

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

Approved by the Board of Directors on 23 July 2020<sup>1</sup>

**KYRGYZ REPUBLIC**

**KYRGYZ WATER SECTOR  
RESILIENCE FRAMEWORK (KWRF)**

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

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

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<sup>1</sup> As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

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**ABBREVIATIONS / CURRENCY CONVERSIONS**

CDP	Corporate Development Programme
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EBRD	European Bank for Reconstruction and Development
ECEPP	EBRD Client e-Procurement Portal
EIRR	Economic Internal Rate of Return
ESAP	Environmental and Social Action Plans
ESDD	Environmental and Social Due Diligence
ESIA	Environmental and Social Impact Assessment
E&S	Environmental and Social
EU	European Union
EUR	Euro
FDI	Foreign Direct Investments
GET	Green Economy Transition
IDR	Issuer Default Ratings
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
KGS	Kyrgyz Som
KPI	Key Performance Indicator
KR	Kyrgyz Republic
PIP	Priority Investment Programme
PIU	Project Implementation Unit
PP&R	EBRD's Procurement Policy and Rules
PR	Performance Requirement
PSA	Project Support Agreement
PSC	Public Service Contract
SBIC	Small Business Investment Committee
SDG	United Nations Sustainable Development Goals
SEP	Stakeholder Engagement Plan
SSP	Social Support Programme
SSF	EBRD Shareholder Special Fund
TC	Technical Co-operation
TI	Transition Impact
VAT	Value Added Tax

**CURRENCY CONVERSION**

(as of 15 May 2020)

**EUR 1 = KGS 82**

## PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning a framework operation for water and wastewater utilities in the Kyrgyz Republic (Kyrgyz Water Sector Resilience Framework; the “KWRF”) are submitted for the consideration of the Board of Directors.

This KWRF builds on the Bank’s track record in supporting water sector reform in the Kyrgyz Republic in parallel with other investments through well-designed projects and institutional support for utilities. In response to the unprecedented COVID-19 crisis, while maintaining the current reform agenda, the KWRF will support critical investment in the country’s water sector. This will increase resilience to better cope with further disruption to water services and increases/changes in demand by increasing direct access to higher quality water, decreasing the chances of infection, and providing critical emergency infrastructure and contingency planning guidance to maintaining water supply continuity during outages.

The KWRF will consist of sovereign debt facilities for an aggregate amount of up to EUR 40 million. This will be provided to water utilities in cities throughout the Kyrgyz Republic and is expected to be co-financed by capital grants from international donors. Each sub-project will be supported by a comprehensive technical cooperation package to ensure appropriate preparation, implementation and corporate development measures. This will be financed by international donors or the EBRD Shareholder Special Fund (“SSF”).

Due to affordability constraints and limited financial resources, it is not currently possible to bring the existing facilities and operations of municipal water companies in the Kyrgyz Republic into full compliance with EU environmental standards for drinking water and wastewater, as required by the EBRD's 2019 Environmental and Social Policy. As such, derogation from the Policy is sought for the KWRF.

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

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

**Suma Chakrabarti**

## BOARD DECISION SHEET

<b>KYRGYZ REPUBLIC – KYRGYZ WATER SECTOR RESILIENCE FRAMEWORK (KWRF) – DTM 50642</b>	
<b>Transaction / Board Decision</b>	Board approval <sup>2</sup> is sought for a framework operation for the Kyrgyz Republic’s water sector, consisting of sovereign debt facilities for an aggregate amount of up to EUR 40 million. This will be provided to water utility companies (“Participating Companies”) in cities throughout the Kyrgyz Republic (“Participating Cities”), also to be co-financed by capital grants from donors. The duration of the proposed framework (the “KWRF”) is anticipated to be five years from the date of Board approval. Approval for loans of up to EUR 25m, and not categorised “A” under the Bank’s Environmental and Social Policy, will be delegated to Management. Approval of donor-funded co-investment grants associated with such projects (excluding SSF) will also be delegated to Management unless the rules of the relevant donor fund or account provide otherwise.
<b>Client</b>	<ul style="list-style-type: none"> <li>• The Kyrgyz Republic (the “Government”).</li> <li>• Municipal water companies as beneficiaries of sub-projects.</li> </ul>
<b>Main Elements of the Proposal</b>	<p><u>Framework coverage:</u></p> <p>Sub-projects under the KWRF will mainly focus on increasing resilience for better coping with [REDACTED] increases/changes of demand; increasing direct access to higher quality water in the Participating Cities. Detailed investment plans will be defined during the sub-project feasibility studies.</p> <p><u>Transition impact:</u></p> <p><b>Well-governed.</b> The KWRF will introduce standardised Public Service Contracts (“PSCs”), long-term tariff policy, strengthening the institutional base and the revision of policies. Sub-projects will also introduce PSCs” and Stakeholder Participation Programmes (“SPPs”).</p> <p><b>Competitive.</b> Sub-projects under the KWRF will introduce Corporate Development Programmes (“CDPs”), tariff increases, enhanced metering and improved collection rates in each Participating City. The KWRF will support the water supply network’s resilience.</p> <p><u>Additionality:</u></p> <p><b>Financing Structure.</b> The market for long-term borrowing for municipal infrastructure projects in the Kyrgyz Republic is limited.</p> <p><b>Policy, Sector, Institutional or Regulatory change.</b> The Bank is uniquely positioned for engaging in policy dialogue with the Government and the local authorities on sector issues and associated reforms.</p> <p><b>Knowledge, innovation and capacity-building.</b> The EBRD provides support for strengthening the client’s capacity in procurement, implementation and corporate development.</p> <p><u>Sound banking:</u></p> <p>This is a sovereign transaction; the Bank’s Standard Terms and Conditions apply.</p>
<b>Key Risks</b>	The main risks are [REDACTED] limited corporate capacity.
<b>Strategic Fit Summary</b>	The KWRF is consistent with the Country Strategy for the Kyrgyz Republic, the MEI’s Strategy and the Green Economy Transition (“GET”) Approach.

<sup>2</sup> Article 27 of the AEB provides the basis for this decision.

## ADDITIONAL SUMMARY TERMS FACTSHEET

<b>EBRD Transaction</b>	<p>Sovereign debt facilities for an aggregate amount of up to EUR 40 million to be co-financed with capital expenditure grants from international or bilateral donors for water and wastewater investments in the Kyrgyz Republic (“KR”). The borrower of sub-projects under the KWRF will be the Government, which will, in turn, on-lend and on-grant proceeds of the loans and grants to Participating Cities for the benefit of Participating Companies throughout the country.</p> <p>Each sub-project financed under the KWRF is expected to be valued between EUR 4-7 million, including the EBRD loan and capital expenditure grant, for water and wastewater investments, mainly in small municipalities.</p>
<b>Existing Exposure</b>	Sovereign exposure: the current portfolio is EUR 91.6 million.
<b>Maturity / Exit / Repayment</b>	A tenor of up to 15 years [REDACTED]
<b>AMI eligible financing</b>	To be assessed at sub-project level.
<b>Use of Proceeds / specific eligibility criteria</b>	Sub-projects under the KWRF will mainly focus on increasing resilience to better cope with [REDACTED] the increases/changes in demand for drinking and healthcare purposes; increasing direct access to higher quality water which could improve hygiene and decrease risk of infection; and providing critical emergency infrastructure and contingency planning guidance to maintain a water supply continuity during outages in the Participating Cities. This includes rehabilitating and expanding water supply networks, expanding reservoir capacity, modernising water treatment facilities, and provisioning emergency tanker fill points
<b>Investment Plan</b>	The total amount of available financing will be up to EUR 40 million. A detailed investment plan will be developed for each sub-project. [REDACTED]
<b>Financing Plan</b>	[REDACTED]
<b>Key Parties Involved</b>	<ul style="list-style-type: none"> <li>• The Kyrgyz Republic as the borrower.</li> <li>• Municipal governments as sub-borrower.</li> <li>• Municipal water utilities as beneficiaries of sub-projects.</li> </ul>
<b>Conditions to effectiveness/first disbursement for each sub-project</b>	<ul style="list-style-type: none"> <li>• The Parliament has ratified the EBRD Loan and Grant Agreements.</li> <li>• Sub-loan Agreement has been signed</li> <li>• Project Agreement and Project Support Agreement have been signed</li> <li>• TC Grant Agreement have been signed</li> <li>• Other CPs as applicable for the individual sub-projects.</li> </ul>
<b>Key Covenants</b>	Covenants will be established at the sub-project level and will reflect each sub-project’s operating and technical realities. [REDACTED]
<b>Security / Guarantees</b>	Sovereign loan
<b>Other material agreements</b>	<p>Loan Agreement between the Bank and the Borrower;</p> <p>Subsidiary Loan Agreement between the Borrower and the Participating City;</p> <p>Project Agreement between the Bank, the Participating City and the Participating Company;</p> <p>Project Support Agreement between the Bank and the Participating City;</p> <p>TC Grant Agreement between the Bank and the Participating Company;</p> <p>Capex Grant Agreement between the Bank and the Participating Company.</p>

<p><b>Associated Donor Funded TC and co-investment grants/concessional finance</b></p>	<p><b>A. Technical Cooperation (“TC”)</b></p> <p>Each sub-project will have individually designed pre- and post-signing TCs. However, certain assignments may be combined for multiple sub-projects to achieve economies of scale where appropriate; typically these will include:</p> <ul style="list-style-type: none"> <li>• <b>Feasibility Study</b> [REDACTED]</li> <li>• <b>Audit and Restatement of the Financial Accounts.</b> [REDACTED]</li> <li>• <b>Corporate Development Programme</b> [REDACTED]</li> <li>• <b>Central Project Implementation Unit</b> [REDACTED]</li> <li>• <b>Project Implementation Support</b></li> </ul> <p>In addition to the above, the Bank will support policy development in the KR through the TCs below:</p> <ul style="list-style-type: none"> <li>• <b>Development of Tariff Reform Recommendations.</b> [REDACTED]</li> <li>• <b>Institutional Development Programme for the Agency and the water sector.</b> [REDACTED]</li> </ul> <p><u>Cost sharing:</u> Under each assignment, the respective client for each sub-project will be responsible for paying all VAT and other indirect taxes that are applied to TC assignments, if the client is the contracting party, as a parallel cost sharing contribution (VAT is levied at 12 per cent in the KR). Additionally, the respective client for each sub-project is expected to provide “in-kind” contributions in the form of office space, communication connections, etc. [REDACTED]</p> <p><b>B. CO-INVESTMENT GRANTS</b></p> <p>Each sub-project is expected to be co-financed by investment grants from international donors and/or the SSF, individually identified for each sub-project.</p>
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[REDACTED]

## INVESTMENT PROPOSAL SUMMARY

### 1. STRATEGIC FIT AND KEY ISSUES

#### 1.1 STRATEGIC CONTEXT

The KWRF will further the Bank's efforts under the Kyrgyz Republic Water and Wastewater Framework and its extensions, approved in 2011 and 2015 (OPIDs 42521 and 45747 respectively, together the "Previous Framework"). This expanded the Bank's engagement in the KR's municipal infrastructure sector, demonstrating its long-term commitment to the country. The Previous Framework supported water sector reform in the KR through small, well-designed projects financing critical investments, combined with organising institutional support to the respective utility companies and local authorities. The Bank's financing and delivery model has so far proved very successful, with 21 signed projects in 19 cities (please see ANNEX 1 for an overview of the Previous Framework's implementation status). Based on these positive experiences, the Government requested the Bank to prepare further water and wastewater projects all over the country.

During the course of the framework's preparation, the COVID-19 crisis has had an unprecedented social and economic impact in the EBRD's region including the KR. Access to reliable drinking water is now even more essential to the safeguarding public health. [REDACTED] In a pandemic crisis it is the most vulnerable groups in society who are disproportionately disadvantaged either in terms of their ability to pay or the shortfall in the quality of water services they receive.

The KWRF will facilitate access to drinking water and target the crisis' medium term impacts by focussing on a more secure water supply service. This is vital for tackling the crisis, mainly through (1) increasing system resilience to provide more continuous drinking water services, and to better cope with increases/changes in demand for drinking and healthcare purposes; (2) increasing direct access to higher quality water which could improve hygiene and decrease the chance of infection; and (3) providing critical emergency drinking water infrastructure and contingency planning guidance to help maintain a continuity of water supply during outages. The KWRF will also address the crisis' social impact on vulnerable people through developing a comprehensive state level social support programme.

While investments through the KWRF will predominantly focus on tackling the COVID-19 crisis, the Bank will maintain its sector reform agenda as pursued in the Previous Framework. [REDACTED]

In order to address this, the KWRF will streamline the Bank's institutional reform and implementation support through the Agency, including on-going work towards a transparent and cost-reflective tariff methodology. [REDACTED] Commercialising the respective utility companies will continue to be supported through a tailored CDP for improving commercial standing, implementing IFRS compliant reporting, project implementation support, as well as a SPP for enhancing local ownership.

The KWRF aligns with the KR's country strategy [REDACTED]. It also aligns with the MEI Sector Strategy [REDACTED]. The KWRF is also in line with the Bank's Green Economy Transition approach [REDACTED].

All sub-projects are consistent with the ambitions of the United Nations Sustainable Development Goals (“SDGs”) in providing wider access to drinking water (SDG6), in creating more sustainable urban communities (SDG11), developing more responsible consumption and production of finite water resources (SDG12), and positively contributing to good health and well-being (SDG3).

## 1.2 TRANSITION IMPACT

The Previous Framework’s key transition objectives supported the Competitive quality through tariff increases, CDP implementation, bulk meter installation and adjustments in consumption norms. They also contributed to the Well-governed quality through establishing contractual arrangements between municipalities and utility companies. This was achieved through signing PSCs and implementing SPPs. In most cases, cities have approved covenanted tariff levels and signed PSCs. The first sub-projects under the Previous Framework are monitored individually while the following sub-projects under the Previous Framework are monitored at framework level [REDACTED].

The KWRF builds on the Previous Framework’s TI achievements, furthering previous efforts by providing institutional assistance to the Agency for supporting the transition to a market-oriented approach. It does so through introducing a standardised tariff methodology and relevant procedures, standardised contractual agreements and support for institutional capacity building. This approach is expected to minimise bureaucracy and enhance efficiency in the medium-term. The KWRF will continue to contribute to the Well-governed quality by introducing PSCs and SPPs. In addition, new policy objectives will be introduced, including developing:

- i. Standardised PSCs, in line with international best practice;
- ii. Long-term tariff policy, recommendations for strengthening institutions and policy revision, together with implementing action plans;
- iii. Recommendations for improving social support mechanisms to minimise affordability constraints for vulnerable groups

The KWRF will also continue to support the Competitive quality by introducing CDPs tailored to each Participating Company, tariff increases, enhanced metering and improved collection rates for sub-projects. In addition, the KWRF will support the resilience of the network by strengthening capacity of water supply network and storage capacity, and increasing access to higher quality water. The sub-projects will include improved water providers’ preparedness through developing emergency and contingency plans mainly for repeated clients.

Obj. No.	Objective	Details
<b>Primary TI Quality: Well-governed</b>		
1.1	A well-defined and standardised PSC in line with international practice will be introduced; PSCs are signed	Standardised PSCs will be developed in line with international best practice, including a well-defined set of KPIs. Under each sub-project, a PSC will be signed between the city and the company. Introduction of standardised PSC is covenanted.
1.2	A cost recovery tariff methodology is introduced where such a methodology does not exist; tariffs are increased to cost recovery levels and indexed to inflation	A transparent and cost-reflective tariff methodology will be developed and delivered to the Agency, in order to support the standardisation of tariff setting and approval procedures. In line with the new methodology, tariffs will be increased to cost-recovery levels under each sub-project [REDACTED]. The level of tariff increase will be tailored on a case by case basis, taking into account the effect of the COVID-19 crisis. Introduction of new tariff methodology is covenanted.
1.3	Sub-projects and associated TC activities will improve upon existing institutional-regulatory capacity to manage sound commercial solutions to the sector	The Agency's institutional capacity will be built to support project implementation and human capital development.
1.4	Strengthen sustainable funding structure from vulnerable people to the sector by social support reform	An improved social support programme will be developed and delivered to the Agency, in order to address the affordability issues of vulnerable people, including those struggling to meet tariff payments whether for physical reasons stemming from a lockdown or for financial reasons.

<b>Secondary TI Quality: Competitive</b>		
2.1	Specific organisational measures to reduce costs will be introduced and material cost reductions will be benchmarked and monitored [REDACTED]	The Participating Companies' operational performance will improve on the back of increased collection rates, enhanced metering, implementing a Financial and Operational Performance Improvement Programme, IFRS compliant reporting and a Management Information System. These efforts will be supported through corporate development programmes under each sub-project.
2.2	Strengthen resilience of the network by strengthening capacity of water supply network and storage, and increasing access to higher quality of water	Each sub-project will strengthen its water supply infrastructure for drinking water production, storage and distribution to better prepare for further service disruption and to cope with increases/changes of demand for drinking and health care purposes, such as washing hands. This will enhance the ability to respond during unexpected or prolonged outages, helping drinking water providers to better prepare for such contingencies through provisioning infrastructure solutions. Each sub-project will increase direct access to higher quality water at home, which could directly decrease the chance of infection by improving hygiene and encouraging people to wash hands more often. It could also indirectly decrease chance of infection by reducing the need to collect water and gather unnecessarily.

[REDACTED]

### 1.3 ADDITIONALITY

Identified triggers	Description
A subsequent/ consecutive transaction with the same client/group either with the same use of proceeds or in the same country ( <b>repeat transaction</b> ).	This is the third water and wastewater framework in the country. Some of the sub-projects proposed for inclusion under the KWRF [REDACTED] are repeat transactions with the same water companies and/or municipalities. Each sub-project will be assessed individually on the basis of due diligence at the time of submission. Initial inclusion of repeat transactions into the KWRF indicative pipeline is warranted due to identified significant investment need (at the municipal level) and the different nature of investments.

<p><b>Financing structure:</b> EBRD offers financing that is not available in the market from commercial sources on reasonable <b>terms and conditions</b>, e.g. a longer grace period that is rarely available in the market, restricted foreign currency financing etc. Such financing is necessary to structure the project.</p> <p>Public sector: EBRD investment is needed to close the <b>funding gap</b>. At the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them.</p>	The Bank is able to offer long-term facilities for infrastructure projects which are not available to the Kyrgyz Republic on the market.
<p><b>Policy, sector, institutional, or regulatory change:</b> EBRD's involvement in a project is considered additional when it is designed to trigger a change in the policy, sector, institutional or regulatory framework, or enhance practices at the sector or country level (e.g., an introduction of cost-reflective pricing of energy, water etc.).</p>	The Bank will introduce new policy objectives, such as the development of: (1) standardised PSCs, in line with international best practice; (2) long-term tariff policy, recommendations for strengthening institutions and policy revision, together with implementing action plans; and (3) improved social support mechanisms.
<p><b>Standard-setting: helping projects and clients achieve higher standards:</b> Client seeks/makes use of EBRD expertise on higher environmental standards, above 'business as usual' (e.g. adoption of emissions standards, climate-related ISO standards etc.).</p>	The Bank's standards, with respect to project preparation and implementation assistance, regular reporting (including through Environmental and Social Action Plan) and sector reform are more advanced than national and sectoral standards.
<p><b>Knowledge, innovation, and capacity building</b></p> <p>EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the project's objectives, including support to strengthen the capacity of the client (e.g. insufficiently experienced PE fund managers or clients unexperienced in complex PPP-type arrangements).</p>	The Bank will continue to provide CDPs tailored to each Participating Company. The Bank will also support the development of emergency and contingency plans mainly for repeated clients, which will help maintain water supply continuity during outages.

## 1.4 SOUND BANKING - KEY RISKS

Risks	Effect / Probability	Comments
Sovereign debt risk	High/High	The spread of COVID-19 has interrupted the country's positive economic trajectory [REDACTED]. The flow of remittances represents the country's main vulnerability when dealing with the coronavirus pandemic's economic implications. [REDACTED].
Tariff risk	High/Medium	[REDACTED]
Implementation risk	Medium/Low	The Participating Companies and Cities will establish PIUs to address specific technical and management issues to be managed locally at the sub-project level while following the CPIU's guidance on all aspects of sub-project implementation. [REDACTED]

## 2. MEASURING / MONITORING SUCCESS

For the KWRF, all sub-projects will receive ETI 70, and Sub-operations PTI will be awarded at framework level. The KWRF will be monitored both at the framework and sub-project level.

<i>Transition Impact Monitoring Indicators and Benchmarks</i>								
Quality	Obj No.	Monitoring Indicator	Corresponding Sub-project Monitoring Indicator/Data source	Details	Base line	Target	Due date	
<i>Well-governed</i>	1.1	Number of recommended strategy agreed by authorities	Recommended strategy agreed by authorities Data sourced from authorities and consultant on Framework level	Adoption of a standardised tariff methodology by the Agency.	[REDACTED]	[REDACTED]	[REDACTED]	
	1.2	Number of recommended strategy agreed by authorities	Recommended strategy agreed by authorities Data sourced from authorities and consultant on Framework level	Development of a standardised PSC by the Agency.	[REDACTED]	[REDACTED]	[REDACTED]	
	1.3	Number of recommended strategy agreed by authorities	Recommended strategy agreed by authorities Data sourced from authorities and consultant on Framework level	Adoption and implementation of a social support programme by the Agency	[REDACTED]	[REDACTED]	[REDACTED]	

	1.4	Number of clients that introduced PSC	PSC signed and implemented	Adoption and implementation of the PSC by each Participating Company.	[REDACTED]	[REDACTED]	[REDACTED]
<i>Competitive</i>	2.1	Number of clients implemented performance or action plan	Performance or Action Plan implemented	Implementation of CDP and its recommendations by each Participating Company and achievement of financial and operational improvements including IFRS compliant reporting.	[REDACTED]	[REDACTED]	[REDACTED]
	2.2	Number of clients achieved cost savings	Cost saving achieved	[REDACTED] reduction of the cost per unit of service by each Participating Company regardless of whether that is charged to users or taxpayers	[REDACTED]	[REDACTED]	[REDACTED]
	2.3	Number of clients reached target tariff level	Tariffs reached the target level with EBRD assistance	Tariff adjustment in accordance with the new methodology by each Participating Company.	[REDACTED]	[REDACTED]	[REDACTED]
	2.4	Number of clients that improved operational performance	Increased operational efficiency	(1) [REDACTED] bulk meter coverage; (2) collection ratio [REDACTED] (3) enhancement of individual metering [REDACTED] (Phase II cities only)	[REDACTED]	[REDACTED]	[REDACTED]
	2.5	Number of individuals with improved access to water services	Number of individuals with improved access to water services	Number of individuals that would benefit from higher water supply quality.	[REDACTED]	[REDACTED]	[REDACTED]

### 3. KEY PARTIES

#### 3.1 BORROWER/GUARANTOR

The Borrower under sub-projects is the Government represented by the Ministry of Finance.

#### 3.2 CLIENT – LOCAL GOVERNMENTS AND WATER COMPANIES

The clients under the KWRF will be the Participating Cities and the Participating Companies. The eligibility criteria for sub-projects under the KWRF will as follows:

- Participating Companies' ability to honour its financial obligations and contribute to the Bank's debt service;
- Participating Cities' willingness to enter into a Project Support Agreement for respective sub-project;
- Participating Companies and Participating Cities' willingness to implement TI objectives; and

- Confirmation of the Ministry of Finance’s willingness to utilise its sovereign debt capacity for sub-projects (within conditions agreed with the IMF).

## **4. MARKET CONTEXT**

Water supply operations in the KR are characterised by severely deteriorated water supply and wastewater collection assets, unreliable water supply (sometimes only a couple of hours per day), outbreaks of waterborne diseases, especially during summer, and low national and local level institutional capacity to manage operationally and financially sustainable water supply services.

Currently, almost two million people (30 per cent of population) in the KR have no access to water services. The ratio is even larger in the potential Participating Cities, [REDACTED]. The Bank currently supports water supply and wastewater management rehabilitation through a number of small, well-designed projects. There are 31 city municipal water companies, and 17 in rural areas that cover multiple villages. To date, the Bank has financed 23 projects in 20 cities (21 projects in 19 cities under the Previous Framework); including second phase projects in Osh, Jalal-Abad and Bishkek. The approach aims to achieve maximum impact given the country’s existing affordability and public debt constraints.

Tariffs are set by the respective local Anti-Monopoly Agency (based on the request from the municipal company) and are subsequently approved the respective City Council.

## **5. FINANCIAL / ECONOMIC ANALYSIS**

### **5.1 BORROWER**

[REDACTED]

### **5.2 PARTICIPATING COMPANIES**

[REDACTED]

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

[REDACTED]

## **6. OTHER KEY CONSIDERATIONS**

### **6.1 ENVIRONMENT AND SOCIAL**

The KWRF is not categorised under the 2019 Environmental and Social Policy. However, each sub-project under the KWRF will be categorised at the CRM stage and will undergo separate Environmental and Social Due Diligence (“ESDD”).

Due to limited financial resources and affordability constraints, it is anticipated that it will not be possible to structure several sub-projects to ensure full compliance with EU environmental standards regarding drinking water quality, wastewater treatment and solid waste operations. Therefore, "blanket" derogation from PR3 will be sought from the Board of Directors for the sub-projects under the KWRF. All sub-projects categorised "A" will be submitted to Board for approval, regardless of the loan's size. Adequate resources for Environmental and Social due diligence and post-signing project implementation will be required.

## **6.2 INTEGRITY**

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

## **6.3 PROCUREMENT**

The sub-projects under the KWRF are classified as public for procurement purposes and therefore all goods, works and related services to be financed from the Bank's loan shall be procured in accordance to the Bank's Procurement Policy and Rules ("PP&R") for public sector operations. Detailed investment plans will be defined during the sub-project feasibility studies. The proposed specific procurement arrangements for each sub-project will be then presented in the respective submission. The majority of the goods and works contracts to be financed from the proceeds of the Bank's loan will be procured through Open Tendering in accordance with Section III, Part 3 of the Bank's PP&R. All consultancy services shall be procured in accordance with Section III, Part 5 of the Bank's PP&R. [REDACTED]

All procurement processes will be managed using EBRD Client e-Procurement Portal ("ECEPP").

**ANNEXES TO OPERATION REPORT**

ANNEX 1	Status of water projects in the KR
ANNEX 2	Transition Impact Status of the Previous Framework
ANNEX 3	Sustainability of public sector debt

## ANNEX 1: STATUS OF WATER PROJECTS IN THE KR

The Previous framework was established in 2011 and extended in 2015. Below is a brief summary table and description of implementation status:

### Kyrgyz Republic Water and Wastewater Rehabilitation Framework (OpID 42521, 45747)

no	Sub-Project name	Approval date [*]	CCY/amount Board approved	Signed amount	Amount cancelled	Disbursed (m)	Progress of the sub - project
1	Osh	May-11	EUR 3.0m	EUR 3.0m	None	[REDACTED]	Completed
2	Jalalabad	May-11	EUR 3.0m	EUR 3.0m	None	[REDACTED]	Completed
3	Kara-Balta	Apr-12	EUR 2.0m	EUR 2.0m	None	[REDACTED]	Delayed
4	Kant	Jan-13	EUR 1.5m	EUR 1.5m	None	[REDACTED]	On-going
5	Talas	Oct-13	EUR 2.0m	EUR 2.0m	None	[REDACTED]	On-going
6	Tokmok	Jul-14	EUR 2.0m	EUR 2.0m	None	[REDACTED]	Delayed
7	Naryn	Jul-14	EUR 2.0m	EUR 2.0m	None	[REDACTED]	On-going
8	Batken	Mar-15	EUR 1.5m	EUR 1.5m	None	[REDACTED]	On-going
9	Osh II	Jun-15	EUR 2.5m	EUR 2.5m	None	[REDACTED]	On-going
10	Cholpon-	May-16	EUR 1.0m	EUR 1.0m	None	[REDACTED]	On-going
11	Kara-suu	Apr-16	EUR 1.0m	EUR 1.0m	None	[REDACTED]	On-going
12	Kizyl-Kiya	Jul-16	EUR 1.5m	EUR 1.5m	None	[REDACTED]	On-going
13	Uzgen*	Feb-17	EUR 2.5m	EUR 2.5m	None	[REDACTED]	Delayed
14	Toktogul*	Feb-17	EUR 1.1m	EUR 1.1m	None	[REDACTED]	Delayed
15	Maili-suu *	Feb-17	EUR 1.5m	EUR 1.5m	None	[REDACTED]	Delayed
16	Balykchi*	Feb-17	EUR 1.1m	EUR 1.1m	None	[REDACTED]	Delayed
17	Karakol	Jan-18	EUR 5.5m	EUR 5.5m	None	[REDACTED]	On-going
18	Jalalabad II	Feb-19	EUR 4.0m	EUR 4.0m	None	[REDACTED]	On-going
19	Myrzake-Kurshab	Nov-18	EUR 2.0m	EUR 2.0m	None	[REDACTED]	On-going
20	Kerben	May-19	EUR 2.5m	EUR 2.5m	None	[REDACTED]	On-going
21	Isfana	Jun-19	EUR 1.6m	EUR 1.6m	None	[REDACTED]	On-going
22	Naryn II	Nov-19	EUR 2.0m	EUR 2.0m	None	[REDACTED]	On-going
Total amount of Board approved[*] sub-projects						[REDACTED]	
Total amount of signed sub-projects						[REDACTED]	
Amounts of sub-projects cancelled						[REDACTED]	

Headroom approved under the Framework	[REDACTED]	
Amounts of the Framework cancelled	[REDACTED]	
Headroom remaining under the Framework	[REDACTED]	

\*denominated in USD

The first phases of the Osh and Jalal-Abad water projects were fully completed in 2018 [REDACTED].

The Osh water II project has advanced well thus far with all contracts awarded, most of the equipment delivered and the design approved by local authorities. [REDACTED]

Projects in Kant, Talas, Naryn and Batken are at late stages of completion, with most of the tenders and construction works already executed. [REDACTED]

The Kara-Balta project [REDACTED] is on hold [REDACTED].

Projects under the Framework extension are generally at early stages of implementation. [REDACTED].

In order to facilitate implementation, the EBRD, in cooperation with the Agency is working on establishing a CPIU to facilitate project implementation and enhance institutional memory.

## ANNEX 2: TI STATUS OF THE PREVIOUS FRAMEWORK

### **TI Performance of the Framework (42521)**

The Framework's key transition objectives support the Competitive quality through increasing tariffs, implementing CDPs, installing bulk meters and adjusting consumption norms. It also contributes to the Well-governed quality through establishing contractual arrangements between municipalities and utility companies by signing public PSCs and implementing SPPs.

Sub-projects under the Framework demonstrate progress towards achieving transition objectives. In most cases, cities have approved covenanted tariff levels and signed PSCs. In addition, CDP consultants are working with cities to develop and implement TI-related covenants. The policy dialogue has mainly been conducted at city level [REDACTED].

### **TI Performance of the Framework Extension (45747)**

Sub-projects under the extension are generally at an early implementation stage, with a number of projects only recently signed in 2019. [REDACTED]

### **Lessons Learned**

#### **Framework approach to consultant selection**

[REDACTED] EBRD pre-shortlisted eight consultancy firms, included on a Pre-qualified list for the water and wastewater and solid waste sectors, to support the Beneficiaries in implementing projects over the 2017-2021 period. Pre-qualified consultants are eligible for the next stage of selection (proposal evaluation) which is managed by the EBRD's clients. The list is refreshed every 1-2 years.

#### **Simplification of procurement procedures**

Due to the low value and large number of procurement contracts, the project implementation and fund disbursement require significant time and human resources, contributing to long implementation periods. [REDACTED]

### ANNEX 3: SUSTAINABILITY OF PUBLIC SECTOR DEBT

**The spread of COVID-19 has interrupted the country's positive economic trajectory** (GDP growth of 4.5 per cent in 2019). Authorities have taken drastic measures to prevent the outbreak, including the closure of borders with China [REDACTED]. Border restrictions are also in place with Kazakhstan and Uzbekistan. All of these have a significant bearing on industrial production, agriculture, construction, tourism, services and other types of activity.

**The remittances channel represents the country's main vulnerability** when dealing with the coronavirus pandemic's economic implications. Remittances constituted 28 per cent of GDP in 2019. [REDACTED] The National Bank of the KR has already sold USD202 million of foreign exchange reserves so far (40 percent more than total FX interventions for the whole year of 2019). In addition, the local currency has depreciated by 7 per cent vis-a-vis the USD since the beginning of the year after a long period of stability from mid-2016. The National Bank of the KR raised the policy interest rate by 75 basis points to 5 percent in February 2020, amid global uncertainty and inflation increases

**Since the banking sector is well capitalised and liquid, it should be able to absorb credit losses and a liquidity squeeze if the crisis is short-lived.** While the financial sector appears to be resilient, vulnerabilities may emerge given the expected economic disruption caused by COVID-19. [REDACTED] Households whose primary earners lose their job may face difficulties serving their mortgages or consumer loans. The depreciation of the exchange rate may adversely affect enterprises that have revenue in KGS but debt service in US dollars.

**In March and May 2020, the IMF approved the Kyrgyz Republic's two requests for emergency financial assistance** (Rapid Financing Instrument and the Rapid Credit Facility) to meet urgent balance of payment needs stemming from the outbreak of COVID-19. In total, the IMF lent USD 240 million to the government ([REDACTED] IMF support may help catalyse donor support and preserve fiscal space for essential COVID-19-related health expenditure.

**The Kyrgyz Republic's risk of debt distress is expected to remain "moderate".** Overall public debt has been on a downward trajectory for the last four years due to the decline in external debt. [REDACTED] With a higher fiscal deficit due to COVID-19, the IMF expects public debt to increase [REDACTED] in 2020. If the authorities keep the general government deficit at 3 percent of GDP in the short and medium term and continue to receive external financing from donors at concessional terms, [REDACTED] the risk of debt distress will remain moderate. The depreciation of the KGS since the beginning of the year does not change this assessment. However, the debt outlook remains vulnerable to shocks from real GDP growth and exports.

**Sovereign credit ratings.** Moody's affirmed the KR's local and foreign currency issuer ratings at B2 and maintained the 'stable' outlook in April 2020. [REDACTED]