

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

Approved by the Board of Directors on 23 March 2022<sup>1</sup>

**UZBEKISTAN**

**KARAKALPAKSTAN  
SOLID WASTE PROJECT**

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

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

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

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**ABBREVIATIONS / CURRENCY CONVERSIONS**

ADB	Asian Development Bank
CAGR	Compound Annual Growth Rate
CAS	Civic Amenity Site
CDP	Corporate Development Programme
COGS	Cost of Goods Sold
EBITDA	Earnings Before Interests, Tax, Depreciation and Amortisation
ECEPP	EBRD Client e-Procurement Portal
EIRR	Economic Internal Rate of Return
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
ESG	Environmental, Social and Governance
ESP	Environmental and Social Policy
ETC	Early Transition Countries
EOAP	Equal Opportunities Action Plan
EU	European Union
EUR	Euro
FIDIC	International Federation of Consulting Engineers
FS	Feasibility Study
FX	Foreign Exchange
FY	Financial Year
GDP	Gross Domestic Product
GET	Green Economy Transition
GHG	Green House Gas
HR	Human Resources
IFI	International Financial Institution
LRF/P	Livelihood Restoration Framework/Plan
MBT	Mechanical and Biological Treatment
MEI	Municipal and Environmental Infrastructure
MSW	Municipal Solid Waste
NTS	Non-Technical Summary
PEP	Politically Exposed Person
PIA	Project Implementing Agency
PIU	Project Implementation Unit
PIP	Priority Investment Programme
PP&R	EBRD's Procurement Policies and Rules
RoK	Republic of Karakalpakstan (an autonomous region in Uzbekistan)
RoU	Republic of Uzbekistan
SCEEP	State Committee for Ecology and Environmental Protection
SDG	Sustainable Development Goal
SEP	Stakeholder Engagement Plan
SPZ	Sanitary Protection Zones
SSF	EBRD Shareholder Special Fund
SUE	State Unitary Enterprise
SWM	Solid Waste Management
TI	Transition Impact
TC	Technical Cooperation
USD	US Dollar
UZS	Uzbekistan Som
WTS	Waste Transfer Station

**CURRENCY CONVERSION**

(as of 1 February 2022)

USD 1 = UZS 10,800

EUR 1 = USD 1.12

## PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Republic of Uzbekistan for the benefit of State Unitary Enterprise Karakalpakstan Toza Hudud (the "Project Company"), a state-owned regional solid waste management utility incorporated in Uzbekistan, are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign loan to the Republic of Uzbekistan of up to USD 70 million (EUR 62.5 million).

The operation will enable the Project Company to modernise and expand basic solid waste management ("SWM") infrastructure in the Republic of Karakalpakstan ("RoK"), an autonomous region in Uzbekistan. The investment will include the construction of one new sanitary landfill and reconstruction of three current waste sites for municipal solid waste ("MSW") each complemented by integrated mechanical and biological treatment ("MBT") facilities, as well as capital expenditure to establish a regional network of MSW transfer stations. The project's transition impact is associated with: (i) the "Green quality" due to the introduction of EU standards at sanitary landfills and climate mitigation benefits tackling environmental pollution and greenhouse gas ("GHG") emissions; and (ii) "Inclusive quality" by improving access to skills and employment for youth and women in the SWM sector through tailored vocational programmes and training. The project is 100 per cent GET eligible. It is also Gender Additional by supporting the Project Company to develop an Equal Opportunities Action Plan to increase female representation across male dominated occupations.

The EBRD Shareholder Special Fund ("SSF") provided pre-signing technical cooperation ("TC") support for the preparation of the project. A post-signing TC to support the project's implementation will be loan-financed. The additional post-signing TCs, which will support the capacity building programme and skills training for youth, are proposed to be financed by the [REDACTED] international donors or the SSF.

I am satisfied that the operation is consistent with the Bank's Strategy for Uzbekistan, the Municipal and Environmental Infrastructure ("MEI") Sector Strategy, the Green Economy Transition ("GET") Approach, the Economic Inclusion Strategy, the Strategy for the Promotion of Gender Equality ("SPGE"), and with the Agreement Establishing the Bank.

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

**Odile Renaud-Basso**

PUBLIC  
**BOARD DECISION SHEET**

<b>UZBEKISTAN – KARAKALPAKSTAN SOLID WASTE PROJECT - DTM 50696</b>	
<b>Transaction / Board Decision</b>	Board approval <sup>2</sup> is sought for a sovereign loan of up to USD 70 million (EUR 62.5 million) in favour of the Republic of Uzbekistan (the "RoU") for the benefit of State Unitary Enterprise Karakalpakstan Toza Hudud (the "Project Company") to finance the modernisation and expansion of basic solid waste management ("SWM") infrastructure in the Republic of Karakalpakstan (the "Project").
<b>Client</b>	The RoU is the borrower. The Project will be implemented by the State Committee for Ecology and Environmental Protection (the "SCEEP" or the "Committee") with the Project Company as Project beneficiary. In 2020, the Project Company reported revenue of USD 1.7 million (EUR 1.5 million), EBITDA of USD 0.33 million (EUR 0.29 million) and total assets of USD 4.2 million (EUR 3.8 million).
<b>Main Elements of the Proposal</b>	<p><u>Transition impact:</u> Primary Quality – Green. The Project will introduce sustainable and efficient SWM practices with the construction of sanitary landfills designed according to EU standards and integrated facilities to recover valuable recyclables, minimise landfilling and treat bio-waste. In addition, it will reduce groundwater and soil contamination risks and significantly contribute to climate change mitigation by reducing greenhouse gas (GHG) emissions versus the no project scenario. Secondary Quality – Inclusive. The Bank will support SCEEP in rolling-out a training programme to improve skills development for youth in the Republic of Karakalpakstan in partnership with a local vocational school. It will also support the Project Company to develop an Equal Opportunities Action Plan to increase female representation in male-dominated occupations.</p> <p><u>Additionality:</u> The Bank will provide long-term financing, which is presently not available from commercial banks. The Bank will support the Project Company and the SCEEP in achieving higher standards through conditionalities (e.g. PP&amp;R, ESAP). A Corporate Development Programme (the "CDP") TC will help to improve the Company's institutional, operational and financial capacity.</p> <p><u>Sound banking</u> – The RoU is the borrower.</p>
<b>Key Risks</b>	<p><u>Borrower's creditworthiness.</u> The RoU is a creditworthy borrower, rated BB- by S&amp;P and Fitch and B1 by Moody's. Uzbekistan's public debt is moderate and sustainable.</p> <p><u>Project implementation risk.</u> The risk is associated with the RoU's potentially weak implementation capacity. It will be mitigated by introduction of a dedicated Project Implementation Unit (the "PIU") supported by the experienced international qualified consultants for procurement support, engineering design and contracts supervision. Funding for consultancy services and PIU operating and administrative costs will be secured through the Loan.</p> <p><u>FX risk.</u> The RoU is expected to be able to manage the FX risk effectively. The RoU has stable hard currency inflows from exports and ample liquid external assets.</p>
<b>Strategic Fit Summary</b>	The proposed Project will promote the sustainability and recourse efficiency of SWM infrastructure in line with the Bank's MEI Sector Strategy and the Strategy for Uzbekistan. The Project fully supports the Bank's GET Approach, Economic Inclusion Strategy and the Strategy for the Promotion of Gender Equality.

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

## ADDITIONAL SUMMARY TERMS FACTSHEET

<b>EBRD Transaction</b>	A sovereign loan of up to USD 70 million (EUR 62.5 million) to the Republic of Uzbekistan (the "RoU" or the "Borrower") for the benefit of State Unitary Enterprise ("SUE") Karakalpakstan Toza Hudud (the "Project Company") managed by the State Committee for Ecology and Environmental Protection (the "SCEEP"). The loan will be co-financed by a USD 9.9 million state budget contribution to cover VAT. The Project will be implemented by SCEEP.
<b>Existing Exposure</b>	Sovereign exposure to the RoU as of 31/01/2022: Portfolio is USD 914 million (EUR 809 819 million; 11 projects) and operating assets are USD 17.3 million (EUR 15.5 million).
<b>Maturity / Exit / Repayment</b>	A tenor of 18 years [REDACTED].
<b>Potential AMI eligible financing</b>	None.
<b>Use of Proceeds</b>	Loan proceeds will be used to finance (i) the Project's Priority Investment Programme (the "PIP") capex, (ii) the Front End Fee, (iii) the operating and administrative costs of the dedicated Project Implementation Unit (the "PIU") set up by SCEEP, and (vi) the Project Implementation Support, Design and Engineering Supervision consultant(s). The Project will be implemented in accordance with the Bank's PP&R. Loan proceeds will be made available to the RoU against documentation confirming use of proceeds. [REDACTED].
<b>Investment Plan</b>	[REDACTED]
<b>Financing Plan</b>	[REDACTED]
<b>Key Parties Involved</b>	<ul style="list-style-type: none"> <li>• Borrower: Republic of Uzbekistan;</li> <li>• Implementing Agency: SCEEP via PIU;</li> <li>• Beneficiary / Project Company: SUE Karakalpakstan Toza Hudud.</li> </ul>
<b>Conditions to disbursement</b>	[REDACTED]
<b>Key Covenants</b>	[REDACTED]
<b>Security / Guarantees</b>	Sovereign loan.
<b>Other material agreements</b>	n/a
<b>Associated Donor Funded TC and co-investment grants/concessional finance</b>	<p><b>A. Technical Cooperation (TC)</b></p> <p><u>Pre-signing:</u></p> <ul style="list-style-type: none"> <li>• <b>TC 1: Technical, procurement, financial, environmental and social due diligence and institutional assessment.</b> EUR 440,000, funded by the EBRD Shareholder Special Fund ("SSF").</li> <li>• <b>TC 2: Preparation of a Resettlement Framework.</b> The assignment's cost is estimated at EUR 72,000, expected to be financed by the SSF. The assignment will also cover the Horezm Solid Waste Project.</li> </ul> <p><u>Post-signing:</u></p> <ul style="list-style-type: none"> <li>• <b>TC 3: Corporate Development Programme</b> for the Project Company. The assignment's cost is estimated at EUR 200,000, expected to be financed by the [REDACTED] international donors, or the SSF.</li> <li>• <b>TC 4: Skills Training Programme for Youth</b> in the Region. The estimated cost of the assignment is up to EUR 60,000, proposed to be funded by a bilateral donor or SSF under the Gender and Economic Inclusion TC Framework.</li> </ul> <p><b>Cost sharing:</b> The post-signing TC [REDACTED] for project implementation support and engineering supervision will be loan-funded as part of the client's parallel cost sharing contribution.</p> <p><b>B. Co-investment grants / Concessional finance (Non-TC)</b></p> <p>None.</p>

[REDACTED]

## INVESTMENT PROPOSAL SUMMARY

### 1. STRATEGIC FIT AND KEY ISSUES

#### 1.1 STRATEGIC CONTEXT

A growing population and rapid economic development of the Republic of Uzbekistan (the "RoU") has focused the government to invest in improving solid waste management ("SWM") infrastructure, which has suffered from severe underinvestment for decades. The majority of the country's 221 landfills, covering a total area of 1,500 ha, meet neither local nor EU sanitary and safety standards. Only 48 per cent of the country's population is covered by regular municipal solid waste ("MSW") collection services.

In 2019, the government adopted the SWM Strategy until 2028 with an overarching goal to integrate all SWM activities and increase availability and efficiency of SWM services to create reliable and socially acceptable SWM system, minimise negative impacts on environment and public health increase solid waste ("SW") reuse and recycling. The key targets by the end of the strategic period include (i) improved landfill standards and optimisation of waste disposal infrastructure with introduction of modern sanitary landfills and sanitary closure / remediation of exhausted dump sites; (ii) 100 per cent MSW collection coverage and development of waste transfer infrastructure; (iii) substantially increased waste recycling and decreased landfilled volumes with introduction of waste processing facilities. In addition to raising SWM operational standards, the government is determined introduce the "polluter pays" principle with a gradual shift to the cost-recovery end-user service tariff (balanced with affordability considerations). The strategic directions further support regulatory improvements to increase SWM sector's sustainability and commercialisation.

The availability of sanitary landfills, recovery / recycling facilities and proper waste collection infrastructure has become even more acute while coping with the impacts of COVID-19 crisis. During the lockdowns, waste production has shifted from the industry and commercial centres to residential areas. Medical waste generation has also increased significantly (by almost 40 per cent). Thus, waste collection and disposal services for the populated areas and health care systems are prioritised by the governments and local authorities.

The proposed Project in the autonomous Republic of Karakalpakstan is included in the country's strategic SWM infrastructure modernisation programme, which is to be financed both from state funds and by various International Financial Institutions ("IFIs"). By implementing the Project, the Bank will join forces with other IFIs to satisfy the demand for core SWM infrastructure investments. The Project is essential for the SWM Strategy implementation as it will provide the basic infrastructure as a first step to introduction of more advanced SWM practices in the region.

In the Republic of Karakalpakstan, which generates around 187 thousand tonnes of MSW annually, regular MSW collection services are largely available in urban areas. In rural areas, accommodating 51 per cent of the region's population, regular services are only available to on average 33 per cent of residents. None of the region's MSW landfills can be categorised as a sanitary landfill. These are waste dumps, with no special equipment or any protection from soil, groundwater and surface water pollution, posing environmental and public health threats. To address these issues the Bank will finance construction of one new sanitary landfill and reconstruction, expansion and upgrade to sanitary level of three operating MSW landfills. The landfills will be compliant with EU standards. In addition to the residual waste disposal area each landfill will have integrated mechanical and biological treatment facilities (waste sorting and composting plants plus a small medical waste incinerator at one of the sites). The Bank will also finance construction of eight waste transfer stations ("WTS") strategically allocated across the

region and supply of special vehicles and equipment for landfill operations, containers for WTS and trucks for aggregated waste transportation from WTS to landfills.

The Project will focus on establishing an integrated regional SWM system (based on a territorial planning) with higher environmental and service quality standards and will help to achieve the national SWM Strategy indicators for MSW collection coverage, recovery / recycling and landfilling ratios. The Project will bring sizeable climate mitigation benefits tackling such issues as environmental pollution and highly potent greenhouse gas ("GHG") emissions from landfills.

In co-ordination with the Asian Development Bank (the "ADB") the Project will support the ongoing SWM sector reform and cross-covenant the achievement of its key milestones related to the regulatory framework development and tariff policy improvements.

The broader Project's outreach will also include the development of market-relevant technical and green skills among young people in the region. The Bank will support rolling-out a training programme in partnership with local vocational schools to improve skills development for youth. The specific focus will be on expanding access to skills and employment for women with the aim to reach [REDACTED] female participants in in this traditionally male dominated sector. Providing employment opportunities and quality education for youth is also among the government's strategic priorities. According to the International Labour Organisation, the unemployment rate among young people aged 15-24 years in Uzbekistan was more than 11 per cent in 2019.

The Project is consistent with the Green Economy Transition (the "GET") Approach and qualifies for 100 per cent GET. It is aligned with the Municipal and Environmental Infrastructure ("MEI") Sector Strategy which supports local governments in the delivery of essential urban services through investments in infrastructure and identifies the SW investments as one of the core strategic directions: *"New sanitary landfills in accordance with EU standards; closure and remediation of dumps; basic waste collection services and upgrade of collection infrastructure (bins/containers, vehicle fleet); pre-treatment of waste and waste-to-energy solutions"*. The Project is consistent with the Bank's Country Strategy for Uzbekistan, which notes that *EBRD will help to improve solid waste management, including infrastructure and systems to encourage separation at source and recycling. EBRD will also promote projects with GET elements to support a shift to a less energy intensive economy and lower levels of air pollution.* The Project is also aligned with the Bank's Strategy for the Promotion of Gender Equality and the Economic Inclusion Strategy. It also contributes to many UN Sustainable Development Goals (SDGs), namely: *SDG 9. Industry, Innovation and Infrastructure, SDG 11. Sustainable Cities and Communities, SDG 12. Responsible Consumption and Production, and SDG 17. Partnerships for the SDGs.*

The Bank has a well-established cooperation with RoU, supporting water and wastewater supply improvements. In parallel, the Bank is considering a similar transaction in the Horezm Region.

## 1.2 TRANSITION IMPACT

The tables below set out the TI Objectives and details of the Project.

### Primary Quality: Green

Obj. No.	Objective	Details
1.1	<i>The percentage of EBRD use of proceeds allocated to the project that qualifies as GET is 50% or higher.</i>	The Project will introduce sustainable and efficient SWM practices due to the construction of sanitary landfills designed to EU standards with integrated MBT facilities. It will contribute to climate change mitigation with GHG emissions reduction driven by the increased waste recovery / recycling levels and lower volumes of waste deposited.

		Based on the forecast of MSW generation and increased waste collection service coverage, the Project's FS estimates average GHG emissions reduction of around 43,000 tonnes of CO <sub>2</sub> equivalent per annum during the Project's operational stage. [REDACTED]. The Project will also introduce environmental management practices and standards compliant with EU Directives for landfills and MBT operations and contribute to pollution prevention and control affecting surface water, soil and groundwater.
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### Secondary Quality: Inclusive

Obj. No.	Objective	Details
2.1	<i>The project will introduce a new, replicable and internally accredited training programme improving skills for [REDACTED] from the inclusion target group in partnership with (local) vocational schools or universities.</i>	<p>The Republic of Karakalpakstan has been facing migration loss over years as a result of high unemployment and low-income levels. Employment rate in RoK is the lowest among the regions of the country.</p> <p>In collaboration with local technical and vocational institutions, the Project will support SCEPP to develop and implement training programmes that will assist [REDACTED] young people gain market-relevant technical skills. The focus will be on providing young women and men with skills needed for middle and high skill job opportunities in the SWM sector and green skills that can be transferred to other sectors (e.g. agriculture, energy). The programme will increase awareness of wider job opportunities and targeted activities to attract female students. The programme will aim to reach at least 20 per cent of female participants in this traditionally male dominated sector.</p> <p>SCEPP will present and promote the training programme with a view that its introduction will be part of the relevant educational curriculum with the potential for industry recognised certification.</p>
2.2	<i>The project will introduce equal opportunity policies and practices. This will increase the company's female workforce share [REDACTED] and strengthen women's ability to take up opportunities in the workplace. A special focus will be on currently male-dominated occupations or levels, where the share of women will increase [REDACTED]</i>	<p>Women are underrepresented in the SWM sector in Uzbekistan and in the Project Company. Currently, women only represent 16 per cent of the Project Company's workforce, while managerial positions are occupied exclusively by men. The Project will assist the Company in developing a Corporate Development Plan that will (i) review Company's HR policies and practices including policies and procedures to address and prevent Gender Based Violence and Harassment (ii) identify actions to promote equal opportunities and increase safety amongst female employees (iii) develop an equal opportunities action plan ("EOAP") to be discussed, agreed and adopted by the Client. Implementation of gender-oriented HR policies and the EAOP will support the Project Company in increasing female representation in currently male-dominated occupations [REDACTED]. In particular, this will support the Project Company in recruiting and retaining new female employees during the construction and operating stages.</p>

**Delivery risks** are high. The main risk, associated with implementation, will be mitigated through retaining the Project Implementation Support, Design and Engineering Supervision consultant(s) to manage procurement and supervise civil works. Risks related to the Company's operations, management and corporate governance will be further mitigated with the support of training of the client's staff by the respective contractors who would provide the Project facilities and dedicated post-signing capacity building / corporate development TC(s).

### 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 first sovereign loan to rehabilitate SWM infrastructure in the country. However, in parallel, the Bank is considering a similar transaction in the Horezm Region [REDACTED].
Additionality sources	Evidence of additionality sources
<p><b>Financing structure</b></p> <ul style="list-style-type: none"> <li>– EBRD’s involvement in a project is considered EBRD offers a tenor and a grace period, which is above the market average and is necessary to structure the project.</li> <li>– Public sector: EBRD investment is needed to close the funding gap. At the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them.</li> </ul>	EBRD will provide a loan with an 18-year tenor [REDACTED] to match the procurement and construction period and economic assets life. Such terms are not currently available from commercial banks.
<p><b>Policy, sector, institutional, or regulatory change</b></p> <ul style="list-style-type: none"> <li>– EBRD’s involvement in a project is considered additional when it is designed to <b>trigger a change in the policy</b>, 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.).</li> </ul>	EBRD will set the appropriate tariff-related covenants in the loan agreements to contribute to the Company’s resilience and promote user pay principle via tariff increases.
<p><b>Risk mitigation</b></p> <ul style="list-style-type: none"> <li>– EBRD helps the client to mitigate <b>environmental, social and governance (ESG) risks</b> through identification of risks related to the depletion of natural capital assets, raw materials and water availability, etc., and to manage these risks.</li> </ul>	<ul style="list-style-type: none"> <li>– Implementation Project-specific ESAP, SEP, LRP will help to efficiently manage respective environmental and social issues.</li> <li>– The Project will introduce environmental management practices and standards compliant with EU Directives for landfills and MBT operations and contribute to pollution prevention and control affecting surface water, soil and groundwater.</li> </ul>
<p><b>Standard-setting: helping projects and clients achieve higher standards</b></p> <ul style="list-style-type: none"> <li>– Client seeks/makes use of EBRD expertise on <b>best international procurement standards</b>.</li> <li>– Client seeks/makes use of EBRD expertise on higher inclusion and <b>gender standards and/or equal opportunities action plans</b>.</li> </ul>	<ul style="list-style-type: none"> <li>– The EBRD PP&amp;R will be applied.</li> <li>– The Company seeks EBRD expertise to incorporate higher gender standards and develop an EOAP. As part of the CDP, the EBRD will support the client in the review and improvement of its HR policies and practices and to develop the EOAP.</li> </ul>
<p><b>Knowledge, innovation, and capacity building</b></p> <ul style="list-style-type: none"> <li>– EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the project’s objectives, including support to <b>strengthen the capacity of the client</b>.</li> </ul>	The CDP will be designed in line with EBRD’s experience in the sector. It will contribute to the improvement of the Project Company’s institutional, operational and financial capacity.

## 1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Republic of Uzbekistan's creditworthiness.	Low/ Medium	The RoU is a creditworthy borrower. Uzbekistan's public debt is moderate and sustainable. S&P and Fitch rate the RoU BB-(stable) and Moody's rates it B1 (positive). External government debt is estimated at 35 per cent of GDP in 3Q 2021.
Implementation risk	Medium/ High	The Project will be implemented by the PIU at SCEEP. Application of EBRD PP&R and the Bank's prior review of the key procurement documentation and decisions should ensure selection of the experienced and creditworthy consultants, contractors and suppliers to perform the works and supply the goods as well as the balanced contracts conditions used. The procurement of project components will be carried through ECEPP. The qualified consultancy support will be provided to assist the PIU throughout implementation. The consultant(s) will assist PIU for by preparing tender documents, including technical specifications, as well as evaluation reports. The consultant will provide technical supervision and monitoring services during the construction phase to mitigate the implementation risk. These services will be funded by the loan proceeds.
FX risk	Medium/ Medium	The RoU is expected to be able to manage the FX risk effectively. It has stable hard currency inflows from exports and ample liquid external assets.

## 2. MEASURING / MONITORING SUCCESS

Overall objectives of project	Monitoring benchmarks	Implementation timing
<ul style="list-style-type: none"> <li>- Timely implementation of the Project</li> <li>- Maintaining appropriate environmental standards</li> </ul>	<ul style="list-style-type: none"> <li>- Completion according to the timeline and within the budget.</li> <li>- Successful and timely implementation of ESAP.</li> </ul>	[REDACTED]

### TI indicator(s), primary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	TC
1.1	New or updated GET technology or product leading to resource efficiency introduced	Project completion: introduction of MSW mechanical and biological treatment at new landfills.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.2	New or updated GET technology or product leading to pollution prevention control introduced	Project completion: construction of new sanitary landfills compliant with EU standards	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.3	CO2e emissions reduced (tonnes/year)	Emissions reduction within 2 years from Project completion due to	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

		MSW diverted from landfill [REDACTED].				
1.4	Waste recovered, recycled or re-used (tonnes/year)	MSW diverted from landfills within 2 years from Project completion [REDACTED] .	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

**TI indicator(s), secondary Quality: Inclusive**

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	TC
2.1	Tailored training programme developed and implemented	Client will develop and implement a training programme with market-relevant skills for the SWM sector and transferrable green skills.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.2	Practices of the relevant stakeholder improved (equal opportunity practices of the client)	The client will adopt an Equal Opportunities Action Plan.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.3	Number of youth enhancing their skills as a result of training	Youth in the region will be benefiting from the accredited training programme. Over a period of 4 years [REDACTED] young students will benefit from training, aiming to have at least 20 percent of female students.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.4	Share of female employees in total number of employees	Improve share of female employees [REDACTED].	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

**Additional Indicators**

Indicator type	Monitoring indicator	Details	Baseline	Target	Due date	Donor
Advisory & Policy Indicators	Practices of the relevant stakeholder improved (others)	The country will enhance regulatory framework: (i) regulations for SWM operations, (ii) regulations improving public accountability and transparent tariff setting methodology; and (iii) new or revised Law on Solid Wastes	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Advisory & Policy Indicators	Tariffs reached the target level	Introduction of tariffs at operating cost recovery level.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Advisory & Policy Indicators	Compliance with pre-signing requirements standards	Introduction of environmental management practices and standards compliant with EU Directives for landfills and MBT operations.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Advisory & Policy Indicators	Project preparation product approved: Feasibility study approved	FS Final Report presented and Project structured based on its findings.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Advisory & Policy Indicators	Project preparation product approved	Livelihood Restoration / Resettlement Framework developed.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Advisory & Policy Indicators	Project implementation support completed: Corporate Development Plan approved	Corporate Development Programme for the Project Company adopted.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Advisory & Policy Indicators	Number of individuals (local population) with improved access to solid waste services	Number of people (rural population) with regular access to SWM services within 2 years from Project completion.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

### 3. KEY PARTIES

#### 3.1 BORROWER

The EBRD will extend the loan to the RoU for the Project Company's benefit. Uzbekistan is undergoing a major reform process, including FX market liberalisation, a tax and customs regime overhaul, trade liberalisation. There are also profound changes to macroeconomic policy instruments, and various processes designed to strengthen competition in state-dominated sectors. [REDACTED].

From September 2017, the UZS has been allowed to float freely and currency controls have been loosened. After depreciating by 12 per cent on average in 2020, the exchange rate was stable in 2021. Inflationary pressures subsided. Inflation has slowed (10 per cent in 2021 versus 11.1 per cent in 2020) thanks to currency stabilisation and conservative monetary policies implemented by the central bank. The policy rate was reduced from 16 per cent in early 2020 to 14 per cent in September 2020 and has been maintained at that level. A gradual move towards inflation targeting is envisioned as part of a comprehensive plan for monetary policy reforms.

Uzbekistan's public debt is moderate and sustainable. S&P<sup>3</sup> and Fitch<sup>4</sup> rate the RoU BB- (stable) and Moody's<sup>5</sup> rates it B1 (positive). In February 2019, Uzbekistan tapped international bond

<sup>3</sup> December 2021.

<sup>4</sup> October 2021.

<sup>5</sup> December 2021.

markets with a debut USD 1.0 billion Eurobond placement composed of five-year and ten-year tranches. The total public and publicly guaranteed external debt ratio reached 35 per cent of GDP in 3Q 2021. Risk of external debt distress is manageable given Uzbekistan's significant foreign exchange reserves, which exceed the government's borrowings. Although a significant portion of reserves consists of monetary gold and deposits in the Fund for Reconstruction and Development, which cannot be readily used to defend against external shocks, Uzbekistan's reserves remain above standard measures of reserve adequacy. Debt servicing costs are low, as most of the debt is of a concessional and a long-term nature.

The economy has performed relatively well during the Covid-19 crisis. In 2020, real GDP grew by 1.6 per cent due to construction and export of gold. The economy has been on a speedy recovery path throughout 2021. Real GDP grew by 7.4 per cent in 2021, led by expansion in industry, services, communication, transportation and retail. The economy is projected to expand at 6.0 per cent in 2022. Remittance-led surge in private consumption along with increased investment in infrastructure will be key drivers of GDP growth. Structural reforms and an improved business environment should support private investment.

### **3.2 IMPLEMENTING AGENCY**

SCEEP was established in April 2017 to facilitate SWM sector reform. It has adequate project implementation experience gained from the two ongoing projects with ADB in the SWM sector. SCEEP will be responsible for the Project implementation via the PIU, expected to be a separate legal entity within its structure. The qualified consultancy support will be provided to assist the PIU with procurement, engineering studies and design and contracts execution supervision, as well as assist the client throughout implementation, including with ESAP and loan reporting. These services will be funded from the Bank's loan proceeds. [REDACTED]. The Project Company will provide required inputs and assistance to the PIU and will be involved in the Project's implementation through review of the Project's technical parameters, including future operational and maintenance requirements and required staff training. More detailed information is provided in Annex 2.

### **3.3 PROJECT COMPANY**

SUE Karakalpakstan Toza Hudud is an SWM company operating in the Republic of Karakalpakstan and is 100 per cent owned by the SCEEP. The Project Company is a legal successor of MSW management departments at the local administration level. It was founded along with twelve other regional SWM companies in June 2017 as a first step to sector unbundling and corporatisation.

The Project Company provides SW collection, transportation and disposal services through its local branches in 16 regional districts, covering all rural areas and small cities, and in the RoK's capital Nukus. Its assets include specialised vehicles, containers, collection points as well as 14 dumpsites across the region. The Project Company employs 486 people. [REDACTED]

The Project Company is at a relatively early stage of corporate development and is in need of support for corporate improvements and capacity building. This will be addressed with a dedicated TC for corporate development.

## **4. MARKET CONTEXT**

Thirteen SUEs responsible for solid waste collection, disposal and sanitary cleaning services at the regional level currently operate in each of the twelve Uzbekistan's regions and the autonomous

Republic of Karakalpakstan. These entities were established in 2017 as a first step of the SWM sector reform for servicing rural areas with the intent to achieve full service coverage. They were assigned the most difficult areas of operations, where long waste haulage, remoteness, limited MSW quantities and below average household incomes are prevalent. All these SUEs are managed by SCEEP.

The Republic of Karakalpakstan is an autonomous republic with a total area of 116,600 km<sup>2</sup> located in the north-west of the country in the lower Amu Darya River. The RoK population is 1.87 million people (5.5 per cent of the country's population), of which 51 per cent is represented by rural population, where SWM service coverage is on average 33 percent.

The state regulates provision of MSW collection and disposal services. Financing of MSW systems both at the country and at the regional level largely depends on government subsidies. The MSW tariffs have not changed for several years, while the cost of service provision has grown. In 2021, the tariffs for population and legal entities have increased by 24 per cent and 10 per cent respectively. Tariffs are subject to approval by the RoU's Ministry of Finance. [REDACTED].

ADB leads support to the country's SWM sector reform. The SWM Strategy was developed with the technical assistance provided by ADB along with their first investment to improve SWM management in Tashkent. As a next step, ADB provides further technical assistance to improve the sector's regulatory framework, including assistance with (i) drafting the new Law "On Solid Wastes" and various sector-specific environmental and technical regulations; (ii) defining performance requirements and developing corresponding regulations and performance management framework; and (iii) improving tariff setting and environmental monitoring regulations.

The Bank will co-ordinate the sector reform's development with ADB and other IFIs by establishing appropriate covenants [REDACTED].

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

### **5.1 ECONOMIC ANALYSIS**

[REDACTED]

### **5.2 PROJECTED PROFITABILITY FOR THE BANK**

[REDACTED]

## **6. OTHER KEY CONSIDERATIONS**

### **6.1 ENVIRONMENT**

Categorised B (ESP 2014). Environmental and social due diligence ("ESDD") for this project was carried out by independent consultants and included site visits to the number of proposed landfill sites and current landfills to select the most suitable location for Project facilities, interviews with representatives of the Project company responsible for waste handling, reviews of available documentation and proposed landfills design. The due diligence identified that potential adverse impacts of the Project will be local and temporary, whereas the implementation of the Project will improve the waste handling standards and thus sanitary and epidemiological situation region. Currently there are no EU-compliant landfills in Uzbekistan and existing landfills tend to be waste dumps with no leachate and landfill gas control. The Project is structured to meet EU standards and the proposed landfills design and waste transfer stations are based on the EU Landfill directive and BAT Conclusions for Waste Treatment Facilities.

The Project will comprise establishing of a new landfill and reconstruction of three current sites, plus waste transfer stations. Current dump sites will be closed once the new facilities are operational. The new and upgraded landfills will reduce impacts on soil and groundwater quality, and also monitor odours, air emissions and noise levels. It will lead to an increase in properly managed solid waste of 330 thousand tonnes per year, and reduction in GHG of around 43,000 tonnes of CO2 equivalent per year. The Project's design provides for waste sorting plants to separate recyclables and compostable waste.

There are no residential buildings within 500m of the proposed landfills. During the operation of the Project facilities, however, some types of current activities may be prohibited within the boundaries of the statutory Sanitary Protection Zones ("SPZ). A Livelihood Restoration Framework has been developed as part of the ESDD. A detailed Livelihood Restoration Plan will need also to be implemented by the client when the final SPZ is defined based on air dispersion modelling results and the relevant extent of impacts. Stakeholders of the Project and potentially affected people will need to be consulted and a Stakeholder Engagement Plan, which identifies the appropriate timing frequency and modality of engagement has been agreed. As part of its stakeholder engagement activities, the client has published the Project's Non-Technical Summary and the Stakeholder Engagement Plan at SCEEP's official website.

The detailed ESAP, containing specific time-bound measures for the identified impacts, has been finalised and agreed with the SCEEP and the Government. It includes measures to enhance the client capacity to implement and manage the Project in line with applicable EU standards and the Performance Requirements. The client will need to develop contractor management procedures to ensure that construction and transportation and other services contractors adhere to the Bank's Performance Requirements. The client will also need to develop and rollout a worker grievance mechanism in line with the Bank's requirements. The PIS consultants will assist with ESAP implementation and the Bank will be supporting a Corporate Development Programme.

## **6.2 INTEGRITY**

In conjunction with OCCO, the Bank conducted integrity due diligence on the SCEEP and the Project Company, their senior management. [REDACTED]. No conflicts of interest were identified or are foreseen. The proposed transaction does not pose an unacceptable integrity or reputational risk to the Bank.

The Project's procurement will be carried out in line with the Bank's PP&R. [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.

## **6.3 AFFORDABILITY ANALYSIS**

[REDACTED].

## ANNEXES TO OPERATION REPORT

ANNEX 1	GREEN ASSESSMENTS
ANNEX 2	PROJECT IMPLEMENTATION AND PROCUREMENT PLAN
ANNEX 3	TRANSITION IMPACT SCORING CHART

## ANNEX 1 – GREEN ASSESSMENTS

### Introduction

The Project will improve solid waste management standards and thus the sanitary, environmental and epidemiological situation in the autonomous Republic of Karakalpakstan (the "RoK"), where current sites tend to be non-engineered dumpsites and municipal solid waste ("MSW") is generally disposed of with virtually no environmental protection measures. The proposed design of the Project's facilities is based on the EU Landfill Directive, BAT/BREF documents for Waste Treatment Facilities and Waste Incineration Directive.

The Project is assessed as **aligned** with the goals of the Paris Agreement. It contributes to the achievement of targets set out in the national Solid Waste Management Strategy (2019-2028): (i) a 100 per cent coverage of the population with MSW collection and removal services, (ii) a landfill diversion target of 60 per cent, (iii) bringing all landfills in compliance with the established requirements and (iv) reclamation of landfills.

Landfill diversion will be achieved by the MBTs due to bio-stabilisation of the biodegradable share of the mixed MSW stream. The biodegradation process step reduces the volumes of wastes as well as production of landfill gas and leachate in the sanitary landfill. In addition, the arid climate conditions further reduce biodegradation processes of the stabilised waste, therefore low quantities of landfill gas are expected to be generated. Technical measures at the landfills, along with composting plants, will further reduce the potential venting of methane contributing to the average CO<sub>2</sub>-equivalent emission reductions of approximately 43,000 tonnes per year. Additional improvements in recycling will be achieved by the mechanical process step of the MBT and the use of source-separated biodegradable waste from specified sources at composting facilities.

Once new sanitary landfills and MSW transfer stations are operational, it will trigger sanitary closure and remediation of old dumpsites, which are considered to have high greenhouse gas emissions. Respective obligations to contemplate this in line with EBRD and national environmental and social requirements have been included in the legal documentation as part of the ESAP.

The investment components support the RoK to move towards an integrated solid waste management system alongside a low-carbon pathway. There is a low risk of carbon lock-in as the design criteria for the MBTs considered one or two shifts per day, therefore allowing for a flexible approach regarding changing waste generation over time.

### Paris alignment assessment

#### *General screening of alignment with the mitigation goals of Paris Agreement*

- Some of the Project's components (i.e. composting sites) are **included** in the 'aligned list'.
- Regarding Project, there are **no** activities included in the 'non-aligned list'.

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

The Project is exposed to the risk of flooding. This has been assessed as part of the environmental and social due diligence and actions have been included in the ESAP to ensure appropriate siting of project facilities.

### GET attribution

GET attribution of 100 per cent is due to the introduction of sustainable and efficient solid waste management practices compliant with EU standards at sanitary landfills and the Project's climate mitigation benefits tackling environmental pollution and GHG emissions.

The new sanitary landfills will reduce impacts on soil and groundwater quality, and monitor odours, air emissions and noise levels. The Project will lead to an increase in properly managed MSW of *396 thousand tonnes per year*.

On the back of forecast MSW generation and collection growth, the Project's Feasibility Study estimates average GHG emissions reduction of around *43,000 tonnes of CO<sub>2</sub> equivalent per year* during the Project's operational stage. This is mainly due to substantial volumes of waste diverted from landfills to the MBT facilities (compared with baseline "no project" scenario).

## ANNEX 2 – PROJECT IMPLEMENTATION

[REDACTED]

*Contracts risk assessment*

*- Moderate*

The Project mainly consists of low to moderate risk contracts, the highest of which are obtaining local approvals since the landfills will have to comply with the EU standards and local authorities are normally hesitant to approve anything which is not in line or beyond the local requirements.

### **Project implementation arrangements:**

The PIU, to be created by SCEEP [REDACTED], will be responsible for the day-to-day management of the proposed Project and any further similar Projects, including Horezm SW project. The PIU will be responsible for, among other, preparing project implementation plans, procurement documents and progress reports, obtaining all required local approvals, as well as managing all contracts, including consultancy contracts, though all contracts are expected to be signed by SCEEP.

Given that i) the feasibility studies are completed for both, this Project and the one in Horezm, and ii) the client has requested to proceed with the advance contracting for both projects, the implementation strategy was developed to combine tendering for these projects components' of a similar nature under the combined tenders. The PIU will be assisted by an advance procurement consultant who has already started working with SCEEP to select the Project Implementation Support consultants, in accordance with PP&R, and to develop the draft Projects Operations Manual satisfactory to the Bank.

The Project Implementation Support consultants will assist the PIU with the following tasks for both Projects: (i) conducting all ground, water and other investigations and studies necessary to develop the design documentation (this may be tendered as a separate assignment), (ii) preparing design documentation for certain components (WTSs and CASs), (iii) preparing full packages of the tender documents, including technical specifications and other parts of the employer's requirements, (iv) managing tenders in ECEPP, (v) conducting evaluation of the submitted tenders, (vi) administering the signed Supply contracts, (vii) design supervision functions as defined in local legislation, (viii) supervising the works contracts by carrying out function of the Engineer as defined in respective FIDIC contracts, (ix) ESAP implementation (this may be tendered as a separate assignment), and (x) loan reporting. [REDACTED].

### **Procurement arrangements:**

Goods, works and services financed from the loan will be procured using open tendering and simplified tendering procedures in accordance with the requirements of Section III, Article 3 of the Bank's Procurement Policies and Rules (PPR) for public sector operations. The Bank's appropriate Standard Procurement Documentation will be used.

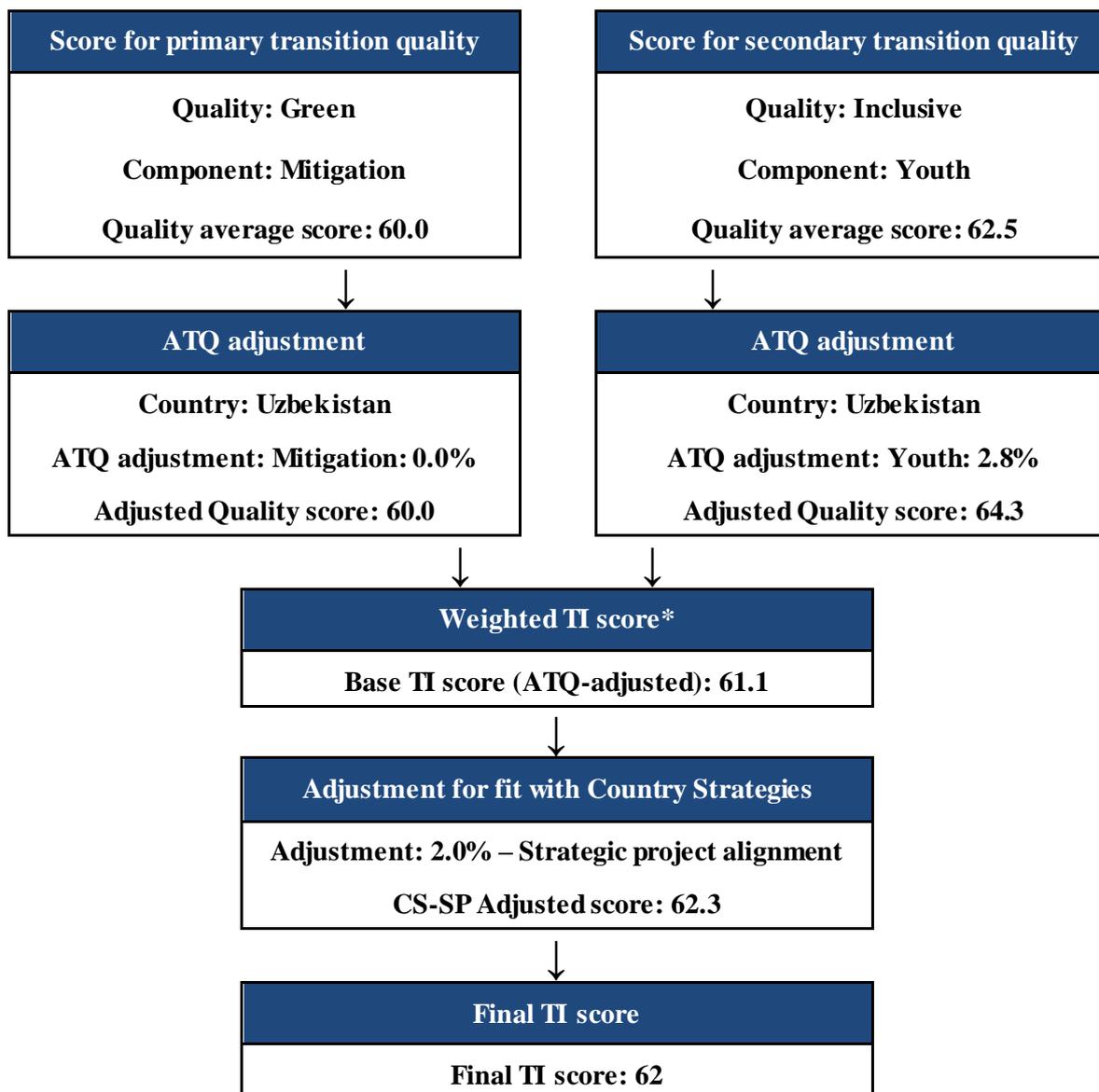
All consultants will be procured in accordance with Section III, Article 5 of the Bank's PP&R.

All loan-financed contracts as well as grant-funded CDP consultancy contract will be procured using ECEPP and subject to prior review by the Bank.

The PIU's core staff will be selected using national procedures and its financing will be subject to development of the acceptable to the Bank Projects Operations Manual.

General Procurement Notice was published in February 2022 in ECEPP. [REDACTED].

## ANNEX 3 – TRANSITION IMPACT SCORING CHART



\*The Primary Quality score is weighted 75% for the calculation of the Base TI Score. The Secondary Quality is weighted 25%.