DOCUMENT OF THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

Approved by the Board of Directors on 3 December 2025[1]

TÜRKIYE

EQR: OSMANIYE WASTEWATER TREATMENT

[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

#	Number	**JPY**	Japanese Yen
%	Percentage	**k**	Thousand
AfD	Agence Française de Développement	**KGM**	General Directorate of Highways
AIIB	Asian Infrastructure Investment Bank	**km**	Kilometre
Capex	Capital expenditures	**LCU**	Local currency units
CBRT	Central Bank of the Republic of Türkiye	**LGD**	Loss Given Default
CHP	Combined Heat and Power	**m**	Million
CO2e	Carbon dioxide equivalent	**m3**	cubic meter
CPI	Consumer Prices Index	**m3/d**	cubic meter per day
e.g.	for example	**MoEUCC**	Ministry of Environment, Urbanization and Climate Change
EIB	European Investment Bank	**MoTF**	Ministry of Treasury and Finance
EIRR	Economic Internal Rate of Return	**Mw**	Moment magnitude
ENPV	Economic Net Present Value	**NTS**	Non-technical Summary
EQR	Earthquake Response	**OA**	Operating assets
ESAP	Environmental and Social Action Plan	**PD**	Probability of Default
ESG	Environmental, Social, and Governance	**PIU**	Project Implementation Unit
ESP	Environmental and Social Policy	**PP&R**	Procurement Policies & Rules
etc.	et cetera	**PSD**	Project Summary Document
EU	European Union	**RAROC**	Risk adjusted return on capital
EUR/€	Euro	**SDG**	Sustainable Development Goal
FATF	Financial Action Task Force	**SEP**	Stakeholder Engagement Plan
FDI	Foreign Direct Investment	**SIF**	Sustainable Infrastructure Fund
FOPIP	Financial and Operational Improvement Programme	**SSF**	Shareholder Special Fund
FX	Foreign Exchange	**TC**	Technical Cooperation
GDP	Gross domestic product	**TI**	Transition Impact
GET	Green Economy Transition	**TRY**	Turkish Lira
GHG	Greenhouse gas	**UN**	United Nations
i.e.	that is	**UNDP**	United Nations Development Programme
IFI	International Financial Institution	**UoP**	Use of Proceeds
ILBANK	Iller Bankasi A.S.	**USD/$**	United States Dollar
IRR	Internal rate of Return	**WWTP**	Wastewater Treatment Plant
IsDB	Islamic Development Bank	**YE**	Year end
ISO	International Organization for Standardization	**YoY**	Year over year
JICA	Japan International Cooperation Agency		

CURRENCY CONVERSIONS

EUR 1 = TRY 45.4312 (as of 17 June 2025)

EUR / TRY[2]	**2021**	**2022**	**2023**	**2024**
EoP	14.6823	19.9349	32.5739	36.7449
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 ("Borrower"), represented by the Ministry of Treasury and Finance ("MoTF"), for the benefit of Osmaniye Municipality (the "Municipality"), are submitted for consideration by the Board of Directors. The implementation agency will be Iller Bankasi A.S. ("ILBANK"), 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 42 million to finance the construction of a new wastewater treatment plant with a treatment capacity of 75,000 cubic meters per day in the city of Osmaniye, its ancillary facilities, and associated construction supervision services (the "Project"). Osmaniye was heavily impacted by the devastating 6 February 2023 Kahramanmaras earthquakes.

The expected transition impact of the Project is derived from (i) the **Green** quality, as the Project will increase wastewater treatment capacity and ensure the treatment of wastewater in compliance with high effluent standards, and a 73 per cent reduction in GHG emissions compared to the baseline, while also contributing to climate resilience through improved surface water quality, and conservation of fresh water resources; and (ii) the **Resilient** quality, as the Project will strengthen Osmaniye's operational resilience from natural disasters via promoting greater disaster preparedness and climate risk management. The Project is 100 per cent GET. The Project is gender additional through the introduction by Osmaniye Municipality for the first time of sex-disaggregated data collection and reporting to support gender-responsive water and wastewater service delivery.

All project preparation and implementation TC support for this operation is funded by 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: Osmaniye Wastewater Treatment - 55568	
Transaction / Board Decision	Board approval[3] is sought for a sovereign loan of up to EUR 42 million to the Republic of Türkiye ("**Borrower**"), represented by the Ministry of Treasury and Finance ("**MoTF**"), for the benefit of Osmaniye Municipality (the "**Municipality**" and "**Beneficiary**"), to finance the construction of a new wastewater treatment plant ("**WWTP**") with a treatment capacity of 75,000 m3/day, its ancillary facilities (effluent discharge pipe), and construction supervision services, to be implemented in Osmaniye (the "**Project**"). The implementation agency for the Project will be 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. ILBANK has been authorised to oversee and ensure implementation of all IFIs' critical infrastructure financing facilities in the earthquake region (including this Project) and the Municipality will be the beneficiary of the loan.
Main Elements of the Proposal	**Transition impact:** **Primary Quality - Green** is derived from enhancing the wastewater treatment efficiency and reducing the GHG emissions by replacing an existing and outmoded WWTP with a modern one. The new WWTP will provide sufficient treatment capacity and higher effluent quality in line with the EU standards, while also contributing to climate resilience through improved surface water quality and conservation of fresh-water resources. The Project qualifies as 100 per cent GET. **Secondary Quality - Resilient** is derived from strengthening the Municipality's operational resilience from natural disasters via promoting greater disaster preparedness and climate risk management. The Municipality will benefit from the Capacity Building Programme TC, funded by the EBRD's SSF. **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. **Gender Additionality:** The Project is gender additional as the Municipality will introduce for the first-time sex-disaggregated data collection and reporting to support gender-responsive and inclusive water and wastewater service delivery related to accessibility, effective usage and health benefits. **Sound banking:** The loan is provided to the Sovereign.
Key Risks	Sovereign risk profile: Türkiye is rated BB-, B1 and BB- by S&P, Moody's, and Fitch, respectively. Contracting/Implementation risk: Advance Procurement consultancy support will be provided to ensure the procurement process is 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.
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 42 million to the Borrower represented by the MoTF. The beneficiary of the loan will be Osmaniye Municipality, and the loan will be used to finance the construction of (i) a new WWTP with a capacity of 75,000 m3/day, (ii) the effluent discharge pipe, and (iii) procurement of construction supervision services in Osmaniye, Türkiye. The Project will be implemented by ILBANK, as it has been authorised to implement the IFIs' critical infrastructure financing facilities in the earthquake region.
Mutual Reliance	Is the Project part of the mutual reliance initiative? – No
Existing Exposure	Sovereign exposure: EUR 554 million [REDACTED] under EQR: Gaziantep Duzbag Water Project, EQR: Hatay Arsuz Wastewater Project, EQR: Adiyaman Wastewater Network Project, Ispartakule - Cerkezkoy Railway Line Project, and Türkiye COVID-19 Equipment Emergency Response. Indirect sovereign exposure: EUR 736 million [REDACTED] under the 8 Hospital PPP Projects (EUR 469 million), the Türkiye Eurasia Tunnel Project (EUR 72 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 the construction of a new WWTP with a 75,000 m3/day treatment capacity, a new effluent discharge pipe, and the procurement of associated construction supervision services.
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	• The Republic of Türkiye, represented by MoTF, as the Borrower. • ILBANK, as the contracting authority and the project implementation agency. • Osmaniye Municipality, as the Beneficiary.
Conditions to subscription / disbursement	[REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	Sovereign loan, unsecured.
Other material agreements	• Standard Terms and Conditions for the Bank' Sovereign Operations with MoTF. • Project Agreement with ILBANK and Osmaniye Municipality.
Associated Donor Funded TC and Blended Concessional Finance	**Pre-signing:** **TC 1: Feasibility Study and Environmental & Social Due Diligence** for assessment and development of the Priority Investment Plan, including procurement and contract strategy; assessment of compliance with the EBRD Environmental and Social Policy and PRs, including development of the ESAP, Resettlement Plan (if required), Non-Technical Summary ("**NTS**"), and Stakeholder Engagement Plan ("**SEP**"). The cost of the assignment was EUR 300,000 and funded by the SSF Work Plan 2023-2024.

	TC 2: Advance Procurement Support: to include consultancy support to ILBANK to ensure compliance with the EBRD PP&R. The cost of the assignment was EUR 74,900 and funded by the SSF Crisis Response Line. **Post-signing:** **TC 3: Implementation & Monitoring 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 funding secured from the SSF Crisis Response Line. **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), and funding secured from the SSF Crisis Response Line. ***Cost sharing:*** The client will make a financial contribution towards the TC project by covering the costs of supervision services from the loan proceeds.
[REDACTED]	

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Osmaniye, located in the southeastern part of Türkiye, is a city with 280,000 inhabitants. Osmaniye is one of the severely affected cities from the 6 February 2023 earthquakes, which impacted 11 provinces in southeast Türkiye. The earthquakes claimed the lives of more than 50,000 people and resulted in damages of around USD 104 billion or equivalent to 11 per cent of Türkiye's GDP.

Osmaniye was significantly impacted by the earthquakes, where more than 1,000 people died and around 16,000 households lost their homes. Many of the affected households are temporarily accommodated in container camps within the city, while others are living in shared arrangements in safer residential buildings. The Municipality's financial and human capital resources are limited and currently dedicated to lead the reconstruction and rehabilitation efforts across several areas including temporary housing, health and education spending, and social initiatives; which constrain their abilities to address sizeable investment needs in municipal infrastructure.

The Project will support the construction of a new WWTP with 75,000 m3/day treatment capacity, a new effluent discharge pipe as an ancillary facility, and procurement of construction supervision services. The Project will enable (i) the efficient and adequate treatment of the wastewater generation capacity in Osmaniye, significantly improving the treated effluent quality to bring it in line with EU standards, and (ii) ensure safe discharge of the treated effluent into natural water systems. The Project is classified as a construction extension and operation of wastewater collection and treatment project. The Project is fully aligned with EU Taxonomy and makes a substantial contribution to the climate change mitigation objective.

The new WWTP, proposed to be financed by the Project, represents one of the most urgent and critical infrastructure investments required in Osmaniye. The existing WWTP is significantly overloaded hydraulically, with a design capacity of 50,000 m3/day, while the average inflow exceeds 70,000 m3/day. As a result of this overload, the existing plant is unable to adequately treat incoming wastewater, and the effluent quality is far below both national and EU standards. The existing WWTP employs trickling filter technology, which is unsuitable for effective nutrient removal. Consequently, high levels of pollutants, including nutrients, are discharged into the Ceyhan River - the receiving water body.

This situation presents multiple risks. The Ceyhan River is a vital freshwater source that supports agricultural activities not only in Osmaniye but also in neighbouring regions Hatay and Adana, which have also been severely affected by recent earthquakes. The pollution resulting from insufficient treatment at the existing WWTP leads to water quality degradation in the river, posing serious risks to public health, regional biodiversity, and economic activities; especially in agriculture, which is a key sector in Osmaniye, due to the region's suitable climate and water resources.

In parallel with improving effluent quality, the new WWTP will incorporate anaerobic digestion of treatment sludge as part of its sludge management strategy. The anaerobic digesters will stabilise the sludge while producing biogas, which will be utilised on-site through a combined heat and power (CHP) unit. The electricity generated from biogas will be used to partially meet the plant's energy demands, thereby reducing reliance on grid electricity and lowering greenhouse gas (GHG) emissions.

Addressing urgent infrastructure needs has been a priority for the Turkish Government as part of an earthquake response programme for the past 2 years. Some of the urgent works that enabled the local population to continue living in the region has been completed with state funds. ILBANK and MoEUCC have carried out a detailed assessment of the water sector's critical infrastructure needs in the earthquake region and have come 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 by the central government to act as the implementation and/or supervision agent for all IFI's earthquake response facilities.

[REDACTED]
The Project is consistent with the Bank's Country Strategy for Türkiye as it aims to support earthquake recovery and improve climate risk management, and the 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	*The percentage of EBRD use of proceeds that supports a green economy transition and therefore qualifies as GET finance exceeds 50%.*	The Project will support the Green transition quality by resulting in notable GHG emissions savings and enhance the reliability and quality of essential wastewater treatment services. The existing WWTP is overloaded, and the effluent water quality is very poor, which impacts the freshwater resources of both Osmaniye and other earthquake-impacted cities nearby. The Project will ensure that the new WWTP will substantially improve the treatment efficiency and quality and bring it in line with the EU standards.

Secondary Quality: Resilient

Obj. No.	Objective	Details
2.1	*The project supports the Resilient quality [REDACTED]*	The Project will contribute to the Resilient transition quality through a dedicated [REDACTED] capacity building programme for the Municipality, including its water and sewerage directorate. This programme will focus on bolstering the crisis response, asset management, and non-financial risk management. In the aftermath of the earthquakes, the Municipality experienced significant challenges due to direct damage to its infrastructure, which severely compromised its 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: (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. (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. (iii) Non-Financial Risk Management Capacity – Building capabilities for identifying, assessing, and managing non-financial risks, including 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.

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

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 a vital wastewater treatment plant 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 and water availability, etc., and to manage these risks.	The Bank has conducted a thorough technical, environmental, social and gender due diligence to help ILBANK and the Municipality to mitigate ESG-related risks.
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.)	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.
Standard-setting: helping projects and clients achieve higher standards	EBRD credit, transition impact, procurement and environmental (as reflected in the GET contribution) related

- 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.).	conditionalities go beyond what commercial funding sources would require, promoting performance improvements and greater transparency.
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**	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. 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 the Municipality. Osmaniye Municipality 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, time savings, participation and health benefits. The Municipality will commit to tracking [REDACTED] indicators and reporting annually to the Bank. Such data driven, evidence-based approach will guide the Municipality's gender-responsive HR policies and practices in relation to skills training and employment to increase women's participation in the Municipality. It will also support the Municipality in applying a gender lens to water and wastewater service delivery in relation to accessibility, health benefits, effective usage, and participation and, in such a way enhance women's access to services and improve their economic, social, and health outcomes in the city of Osmaniye.
Knowledge, innovation, and capacity building EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the	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's objectives, including support to strengthen the capacity of the client.	Project will be procured under the 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, for the benefit of the Municipality. [REDACTED] all three major rating agencies have recently upgraded Türkiye's credit rating to B1/BB-/BB- level with positive/stable outlook.
Implementation risk	Medium/ Medium	The Project will be implemented by ILBANK as the contracting authority. ILBANK is highly experienced in implementing IFI financed projects as ILBANK has been the intermediary of IFI loans (such as the World Bank, EIB, AFD etc.) for over 10 years. To mitigate the implementation risk, ILBANK 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. ILBANK has a dedicated team which supervises the implementation of the projects financed by IFIs. [REDACTED] The EBRD PP&R will apply, and the Bank (via the Project team) will closely follow up the key procurement and implementation milestones 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

Overall objectives of project	*Monitoring benchmarks*	*Implementation timing*
- On-time project implementation - Implementation of Capacity Building for EQR Municipalities in Türkiye for Osmaniye Municipality	- Completion according to the timeline and within the budget - Completion of the Capacity Building for EQR Municipalities in Türkiye for Osmaniye Municipality	[REDACTED]

Transition Impact Monitoring Indicators

Primary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1	Wastewater treated (m3/year)	The new WWTP will increase wastewater treatment capacity and achieve EU-compliant effluent quality, which the existing WWTP does not satisfy.	[REDACTED]	[REDACTED]	[REDACTED]
1.2	CO2e emissions reduced (tonnes/year)	The Project will substantially decrease untreated wastewater bypassed, improve wastewater quality, allowing the digester unit to treat more amount of wastewater. This is expected to result [REDACTED] in Scope 1 and 2 emission reductions.	[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 with involvement of the Osmaniye Municipality.	[REDACTED]	[REDACTED]	[REDACTED]
2.2	Practices of the relevant stakeholder improved (operational) [Donor TC]	Participation of [REDACTED] employees from Osmaniye Municipality in Türkiye Capacity Building For EQR Municipalities – Module I: Crisis Response	[REDACTED]	[REDACTED]	[REDACTED]
2.3	Practices of the relevant stakeholder improved (operational) [Donor TC]	Participation of [REDACTED] employees from Osmaniye Municipality in Türkiye Capacity Building For EQR Municipalities – Module II: Asset Management Improvement Programme	[REDACTED]	[REDACTED]	[REDACTED]
2.4	Practices of the relevant stakeholder improved (operational) [Donor TC]	Participation of [REDACTED] employees from Osmaniye Municipality in Türkiye Capacity Building For EQR Municipalities – Module III: Non-financial	[REDACTED]	[REDACTED]	[REDACTED]

		Risk Management			
2.5	Number of individuals enhancing their skills as a result of training [Donor TC]	The number of municipal employees who 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)	Osmaniye Municipality 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.	[REDACTED]	[REDACTED]	[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, Mehmet Simsek, has been holding the office since 4 June 2023. Mehmet Simsek previously served as the Deputy Prime Minister for Economic and Financial Affairs (2015-2018), as the Minister of Finance (2009-2015), and as the Minister of Economy (2007-2009). [REDACTED]

3.2 IMPLEMENTATION 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, which 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; as well as 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 all IFIs financing facilities supporting Türkiye's relief efforts in the earthquake region. 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. Hence ILBANK will act as the implementation agent of the Project.

3.3 BENEFICIARY: OSMANIYE MUNICIPALITY

Osmaniye Municipality, as the Beneficiary, is responsible for providing water distribution and sewage services in the provincial boundaries of Osmaniye. The Mayor of Osmaniye Municipality is elected upon general elections in Türkiye.

Osmaniye Municipality serves a population of c. 280,000 in its Central District. Osmaniye Municipality works in cooperation with the World Bank and the EU on a separate water supply and sewerage network project, which is currently under implementation.

4. MARKET CONTEXT

There are 1,400 municipalities in Türkiye responsible for providing municipal services such as water supply, wastewater management, 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 determine tariffs, which must be approved by a General Assembly composed of the local authorities' representatives.

[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

[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 WWTP to replace the old inefficient facility at the existing site with an increase of the current permitted treatment capacity by 100,000 P.E., and provision of the treated effluent discharge pipe 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") consisting of project documentation review, site visits, and third-party interviews was conducted. The Client'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. The Osmaniye WWTP extension is below the national EIA threshold values, hence an EIA exemption letter has been granted. The treated effluent pipe will be 6.1 km long and replace the existing old pipe following the same route till the discharge point to the Ceyhan River.

The independent ESDD concluded that Osmaniye Municipality, has a limited institutional capacity to implement the Project in compliance with the Bank's PRs and with the national legislation. An environmental management system and occupational health and safety ("OHS") management system will need to be developed and aligned with ISO 14001 and ISO 45001 requirements 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; contractors' labour and working conditions; temporary closure of roads and water supply interruptions during construction 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 treated discharge into the water bodies. Sludge management and disposal solution is also aligned with the EU requirements.

The Project will use mostly state-owned land and does not require any resettlement. Some limited easement rights over the privately owned parts of discharge pipe without any physical or economic resettlement will be established by the Municipality. 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. The discharge pipe

reconstruction component may have limited construction stage impacts in 400m stretch through the Kastabala wetland and 4km in Key Biodiversity Area (KBA). The proposed pipeline corridor already affected by the existing pipeline traverses a landscape with varying levels of disturbance, including agricultural land, patches of natural habitat, and areas affected by existing infrastructure and human activity. In this context, significant impacts on biodiversity from a new pipeline within the existing corridor are considered unlikely. The desk review of the available information and the site visits by the consultant in 2024 and early 2025 concluded that any significant impact on the critical habitat species is unlikely. However, adequate precautionary measures will be required prior and during the construction activities. The Client will be required to apply an adaptive biodiversity management approach, which is to be informed by results of the pre-construction surveys. Additionally, the ESAP requires the Client to engage a qualified ecologist/biodiversity expert as part of the PIU to ensure that adequate and specific biodiversity protection and precautionary measures are in place to avoid and limit any disturbance to wildlife during construction. All biodiversity mitigation measures required will be specified in the Environmental and Social Management Plan ("ESMP") and incorporated as conditions into tender documents and/or contractor management processes to ensure their implementation. This includes a requirement for the contractors that the pipe works take place outside of the breeding season to minimise any negative impacts on the biodiversity in the project area. In the long-term, the new WWTP and a new pipe provision will significantly improve the current environmental situation of the wetland area.

An Environmental and Social Action Plan ("ESAP") has been prepared and agreed with the Client 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 any required national EIA process and obtain the required permits for all project components for both construction and operation; enhance the HR policies and GBVH policies 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 WWTP facilities 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; decommissioning plan for the old WWTP facilities upon commissioning of the new WWTP; Emergency Preparedness and Response Plan covering Client's activities and the project components; regular monitoring. The Project will have substantial project implementation and capacity post-signing support, including for the ESAP implementation and biodiversity addressment pre-construction. A Stakeholder Engagement Plan ("SEP") has been developed both for construction and operations phases, including a grievance mechanism, and the Client 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 undertaken on the Borrower, ILBANK (as the Implementation Agency), Osmaniye Municipality (as the Beneficiary), and other related parties. [REDACTED]

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

ANNEXES TO OPERATION REPORT

ANNEX 1	Project Information
ANNEX 2	Transition Impact Scoring Chart
ANNEX 3	Green Assessments
ANNEX 4	Project Implementation

ANNEX 1 – PROJECT INFORMATION

Osmaniye, is a small city in southern Türkiye with a population of 280,000; is located at the edge of the fertile Cilician Plain (Cukurova). It relies on the Ceyhan River for agricultural irrigation. The region is renowned for peanut cultivation, being the second largest producer after Adana. Other crops include wheat, corn, olives, sunflower, and radish, with over a third of Osmaniye's land dedicated to agriculture. Notably, 90 per cent of Türkiye's peanuts are processed here.

The industrial development of Osmaniye Province is primarily driven by the food processing and packaging industries, as well as significant investments in iron and steel manufacturing. The region boasts two Organized Industrial Zones, one of which employs approximately 10,000 individuals across the steel, iron, and textile sectors, thereby having a substantial impact on the employment landscape in the city of Osmaniye.

On 6 February 2023, eleven cities in the southeastern Türkiye, including the city of Osmaniye, were hit by 2 major earthquakes with magnitudes of 7.7 and 7.6. Osmaniye suffered 1,010 casualties and of the 22,841 buildings surveyed, 2,531 were found heavily damaged, destroyed, or required demolition.

Figure 1: Türkiye Osmaniye Map with Administrative Boundaries and Districts

As the city strives to recover from the devastation, attention has turned toward infrastructure projects to improve the living conditions and prevent future overloading of critical facilities. The wastewater collected by the sewerage system in Osmaniye city is conveyed to the existing Osmaniye WWTP, located in the northwestern region of Osmaniye Municipality. The WWTP, managed by the water and wastewater unit of the Municipality, has a capacity of approximately 50,000 m³/day. However, the current average flow rate is approximately 70,000 m³/day. To prevent overloading the WWTP, an upstream bypass is operated continuously, resulting in the direct discharge of 20,000 m³/day of untreated wastewater into the Ceyhan River.

The treatment process utilized at the Osmaniye WWTP involves trickling filters, which are designed to treat organic pollution but are inadequate for nutrient removal. Consequently, the effluent quality is substandard and fails to comply with both national and EU discharge criteria. The treated effluent is released through a discharge pipeline with insufficient capacity into the Ceyhan River, where the river water is subsequently

utilized for agricultural purposes. This discharge pipeline ensures that both the treated effluent and bypassed untreated wastewater are discharged at a location downstream from the drinking water intake structure of the nearby city of Hatay, which is severely impacted by the earthquakes.

Figure 2: Existing Osmaniye WWTP site layout

A new wastewater treatment plant (WWTP) with higher capacity is necessary to meet the city's needs. To address this issue, the Osmaniye Municipality plans to commission a new Osmaniye WWTP, which will replace the existing facility and increase the wastewater treatment capacity to 75,000 m3/d. Additionally, the discharge pipeline will be reconstructed to accommodate the increased flow associated with the upgraded capacity of the plant. The new treatment plant will utilize conventional activated sludge system with primary sedimentation tanks to produce effluent quality in compliance with relevant EU Directives. Furthermore, biogas will be recovered through anaerobic digesters to partially offset the energy requirements of the WWTP.

[REDACTED]

ANNEX 2 – TRANSITION IMPACT SCORING CHART

[REDACTED]

ANNEX 3 – GREEN ASSESSMENTS

SUMMARY

- The Project includes the construction of a new WWTP with a capacity of 75,000 m3/day in the city of Osmaniye.
- The Project is determined **aligned with both mitigation and adaptation goals of the Paris Agreement.**
- The Project is attributed **100 per cent 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's activity is included in the 'MDBs' aligned list' under the category *"Water and wastewater"*
- There are no activities included in the 'non-aligned list'.
- The Project is consistent with the substantial contribution criteria of the EU Taxonomy by contributing to climate adaptation and mitigation (Construction, extension and operation of wastewater collection and treatment) and contributing to water (Urban Wastewater Treatment).

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.

- Step 1: The internal screening identified **extreme heat event, increased water stress and drought** as potentially material physical climate risks for the project locations.
- Step 2: During the due diligence phase these risks were further assessed, and the results summarised below.

  Extreme heat event: Rising wastewater temperatures impact the design of aeration systems in aeration tanks, as the Actual Oxygenation Rate varies with temperature. ESAP Action 4.6 will ensure that the aeration system is designed to handle a 2-degree temperature increase and will be able to continue operating without interruptions during extreme heat events at the WWTPs. Extreme temperatures may potentially pose health risks to staff. The ESAP addresses workers' health and safety in extreme heat through a heat risk assessment and management plan. WWTPs are equipped with A/C in key areas, and operational staff exposure to heat is minimized due to automation. Per ESAP Action 4.7 Emergency Preparedness and Response Plan for operation and construction will include extreme heat events. For the construction phase the contractor is required to use prefabricated, air-conditioned structures for rest areas and implement midday breaks in the summer.

  Increased water stress and drought: While droughts can increase pollutant concentrations, wastewater treatment reduces the concentration of pollutants and effectively save the equivalent volume of freshwater needed for dilution to achieve the same concentration. Droughts and water stress are not anticipated to affect the ability of the wastewater treatment plans to operate because they are designed for pollutant loads, not concentrations. As such, the implementation of advanced wastewater treatment methods protects freshwater resources from pollution and effectively saves water in a water stressed context, inherently mitigate water stress and drought risk. As a result, no mitigating measures are deemed necessary.
- Step 3: The Project is unlikely to have an impact on the climate resilience of the wider system in which it operates.

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

CLIMATE RELATED FINANCIAL RISK

Carbon transition risk	
Final carbon transition risk score for the key counterparty of risk	2
Evaluation of carbon transition risks for the key counterparty of risk	N/A

Physical climate risk	
Final physical climate risk score for the key counterparty of risk	*2*
Evaluation of the physical climate risk for the key counterparty of risk (if different from the borrower)	N/A

GET ATTRIBUTION

- The Project is attributed climate and environment GET finance.
- The expected impacts of the transaction are:
    - Climate change mitigation: The project is estimated to reduce GHG emissions by 73 per cent compared to this baseline, [REDACTED] which is primarily attributed to the WWTP components, anaerobic digestion for biogas production. The Project is expected to result in an increase in gross electricity consumption due to the capacity increase. However, the increase in WWTP consumption will be partially offset by the inclusion of biogas facilities, [REDACTED]
    - Climate change adaptation: The climate risk that is being addressed by this project is 'increasing water stress' in the region. The loan will address critical wastewater treatment needs in the city of Osmaniye. Currently, 50,000 m³/day of treated wastewater at the existing WWTP. However, treated effluent does not meet national nor EU discharge standards and discharge of 20,000 m³/day of untreated wastewater are discharged to water bodies. Under these conditions, it is estimated that a water volume equivalent to 3.9 times the total wastewater flow would be needed to dilute the effluents to meet required EU standards. According to the feasibility study, the project is expected to contribute positively to water availability, [REDACTED] Additionally, the project creates opportunities to repurpose treated effluent for irrigation and utilize sludge in agriculture.
    - Environment - Sustainable use and protection of water and marine resources[4]: The treated wastewater effluent from the current WWTP does not meet EU standards, and untreated wastewater is bypassed due to the limited capacity of the Osmaniye WWTP. The WWTP proposed under the project will address these issues by enabling the treatment of wastewater in alignment with current and projected wastewater generation. The discharge standards for the proposed WWTP are fully consistent with EU legislation, including the EU Urban Wastewater Treatment Directive and the EU Sewage Sludge Directive. The new WWTP will significantly enhance treatment capacity, handling 73,706 m³/day—equivalent to a treatment load of 368,530 PE by 2030. The facility's total design capacity of 75,000 m³/day (375,000 PE) ensures sufficient capacity to meet demands until 2041, the designated planning horizon.

*Conclusion: The Project is **100 per cent GET.***

[4] The project passed NTN approval before 1 April 2025, therefore the methodology applicable at the time of the concept review approval is used for green finance determination.

GREEN PROJECT MONITORING PLAN

[REDACTED**]**

ANNEX 4 - PROJECT IMPLEMENTATION

Procurement classification – *Public*

[REDACTED]

The Implementing Agency is at present managing its first project within the EQR programme requiring the application of the Bank's PPR, with first tenders under preparation. It has also significant experience in following other IFI's procurement rules, such as EIB and World Bank and some bilateral (AFD, JICA). Experienced in preparing, tendering and managing infrastructure projects in cooperation with local municipalities, ILBANK can provide the necessary expertise and manpower needed to tender and implement the project. In order to address the gap in the experience in working in accordance with EBRD PPR, a TC funded advance procurement consultant has been mobilised to assist ILBANK with the tender preparation and evaluation of tenders to ensure a successful tender process under each project component.
Furthermore, an Implementation and Monitoring Support consultant will be hired to assist during project/contracts implementation, including ESAP monitoring, and an independent construction supervision consultant will be engaged as Project Engineer.

[REDACTED]
Project implementation arrangements:
For the implementation of the Project, a Project Implementation Unit (PIU) will be established, comprising experts from both ILBANK (potentially from the Headquarters and a Regional Office) and the Municipality, which will be responsible for the procurement of works and services and contract administration under the Project.
The PIU will be further supported by internationally experienced consultants [REDACTED]

Procurement arrangements:

The Project is classified as a public sector operation for procurement purposes. The planned contracts financed from the proceeds of EBRD loan will be procured using open competitive tendering procedures in accordance with Section 3 of the PPR, version 15 May 2022, and the Bank's Standard Procurement Documents will be used.

[REDACTED]

All contracts will be subject to prior review by the Bank in accordance with the PPR.

[REDACTED]

[REDACTED]