by SMART – for up to EUR 530,000 (EUR 132,500 per each municipality) funded by the EBRD SSF.</p> <p><u>Cost sharing:</u> In line with the Bank’s client contributions policy dated 1 January 2021, cash contributions will not be provided [REDACTED]. However, the client will make a financial contribution towards the TC project by covering the costs of supervision services from the loan proceeds.</p>
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[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Hatay is the 13th largest city in Türkiye with 1.5 million inhabitants. It is located in the southeast of the country, positioned 120 kilometres from Aleppo and shares nearly one third of the 900 km Türkiye's border with Syria. Hatay consequently became one of the cities, which hosts a large Syrian refugee population with strained infrastructure even before the earthquakes on 6 February 2023⁴, which severely affected 11 provinces, including Hatay, with a loss of over 50,000 lives and damages estimated around USD 104 billion or 11 per cent of Türkiye's GDP.

Hatay suffered the heaviest damage from the earthquakes with 23,780 casualties and 130,000 damaged structures, including residential and commercial buildings, with the major destruction in the central districts. The population in 2023 decreased by 141,403 people (8.39 per cent) compared to the previous year due to significant population displacement as a result of the damage to the infrastructure, demolition of damaged houses, workplaces and public buildings including schools and hospitals. Despite the structural deficiencies, majority of the residents are not leaving their hometown and are waiting for the city to be rebuilt.

The Arsuz district of Hatay has seen housing development and population increase of 4.7 per cent between 2022 and 2023, following the earthquakes. People having settled in the district in response to the earthquake are expected to become permanent residents of the Arsuz district requiring the expansion of the HMM's already strained water and wastewater services. As a result, permanent infrastructure is urgently needed. Currently, 80 per cent of the district lacks piped sewage collection system, and there are no centralised wastewater treatment facilities serving the Arsuz district.

The Project will connect [REDACTED] people to a piped wastewater collection system and provide a new WWTP with a capacity of 21,000 m³/d. Beyond meeting urgent needs, the Project is a step toward long-term resilience, ensuring compliance with EU environmental standards and securing a cleaner, healthier future in the Arsuz district of Hatay. As a vital response to the earthquake's impact, the Project will enhance wastewater treatment services, protecting both public health and biodiversity. By centralizing wastewater treatment at the proposed Ucgulluk WWTP, it will significantly improve service reliability and quality of life for local residents. Therefore, the Bank's financing is critical to support the local community through the loans for the benefit of the local municipality, which will ultimately operate these facilities and bring improved services to the earthquake victims and other residents of Hatay. Complementary initiatives supported by other IFIs will restore the entire water infrastructure, ensuring a coordinated and comprehensive response that prioritizes the needs of those most affected.

Addressing urgent infrastructure needs has been a priority for the Turkish Government as part of its earthquake response programme for the past 2 years. Some of the urgent works that enabled local population to continue living in the region has been completed with state funds. ILBANK and MoEUCC have carried a detailed assessment of the water sector's critical infrastructure needs in the earthquake region and came up with a list of EUR 2.0 billion in urgent investment needs in the municipal infrastructure in the EQR region. [REDACTED] Given ILBANK's central role in identifying the needs and its technical capacity, ILBANK has been tasked with Additional Article 7 of Law No 4749 to act as implementation and/or

⁴ On 6 February 2023, 11 provinces in the southeastern Türkiye were hit by 2 major earthquakes with magnitudes of 7.7 and 7.6.

supervision agent for infrastructure, construction, and superstructure projects in the earthquake region.

[REDACTED] The Project is consistent with the Bank’s Country Strategy for Türkiye which aims to support earthquake recovery and improve climate risk management, as well as with the Bank’s Infrastructure Sector Strategy, as it aims to strengthen infrastructure resilience and enhance climate action. The Project is also fully in line with the Green Economy Transition Approach 2.1, and the Strategy for the Promotion of Gender Equality.

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 table below sets out the TI Objectives and details of the Project.

Primary Quality: Green

Obj. No.	Objective	Details
1.1	<i>The percentage of EBRD use of proceeds that supports a green economy transition and therefore qualifies as GET finance exceeds 50%.</i>	<p>The Project will fully support the Bank's Green Economy Transition approach by financing critical infrastructure essential for environmental and biodiversity protection while improving the reliability and quality of wastewater treatment services.</p> <p>The Project will connect all households in the Ucgulluk catchment area to a piped sewage system, enabling centralized wastewater treatment at the proposed Ucgulluk WWTP. This will ensure compliance with high discharge standards aligned with EU regulations, addressing the current gap where treated effluents do not meet EU standards. The Project will enhance wastewater collection and treatment efficiency, improving effluent quality and increasing treatment capacity [REDACTED].</p> <p>The Project is expected to achieve a 66% reduction in GHG emissions by replacing the current septic tank system, in which wastewater is collected in septic tanks and transported by trucks to the neighbouring Iskenderun WWTP for treatment. As a result, the entire financing is GET-eligible, with a GET ratio of 100%.</p>

Secondary Quality: Resilient

Obj. No.	Objective	Details
2.1	<i>The project supports the Resilient quality</i> [REDACTED]	<p>The Project will contribute to the Resilient transition quality through a dedicated [REDACTED] capacity building programme in favour of HATSU and HMM employees. Aftermath of the earthquakes, HATSU and HMM experienced significant challenges due to direct damage to their infrastructure, which severely compromised their ability to provide essential services to residents. The municipal employees will receive certification upon successful participation and completion of the capacity-building and training programme, which will encompass three main modules:</p> <p>(i) Crisis Management Capacity – Strengthening the knowledge and skills necessary to effectively respond to and support the management of crises that may impact municipal operations, ensuring the municipality can maintain critical services and promptly return to normal operations in earthquake-prone areas.</p> <p>(ii) Asset Management Capacity – Enhancing the ability to effectively manage municipal assets, with a particular focus on crisis response and risk management, ensuring resilience and sustainability. This will ultimately enable quick recovery and continuity of services during and after crises.</p> <p>(iii) Non-Financial Risk Management Capacity – Building capabilities for identifying, assessing, and managing non-financial risks, including environmental, social, and governance (ESG) risks, fostering a risk-aware culture within municipal companies, and ensuring compliance with relevant regulations. This capacity building programme is aligned with the Türkiye Country Strategy 2024-2029, which aims to strengthen resilience from natural disasters via promoting greater disaster preparedness and climate risk management to enhance operational resilience at the national and municipal level.</p>

Delivery risks: [REDACTED] These risks are partially mitigated by technical assistance aimed at supporting the final beneficiary’s project implementation capacity and also TC design for the capacity building programme in close consultation with other beneficiaries.

1.3 ADDITIONALITY

Identified triggers	Description
No triggers identified	n/a
Additionality sources	Description of additionality sources
Financing Structure 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 wastewater network infrastructure. Such long-term sovereign financing is not available from commercial banks.
Risk Mitigation EBRD helps the client to mitigate ESG risks through identification of risks related to the depletion of natural capital assets, raw materials	The Bank has conducted a thorough technical, environmental, social and gender due diligence to help HATSU to mitigate ESG-related risks.

and water availability, etc., and to manage these risks.	
<p>Policy, sector, institutional, or regulatory change EBRD’s involvement in a project is considered additional when it is designed to trigger a change in the policy, sector, institutional or regulatory framework, or enhance practices at the sector or country level (e.g., an introduction of cost-reflective pricing of energy, water etc.)</p>	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.
<p>Standard-setting: helping projects and clients achieve higher standards - Client seeks/makes use of EBRD expertise on best international procurement standards. - Client seeks EBRD expertise on higher environmental standards, above ‘business as usual’ (e.g. adoption of emissions standards, climate-related ISO standards etc.).</p>	EBRD credit, transition impact, procurement and environmental (as reflected in the GET contribution) related conditionalities go beyond what commercial funding sources would require, promoting performance improvements and greater transparency.
<p>Standard-setting: helping projects and clients achieve higher standards - Client seeks/makes use of EBRD expertise for the adoption of gender standards and/or equal opportunities action plans</p>	<p>Women are disproportionately affected by inadequate access to water, sanitation, and hygiene. Without specific attention to gender considerations, water and wastewater projects risk reinforcing existing inequalities, limiting women's participation in the sector, and perpetuating harmful social norms. In disaster-affected settings, water shortages and poor sanitation can further exacerbate inequalities by increasing household responsibilities, reducing income opportunities, and heightening risks of gender-based violence due to longer travel distances for water collection.</p> <p>This Project aims to address some of these challenges by introducing for the first-time sex-disaggregated data collection and reporting requirement on the operations and service delivery by HATSU. HATSU will leverage the World Bank’s Toolkit for “Mainstreaming Gender in Water Operations” to implement gender-sensitive monitoring and evaluation, focusing on key indicators such as access, service use, participation and governance. HATSU will commit to tracking [REDACTED] indicators and reporting annually to the Bank. Such data driven, evidence-based approach will guide HATSU’s gender-responsive HR policies and practices in relation to skills training and employment to increase women’s participation in water-related employment in Hatay. It will also support HATSU in applying a gender lens to water and wastewater service delivery in relation to accessibility effective usage, participation and good governance and, in such a way enhance women's access to services and</p>

	improve their economic, social, and health outcomes in the city of Hatay.
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.	The Bank has relevant sector knowledge and will mobilise TC funding to support implementation of the Project and capacity building programme for beneficiaries. The Project will be procured under EBRD's PP&R.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Fiscal/Macro-economic risk	Medium/ Medium	The proposed transaction is a sovereign loan to the Republic of Türkiye, represented by the MoTF as the Borrower, as the final beneficiary of HATSU. [REDACTED] all three major rating agencies have upgraded Türkiye's credit rating to BB-/B1/BB- level with positive/stable outlook in 2024.
Implementation risk	Medium/ Medium	The Project's contracting and implementation will be performed by HATSU under ILBANK's supervision. ILBANK is [REDACTED] 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 further, HATSU will be supported by (i) an Advance Procurement consultant and (ii) an Implementation & Monitoring Support consultant to assist with project implementation monitoring (including the delivery of ESAP) and reporting. [REDACTED] The EBRD PP&R will apply, and the Bank (via the Project team) 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.
Cost over-run risk	Medium/ Medium	The cost of key construction materials can fluctuate significantly [REDACTED]. To mitigate these risks, the budget study provided by the technical consultant includes a contingency specifically for unexpected costs.

2. MEASURING / MONITORING SUCCESS

<i>Overall objectives of project</i>	<i>Monitoring benchmarks</i>	<i>Implementation timing</i>
<ul style="list-style-type: none"> - On-time project implementation - Implementation of Capacity Building for EQR Municipalities in Türkiye for HATSU and HMM 	<ul style="list-style-type: none"> - Completion according to the timeline and within the budget - Completion of the Capacity Building for EQR Municipalities in Türkiye for HATSU and HMM 	- [REDACTED]

Transition Impact Monitoring Indicators

Primary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1	CO2e emissions reduced (tonnes/year)	In c.80% of the Arsuz district, septic tanks are used, with wastewater disposal managed through demand-based tank emptying services provided by HATSU, which transports the wastewater to the neighbouring Iskenderun WWTP for treatment. This Project will significantly reduce the distance traveled by septic tank vehicles, contributing to an expected 66% reduction in GHG emissions.	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Wastewater treated (m3/year)	Increasing treatment capacity with the construction of Ucgulluk WWTP and Arsuz sewage network system.	[REDACTED]	[REDACTED]	[REDACTED]

Secondary Quality: Resilient

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
2.1	Practices of the relevant stakeholder improved (operational) [Donor TC]	Development of the Türkiye Capacity Building for EQR Municipalities, including Hatay	No	Yes	[REDACTED]
2.2	Practices of the relevant stakeholder improved (operational) [Donor TC]	Participation of [REDACTED] employees from HATSU and HMM in Türkiye Capacity Building For EQR Municipalities – Module I: Crisis Response	No	Yes	[REDACTED]
2.3.	Practices of the relevant stakeholder improved (operational) [Donor TC]	Participation of [REDACTED] employees from HATSU and HMM in Türkiye Capacity Building For EQR Municipalities – Module II: Asset Management Improvement Programme	No	Yes	[REDACTED]
2.4.	Practices of the relevant stakeholder	Participation of [REDACTED] employees from HATSU and HMM in Türkiye Capacity Building For EQR	No	Yes	[REDACTED]

	improved (operational) [Donor TC]	Municipalities – Module III: Non-financial Risk Management			
2.5	Number of individuals enhancing their skills as a result of training [Donor TC]	The HATSU and HMM employees will receive certification upon successful participation and completion of the capacity-building and training programme, Türkiye Capacity Building For EQR Municipalities.	[REDACTED]	[REDACTED]	[REDACTED]

Additional Indicators

Indicator type	Monitoring indicator	Details	Baseline	Target	Due date
Gender SMART	Practices of the relevant stakeholder improved (data collection, reporting)	HATSU will commit to collecting sex-disaggregated data by using World Bank's Toolkit for Mainstreaming Gender in Water Operations and reporting annually to the Bank according to [REDACTED] indicators which will guide the Client's HR policies and water and wastewater service delivery.	No	Yes	[REDACTED]

3. KEY PARTIES

3.1 BORROWER: THE REPUBLIC OF TÜRKIYE (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). [REDACTED]

3.2 SUPERVISION AND OVERSIGHT AGENCY: ILBANK

ILBANK is a development and investment bank owned by municipalities and provincial special administrations. It serves a total of 1,473 local government units, including 1,400 municipalities, 51 special provincial administrations and 30 water and sewage administrations, through its head office in Ankara, Türkiye, and 17 regional directorates. As of the end of 2024, ILBANK employed 2,750 people.

ILBANK's primary function is to provide financing to local governments for urban infrastructure projects. Its other activities include project development, technical cooperation, allocation of national budget funds to local governments, and resource development. In addition to its own funds, ILBANK collaborates with domestic and international financial institutions, channelling raised funds to local governments for urban infrastructure financing.

The decision-making body of ILBANK is the Board of Directors, consists of seven members, including the General Manager. The Board of Directors is responsible to the general assembly, who examines the annual activity report, audit committee reports, balance sheets and profit-loss accounts, and decides on the discharge of the Board of Directors and auditors and the cancellation of ILBANK's receivables that are deemed impossible to collect. ILBANK also has an Audit Board consisting of three members, two of which are appointed by the MoEUCC, and one by the MoTF. Auditors must meet the requirements for Board members. Auditors serve in accordance with the relevant provisions of Law No 6762.

[REDACTED]

ILBANK has been authorised to implement or supervise infrastructure, construction, and superstructure projects in the earthquake region to support Türkiye's relief efforts. ILBANK is collaborating jointly with [REDACTED] other IFIs on critical infrastructure projects under the Türkiye's earthquake response programme [REDACTED]. ILBANK has already been channelling IFIs funds [REDACTED] for over a decade to support Turkish municipalities' infrastructure needs. HATSU is an existing client of the Bank, and the city has implemented a previous EBRD project [REDACTED]. Hence, ILBANK's supervision of the Project will help HATSU and support the process.

3.3 FINAL BENEFICIARY: HATSU

Founded in 2014, HATSU is the public utility responsible for water supply and sewage services within the provincial boundaries of Hatay. As the final beneficiary, HATSU operates as an affiliated entity of HMM with an independent budget, organizational structure, assets, revenues, and borrowing capacity. The General Manager of HATSU is appointed based on the Mayor's proposal and approved by the Minister of Interior Affairs. The Municipal Council of HMM serves as HATSU's General Assembly, while the Mayor chairs its Board of Directors. HATSU is subject to random audits by the Court of Accounts, the Ministry of Interior.

As of the end of 2024, HATSU employed 2,333 staff across 17 departments. It provided services to 498,014 customers in 2024, covering a population of 1.5 million. HATSU's service area spans 5,524 km² across 15 districts in Hatay. HATSU has 4,000 km of drinking water networks, along with 3,000 km of wastewater networks and 75 km of stormwater networks. HATSU operates 641 active drinking water wells, 588 active water reservoirs, 16 wastewater treatment plants (6 were damaged by the earthquakes and rehabilitation works are ongoing), 4 drinking water treatment plants, within its service area.

HATSU has [REDACTED] experience in managing externally financed projects, collaborating with institutions such as EBRD, JICA, EIB, and UNDP on water supply, wastewater collection, and treatment plant initiatives. The organization leverages a team of technical, administrative, and financial experts to ensure effective tender evaluation and project implementation.

4. MARKET CONTEXT

There are 1,400 municipalities in Türkiye responsible for providing municipal services such as water supply, wastewater, transportation, road construction, and zoning plans. These municipalities are categorised as follows: (i) Metropolitan Municipalities, (ii) City Municipalities, (iii) District Municipalities within a Metropolitan Municipal Area, (iv) District Municipalities, and (v) Town Municipalities. Each municipality is headed by a mayor and a municipal council, both elected every five years, and operates under an autonomous budget. Audits are conducted on a random basis by the Ministry of Interior and the Court of Accounts.

The legal and administrative framework for urban drinking water and wastewater services 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. Municipal water supply and wastewater services are operated by municipality-owned water utilities, which function autonomously under the municipal laws.

Municipalities and water utilities typically adjust tariffs annually according to a formula stated in the law (all cost-plus a profit margin), though some administrations implement monthly adjustments based on inflation. As a result, tariffs can vary significantly across cities. Water and wastewater administrations, like HATSU, determine tariffs, which must be approved by a

General Assembly composed of the local authorities' representatives. [REDACTED] Due to the February 2023 earthquakes, no tariff increases were implemented in Hatay throughout 2023 and 2024. [REDACTED] HATSU has recently begun implementing tariff increases in 2025, which will improve cost recovery in the coming years.

[REDACTED] Discounted tariffs are applied as per the regulations: (i) certain groups, such as families of martyrs, veterans, or disabled individuals, as well as those receiving social assistance, benefit from lower tariffs, and (ii) different tariff levels may apply to districts, town municipalities, and rural areas. Tariff levels should be determined based on the "user pays" and "polluter pays" principles as well as social affordability considerations.

The level of cost recovery through tariffs in Turkish cities is relatively high compared to other developing countries. However, there is still a reliance on grants and subsidized loans from external partners to meet investment needs, particularly in the area of wastewater treatment to comply with EU directives.

According to Türkiye's water allocation regulations, water distribution follows this priority order: (i) drinking and municipal water consumption, (ii) environmental flow requirements, (iii) agriculture and aquaculture use, (iv) energy and industrial needs, and (v) trade, tourism and mining sectors.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS OF THE BORROWER

[REDACTED]

5.2 ECONOMIC ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised B (2019 ESP). Construction of the new Ucgulluk WWTP with the capacity of below 150,000 P.E., sewage network and pumping stations, and the deep sea discharge in Arsuz Hatay area is associated with site-specific E&S impacts that can be readily identified and mitigated. The Environmental and Social Due Diligence ("ESDD") for the Project was undertaken by independent consultants as part of the Feasibility Study work. An Environmental and Social Assessment ("ESA") consisted of project documentation review, site visits, and third-party interviews. The Company's E&S management systems and capacity to implement the Project in line with the EBRD PRs during construction and operations, as well as compliance with EU standards and national permitting process were assessed. Ucgulluk WWTP is below the threshold value given in the national legislation, hence an EIA exemption letter has been granted. The deep sea discharge ("DSD") pipe component will need to undergo a national EIA process that has not yet started. DSD is expected to be 1800m long and be constructed under the adjacent drainage channel for the treated effluent to be discharged to the sea.

The independent ESA concluded that the Company has a limited institutional capacity to implement the Project in compliance with the Bank's PRs and with the national legislation. HATSU is well familiar with the EBRD PRs from previous project. It will need to further develop an environmental management system and improve its existing occupational health

and safety ("OHS") management system aligned with ISO 14001 and ISO 45001 respectively. The Project's E&S impacts are site-specific and mainly restricted to the construction phase and include dust emissions from traffic and excavation/drilling activities; noise impacts; minor land use impacts; temporary closure of roads and water supply interruptions during construction activities, which will be addressed through appropriate mitigation measures in the ESAP. The new WWTP will meet both national and EU standards of wastewater treatment and significantly improve effluent quality, allowing discharge into the water bodies. Sludge management and disposal solution is also aligned with the EU requirements, including sludge drying and use by the cement company.

The Project will use mostly state-owned land and does not require any resettlement. Some very limited economic displacement impacts may occur during the construction phase at several pumping station locations where private agricultural land may be affected. A separate Land Acquisition and Livelihood Restoration Framework ("LALRF") has been prepared for the Project to address those impacts in line with PR5, and the Company will have to prepare and implement LALRP prior to the start of construction. The Client will also need to require from the contractors that sewer pipelines are constructed outside of the summer/tourist season to minimise any negative impacts on the summer houses/apartment buildings and businesses in the project area.

The WWTP site is already impacted by anthropogenic activities and the generic baseline data for the project area does not indicate the presence of any sensitive or critical habitats within or in the close vicinity of the WWTP site. While no significant issues have been identified under PR6 during the project due diligence, ESAP also requires HATSU to engage a qualified ecologist for an additional pre-construction assessment of the terrestrial and marine biodiversity impacts from project components and to ensure that specific biodiversity protection and precautionary measures are in place to avoid and limit any disturbance to wildlife during construction in the coastal areas. All biodiversity mitigation measures required will be specified in the ESMP and incorporated as conditions in tender documents / contractor management to ensure their implementation.

An Environmental and Social Action Plan ("ESAP") has been prepared and agreed with the Company as part of the Project Agreement. It requires the Client to ensure the PIU has appropriate E&S resources for project implementation; establish environmental and OHS management systems and adequate staff training; update relevant E&S policies/procedures and communicate those to the staff; complete the required national EIA process and obtain permits for all project components for both construction and operation; enhance HR policy and GBVH policy and procedures; update worker and third party grievance mechanisms; conduct contractors labour management and monitoring during construction; ensure tender documents incorporate ESMP commitments; implement odour monitoring and control measures with focus on WWTPs and pumping stations in close proximity to residential areas; specific E&S measures to improve sludge management and disposal; chance find procedures; waste management plans for construction and operation, a traffic management plan; Emergency Preparedness and Response Plan covering HATSUs activities and the project components.

A Stakeholder Engagement Plan ("SEP") has been developed both for construction and operations phases, including a grievance mechanism, and HATSU will need to finalise and implement it during construction. The Client will be required to provide annual E&S reports to the Bank.

6.2 INTEGRITY

Integrity due diligence has been conducted on the Borrower, ILBANK (as the project oversight and supervision agency), HMM (as the municipality of the Project), HATSU (as the final 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	TRANSITION IMPACT SCORING CHART
ANNEX 3	GREEN ASSESSMENTS
ANNEX 4	PROJECT IMPLEMENTATION

ANNEX 1 –PROJECT INFORMATION

Hatay is the 13th largest Turkish city with its registered population of 1.5 million (excluding refugees of approximately 300,000). It is in the southeast of the country, positioned 120 kilometres from Aleppo, Syria. The City shares nearly one third of the 900 km Türkiye's border with Syria. Hatay consequently became one of the cities, which hosts a large Syrian refugee population.

Hatay historically has been a growing regional centre producing goods for both domestic and international markets. It is one of the Türkiye's gateways to the Middle East and has strong trade links with Europe and North Africa. Hatay has eight industrial zones. The fourth largest port of Türkiye (Iskenderun Port) and the ninth largest steel manufacturer of Europe (Erdemir) operate in Hatay. In addition to these facilities, there are large shoes and textile manufacturers in Hatay. Agriculture is an important economic activity in the city; cereals, tobacco, and fruit are also intensively cultivated and processed.

On 6 February 2023, eleven cities in the southeastern Türkiye, including the city of Hatay, were hit by 2 major earthquakes with magnitudes of 7.7 and 7.6. Hatay suffered the heaviest damage from the earthquakes with 23,780 casualties and 211 missing. 130,000 structures (including residential, commercial and country houses) were damaged in Hatay. Following the earthquakes, estimated number of residents left Hatay is 400,000, though official number of emigrants is 164,250.



Figure 3-1: Map showing districts of Hatay Province. The area in green is Arsuz district (Source: Zoning Plan Description Report, Hatay Metropolitan Municipality, 2017)

Arsuz District, located on the Mediterranean coast in the province of Hatay, Türkiye, is a popular holiday spot among local tourists from Hatay region thanks to its long coastline. In addition to its resident population, there are many summer houses and tourism facilities that are resided in during summer, leading to a larger seasonal population. Following the limited damage from 2023 earthquakes, more people have settled permanently in their secondary homes, particularly along the coastlines. This population growth and new housing developments have increased the demand for expanded water and wastewater services by HATSU.

About 20 per cent of the population have access to a piped wastewater service, which is connected to Iskenderun WWTP in the neighbouring district. Arsuz district lacks a piped wastewater collection system for the majority of its population and there is not a WWTP serving Arsuz. The majority of wastewater from households is currently collected in septic tanks which discharge to the soil. For those households within housing compounds, wastewater is typically collected and treated in package wastewater treatment plants. The existing situation needs to be enhanced immediately.

The Project consists mainly of the construction of (i) up to 290 km of pipe and 14 pump stations with associated pressure pipes [REDACTED], including technical and financial contingencies, in Ucgulluk catchment (i.e., Arsuz sewage network); (ii) Ucgulluk WWTP [REDACTED] with a capacity of 21,000m³/day average flowrate; (iii) deep sea discharge; and (iv) procurement of construction supervision services.

[REDACTED]

ANNEX 2 – TRANSITION IMPACT SCORING CHART

[REDACTED]

ANNEX 3 – GREEN ASSESSMENTS

SUMMARY

- The Project includes construction of new WWTP with a capacity of 21,000 m³/d and a sewage network of up to 290 km.
- The Project is determined **aligned with both mitigation and adaptation goals of the Paris Agreement.**
- The Project is attributed **100% GET.**
- 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 Project activity is included in the 'MDBs' aligned list' under the category “*Water and sewage systems*”.
- The Project is consistent with the substantial contribution criteria of the EU Taxonomy by demonstrating its positive impact on climate mitigation efforts as well as substantially reducing the most important physical climate risks that are material to that activity (under the category of construction, extension and operation of wastewater collection and treatment contribution to climate mitigation).
- There are no activities included in the 'non-aligned list'.

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.

GET ATTRIBUTION

- The Project is attributed climate and environment GET finance.
- The expected impacts of the transaction are:
 - Environment - Sustainable use and protection of water and marine resources: The Project will provide significant environmental benefits by connecting all households to a centralized sewerage system, ensuring wastewater is treated at the newly proposed Ucgulluk WWTP. Currently, wastewater is collected in septic tanks and transported to another town for treatment. The new WWTP will eliminate this inefficiency and ensure that effluents meet stringent EU standards for "sensitive" water bodies. As a result, the Project will enable the collection and treatment of higher wastewater volumes while significantly improving effluent quality. The WWTP is designed for a **capacity of 21,000 m³/day** [REDACTED]. Additionally, sludge will undergo thermal drying on-site, aligning with EU Sewage Sludge Directive requirements.
 - Climate change mitigation: The Project will reduce greenhouse gas (GHG) emissions by replacing septic tank-based wastewater management with modern tertiary treatment at the Ucgulluk WWTP. In the baseline scenario, wastewater is collected in septic tanks and transported by truck to the Iskenderun sewerage system, where it is treated at the Iskenderun WWTP, with sludge subsequently transported to the Kirikhan WWTP. The feasibility study indicates that while energy consumption for treatment will increase, Scope 1 emissions will be reduced significantly as wastewater treatment transitions from septic tanks to a centralized WWTP. Taking both Scope 1 and Scope 2 emissions into account, the Project is expected to achieve [REDACTED] a **66% reduction** in GHG emissions compared to the baseline scenario.
 - Climate Change Adaptation: A share of the use of proceeds will be allocated to addressing flood risks at the asset level, including site elevation, flood barriers,

surface water drainage and overflow mechanisms to alleviate pressure on the system during extreme precipitation events and/or storm surges. These measures will minimise the risk of permanent damage or major system disruption.

Conclusion: *The Project is 100 per cent GET*

[REDACTED]

ANNEX 4 – PROJECT IMPLEMENTATION

Procurement classification – *Public (sovereign)*

[REDACTED]

EBRD has been working with HATSU since in 2018 when a previous transaction was signed with this client. [REDACTED] HATSU 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. Furthermore, ILBANK is appointed to supervise and oversee the Project. In addition, an independent construction supervision consultant will be hired as Project Engineer.

[REDACTED]

The Project will involve a main works contract for the construction of the Ucgulluk WWTP to be procured through multi-stage procurement procedure based on a design-build contracting strategy (FIDIC Yellow Book) [REDACTED]. In addition, the Arsuz sewer system and Deep Sea Discharge, including pump stations, are proposed to be procured through a single stage open tender under a construction contract (FIDIC Red Book), using the detailed designs prepared by HATSU.

To mitigate the risks in procuring and implementing the above contracts, HATSU will be supported by internationally experienced consultants [REDACTED]

Project implementation arrangements:

The EBRD financed project will be implemented through a PIU that will be established within HATSU and to be supervised by ILBANK. A donor-funded PIU consultant will support HATSU 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 Capacity Building programme for HATSU.

Procurement arrangements:

The Project is classified as a public sector operation for procurement purposes. Works and consulting services financed under the Bank's loan will be procured through Open Tendering and Competitive Selection procedures in accordance with the EBRD's PPR May 2022 for the public sector and HATSU will use the Bank's Standard Procurement Documents.

[REDACTED] HATSU will use the EBRD Client e-Procurement Platform (ECEPP) for all procurement under the Project.

All contracts will be subject to prior review by the Bank in accordance with the PP&R.

[REDACTED]