

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

Approved by the Board of Directors on 23 March 2022¹

KYRGYZ REPUBLIC

**KYRGYZSTAN CLIMATE RESILIENCE WATER SUPPLY
PROJECT**

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

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

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

EIRR	Economic Internal Rate of Return
E&S	Environmental and Social
ESAP	Environmental and Social Action Plan
ESIA	Environmental and Social Impact Assessment
ESDD	Environmental and Social Due Diligence
ESMMP	Environmental and Social Management and Monitoring Plan
FY	Financial Year
GET	Green Economy Transition
GDP	Gross Domestic Product
IFCA	EU Investment Facility for Central Asia
IFI	International Financial Institution
IMF	International Monetary Fund
IPPF	Infrastructure Project Preparation Facility
IWCI	Irrigation Water Conveyance Infrastructure
KGS	Kyrgyz Som (local currency)
KR	Kyrgyz Republic
LARF	Land Acquisition and Resettlement Framework
PEP	Politically Exposed Person
PIU	Project Implementation Unit
PP&R	EBRD's Procurement Policies and Rules
PR	Performance Requirement
SECO	State Secretariat for Economic Affairs
SEP	Stakeholder Engagement Plan
SWRA	State Water Resources Agency
TI	Transition Impact
TC	Technical Co-operation
TOR	Terms of Reference
WUA	Water Union Association

CURRENCY CONVERSION

(as of 22 February 2022)

EUR 1 = KGS 95.85

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Kyrgyz Republic (the “Borrower”) are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign loan to the Borrower in the amount of up to EUR 50 million. The loan will consist of three tranches: Tranche 1 of up to EUR 14.13 million, Tranche 2 of up to EUR 26.93 million and Tranche 3 of up to EUR 8.94 million. Tranche 1 is proposed to be co-financed by a capital grant of EUR 3.74 million from the EBRD Shareholder Special Fund (“SSF”) Work Plan 2021-2022. Tranches 2 and 3 are proposed for co-financing of up to EUR 15 million from the EU Investment Facility for Central Asia (“IFCA”), subject to funding availability [REDACTED].

The operation will enable the Kyrgyz Republic to build new and rehabilitate existing irrigation water conveyance infrastructure in Jalalabad, Naryn and Osh regions. The Project expects to create economic opportunities for more than 14,300 rural residents, decrease water conveyance losses [REDACTED], electricity consumption [REDACTED] and CO2 emissions [REDACTED]. The operation will also focus on implementing a tariff reform, capacity building of the implementing agency and supporting the economic inclusion of women. The Project’s expected transition impact is associated with the Green quality through introducing a sustainable approach managing environmental assets and building resilience to climate change, as well as with the Well-governed quality through implementing an irrigation tariff reform and capacity building of the implementing agency. The Project is 100 per cent GET eligible.

Pre-signing Technical Cooperation (“TC”) support for the Project’s preparation was financed from the EBRD Infrastructure Project Preparation Facility (“IPPF”) and the EBRD Shareholder Special Fund (the “SSF”) Work Plan 2019-2020. The Project will also benefit from the post-signing TCs focusing on (i) increasing capacity of the implementing agency by financing of the individual consultants of the Project Implementation Unit (“PIU”); (ii) project implementation support, design and engineering supervision; (iii) implementing a tariff reform, building capacity of the implementing agency and (iv) supporting economic inclusion of women. Individual consultants of the client’s PIU and Project implementation support TCs are also proposed to be financed from the SSF Work Plan 2021-2022 while remaining TCs will be proposed to be financed by the Early Transition Countries Fund (“ETC Fund”) or international donors.

I am satisfied that the operation is consistent with the Bank’s Strategy for Kyrgyz Republic, the Municipal and Environmental Infrastructure Sector Strategy, the Green Economy Transition (“GET”) Approach, Strategy for the Promotion of Gender Equality and with the Agreement Establishing the Bank.

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

Odile Renaud-Basso

BOARD DECISION SHEET

KYRGYZ REPUBLIC - KYRGYZSTAN CLIMATE RESILIENCE WATER SUPPLY PROJECT - DTM 49793

Transaction / Board Decision	<p>Board approval² is sought for a sovereign loan of up to EUR 50 million in favour of the Kyrgyz Republic (the “KR”) to rehabilitate irrigation water conveyance infrastructure in the KR (the “Project”). The loan will consist of three tranches: Tranche 1 of up to EUR 14.13 million, Tranche 2 of up to EUR 26.93 million and Tranche 3 of up to EUR 8.94 million. Tranche 1 will be included in a loan agreement [REDACTED]. Tranches 2 and 3 will be made available by way of entry into amendment(s) to the existing loan agreement or by way of entry into separate loan agreement(s) (under terms substantially similar to those of the loan documentation for Tranche 1) [REDACTED].</p> <p>Board approval is sought for Tranche 1 to be co-financed by a capital grant of up to EUR 3.74 million from the SSF Work Plan 2021-2022. Tranches 2 and 3 are expected to be co-financed by a capital grant of up to EUR 15 million from EU Investment Facility for Central Asia (“IFCA”). It is proposed that the decision to commit Tranche 2 (by way of entry into supplemental loan documentation) is delegated to Management whilst, the decision to commit Tranche 3 (categorised A under the EBRD's 2014 E&S Policy (again by way of entry into supplemental loan documentation) will require a further Board approval after completion and public disclosure of the relevant ESIA as further described in Section 6.1. Board approval is also sought for the use of SSF grant from the SSF Work Plan 2021-2022 in support of (i) individual consultants of the Project Implementation Unit (PIU) [REDACTED]; (ii) project implementation support TC [REDACTED].</p>
Client	<p>KR is the borrower. The Project will be implemented by the State Water Resources Agency (“SWRA”) under the Ministry of Agriculture, Forestry and Water Management.</p>
Main Elements of the Proposal	<p><u>Transition impact:</u></p> <ul style="list-style-type: none"> • Primary Quality – Green. The Project is expected to enhance resilience to climate change and enable sustainable and efficient water usage; • Secondary Quality – Well-governed. The Project will focus on tariff reform to secure operating and maintenance cost recovery in the irrigation sector. <p><u>Additionality:</u></p> <ul style="list-style-type: none"> • 15-year loans are not currently available from commercial banks; • The Bank’s involvement will be additional because of the imposition of a set of conditionalities (e.g. applying EBRD PP&R, implementing ESAP), which will allow for the Project’s more efficient implementation; • The Project will covenant a policy change through implementing the tariff reform; • The SWRA will make use of EBRD expertise in higher inclusion and gender standards through a dedicated component enhancing women’s economic opportunities. <p><u>Sound banking:</u></p> <ul style="list-style-type: none"> • The KR is the borrower; Implementation risk will be mitigated by engaging an experienced Project Implementation Support consultant.
Key Risks	<ul style="list-style-type: none"> • <u>Borrower’s creditworthiness.</u> The Borrower’s risk is acceptable. Although the COVID-19 crisis combined with recent political uncertainty and depreciation of local currency have had a substantial negative impact on its economy, the KR’s public debt is expected to remain manageable in the medium and long term and the KR’s risk of debt distress is projected to remain “moderate”. • <u>Project implementation risk.</u> This risk is associated with the SWRA’s potentially weak implementation capacity and will be mitigated by establishing a separate Project Implementation Unit with full time ad hoc appointed experts and involving a Project Implementation Support consultant. • <u>FX risk.</u> The KR is expected to be able to manage the FX risk effectively.
Strategic Fit Summary	<p>The proposed Project promotes efficient water use in line with the Bank’s Municipal and Environmental Infrastructure Sector Strategy, and the Bank’s Strategy for Kyrgyz Republic. The Project fully supports the Bank’s Green Economy Transition (“GET”) Approach, as well as the Strategy for the Promotion of Gender Equality.</p>

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

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	Up to EUR 50 million sovereign loan to the Kyrgyz Republic (the “KR” or the “Borrower”). The loan will consist of three tranches: Tranche 1 of up to EUR 14.13 million, Tranche 2 of up to EUR 26.93 million and Tranche 3 of up to EUR 8.94 million. Tranche 1 will be included in a loan agreement [REDACTED]. Tranches 2 and 3 will be made available by way of entry into an amendment to the existing loan agreement or by way of entry into a separate loan agreement (under terms substantially similar to those of the loan documentation for Tranche 1) [REDACTED]. Tranche 1 is proposed to be co-financed by a capital grant of up to EUR 3.74 million from the SSF Work Plan 2021-2022. Tranches 2 and 3 are expected to be co-financed by a capital grant of up to EUR 15 million from EU Investment Facility for Central Asia (“IFCA”). The EBRD loan will be also co-financed by a EUR 8 million state budget contribution to cover VAT. The Project will be implemented by the SWRA.
Existing Exposure	Sovereign exposure: EUR 101.0 million The Borrower: EUR 101.0 million
Maturity / Exit / Repayment	The proposed loan tenor is 15 years [REDACTED].
Potential AMI eligible financing	None.
Use of Proceeds	<p>The proposed EBRD loan will finance</p> <ul style="list-style-type: none"> • Tranche 1 (EUR 14.13 million): (i) rehabilitating irrigation water conveyance infrastructure (“IWCI”), incl. water intakes, pumping stations, main canals and a distribution network in the Osh region (Aravan-Ak-Buura irrigation scheme) and (ii) front-end fee in respect of this tranche. Tranche 1 is proposed to be co-financed by a capital grant of EUR 3.74 million from the SSF Work Plan 2021-2022. • Tranche 2 (EUR 26.93 million): (i) rehabilitating IWCI, incl. water intakes, pumping stations, main canals and a distribution network in the Jalalabad (Nichke-Sai and Verkhney Ak-kup irrigation schemes) and Naryn (Ala-Buga irrigation scheme) regions, and (ii) front-end fee in respect of this tranche. Tranche 2 would seek additional EUR 11.03 million worth of grant co-financing from the IFCA, subject to funding availability during 2022. Availability of Tranche 2 (by way of entry into supplemental loan documentation) is subject to the IFCA approving the capital grant. It is proposed that the Board delegate the decision on making Tranche 2 available to Management. • Tranche 3 (EUR 8.94 million): (i) rehabilitating IWCI, incl. water intakes, pumping stations, main canals and a distribution network in the Osh (Shor-Talaa irrigation scheme) region, and (ii) front-end fee in respect of this tranche. Tranche 3 would seek an additional EUR 3.97 million grant co-financing from the IFCA, subject to funding availability during 2022. Availability of Tranche 3 (by way of entry into supplemental loan documentation) is subject to (i) the IFCA approving the capital grant and (ii) Board approval upon completion of the ESIA disclosure for the Shor-Talaa irrigation scheme as further explained in Section 6.1.

	<p>[REDACTED].</p> <p>Loan proceeds will be made available to the KR against documentation confirming use of proceeds. Progress reports will be submitted [REDACTED]. The Borrower will open and maintain a special account for PIU operating and administrative costs. The Project implementation and procurement plan is presented in Annex 2.</p>
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> • Borrower: KR; • Implementing agency: SWRA; • IFCA as a capital grant provider.
Conditions to disbursement	<p>For Tranche 1:</p> <p>Project Implementation Unit established;</p> <p>Legal opinions received. [REDACTED]</p> <p>For Tranche 2:</p> <p>National Environmental Impact Assessment in respect of Tranche 2 prepared and approved by the Borrower's competent authority; [REDACTED].</p> <p>For Tranche 3:</p> <p>National Environmental Impact Assessment in respect of Tranche 3 prepared and approved by the Borrower's competent authority; [REDACTED].</p> <p>Environmental and social disclosure requirements for Shor-Talaa irrigation scheme have been met; [REDACTED].</p>
Key Covenants	[REDACTED]
Security / Guarantees	Sovereign loan
Other material agreements	n/a
Associated Donor Funded TC and co-investment grants/concessional finance	<p>A. Technical Cooperation (TC)</p> <p><u>Pre-signing:</u></p> <ul style="list-style-type: none"> • TC 1: Feasibility Study including Environmental and Social Impact Assessment (ESIA) and Hydrology. The cost of the assignment is EUR 1,399,000, financed by the EBRD Infrastructure Project Preparation Facility ("IPPF") and the SSF; • TC 2: Strategic Environmental and Social Assessment Scoping Study. The cost of the assignment is EUR 68,668, financed by the SSF. <p><u>Post-signing:</u></p> <ul style="list-style-type: none"> • TC 3: Individual consultants of the PIU. The estimated cost of this assignment is up to EUR 370,000, proposed to be financed by the SSF WP 2021-2022; • TC 4: Project Implementation Support, Design and Engineering Supervision Consultant for Tranche 1. The estimated cost of this assignment is up to EUR 890,000, proposed to be financed by the SSF WP 2021-2022;

- **TC 5: Tariff Reform and Capacity Building Programme** for the SWRA to include, among others, developing a tariff setting methodology and building the SWRA's capacity. The estimated cost of this assignment is up to EUR 800,000, expected to be financed by the ETC Fund or other international donors;
- **TC 6: Promoting gender equality** to support woman's employment, skills training, and entrepreneurship opportunities, as well as enhanced and equitable access to water services. The estimated cost of this assignment is up to EUR 300,000, expected to be financed by the ETC Fund or other international donors.

Cost sharing: The Client will finance the Project Implementation Support and Engineering Supervision consultants for Tranches 2 and 3 in the amount of up to EUR 1.83 million from EBRD loan proceeds.

B. Co-investment grants / Concessional Finance (Non-TC)

The Project is expected to be co-financed by a EUR 3.74 million capital grant from the SSF Work Plan 2021-2022 and a EUR 15 million capital grant from the EU IFCA.

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

The Kyrgyz Republic is one of the EBRD region's countries most vulnerable to the impacts of climate change. As glaciers continue to melt, the country's hydrological cycle will become more seasonal, with lower long-term river flows and increased water stress. Temperatures are expected to rise by up to 2.1°C by 2030. Unaddressed, these climate changes will have a critical impact.

In July 2017 the Government of Kyrgyz Republic adopted the National Irrigation Programme for 2017-2026 (the "Programme"), part of the broader "Forty Steps to the Future" programme covering all of Kyrgyz Republic's key development priorities between 2017-2040. According to the Programme, new irrigation water conveyance infrastructure ("IWCI") will be built throughout the Kyrgyz Republic with a view to (i) create new jobs, improve socio-economic conditions and reduce migration, (ii) develop crop farming and (iii) increase tax revenues and the country's GDP. In line with the Programme, USD 860 million is to be allocated for IWCI from different sources (incl. IFI loans) until 2026.

The EBRD's investment will help the Kyrgyz Republic adapt to climate change impacts by implementing parts of the Programme through financing the construction and rehabilitation of existing IWCI in the Jalal-Abad, Osh and Naryn regions (the "Project"), where the socio-economic issues are most pressing. The Project will include constructing and/or rehabilitating water intakes, pumping stations, main canals and a distribution network to deliver water from rivers to farmland. As a result of the Project, approx. 8,700 hectares of new irrigated land will be available to farmers, creating additional economic opportunities for more than 14,300 rural residents. Water conveyance losses are expected to decrease [REDACTED], electricity consumption [REDACTED] and CO2 emissions [REDACTED]. The Project's preparation has been coordinated with the World Bank, Asian Development Bank and State Secretariat for Economic Affairs (SECO) of Switzerland who are key sector policy makers and financiers.

The Project complies with the Municipal and Environmental Infrastructure Sector Strategy, which articulates the importance of efficient use of finite water resources, and the Strategy for Kyrgyz Republic, which calls for exploring opportunities to improve water supply and develop irrigation networks, particularly through projects in smaller regional cities. It is fully in line with the Bank's Green Economy Transition approach. The Project also contributes positively to the United Nations Sustainable Development Goal (SDG) №6 by reducing freshwater withdrawal from natural water resources given the predicted reduction in water availability arising from climate change impacts. By explicitly taking into account the barriers that women face in accessing economic opportunities related to new irrigation infrastructure, the Project also contributes towards the Bank's Strategy for the Promotion of Gender Equality and SDG №5 on Gender equality.

The Kyrgyz Republic's economy has been severely affected by Covid-19 disruptions. This is due to the country's high external vulnerability, strict lockdown measures crippling domestic demand, and the government lacking the means for significant stimulus spending. A dramatic drop in imports from China (58 per cent year-on-year in 2020) hit associated domestic production, re-export activities, and budget revenues. Real GDP dropped 8.6 per cent year-on-year in 2020. The economy grew by 3.6 per cent in 2021, fuelled by strong recovery in remittances from Russia and growth in private consumption, which positively affected the services industry. However, fixed investment remained subdued in 2021. In this context, the Project is of increased importance for the Kyrgyz Republic as it will contribute to post COVID economic recovery.

The Project will be co-financed by capital grants from the SSF and IFCA (EUR 18.74 million in total) with a grant ratio of 29 per cent, and a concessionality of 47 per cent as per IMF methodology.

1.2 TRANSITION IMPACT

The table below sets out the Project's TI Objectives. The relevant Monitoring Indicators and timing for their delivery are shown in Section 2.

№.	Objective	Details
Primary TI Quality: Green		
1.1	The percentage of EBRD use of proceeds allocated to the project that qualifies as GET is 50 per cent or higher.	The share of GET-compliant EBRD proceeds is 100 per cent. The Project will build resilience to climate change by financing IWCI modernisation in the KR. The Project qualifies as a positive environmental activity.
Secondary TI Quality: Well-Governed		
2.1	The project supports an improvement to the existing tariff regulatory regime or tariff methodology.	Currently, there is no irrigation tariff policy in the country, resulting in low resource efficiency and over-use of existing resources. The Project will contribute to developing the KR's long-term irrigation tariff policy and, as the next step, implement this policy. The Tariff Reform Programme for the SWRA will focus on developing a tariff setting methodology (which is not currently in place in the KR) aiming to gradually transit to operating and maintenance cost recovery. A proper tariff methodology will also incentivise users to optimise their water usage, contributing to the sustainability of water resources. The development of the irrigation sector tariff policy (incl. tariff setting methodology) and its implementation will be covenanted in the loan documentation.

Delivery Risks

The risks are high. One of the main risks is associated with implementation, which will be mitigated by a Project Implementation Support consultant for procurement and supervision of civil works. [REDACTED].

1.3 ADDITIONALITY

Identified triggers	Description
A subsequent/consecutive transaction with the same client/group either with the same use of proceeds or in the same country (repeat transaction)	Historically, the EBRD has financed many projects in the KR's drinking water sector. Since July 2019, drinking water and irrigation water infrastructure is managed centrally by the SWRA, which will be the Bank's key counterparty for the Project. Since January 2021, SWRA is under the Ministry of Agriculture, Forestry and Water Management. The Project will enable the Bank to further its efforts in preserving resource efficiency, as it will complement the Bank's on-going work in the drinking water sector. The Bank and SWRA will gain a more comprehensive assessment of water resources, and will establish the basis for developing integrated water resource management including both drinking water and irrigation resources and assets.
Financing structure EBRD offers a tenor , which is above the market average and is necessary to structure the Project.	The EBRD will provide a loan with a 15-year tenor, which is not currently available from commercial banks.

<p>Policy, sector, institutional or regulatory change EBRD's involvement in the 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.</p>	<p>The Project will contribute to developing the KR's long-term irrigation tariff policy and, as a next step, will implement this policy. The SWRA's covenanted Tariff Reform Programme will focus on developing a tariff setting methodology (which is not currently in place in the KR) aiming to gradually transit to operating and maintenance cost recovery.</p>
<p>Standard-setting: helping projects and clients achieve higher standards</p> <ul style="list-style-type: none"> – Client seeks/makes use of EBRD expertise on higher inclusion and gender standards and/or equal opportunities action plans. – Client seeks/makes use of EBRD expertise on best international procurement standards. 	<p>Higher inclusion and gender standards will be implemented through a dedicated component enhancing women's economic opportunities. EBRD TC will support capacity building efforts for local female farmers to access new irrigation infrastructure, adopt efficient and sustainable agricultural practices and realise opportunities arising from commercial agriculture. The EBRD PP&R will be applied.</p>
<p>Knowledge, innovation and capacity building EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the Project's objectives, including support to strengthen the capacity of the client.</p>	<p>The SWRA's procurement, financial and implementation capacity will be built as part of the Project through a dedicated TC. This includes procuring state-of-the art irrigation pumps.</p>

1.4 SOUND BANKING - KEY RISKS

Risks	Probability/ Effect	Comments / mitigating measures
Borrower's creditworthiness	Medium/ High	The Borrower is rated B2 by Moody's. More detailed information is provided in Section 3.1.
Implementation risk	High/ Medium	A standalone PIU will be established to coordinate, manage, monitor and evaluate all aspects of the Project. An international consultant will assist the PIU with the Project's implementation. Application of the EBRD's PP&R should ensure that an experienced and creditworthy contractor is selected to perform the work and that a balanced construction contract is signed between the parties. Engineering supervision will further mitigate implementation risks.
FX risk	Medium/ Medium	The KR is expected to be able to effectively manage FX risk.

2. MEASURING / MONITORING SUCCESS

Overall objectives of project	Monitoring benchmarks	Implementation timing
Timely implementation of the Project	Completion according to the timeline and within the budget.	[REDACTED]
Creating new economic opportunities	Creating additional economic opportunities for at least 14,300 rural residents (farmers m/f)	[REDACTED]
Maintaining appropriate environmental standards	Successful and timely implementation of ESAP.	[REDACTED]
Number of women enhancing their skills as a result of training	A training programme targeting [REDACTED] women will be established and implemented with the objective to improve local farmers' capabilities and providing business advisory and capacity building for women farmers and entrepreneurs.	[REDACTED]
Practices of the relevant stakeholder improved (equal opportunity practices of the client)	Equal Opportunities Action Plan implemented to support women's representation in leadership positions of the Water User Associations.	[REDACTED]
Recommended policy or strategy agreed by relevant stakeholder(s)	Ministry of Agriculture will adopt and implement a Gender Action Plan	[REDACTED]

Transition Impact Monitoring Indicators and Benchmarks						
Quality	Obj. No.	Monitoring Indicator	Details	Baseline	Target	Due date*
Green	1.1	Water saved (m3/y)	Volume of water saved	[REDACTED]	[REDACTED]	[REDACTED]
	1.2	Electricity consumption reduced (kWh/y)	Volume of electricity reduced	[REDACTED]	[REDACTED]	[REDACTED]
	1.3	CO2 emissions reduced (tonnes/y)	Amount of CO2 emissions reduced	[REDACTED]	[REDACTED]	[REDACTED]
Well-Governed	2.1	Tariff reform in the irrigation sector is adopted by authorities	Tariff policy and a regulatory framework in the irrigation sector (incl. a new tariff setting methodology and tariff setting	[REDACTED]	[REDACTED]	[REDACTED]

			procedures to secure operating and maintenance cost recovery) are implemented			
	2.2	Practices of the relevant stakeholder improved	Equal opportunity practices of the client	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER

The EBRD will extend a loan to the KR (B3/negative by Moody's). Moody's downgraded the Government of Kyrgyz Republic's local and foreign currency long-term issuer ratings to B3 from B2 in January 2022. The outlook has been changed to stable from negative. The decision to downgrade the ratings is driven by Moody's assessment that recent developments affecting the economically important mining sector [REDACTED]. At the same time, the KR's risk of debt distress is expected to remain "moderate" as its public debt largely made up of long-term concessional loans from development partners and is backed up by adequate foreign-exchange reserves.

3.2 IMPLEMENTING AGENCY

The Project will be implemented by the PIU, to be established at the SWRA. The PIU's individual consultants will be financed by the Bank. More detailed information is provided in Annex 2.

4. MARKET CONTEXT

- The SWRA is responsible for abstraction, transportation and supply of irrigation water to Water Union Associations ("WUA") and other water consumers. All water intakes, pumping stations, main and secondary canals are owned by the state and managed by the SWRA;
- A WUA is a non-profit organization of water users which operates and maintains an on-farm irrigation system and distributes irrigation water to agricultural lands within its domain, acting in the community's interests. At the moments there are 486 WUAs registered in the KR.
- Tariffs for irrigation water supply services are regulated by the state and are set annually by the KR's government. Formally, national legislation declares adherence to the principles of a market economy in the process of tariff setting. In practice, however, tariffs are social in nature and do not even cover 10 per cent of actual operation and maintenance costs. The current irrigation tariff is 0.03 KGS/m³ (EUR 0.0004), which is substantially lower than in neighbouring countries. There is no statutorily approved methodology for tariff calculation.
- A more sustainable tariff system (to be developed with the EBRD's assistance as part of the Project) will enable WUAs and the SWRA to better maintain KR's irrigation infrastructure.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 ECONOMIC ANALYSIS

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Tranches 1 and 2 of the Project have been categorised B and Tranche 3 has been categorised A under the EBRD's 2014 E&S Policy. At this time, Board approval is sought for Tranches 1 and 2 only. The Environmental and Social Impact Assessment (ESIA) of Tranche 3 has been completed and Tranche 3 will be submitted to Board for consideration of its commitment after the ESIA has been disclosed to the public for review and comments for a minimum 120 days.

An independent consultant was commissioned to undertake Environmental and Social Due Diligence (ESDD) for the Category B Tranches 1 and 2 (Schemes 3, 4, 5, 7) and to prepare an Environmental and Social Impact Assessment for the Category A Tranche 3 (Scheme 9). ESDD included reviewing data relating to the investment programme, visits to all schemes, and assessing the Borrower's capability and capacity to implement the Project. ESDD also involved additional data collection and field surveys, including water flow surveys, water quality surveys, soil surveys, ecology surveys, social surveys and stakeholder engagement. In addition, in order to ensure that all cumulative E&S impacts of the whole irrigation programme are properly addressed at a national level, the Bank commissioned the preparation of Strategic Environmental and Social Assessment to start in Q2 2022. This will ensure that all other irrigation schemes are developed with full consideration of key E&S impacts.

ESDD has confirmed that the Project will provide significant social benefits and farming opportunities to 14,300 rural residents as well inclusion opportunities for women and young people. It will also contribute to expanding arable irrigated land, thereby helping to strengthen the country's food security. The ESDD confirmed that the environmental and social risks and impacts of Tranches 1 and 2 are mainly related to construction activities and are readily identified and addressed through appropriate mitigation measures.

Transboundary impacts from the Project and water allocations under different baseline and climate change scenarios were considered during ESDD. It was confirmed that no significant transboundary impacts are anticipated and that no transboundary agreements will be breached.

ESDD confirmed that, overall, predictions indicate that sufficient water will be available for land irrigation, while leaving adequate supporting flow, even in a drought year, and considering future climate change scenarios. However, hydrological models for Scheme 7 showed that flows could fall below ecological flow requirements in the most negative future climate change scenario. A number of mitigation measures were proposed to optimise Papan Reservoir's operational rules to maximise its yield for irrigation. The actual climate change impacts will require monitoring and responsive, adaptive management applied if needed.

The Project envision[s] converting large areas of land, which will involve re-classifying land plots (stricter tenure regime will be enforced). These changes to land use will result in economic

displacement, especially on privately owned and currently used land plots. To address these economic displacement impacts, the Land Acquisition and Resettlement Framework (LARF) has been developed and has been agreed with the Borrower before Board. The LARF will also include a de-selection checklist that will help the Borrower and contractors avoid or minimise temporary or permanent land acquisition where feasible, and avoid locating project components in proximity to state border areas and enclaves.

ESDD has concluded that the Borrower needs to strengthen its E&S capacity to implement the Project in accordance with the Performance Requirements (PRs). Furthermore, due to the investment programme's nature and scale, a coordinated response between various stakeholders will be required to appropriately manage E&S risks and impacts, and to deliver the anticipated benefits.

An Environmental and Social Action Plan (ESAP) has been developed to address the ESDD findings and structure the Project to meet the EBRD's Performance Requirements. It includes requirements to:

- Develop and implement an integrated E&S management system and designate clear responsibilities for allocating appropriate resources for all subprojects;
- Integrate all E&S considerations, especially in relation to canal liners, drainage and geo-hazards into detailed project design and develop construction Environmental and Social Management and Monitoring Plans (ESMMPs);
- Undertake spring surveys at Schemes 4 and 9 to develop Biodiversity Management Plans;
- Carry out long-term monitoring of hydrological parameters at all sites, in particular at Scheme 7, and apply adaptive management;
- Conduct an external labour risk assessment of the Borrower, in particular including all contractors and sub-contractors involved in implementing the Project and its separate schemes;
- Assign a social expert to support implementation of the Stakeholder Engagement Plan (SEP). Each Contractor involved in project schemes needs to assign a Community Liaison Officer prior to starting construction work.

The SEP has been developed and will require a staged approach for each scheme as the Project is developed, in line with the Kyrgyz Republic's legislation and EBRD requirements. The SEP includes alternative measures for engaging with various stakeholders and disclosing project related information, as per the government's requirements regarding COVID-19 and good international practices. The Borrower or its construction contractors will set up and manage a Project Grievance Mechanism for local community grievances.

Following the Project's approval, the Bank will support the Borrower through assisting with capacity building and developing institutional capacity to implement the Project in accordance with the PRs.

6.2 INTEGRITY

In conjunction with the OCCO, the Bank performed an internal assessment of the Project's integrity, including PEP involvement and the SWRA's management. It was concluded that that the Project does not pose an unacceptable reputational or integrity risk to the Bank. [REDACTED] No conflict of interest has been identified or is foreseen.

To strengthen the Project's integrity, procurement will be carried out in line with the Bank's Procurement Policies and Rules and the Project's implementation will be monitored by an independent consultant.

Furthermore, the Project's implementation and administration will be carried out by a Project Implementation Unit set up at the SWRA. It should be noted that the SWRA is a client of many International Financial Institutions, including the World Bank and the Asian Development Bank, who are financing other irrigation infrastructure projects in the country.

All actions required by the 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 CONCESSIONAL FINANCE

The irrigation network currently suffers from outdated infrastructure, resulting in excessive water losses. The Project will rehabilitate the system, resulting in significant environmental benefits, incl. water and electricity savings, as well as reducing CO2 emissions. The Project will ensure compliance with international standards to introduce the best quality design solutions, which are more costly in comparison to the existing design practices. [REDACTED]. In addition, a long-term irrigation tariff policy will be developed and implemented. Besides achieving cost recovery levels, a proper tariff policy will also incentivize users to optimize their water usage, contributing to resource sustainability. As part of the Project, capacity-building support will be provided to local farmers to improve crop management, local irrigation practices, and regulations on land and water use.

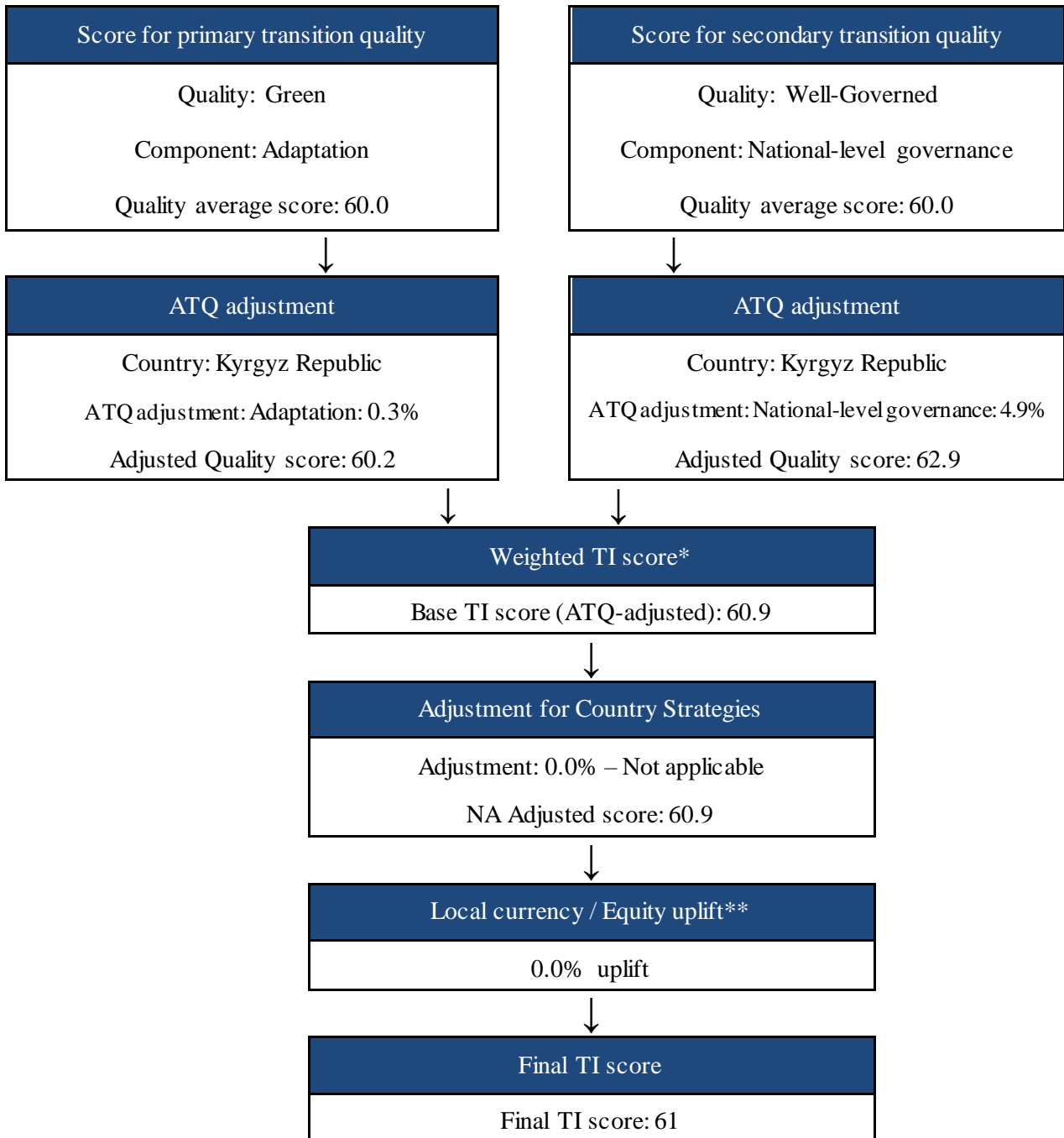
[REDACTED]. The Project's benefits mainly include increased agricultural output, reduced water supply disruptions and other indirect benefits, such as increased labour demand, wage rate stabilisation, use of canal water by rural communities for non-irrigation purposes, etc.

The Project will be co-financed by capital grants from the SSF and IFCA (EUR 18.74 million in total) with a grant ratio of 29 per cent and a concessionality of 47 per cent as per IMF methodology. [REDACTED] [I]t will help improve the country's standards by (i) introducing the best quality design solutions, which are more costly compared to existing design practices, (ii) compliance with local and EU norms, achieving significant environmental benefits, (iii) developing/implementing a long-term irrigation tariff policy and (iv) building newly established SWRA and local farmers' capacities. Grant co-financing is also required to meet IMF guidelines on the KR's concessional borrowing. In accordance with the current IMF programme, the Kyrgyz Republic needs to refrain from contracting or guaranteeing non-concessional debt.

ANNEXES TO OPERATION REPORT

ANNEX 1:	TRANSITION IMPACT SCORING CHART
ANNEX 2:	PROJECT IMPLEMENTATION AND PROCUREMENT PLAN
ANNEX 3:	EBRD SSF PROPOSAL FOR CO-INVESTMENT GRANT ALLOCATION
ANNEX 4:	EBRD SSF TC FICHE

ANNEX 1: TRANSITION IMPACT SCORING CHART



ANNEX 2: PROJECT IMPLEMENTATION AND PROCUREMENT PLAN

Procurement classification – *Public sovereign*

[REDACTED] By applying the EBRD’s toolkit to assess the public sector clients’ procurement capacities, the Project team’s Project Implementation Advisor undertook a capacity assessment of SWRA focusing on sections related to the existing legal framework, organisation, staffing, records, procurement planning, and project risk. Areas of opportunities and improvements were identified and have been discussed with the SWRA. Based on this assessment, the overall procurement risk has been identified as “Moderately High”. The SWRA has no procedural manuals ensuring compatibility with the EBRD’s PP&R and some deficiencies in dealing with specific tasks within the procurement cycle, such as registering complaints. The Project will be implemented by a separate PIU to be established by the SWRA. The PIU will be assisted by the Project Implementation Support, Design Review and Engineering Supervision consultant.

Contracts risk assessment – Moderate

The Project’s scope consists mainly of contracts, which are assessed as moderate risks.

Project implementation arrangements:

The PIU (with functions, terms of reference and resources acceptable to the Bank) will be responsible for the Project’s day-to-day management during the entire Project implementation period. The PIU will be responsible for, among others, preparing project implementation plans, procurement documents and progress reports, as well as managing all contacts, including consultants. Core PIU staff will be appointed according to the EBRD PP&R for the procurement of consultant services (Section III, Article 5 of EBRD PP&R) based on the terms of reference agreed with the Bank and funded by grants administered by the Bank.

The PIU’s arrangements will be reflected in the loan documentation. The PIU will also be supported by a Project Implementation Support, Design Review and Engineering Supervision consultant. They will provide engineering and construction supervision support and assist the PIU with (i) design preparation, including conducting ground, water and other investigations as necessary, tender documents, including technical specifications and other parts of the employer’s requirements, (ii) conducting and evaluating tenders, and (iii) managing the signed contracts, as well as carrying out Engineer duties under those contracts using FIDIC contract conditions as General Conditions of Contract.

Procurement arrangements:

Goods, works and services financed from the loan, SSF and IFCA grants will be procured under open tendering (single and two stages) in accordance with the requirements of Section III, Article 3 of the Bank’s PP&R for public sector operations.

They will use the Bank's standard tender documents and the yellow FIDIC form of Contract.

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

All tenders will be managed using the EBRD Client Electronic Procurement Portal (ECEPP).

The PIU's core staff (individual consultants) will be funded by grants administered by the Bank and selected through an open competitive tender following an interview of the candidates prior to their appointment. [REDACTED]

ANNEX 3: EBRD SSF PROPOSAL FOR CO-INVESTMENT GRANT ALLOCATION

[REDACTED]

ANNEX 4: EBRD SSF TC FICHE

[REDACTED]