



**ASIAN INFRASTRUCTURE  
INVESTMENT BANK**

PD000328-UZB  
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**Project Document  
of the Asian Infrastructure Investment Bank  
Sovereign-backed Financing**

**Republic of Uzbekistan  
Prosperous Villages Project**

**Currency Equivalents**  
(As at September 16, 2019)

Currency Unit –Uzbekistan Som (UZS)  
USD1.00 = UZS9400.00

**Borrower’s Fiscal year**  
January 1 – December 31

**Abbreviations**

ADB	Asian Development Bank
AIB	Asian Infrastructure Investment Bank
BFM	Beneficiary Feedback Mechanism
BP	Bank Procedure (WB)
CDD	Community-Driven Development
CDWO	Community Drinking Water Organization
CSO	Civil Society Organization
DPC	District Project Committee
EIRR	Economic Internal Rate of Return
ESIA	Environmental and Social Impact Assessment
ESMF	Environmental and Social Management Framework
ESMP	Environmental and Social Management Plan
EU	European Union
FP	Facilitating Partners
FM	Financial Management
GBV	Gender-Based Violence
GoU	Government of Uzbekistan
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
IFR	Interim Financial Report
ILO	International Labor Organization
M&E	Monitoring and Evaluation
MCA	Mahalla Citizens’ Assembly
MIS	Management and Information System
MoEI	Ministry of Economy and Industry
MoELR	Ministry of Employment and Labor Relations
MPC	MCA Project Committee
NDS	National Development Strategy
NGO	Non-governmental Organization
NPV	Net Present Value
O&M	Operations and Maintenance
OP	Operational Policy (WB)
PDO	Project Development Objective
PIU	Project Implementation Unit
POM	Project Operations Manual
PP	Procurement Plan
PPM	Project-affected People’s Mechanism
PPSD	Project Procurement Strategy for Development

PVP	Prosperous Village Project
Qishloq	Rural Village
QE	Qishloq Engineers
QF	Qishloq Facilitators
RAP	Resettlement Action Plan
RPF	Resettlement Policy Framework
SDC	Swiss Development and Cooperation Agency
TA	Technical Assistance
UCS	Unified Customer Services Engineering Company

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**1. Summary Sheet**  
**Republic of Uzbekistan**  
**Prosperous Villages Project**

Project No.	000328
Borrower	Republic of Uzbekistan
Project Implementation Entity	Ministry of Economy and Industry (MoEI)
Sector Subsector	Rural Infrastructure and Agriculture Development
Project Objective	The Project Objectives are to: (i) improve the quality of basic infrastructure and services; and (ii) strengthen participatory local governance processes in targeted rural villages.
Project Description	<p>This is a multi-sectoral rural infrastructure project, characterized by a high degree of beneficiary participation in the selection, design, and monitoring of sub-projects, following the Community-Driven Development approach. There are two components:</p> <ol style="list-style-type: none"> <li>1. Demand-driven investments in basic infrastructure and services. This component will finance investments in basic infrastructure and services which will be planned and prioritized jointly by participating district administrations and communities.</li> <li>2. Project Management, Monitoring and Evaluation, and Institutional Support. This component will support a project implementation structure within MoEI.</li> </ol>
Implementation Period	Start Date: March 1, 2020 End Date: June 30, 2024
Expected Loan Closing Date	December 31, 2024
Cost and Financing Plan	Project cost: USD183.6 million <u>Financing Plan:</u> AIIB loan: USD82 million World Bank (WB)'s IDA credit: USD100 million GoU counterpart fund: USD1.6 million
Size and Terms of AIIB Loan	USD82 million. AIIB's standard interest rate for sovereign-backed loans with FSL.
Co-financing (Size and Terms)	IDA: USD100 million (Joint co-financing).
Environmental and Social Category	B
Risk (Low/Medium/High)	High

Conditions for Effectiveness	<p>(i) Project Operations Manual (POM), acceptable to IDA and AIIB, has been prepared and adopted by MoEI.</p> <p>(ii) Effectiveness of the Project's Co-Lenders' Agreement between WB and AIIB.</p> <p>(iii) Effectiveness of the Co-financing Agreement between WB and GoU.</p> <p>(iv) The MoEI, through PIU, has selected PIU core staff, including the Project Director and various specialists.</p>
Key Covenants/Conditions for Disbursement	<p>(i) MoEI shall be responsible for overall Project implementation and maintain the PIU with regional specialists in all Project Regions, with functions and responsibilities, adequate funds, facilities, services and resources, and with competent staff, in adequate numbers, qualifications, and experience, all acceptable to the Bank.</p> <p>(ii) MoEI shall: (a) adopt the POM, satisfactory to the Bank, and thereafter carry out the Project in accordance with the provisions set out in the POM; and (b) not amend, suspend, abrogate, repeal or waive any provision of said POM without the prior written approval of the Bank.</p>
Policy Assurance	The Vice President, Policy and Strategy, confirms an overall assurance that AIIB is in compliance with the policies applicable to the project.

President	Jin Liqun
Vice President, CIO	D.J. Pandian
Director General, Department	Yee Ean Pang, IO2
Manager	Rajat Misra
Team Leader	Toshiaki Keicho, Sr. Investment Operations Specialist-Urban
Team Members	<p>Gregor Herda, Young Professional</p> <p>Somnath Basu, Principal Social Development Specialist</p> <p>Xiao Zhang, Project Assistant</p> <p>Zhixi Zhu, Environment Specialist</p> <p>Jessana A Yanuario, Finance Officer</p> <p>Yi Geng, Sr. Financial Management Specialist</p> <p>Jurminla Jurminla. Procurement Specialist</p> <p>Julius Thaler, Senior Counsel</p>

## 2. Project Description

### A. Rationale

1. **Country Priority.** The Government of Uzbekistan (GoU) is implementing an unprecedented reform agenda, which has consequences for all citizens. In late 2016, the country experienced its first leadership change since independence in 1991. To address the need to create jobs given the large demographic bulge in the working-age population, the new leadership initiated market-oriented reforms in 2017. The GoU's *National Development Strategy for 2017–21 (NDS)* entails a shift from general government subsidies to targeted social programs, and delegates responsibility for implementing the reforms to regional and local authorities.

2. The GoU has rapidly adopted several major reforms including overhauling the tax system to improve its efficiency and reach; easing the cumbersome bureaucratic processes faced by businesses and citizens; expanding the social safety net; making progress toward improvements to labor mobilization in the cotton sector; diversifying the agriculture sector to shift away from cotton and wheat production; removing several price, production, and trading controls; improving communication with citizens; delegating more responsibilities to local government authorities; and enhancing access to information, for instance by requiring the Ministry of Finance to regularly publish “citizen” versions of pre- and post-approval budgetary documents and budget execution reports.

3. **Rural Infrastructure in Uzbekistan.** There are several factors compounding the poor-quality of basic infrastructure and utility services in rural Uzbekistan. Such factors include: (i) undermaintained distribution networks; (ii) underfunded operating budgets; (iii) almost nonexistent domestic capital budgets; and (iv) limited customer willingness to pay for utilities. In rural areas, households without centralized water connections resort to non-potable sources such as untreated surface water or polluted irrigation water, or costly tanker truck services.<sup>1</sup> Since rural areas lack access to the centralized sewage network, wastewater is disposed directly into the environment without treatment. Despite universal coverage of centralized electricity supply, rural residents often experience extended electricity shortages and interruptions. In addition, the poor connectivity of tertiary road networks to secondary networks may impede agricultural profitability.<sup>2</sup> Across all regions and income groups, a higher percentage of Uzbek respondents view the improvement of paved access roads, water supply, and piped gas as more urgent priorities than other infrastructure and services. GoU launched a national rural development program called "Obod Qishloq (Prosperous Villages)" in April 2018. The program is a vehicle to implement the government's reforms aimed at promoting participatory, community-based rural development. It

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<sup>1</sup> In Sirdarya, one of the five regions covered under the Project, only 25 percent of households have access to piped water in their dwelling or compound; the majority of the remaining households rely on tanker trucks/carts or surface water. Within the Ferghana Valley and Jizzakh region, also covered under the Project, an average of 40.6 percent of households have access to piped water in their household dwelling or compound. The majority of the remaining households in the valley rely on public taps. In Jizzakh, 21 percent of households rely on polluted springs for water. Households that lack access to piped water can spend substantial amounts of time collecting water—up to 120 minutes in Jizzakh and 200 minutes in Namangan.

<sup>2</sup> Within the Ferghana Valley, 50.6 percent of respondents rated the quality of paved roads as poor, while 58 and 74 percent of respondents rated the quality of roads as poor in Jizzakh and Sirdarya, respectively.

is intended to promote development in rural areas by constructing new infrastructure, rehabilitating existing infrastructure, and investing in employment-generating opportunities. The proposed project will directly support this national program together with the World Bank, initially targeting some lagging regions/districts in the country.

4. **The Ferghana Valley represents a unique part of Uzbekistan characterized by high population density and a level of economic development that has not kept pace with its potential.** The Ferghana Valley, an initial target of the proposed project, is home to 28 percent of Uzbekistan's total population, and one-quarter of its poor. It is one of the country's most ethnically diverse regions, with Uzbek, Tajik and Kyrgyz communities. The Valley includes some of Uzbekistan's most productive agricultural land, but also has a relatively high level of industrial development compared to other parts of the country. The region faces a number of development challenges, including climate change-induced temperature and precipitation variability, poor water quality and water scarcity, air pollution, a growing labor pool, uneven economic growth that leads to development gaps between districts, and average incomes below the country's mean.

5. **Institutional Context.** At the national level, Obod Qishloq is governed by the so-called Republican Commission. Overall responsibility for the planning, oversight and implementation of Obod Qishloq rests with MoEI. The Deputy Minister for Economy is responsible for overseeing the day-to-day operations of the Project. A PIU for the proposed Prosperous Villages Project (PVP) has been established within MoEI and will be staffed through its Department for Monitoring of Territorial Targeted Programs.

6. In rural Uzbekistan, there are three tiers of local authorities: (i) 13 regions; (ii) 159 districts; and the districts are further subdivided into (iii) qishloqs (villages). The president directly appoints regional governors, who in turn appoint district mayors. The regional and district heads serve as the central government's agents in the region and district respectively and are accountable to Tashkent.

7. At the bottom of these tiers, community self-governing bodies, or Mahalla citizens' assemblies (MCAs) exist at a village level. MCAs also play a role in carrying out public functions such as distributing social welfare payments, maintaining social stability, and preserving qishloqs' cleanliness. MCAs are official legal entities; over 100 laws and regulations govern their participation in specific areas of public life. The government has recently begun to formalize their structure, for instance by creating an MCA executive committee consisting of a chairperson, advisors, and an audit commission responsible for verifying MCAs' expenditures.

8. **Strategic fit for AIIB.** The project is consistent with one of AIIB's priorities (sustainable infrastructure) as the Project is expected to contribute to climate change adaptation and mitigation. The climate change and disaster screening undertaken by the World Bank has identified that the project's target region (Ferghana Valley) is highly exposed to seismic hazards and floods. The proposed investments in infrastructure services will be designed to reduce the potential climate and disaster risks. The community's involvement in the planning and design of sub-projects is

expected to increase community ownership of the infrastructure assets and hence lead to greater sustainability.

9. **Value addition by AIIB.** The project will contribute to closing the gap between urban and rural areas in the country in terms of access to infrastructure services, while supporting GoU's NDS by introducing participatory and decentralized approaches. AIIB's financing will allow the project to almost double the number villages covered under the project.

10. **Value addition to AIIB.** The project will diversify AIIB's portfolio as this is expected to be the first loan to Uzbekistan and one of the few rural infrastructure projects among AIIB's portfolio. The project will also lead to increased staff knowledge about community-drive infrastructure development, which can be replicated in other countries.

## **B. Project Objective and Expected Results**

11. **Project Objective.** The Project Objectives are to: (i) improve the quality of basic infrastructure and services; and (ii) strengthen participatory local governance processes in targeted rural villages.

12. **Expected Results.** The Results Framework presented in Annex 1 will be used to monitor and evaluate the achievement of the proposed Project Objective Indicators. These include:

- (i) Percentage of sampled male and female respondents who report improvements in the quality of basic rural infrastructure
- (ii) Percentage of beneficiaries (male/female) who participate in planning, decision-making, or monitoring sub-projects
- (iii) Number of social audits that have been completed across the targeted villages

13. **Expected Beneficiaries.** The main beneficiaries will be rural population in the following five regions: Jizzakh, Sirdarya, Ferghana, Namangan and Andijan. Within these five regions, the Project will target 21 districts classified as lagging by the GoU, including five lagging districts in Andijan, four in Ferghana, five in Namangan, four in Jizzakh, and three in Sirdarya. Within these districts, approximately 300 villages out of a total of 408 villages eligible for the Project will be selected through a participatory process, or around 75 percent of all eligible qishloqs within the 21 districts. Qishloqs participating in other government's programs such as the *Obod Qishloq*, *Obod Mahalla* ("Prosperous Cities") or *Obod Markaz* ("Prosperous Towns") are not eligible for financing under the project. The village selection criteria will include: (i) remoteness, or distance from a district center; and (ii) water needs defined as percentage of households without uninterrupted and reliable piped drinking water. The District administrations will rank qishloqs based on this information and select the highest-ranked qishloqs to participate in the project. The selection criteria are consistent with the laws governing the Obod Qishloq program: participating qishloqs should be in remote parts of each district that lack access to natural resources, gas, and water and are vulnerable to environmental hazards (i.e., floods, temperature and precipitation

variation, etc.). All of the data that the committees use to select the participating qishloqs will be publicly available on the Project's MIS.

**14. Differentiation from, and potential benefits for, the state-led Obod Qishlog program.**

The proposed Project will support the GoU to increase the returns on its annual investment of approximately USD360 million in Obod Qishloq by: better aligning investments with citizens' needs; empowering local institutions to carry out planning, decision making, and oversight; and increasing the accountability of local administrations and contractors to local citizens and to the central government for their expenditures. The PVP will demonstrate that through much smaller qishloq-level investments, the GoU can accomplish better development outcomes including higher-quality infrastructure and services. The Project's support for strengthening district administrations' and MCAs' governance capacities. Citizen participation in the Obod Qishloq state program will yield positive externalities such as increased voice and a higher level of accountability for service provision and the utilization of public funds at the local level. As such, Project beneficiaries could indirectly extend well beyond the Project's investment scope, if proven approaches are integrated into the state-led program.

**C. Description and Components**

**15. Overview.** This is a multi-sectoral rural infrastructure project, characterized by a high degree of beneficiary participation in the selection, design, and monitoring of sub-projects, following the Community-Driven Development (CDD) approach.<sup>3</sup> CDD is defined at the World Bank as "an approach that gives control over planning decisions and investment resources for local development projects to community groups." It operates on the principles of transparency, participation, accountability, and enhanced local capacity. Experience has shown that when given clear and transparent rules, access to information, and appropriate technical and financial support, poor communities can effectively organize to identify community priorities and address local problems by working in partnership with local governments and other institutions to build small-scale infrastructure and deliver basic services.

**16. Component 1: Demand-driven investments in basic infrastructure and services and local governance capacity support (USD93.7 million IDA, USD82 million AIIB).** This component will finance local-level, climate-resilient investments in basic infrastructure and services that communities themselves plan and prioritize. This component will also support local administrations and MCAs to engage communities in inclusive, transparent processes to plan, select, implement and maintain investments as defined in the Project Operations Manual (POM).

**17. Sub-component 1a: Demand-driven investments in basic infrastructure and services (USD82 million IDA, USD82 million AIIB).** This component will finance investments in

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<sup>3</sup> Unlike many other CDD projects, the present proposal will not include voluntary labor participation by beneficiaries. Community involvement in sub-projects will strictly be limited to development planning, sub-project identification, outline design, as well as social auditing and reporting. For autonomous water supply and sanitation sub-projects, communities will manage the systems after implementation.

eligible villages that are identified through the participatory Project implementation cycle as defined in sub-component 1b and detailed in the Project Operations Manual (POM).<sup>4</sup> This sub-component will also finance the technical assistance (TA) for the technical designs associated with the respective sub-projects, estimated at 2% of the total cost of each sub-project. The Project will prohibit involuntary labor contributions to implementation of sub-projects. The Project will collaborate with specialists from the International Labor Organization (ILO) and labor inspectors from the Ministry of Employment and Labor Relations (MoELR) to ensure that contractors which implement sub-projects abide by the prevailing labor provisions.

18. **Sub-project allocation.** The amount of PVP financing available to the participating qishloqs for infrastructure sub-projects will be pre-determined on the basis of district and qishloq population size. The average allocation for one qishloq is expected to be around USD500,000, or around USD160 per capita, that can be used to finance multiple sub-projects identified in the qishloq development plan. Qishloqs may pool resources to jointly finance investments where appropriate and in line with environmental and social safeguards policies.

19. **Selection of sub-projects and implementation.** To be eligible for Project financing, each qishloq must produce a qishloq development plan and demonstrate that it was produced following participatory rural appraisal exercises that involve residents, account for youth and gender equity goals, and prioritize investments that contribute to improving living standards. Proposed sub-projects, including O&M plans, should be technically viable, ensure coordination and alignment with GoU investment plans, and demonstrate sustainability. The POM will detail the selection criteria for the sub-projects, including weighting toward the needs of women.

20. **Sub-component 1b: Communications and community outreach, citizen engagement, local governance capacity building (USD11.7 million IDA).** This sub-component will support Facilitating Partners (FPs), consisting of Qishlog Facilitators (QFs) and Qishloq Engineers (QEs)<sup>5</sup>, to implement the following technical assistance, training, and capacity building activities for district administrations and qishloq communities:

- (i) Participatory implementation cycle, including, but not limited to: (a) communications and outreach on Project objectives, rules, and grievance redress system, including to women and vulnerable groups; (b) participatory needs assessment in all neighborhoods/hamlets in participatory qishloqs; (c) participatory development planning, prioritization, and selection of sub-project investments; and (d) participatory O&M.

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<sup>4</sup> Eligible investments include: (i) rehabilitation of existing rural drinking water supply and sanitation systems; (ii) retrofitting of public buildings for energy efficiency; (iii) rehabilitation of social infrastructure; (iv) rehabilitation of tertiary roads, walkways, and footpaths; (v) road drainage and strengthening flood resilience of rural roads; (vi) bridge rehabilitation and construction (up to 10 meters); (vii) street lighting upgrading; (viii) improvements to public spaces; (ix) solid waste management systems; (x) small-scale construction of public facilities; (xi) installation of antennas to provide wireless internet services; (xii) construction and rehabilitation of bus terminals and stops; and (xiii) energy supply activities. Investments are subject to a negative list that includes housing construction and renovation or any investments that require physical displacement or resettlement of people.

<sup>5</sup> A qishloq facilitation team consists of three members: one male and female QF and one QE. Each qishloq facilitation team will support the participatory implementation cycle in six qishloqs simultaneously.

- (ii) Participatory monitoring and oversight, including, but not limited to, citizen engagement in: (a) sub-project monitoring by trained members of MCAs and communities and (b) social audits, using community scorecards, to ensure that Project decisions are inclusive and transparent,
- (iii) Technical assistance for sub-project design and sustainability, including, but not limited to, (a) basic engineering support to allow for initial environmental and social screening and preliminary sub-project design estimates, and (b) design and implement support for autonomous water supply and sanitation systems.

21. **Component 2: Project management, monitoring and evaluation, and capacity building (USD6.3 million IDA, USD1.6 million GoU).** This component will provide support for (i) Project management activities, including overall coordination and supervision of Project implementation, communications and public outreach, Project audits, and financing of incremental operating costs; (ii) Project monitoring and evaluation (M&E) activities, transparency, and citizen feedback; (iii) managing a beneficiary feedback mechanism (BFM), including a grievance redress mechanism (GRM); and (iv) capacity building for regional administrations for improved procurement, social and environmental safeguards practices, and quality of infrastructure designs. The component will finance operational costs of the PIU that includes a project director and experts in participatory development (i.e., community mobilization and participatory needs assessments, prioritization, monitoring and oversight), gender, citizen engagement, civil engineering/infrastructure quality, project management, communications, procurement, FM, MIS, and M&E. The PIU will prepare annual workplans and budgets and oversee the preparation and implementation of the POM, including creating training manuals and terms of reference for all staff and consultants.

22. **The Project aims to influence the design and implementation modalities of the broader Obod Qishloq state program through three primary mechanisms:** (i) conducting annual multi-stakeholder reviews on implementation of the Project at the district, regional, and national levels with the coordination assistance of MoEI and that include representatives from MCAs, qishloq communities, and the Republic Commission that governs the Obod Qishloq state program at the national level, (ii) collecting data on implementation quality and people's perceptions to facilitate comparisons across outcomes in Project and state program villages, and (iii) using media outlets, including social media, video, blogs, and exposure visits to allow GoU policy makers to experience implementation approaches and results first-hand. The Project will remain flexible and through the annual multi-stakeholder reviews and data collection activities, the PIU can identify the implementation modalities that are ready to be scaled up in the broader state program and those that need revision in the POM.

23. **Results monitoring and engagement with Obod Qishlog state program.** The Component 2 will finance baseline, midline, and endline project monitoring surveys to assess the results indicators of the project development objectives. The PIU will be responsible for producing a completion report based on MIS and survey data. It will also finance a process tracing evaluation to assess whether and why outcomes differ in Project qishloqs and state program qishloqs. It will also finance ex-post technical audits of infrastructure projects completed in a sample of Project

qishloqs and state program qishloqs. The annual multi-stakeholder reviews, together with these M&E activities, provide the platform through which to identify and adjust design elements to account for successes and challenges, roll these out under the Project, and suggest to the GoU that it also scale-up successful design features through the Obod Qishloq state program.

#### D. Cost and Financing Plan

24. The Project is estimated to cost USD183.6 million. The indicative project cost and financing plan is presented in Table 1.

**Table 1: Project Cost and Financing Plan**

Components	Project Cost (USD m)	Financing (USD m and %)					
		IDA	%	AIB	%	GoU	%
Component 1: Demand-driven investments in basic infrastructure and services and local governance capacity support	<b>175.7</b>	93.7	53	<b>82</b>	47	-	0
<i>1a: Demand-driven investments in basic infrastructure and services</i>	<b>164</b>	82	50	<b>82</b>	50	-	0
<i>1b: Communications and community outreach, citizen engagement, local governance capacity building</i>	<b>11.7</b>	11.7	100	-	0	-	0
Component 2: Project management, monitoring and evaluation, and capacity building	<b>7.9</b>	6.3	80	-	0	1.6	20
<b>Grand Total</b>	<b>183.6</b>	100	54	<b>82</b>	44	1.6	2

#### E. Implementation Arrangements

25. **Implementation period.** Implementation period will be from March 2020 to June 2024.

26. **Implementation arrangements.** The MoEI has delegated project implementation tasks to a PIU. This PIU will be responsible for overall project implementation, including fiduciary oversight, procuring and overseeing the FP contracts, M&E, communications, and FM. It is responsible for ensuring Project linkages with other government- and donor-financed programs and projects.

27. The project will employ a multi-layered governance structure at the local level, each supported by respective qishlog facilitating teams:

- (i) The district administration will establish *district-level project committees* (DPCs) in each of the 21 target districts. The district mayor will chair the DPC and appoint other committee members. The DPCs will communicate the Project objectives and parameters to eligible MCAs at the qishlog level. The committee will use a participatory approach to select qishlogs to participate in the Project;
- (ii) The qishlog facilitation teams will assist MCAs with establishing *Mahalla citizens' project committees* (MPCs) and a *sub-committee on O&M*. The MPCs will then socialize the Project to qishlog residents and carry out participatory needs assessments and planning. This will include the identification of potential investment synergies across neighboring villages and the prioritization of investments with specific outreach to women, youth, the disabled, and other vulnerable community members.
- (iii) From the list of priority investments identified by communities, the MPCs, assisted by QFs and QEs, will develop an overall *three-year development plan* for the qishlog, which includes the proposed infrastructure sub-projects for PVP financing. Representatives from the DPCs will work with the O&M subcommittee of the MPCs to develop O&M plans for the infrastructure sub-projects prioritized for Project financing.
- (iv) The MCAs will submit the qishlog development plans with the proposed sub-project investments to the DPCs for verification based on whether the proposals meet the Project's technical requirements, adequate O&M arrangements are in place, and other parts of government are not financing the investments.
- (v) The DPCs will submit the verified plan to the district mayor for approval. The district administration will send the approved qishlog development plans, including the PVP sub-project proposals, to the regional administration for verification, which will then send it to the central PIU for final verification.

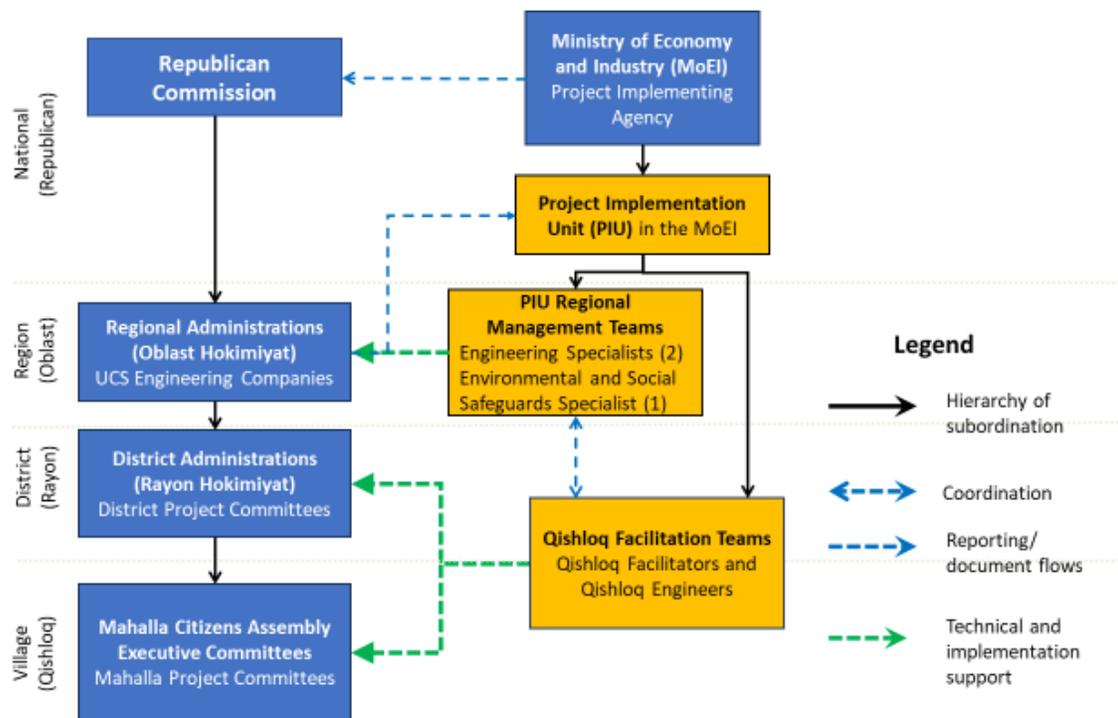
28. **Public engineering companies under the regional administrations.** There are United Customer Service (UCS) engineering companies in each participating region, who will provide services to the PIU for procuring the design and works contracts for PVP sub-projects. UCS organizations are public enterprises established by the Cabinet of Ministers and regulated by the Constitution and laws of the Republic of Uzbekistan. UCS typically have 40–55 staff, including a Director, Chief Engineer, Deputy Director on Economic Issues, a tendering department, a project implementation and technical supervision department, a financial and contract management department, accounting department, and other units. Each UCS charges a fee for its procurement and technical supervision services. The fee related to PVP will be covered by the government. MoEI will enter into an agreement with each of the UCS engineering companies that defines the rights and obligations of the two parties.

29. **PIU staff at the regional level.** The PIU will mobilize procurement, FM, environmental and social safeguards, and engineering specialists to support Project implementation at the regional level. The procurement and FM specialists will provide on-site technical assistance to UCS staff to ensure that the POM guidelines are followed during implementation, and that the documentation required for the PIU in Tashkent to transfer funds to contractors is prepared appropriately and on time. The environmental and social safeguards specialist will provide on-site technical assistance to ensure that environmental and social safeguards provisions are

incorporated into tender documents and contracts. They will conduct spot checks at the qishloq level to ensure that the relevant environmental and social safeguards documentation have been prepared. Regional engineering specialists will provide technical assistance to local design institutes and UCS on the application of quality technical designs and conduct spot checks at the qishloq level of the quality of construction during sub-project implementation. The engineering specialists will also support the coordination process with regional administrations to verify that PVP sub-projects are not planned to be financed under other GoU programs. Regional environmental and social safeguards and engineering specialists (three in total) will be co-located in the premises of the UCS engineering companies.

30. **Figure 1** summarizes the implementation arrangements.

**Figure 1: Institutional and Implementation Arrangements**



31. **Monitoring and Evaluation.** An M&E team within the PIU will be responsible for tracking, documenting, and communicating the progress and results of the Project. The Component 2 will provide financing for the PIU to prepare and submit quarterly and semiannual unaudited interim financial reports (IFRs) to the World Bank and AIIB. The component will also finance an MIS, which the PIU will establish and utilize for project monitoring, automatic generation of project reports, project transparency (sub-project information will be publicized on maps), and citizen feedback. Feedback and grievances received will be included in the semiannual reporting.

32. **AIIB’s Implementation Support.** During Project implementation, the World Bank plans to visit the project sites periodically to support implementation and monitor progress. The Bank

will join these supervision missions as necessary. The World Bank will provide the Bank with copies of all relevant documents, reports, recommendations, no-objections and communications (whether external or internal) received or sent by the World Bank in connection with any of the services provided above.

33. **Procurement.** The World Bank is a lead co-financer. The rights and obligations between the AIIB and the World Bank will be governed by the Co-financing Framework Agreement. All procurement of contracts will be conducted through the procedures as specified in the World Bank's *Procurement Regulations for IPF Borrowers - Procurement in Investment Project Financing Goods, Works, Non-Consulting and Consulting Services*, dated July 2016, revised November 2017 and August 2018. The project will be subject to the World Bank's *Anticorruption Guidelines*, dated October 15, 2006, revised in January 2011 and as of July 1, 2016. The World Bank's Regulations and Anti-corruption guidelines are materially consistent with the AIIB *Procurement Instructions to Recipient* and its *Policy on Prohibited Practices* and therefore are acceptable to the Bank.

34. **Financial Management.** The PIU will be adequately resourced and will ensure sustainable, functional, and workable financial and accounting processes and internal controls. The PIU will prepare the POM, which will specify the internal control system to be used by the PIU, as well as additional reporting and auditing requirements. The adoption of the POM will be an effectiveness condition.

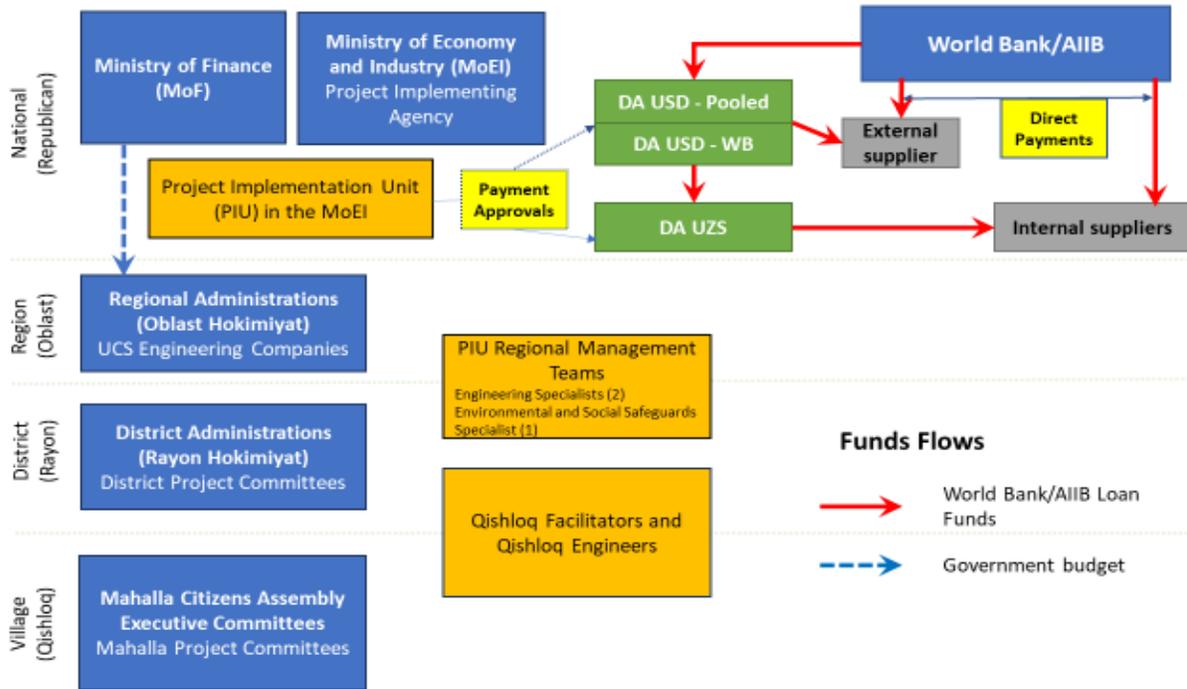
35. The PIU will submit quarterly IFRs to the Bank. Project financial statements in the format agreed with the Bank will be audited by auditors acceptable to the Bank on annual basis. Annual audited financial statements should be furnished to the Bank within 6 months after the end of the year.

36. **Disbursements.** The disbursement of Loan proceeds will be made primarily using the advance method. Under this method, the PIU will open a pooled Designated Account (DA) in USD in a financial institution acceptable to AIIB where AIIB Loan proceeds will be deposited. The PIU will also open a sub-account in Uzbek soums where the Loan proceeds from the DA will be transferred to pay for AIIB's share of eligible expenditures (on a 50:50 cost sharing arrangement with the IDA for the Component 1a). Both accounts will be used only for the inflow of the Project funds and payment of eligible expenditures.

37. The Loan proceeds may also be disbursed using direct payment and reimbursement methods in USD. The minimum application size for direct payments and reimbursements, and the Designated Account ceiling will be specified in the Project disbursement letter. Payments by PIU direct to contractors will be made only upon completion and approval of deliverables by the FM and Procurement Specialists to be engaged by the PIU with inputs from the MPCs. Eligible project expenditures such as goods, consulting services, non-consulting services, and training and operating costs will be subject to full documentation and using the Statement of Expenditure format.

38. The PIU will be responsible for disbursements planning, preparation of withdrawal applications and making payments. Disbursement arrangements have been finalized in a disbursement letter before loan negotiations.

**Figure 2: Flow of Funds**



### 3. Project Assessment

#### A. Technical

39. **Project design risks and mitigating measures.** Technical design risks are substantial due to the relative dearth of organizations in Uzbekistan with experience in implementing participatory development approaches at scale. A number of mitigating measures have been integrated into the project design to ensure infrastructure assets are of high quality and will continue to be well-maintained. Facilitation teams will be recruited to deliver the training and capacity building support to district administrations and MPCs that are needed to carry out participatory practices. The World Bank will also provide implementation support to mobilize international experts to support the PIU and FPs to put in place the systems needed to recruit, train and manage QFs and QEs. The PIU's engineering staff and consulting services will work with UCSs under the regional administrations and local design institutes to strengthen the engineering designs for the eligible sub-projects. The Component 2 will build capacity through: (i) online training and education modules targeting regional administrations, UCS, design institute, qishlog facilitation teams, and MPCs covering infrastructure design and construction methodologies; and (ii) a mobile application linked to the Management and Information System (MIS)<sup>6</sup> allowing PIU staff to enter and update geo-tagged administrative data on approved sub-projects during implementation and O&M. This database will allow project managers to monitor infrastructure in real-time and provide the basis for ex-post technical audits.

40. **Operational sustainability.** Sub-component 1a will be designed and implemented with measures to ensure that sub-project investments deliver sustainable benefits to communities and local governments. The Qishloq Facilitators (QFs) and Qishloq Engineers (QEs) supported through Sub-component 1b will provide capacity-building training to O&M sub-committees of the MPCs and DPCs on how to prepare appropriately designed and funded O&M plans as a precondition for sub-project approval. Under the GoU-supported Obod Qishloq state program, after the renovation and reconstruction works are completed, the relevant line ministry or agency assumes responsibility for maintaining the infrastructure. The proposed Project will apply the same arrangements with a few exceptions: (i) as part of the planning process, the MPC will define the tariff level needed to operate and maintain the autonomous water supply and sanitation system to be collected by the Community Drinking Water Organization (CDWO) while operating the system; (ii) the MPCs and DPCs will inform the district and regional governments and utilities of the PVP sub-projects to allow them to budget for the resources that will be needed for O&M; and (iii) except for the autonomous drinking water supply and sanitation sub-projects that are owned by CDWOs, at the end of the Project period, the DPC will facilitate the handover of the assets to the relevant line ministry or agency.

#### B. Economic and Financial Analysis

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<sup>6</sup> The MIS will include an open access portal allowing citizens to upload photos, videos, and comments on the subprojects.

41. **Economic Analysis.** The WB conducted a detailed economic analysis for the water and sanitation system sub-project, given that it is expected around one-quarter of the target qishloqs will choose this sub-project. The analysis incorporates: (i) the cost of all project components, including estimated O&M costs and project implementation costs and (ii) all measurable benefits, including decreases in the time spent collecting water, household-level welfare gains associated with the reduced need for in-house treatment (e.g., boiling of water), and reduced incidence of water-related diseases such as infectious hepatitis and diarrhea as a result of improved access to quality water and a decline in the reliance on standing water sources. The base estimated economic internal rate of return (EIRR) is 35.9 percent, with a net present value (NPV) of USD34,170,404 assuming a discount rate of 11.5 percent. Cost–benefit projections are for a total period of 15 years, including 1–5 years of project implementation, during which benefits come on-stream as subprojects are completed. A sensitivity analysis was conducted, analyzing a reduction of 20 percent of expected benefits, 20 percent cost increase, and 50 percent reduced lifetime. In all cases, the EIRR remains 15 percent or higher, indicating that the economic returns to the project are robust.

42. For the remaining analysis, the assumption is that the benefits of the USD173.7 million in infrastructure investments will flow to communities even beyond the project time frame. Investing this amount over five years will result in net benefits of almost USD109,327,354, applying the 11.5 percent discount rate. For all but one investment area (social infrastructure), the EIRR is higher than the discount rate. For this area it is challenging to obtain tangible monetary returns from the investment; the returns will rather be of a non-monetary nature. A detailed breakdown of results can be found in Annex 3.

43. **Financial Analysis.** A financial analysis is not applicable. Communities will be responsible for O&M aspects of all autonomous water and sanitation schemes. O&M costs for other types of infrastructure will be provided by line ministries.

### C. Fiduciary and Governance

44. **FM risks and mitigation measures.** The overall FM arrangement is considered as generally acceptable, provided risk mitigation measures are addressed prior to the Project effectiveness date. The overall risk for implementation of this Project was assessed as High, and the FM risk is also assessed as High as this is the first MDB project implemented by the MoEI that focuses on local infrastructure provision. In addition, the consistency and adequacy of FM arrangements will be challenged by the span of the project across five regions while operating in rural areas (lack of qualified human resources, accessibility and physical distance, etc.). A key mitigating measure is to separate the FM from the procurement functions for Component 1a sub-projects. The Project Funds flow mechanism foresees direct payments from the central PIU to contractors based on completion of documents and deliverables approved by FM and procurement specialists hired for the PIU regional offices with inputs from MPCs. In addition, the PIU will be adequately resourced and will ensure sustainable, functional and workable financial and accounting processes and internal controls. The PIU's FM staff will participate in learning and capacity development activities supported by the World Bank. Particularly at the Project's initial

stages, the WB will provide on-going support to the PIU. The PIU will be in charge of keeping financial and accounting records for this Project in the accounting system to be installed within 90 days from Project effectiveness. This system will allow fully automated accounting and reporting, including automatic generation of Statements of Expenditure, Interim Financial Reports, and other reports required by national legislation. The system will have in-built controls to ensure data security, integrity, and reliability.

45. **Procurement risks and mitigation measures.** Project Procurement Strategy for Development (PPSD) is being prepared by MoEI with the support from the World Bank, which will be finalized by negotiation along with the Project procurement plan. The PPDS includes, among others, an implementation arrangement; client's capacity in handling procurement; procurement methods and procedures which are fit-for-purpose; thresholds; risk assessment along with proposed mitigation measures; market analysis; procurement plan, etc. The initial risk assessment conducted by the World Bank considering the current capacity concluded procurement risk "*High*". Key risk factors include: (i) low procurement capacity at the national level; (ii) accountability of procurement decision-making; and (iii) a potential risk of delays in the implementation of the project due to the complexity of internal procurement processes and decision-making that involves a large number of government officials at the regional level. Preliminary risk mitigation measures include: (i) the provision of training for new and current staff on WB procurement regulations; (ii) the performance of regular Project audits by PIU staff for extra due diligence and to prevent the inappropriate intervention by local officials; (iii) including citizens on the tender commissions to increase transparency and outside oversight; (iv) developing the Project Operations Manual with a detailed chapter on procurement, including description of decision-making processes and accountability for procurement decisions prior to effectiveness; and (v) putting in place an efficient contract management mechanism. AIIB will review the final PPSD and will as well validate procurement risk rating before negotiation.

46. **Procurement supervision and ex-post review.** Routine procurement reviews and support will be provided by the procurement specialist based in the World Bank's country office in Tashkent. In addition, at least two implementation support missions are expected to take place each year, during which the Bank will review procurement progress including validation of ex-post reviews conducted by the World Bank.

47. **Governance and Anti-corruption.** AIIB is committed to preventing fraud and corruption in the projects it finances. For this project, World Bank's Anti-corruption guidelines shall apply which is materially consistent with AIIB's Policy on Prohibited Practices (2016). However, the Bank reserves the right to investigate, directly or indirectly through its agents, any alleged corrupt, fraudulent, collusive, coercive or obstructive practices, and misuse of resources and theft or coercive practices relating to the project and to take necessary measures to prevent and redress any issues in a timely manner, as appropriate.

48. **Institutional Capacity.** The Component 2 will enhance the capacity of the PIU and regional administrations on their strategic planning, results monitoring, and reporting functions. It

will ensure regular coordination with national stakeholders, including various ministries and relevant agencies.

#### **D. Environmental and Social and Operational Policy on International Relations**

49. **Environmental and Social Policy and Categorization.** Because this Project will be co-financed with the World Bank (WB), the Bank has agreed with the WB that the WB's Environmental and Social Safeguard Policies (WB Safeguard Policies) will apply to the Project. AIB is satisfied that: (i) the WB Safeguard Policies are consistent with AIB's Articles of Agreement and materially consistent with the provisions of AIB's Environmental and Social Policy and relevant Environmental and Social Standards; and (ii) appropriate monitoring procedures are in place for the Project. Under the WB Safeguard Policies, the Project has been assigned Category B.

50. According to the WB's Safeguards Policies, OP/BPs on Environmental Assessment (OP 4.01), Involuntary Resettlement (OP4.12) and Projects on International Waterways (OP 7.50) are applicable to the Project.

51. An Environmental and Social Management Framework (ESMF) and a Resettlement Policy Framework (RPF) have been prepared for the project. The ESMF specifies rules and procedures for the sub-projects' Environmental and Social Impact Assessment (ESIA) and the RPF provides similar provisions for involuntary resettlement and land acquisition. None of the Project activities or sub-projects that would receive financing will cause the type of significant environmental or social impacts that fall under Category A. However, most sub-projects may have limited environmental and social impacts that fall under Category B, for which preparation of an ESIA that would be focused in scope and/or environmental and social management plan (ESMP) is required.

52. **Environmental Aspects.** The long-term impacts of the project will be mainly positive and related to improvements in quality of life and standards of living for the people residing in project villages. However, civil works implementation could result in various adverse environmental impacts, including: (a) increased environmental pollution from waste, noise, dust, and exhaust gases from fuel combustion products; (b) health and safety hazards and other problems resulting from construction activities; (c) increased contamination of groundwater and surface water as a result of inadequate avoidance or mitigation measures; (d) soil degradation and pollution; and (e) threats to human health as a result of improper handling of heavy machinery during construction activities. To address these risks and impacts, the ESMF was prepared with the aim of specifying mitigation, monitoring, and institutional responsibility measures to be taken during project implementation to avoid, reduce or offset potential adverse environmental and social impacts to acceptable levels. The ESMF also proposes a series of environmental and social assessment capacity building activities, which will be supported by the project at the PIU, regional and district levels. The ESMF will guide the ESIA process as relevant to the proposed sub-project.

53. **Climate Change Risks and Opportunities.** The major climate change risks in the project regions include temperature increase, more variation in precipitation and water deficits in the east

basin of the Syr Darya River. Other natural risks include seismic hazards and floods, with potential impacts to infrastructure supported by the Project. These risks are expected to be reduced by the design of infrastructure under Component 1, and the inclusion of soft components under Components 1b and 2, which take climate change and disaster risk into account.

54. Project-supported climate change adaptation measures include the rehabilitation of qishloq-level water supply and sanitation systems, which will reduce leakages and include measures to reduce demand, thus easing water scarcity, pressure on existing water sources, and reliance on non-renewable sources of water. The Project will also institute a range of mitigation measures. For example, capacity-building and training activities under Component 2 will include information for climate-smart investments that are eligible for financing under Component 1a, such as energy efficiency investments through solar power and solar water heating. Similarly, participatory needs assessment and qishloq development planning activities supported under Component 1b will include the provision of information to communities on the benefits of climate-resilient and energy efficient basic infrastructure, and discussions of design alternatives that mitigate climate-related risks. For example, existing water supply sources located away from floodplains could be prioritized for rehabilitation over vulnerable sources, and wastewater infrastructure could be modified to include structures offering protection from increased flooding. Social facilities that are rehabilitated will include insulated doors and windows to reduce heat loss, and energy-efficient appliances and equipment to reduce energy consumption. Such measures will reduce the use of energy sources that emit more greenhouse gases, such as wood, petroleum, and kerosene.

55. **Social Aspects.** The Project will not finance any sub-project which requires permanent resettlement of people. The Project may involve permanent and/or temporary land acquisition affecting agricultural and rural lands. The permanent or temporary land acquisition may be needed, for example, for reconstruction/rehabilitation of water distribution centers, water reservoirs, waste collection points, solid waste processing facilities, and reconstruction or extension of water supply pipelines. Temporary land acquisition also could be needed for widening of roads, and construction of electricity supply facilities. The land acquisition would affect farmers, households or businesses depending on the type of land to be acquired. Social Impact Assessments, following the environmental and social screening and ESMP, will be undertaken with respect to each sub-project to determine the magnitude of economic and physical displacement and prospective losses, identify vulnerable groups for targeting, ascertain the costs of resettlement, and prepare a Resettlement Action Plan (RAP) for implementation. The specific sub-projects that the Project will finance cannot be determined ex-ante. While the broad category of activities/impacts is foreseen, the exact magnitudes of the social impacts of each sub-project will only be known once the detailed designs of the sub-projects are completed. Hence, during project preparation, the PIU has developed an RPF. The key objective of the RPF is to provide a framework to appropriately identify, address and mitigate adverse socio-economic impacts that may occur due to the implementation of sub-projects that involve the involuntary acquisition of land and the subsequent (temporary) resettlement of affected families.

56. **Gender.** The Project will focus on closing two gender gaps: (i) voice and participation in community-level decision making; and (ii) access to services. Women are underrepresented in citizen's assembly chair positions and local administration offices. To address this gap, the Project has established 50 percent targets for women's representation in district implementation teams, citizen's assembly project committees, Community Drinking Water Organizations, and in social accountability roles, i.e., monitoring and oversight. In addition, women bear the brunt of poor access to water services and poor water quality. Inadequate and poor-quality services negatively impact women's employment opportunities. The Project will address this gap in access to services by (i) enhancing women's voice and participation in community decision-making as described above; (ii) ensuring that the project committees conduct outreach with women's groups; and (iii) financing investments that improve access to quality drinking water and other social services.

57. **Occupational Health and Safety, Labor and Employment Conditions.** The Project will encourage contractors to utilize local labor in construction and rehabilitation of infrastructure. Forced labor is a potential issue in Uzbekistan, and mitigation measures will include capacity building of local authorities in the participating regions and training of residents in selected villages on the national labor legislation regulating public works which strictly prohibits the use of forced labor. For this purpose, PIU will collaborate with specialists from the International Labor Organization (ILO) and labor inspectors from the Ministry of Employment and Labor Relations (MoELR) to: (i) provide regular trainings to local officials on labor practices; (ii) monitor and report on any cases identified; and (iii) implement a public awareness campaign on labor rights, practices, and grievance redress systems. The PIU will build an internal communications channel with MoELR's Labor Inspectorate to report on cases of forced labor submitted through the Project's GRM and facilitate the investigation process.

58. The Project's risks of gender-based violence (GBV) and labor influx are low due to (i) the small-scale of the community-based infrastructure investments; (ii) reliance on local labor for the infrastructure works; (iii) the participatory design and monitoring and consultations with women; and (iv) extensive grievance redress mechanisms and activities specifically designed to socialize community members' about their rights with respect to labor, demolitions, evictions, and GRMs. To further mitigate any residual risk of GBV, the Project will undertake awareness-raising measures on GBV-related risks and a code of conduct with clear enforcement measures will be prepared for the Project, which all Project staff and contractor employees will sign. The Project will ensure that safe and confidential channels for reporting GBV-related concerns will be made available to Project workers and communities.

59. **Stakeholder Consultation and Information Disclosure.** Extensive consultations were held with various stakeholders during the preparation of the ESMF and RPF. The draft ESMF and RPF have been disclosed in the project regions and three public consultation meetings were held in August 2019. The ESMP and RPF documents (in English and Russian) have been published

on the PIU website<sup>7</sup> and also on the WB's external website<sup>8</sup>. The hyperlinks will also be disclosed on AIIB's website.

60. **Project-level Grievance Redress Mechanism.** A four-tier project-level GRM will be established, one at village level and the others at district, regional and PIU offices. The Facilitating Partner (NGO) will assist the affected persons in registering their grievances and being heard.

61. **Use of WB's Accountability Mechanism.** In view of the fact that the WB Safeguard Policies will apply to the Project, and pursuant to AIIB's agreement with the WB, AIIB will rely on the WB's corporate Grievance Redress Service (GRS) and the WB's independent Inspection Panel (IP) to handle complaints relating to environmental and social issues that may arise under the Project. Consequently, in accordance with AIIB's Policy on the Project-affected People's Mechanism (PPM), submissions to the PPM under this Project will not be eligible for consideration by the PPM. The WB's corporate GRS is designed to ensure that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals also may submit their complaint to the WB's independent IP at any time after concerns have been brought directly to the WB's attention, and its Management has been given an opportunity to respond. For information on how to submit complaints to the WB's corporate GRS, please visit: <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the WB's independent IP, please visit: <https://inspectionpanel.org/>.

62. **Operational Policy on International Relations.** The Bank's Operational Policy on International Relations is triggered because the project involves the use of water from the Syr Darya River – an international waterway under the Policy. Pursuant to Section 2.3 of the Policy, the Bank may, instead of carrying out its own assessment, rely on the assessment of the co-financier if the Bank is satisfied with the assessment capacity and process of the co-financier, as well as the assessment itself. Investments will be made within the original boundaries and design parameters of the existing community-level irrigation and water supply and sanitation schemes or with minor additions that, in the assessment of the World Bank, do not substantially exceed the original scheme planning estimates for water consumption or current actual rates, and therefore no new water abstraction will be supported. The Project will neither adversely change the quality or quantity of water flows nor will it be adversely affected by the other riparian's possible water use. The World Bank has concluded through application of its OP/BP 7.50, Projects on International Waterways, that the project will only include minor additions or alterations to an ongoing scheme and is therefore expected to have only minimal effect on any of the other riparians and therefore does not require a riparian notification. The Bank has reviewed the supporting WB documentation and is satisfied with the WB's assessment capacity and process, as well as the assessment as such, in accordance with the Policy. The Bank therefore concurs that the project is expected to have minimal or no effect on any of the riparians. As a result, the

<sup>7</sup> Please see the English documents here: <http://mineconomy.uz/uz/node/2794>; and Russian document here: <http://mineconomy.uz/ru/node/2800>

<sup>8</sup> <http://projects.worldbank.org/P168233/?lang=en&tab=documents&subTab=projectDocuments>

exception in the Bank's Policy in paragraph 3.3(c)(i) of the Policy to the notification requirement in paragraph 3.3(a) applies. An exception to the external notification requirements of this OP for the Project was approved by the WB's Regional Vice President for Europe and Central Asia on August 30, 2019.

## E. Risks and Mitigation Measures

63. The Bank assigns a High overall risk rating to the proposed Project, as summarized in the table below. The potential benefits of supporting a high-profile national GoU program, which aims to reach thousands of qishloqs and millions of rural inhabitants throughout the country, outweigh the risks. Together with WB, the Bank will monitor the implementation of the mitigation measures during Project implementation.

**Table 2: Summary of Risks and Mitigating Measures**

Risk Description	Assessment Ratings (High, Medium, Low)	Mitigation Measures
<p><b>Implementation</b> GoU with weak institutional capacity to work across sectors and government tiers. Regional administrations lack capacity to procure high-quality infra-structure designs and to follow procurement regulations.</p>	Medium	<p>PIU at MoEI as the implementing agency to build institutional capacity of regional administrations, through programs of training and capacity building including classroom-based and online training modules on state-of-the art infrastructure designs. Furthermore, the PIU will conduct ex-post technical audits on quality of works, the use of appropriate design standards, and O&amp;M arrangements for each sub-project.</p>
<p><b>FM and Procurement</b> Deficiencies in existing procurement and FM procedures.</p>	High	<p>Direct payments from the central PIU to contractors based on completion of documents and deliverables approved by FM and procurement specialists hired to the PIU regional offices.</p> <p>Development of POM which details guidelines and operating procedures in terms of FM and procurement and provision of training for POM users.</p> <p>Community-based monitoring using scorecards and social audits of infrastructure and services financed under the project.</p> <p>All stakeholders to receive training in anticorruption assessments and process audits, sign user-friendly codes of ethics.</p>

		<p>Technical assistance to support PIU in project implementation including FM and procurement.</p> <p>PIU to conduct regular FM reviews and financial audits as well as procurement ex-post reviews during implementation.</p>
<p><b>Governance</b> Low government buy-in into decentralized, participatory planning processes for local infrastructure.</p>	Medium	<p>The Project will incrementally build in community and local government participation into development planning using pre-existing institutions and, through Government decrees, resolutions, and implementing regulations, work closely with MoEI to institutionalize participatory approaches proven successful in the Uzbek context. The Project will support capacity development and knowledge exchanges for MoEI, PIU and regional and district administrations on community participation and local governance.</p>
<p><b>Technical</b> PIU unable to procure the services of qualified FPs to deliver training and capacity building support to local administrations and communities.</p>	Medium	<p>Knowledge-sharing events were held in April 2018 in Tashkent that brought together organizations and practitioners with experience in participatory local development. In addition, the PIU conducted a market assessment that identified a sufficient number of qualified organizations operating in Uzbekistan and nearby countries in Central Asia.</p>
<p><b>Environmental and Social</b> Limited capacity in environmental and social management and monitoring.</p>	Medium	<ul style="list-style-type: none"> <li>• One environmental specialist and one social specialist will be hired by PIU and one environmental and social safeguards staff will be recruited in each region.</li> <li>• Capacity building program has been outlined in the ESMF. Special attention will be on developing the regional administrations' capacities on safeguard issues.</li> <li>• WB and AIIB environmental and social specialists will conduct field-based reviews to support the implementation process.</li> </ul>

## Annex 1: Results Framework and Monitoring

## Project Objective Indicators

<b>Project Objectives:</b>	To (i) improve the quality of basic infrastructure and services and (ii) strengthen participatory local governance processes in targeted rural villages.		
	<b>Indicator Name</b>	<b>Baseline</b>	<b>End Target</b>
<b>Improve the quality of basic infrastructure and services in targeted rural qishloqs</b>			
	Percentage of sampled male and female respondents who report improvements in the quality of basic rural infrastructure (Percentage)	0.00	60.00
<b>Strengthen participatory local governance processes in targeted rural villages</b>			
	Percentage of beneficiaries (male/female) who participate in planning, decision-making, or monitoring subprojects (Percentage)	0.00	60.00 women
	Number of social audits that have been completed across the targeted rural qishloqs (Number)	0.00	100.00

## Intermediate Results Indicators by Components

Indicator Name	Baseline	Intermediate Targets	End Target
<b>Improve the quality of basic infrastructure and services in targeted rural qishloqs</b>			
Number of subproject investments (disaggregated by type) (Number)	0.00	100.00	300.00
Percentage of subprojects that support climate change adaptation or mitigation (Percentage)	0.00	25.00	25.00
Percentage of beneficiaries in targeted rural qishloqs with improved quality of water supply as a result of project investments (Percentage)	0.00	80.00	80.00
Number of project beneficiaries (male/female) (Text)	0.00	110,000 total 55,000 women	330,000 total 165,000 women
<b>Strengthen participatory local governance processes in targeted rural qishloqs</b>			
Percentage of district and regional hokimiyats completing agreed local governance training curriculum in procurement and oversight. (Percentage)	0.00	30.00	100.00

<b>Indicator Name</b>	<b>Baseline</b>	<b>Intermediate Targets</b>	<b>End Target</b>
Number of targeted rural qishloqs that produce development plans that reflect community members (male/female) priorities. (Number)	0.00	100.00	300.00
Percentage of targeted rural qishloqs that have at least 50% female representation in the MCA project committees and social accountability roles (monitoring and oversight) (Text)	37% Mahalla Project Committees 0 Social Accountability Roles	50% Mahalla Project Committees 50% Social Accountability Roles	50% Mahalla Project Committees 50% Social Accountability Roles
Percentage of district project committee members that are female (Percentage)	11.00	50.00	50.00
Percentage of infrastructure subprojects for which procurement data is publicly accessible. (Percentage)	0.00	100.00	100.00
<b>Project Management and Capacity Building</b>			
Percentage of grievances (gender disaggregated) which are received that are resolved (Percentage)	0.00	100.00	100.00
Percentage of qishloqs for which the required information is uploaded to the MIS in a timely fashion for project management to monitor results and for citizens to access (Percentage)	0.00	80.00	80.00

## Annex 2: Detailed Project Description

This annex supplements the description of the implementation arrangements in the main text of the PD by providing greater details on the project's eight-step participatory implementation cycle.

1. **Stage 1: Establish District Project Committees (DPCs) and conduct village selection within participating districts.** During this stage, the facilitation teams will work with the district administration to establish the DPCs. The DPCs will facilitate access to data needed to identify eligible qishloqs and rank them based on distance from a district center and percentage of households without uninterrupted and reliable piped drinking water. The facilitation teams will organize a discussion among the DPC members on the outcome of the ranking process and allow for minor adjustments to the list based on local factors not captured in standard selection criteria. Once the list of participating qishloqs is finalized, the facilitation teams will assist the DPCs to organize a public meeting open to all MCA members, during which the results of the ranking will be presented. The list of participating qishloqs with data underpinning the selection process will be uploaded to the Project MIS. It is expected that this stage will take 14-21 days to complete.

2. **Stage 2: Outreach and Project introduction in participating qishloqs.** The DPC, Project Implementation Unit (PIU), and facilitation teams will agree on a work plan for covering the selected qishloqs. In large districts, it will not be possible to cover all qishloqs simultaneously, and coverage will take place in a phased manner over a multi-year period. In each village, the facilitation team will introduce the objectives and principles of the Project, present the participatory implementation cycle, and describe the roles of the key Project stakeholders (e.g. MCA executive committee members, MPCs, DPCs, the PIU, Unified Customer Services Engineering Company (UCS), facilitation teams, and the public at-large). This stage will take 1-2 days in each qishloq.

3. **Stage 3: Election of Mahalla Citizens Assembly Project Committees (MPCs).** The role of the MPC is presented in the main text of this document. During this stage, facilitation teams will conduct a series of pre-election meetings in each qishloq to explain the election process and roles and responsibilities of MPC members and establish an election committee and a Community Participatory Monitoring Committee. The latter committee must be independent of the MPC for accountability purposes. The MPC will be elected through a secret-ballot election and will consist of one male and one female from each neighborhood within the qishloq. This stage requires three to four visits by facilitation teams over a 14-21-day period depending on the size of the qishloq.

4. **Stage 4: Qishloq socio-economic and resource analysis.** The facilitation team will train MPC members to mobilize villages to carry out a series of activities, the purpose of which is to analyze the socio-economic situation and assets available in the qishloq. Activities include: (i) preparation of a Public Resources Map that outlines the location of existing infrastructure, location of households, farmland, areas at risk of flooding or other natural disasters, (ii) a Well-Being Analysis that identifies the number of high (in relative terms), medium, and low-income households, their physical location throughout the qishloq, and livelihoods/income-generating assets, (iii) Seasonal Calendars (in selected qishloqs only) to obtain a knowledge of when residents will be available to participate in Project activities and when they will be otherwise occupied, (iv) a Health Analysis to identify the health status of residents and underlying causes

of poor outcomes (e.g. lack of access to clean drinking water), and (v) and an Education Analysis to identify the education status of residents (e.g. households with children not attending pre-school) and the underlying causes of poor outcomes. This stage will require 3-4 visits to each qishloq over a 14-21-day period.

5. **Stage 5: Qishloq development planning, initial sub-project design discussions, and sub-project selection.** During this stage, community facilitation teams will work with MPCs to analyze the data collected during Stage 4 and identify solutions to priority problems in the form of a qishloq development plan. For infrastructure investments, QEs will work with the MPCs to identify design options taking into account social and environmental safeguards impacts and cost variations. Alternative designs that minimize the social and environmental impacts will be discussed. In the case that land acquisition is unavoidable, QEs will follow the procedures outlined in the Environmental and Social Management Framework (ESMF) and POM to ensure that land is acquired according to the guidelines and documented appropriately. The facilitation team will assist the MPC to compile all this information into a qishloq development plan that identifies the sub-projects to be financed through the Project. The MPC will organize a qishloq-wide meeting to seek endorsement of the plan. Once the plan is endorsed, a copy will be sent to the DPC, and PIU staff at the regional level for verification. This stage will require 3-4 visits to each qishloq over a 14-21-day period.

6. **Stage 6: Sub-project implementation.** QEs will share the initial sub-project designs and environmental and social safeguards screening documentation with the PIU engineering specialists who verify the eligibility of the sub-project in line with the ESMF and POM. The UCS design engineers will then visit the qishloq to prepare the tender documents for the sub-project design contracts. The UCS then conducts a competitive tender for the design services. Once the design is complete, the results are presented in a meeting with the MPC to ensure that the full sub-project design is in line with residents' expectations. Any design modifications are discussed and agreed during this meeting. The UCS then prepares and conducts the tender for the sub-project works contracts. The QE trains at least one MPC member to participate in the tender committee organized at the regional level. Monitoring during sub-project implementation is conducted by UCS engineers, and trained with MPC members, with periodic spot checks conducted by the PIU engineering specialists. This stage is expected to take 120-180 days from initial design to sub-project completion.

7. **Stage 7: Qishloq institutional strengthening.** In parallel to the sub-project implementation stage, the QFs will conduct a series of training activities for MCA executive committee members and MPCs to evaluate the quality of activities carried out to date to, for example, identify ways to make the process more inclusive and adjustments required to the qishloq development plan. The QFs will also provide information to the MPCs on resources and programs to support activities in the qishloq development plan, such as income-generation activities. In qishloqs that select autonomous water supply sub-projects, the QFs and QEs will support the MPC to form a CDWO, including legal registration, and training and capacity building to set the tariff level, obtain community agreement of the same, and otherwise operate and maintain the system. Institutional strengthening activities will be further defined in the POM, and take place periodically through the end of the 24-month implementation cycle (36 months for

qishloqs implementing autonomous water supply and sanitation sub-projects).

8. **Stage 8: Community participatory monitoring.** In this final stage of the cycle, facilitation teams will train MPC members, Community Participatory Monitoring Committees, MCA executive committees, and DPCs to conduct social audits of the sub-project implementation process. These will include a form of financial audit that involves the UCS and contractors, and review any complaints submitted through the Beneficiary Feedback Mechanism (BFM) or other sources. For completed sub-projects, the Community Participatory Monitoring Committees will work with MPC members to review whether sub-projects succeeded in producing the results envisaged in the qishloq development plans and solicit feedback from residents on their satisfaction with the overall process. This information will be compiled into a simple score card that are uploaded to the Project MIS. Data generated through the participatory monitoring processes will be used during the annual multi-stakeholder Project reviews to identify strengths and weaknesses and corresponding design modifications. At least one social audit and community score card will be produced within the 24-month implementation cycle.

### Annex 3: Economic Analysis

1. In addition to the methodology and headline results presented in the economic analysis section of the main text, Table A1 provides the NPVs and EIRRs for eligible sub-sectors, assuming a standardized distribution of chosen sub-projects. The eventual sectoral split will naturally differ.

**Table A1:** Sub-sector results of Economic Analysis for Sub-component 1a

<b>Investment activities</b>	<b>Budget (USD)</b>	<b>NPVs (USD)</b>	<b>EIRR</b>
Water supply and sanitation service delivery	57,900,000	34,170,404	35.9%
Energy efficiency	5,066,250	3,528,027	16.6%
Rehabilitation of social infrastructure	17,370,000	3,793,722	4.7%
Transport (rehabilitation and construction of roads and bridges)	57,900,000	43,139,013	19.0%
Street lighting	5,066,250	3,528,027	16.6%
Improvements to public spaces	5,066,250	3,528,027	16.6%
Solid waste management systems	5,066,250	3,528,027	16.6%
Public facilities	5,066,250	3,528,027	16.6%
Installation of antennas for wireless internet	5,066,250	3,528,027	16.6%
Bus terminals and stops	5,066,250	3,528,027	16.6%
Energy supply	5,066,250	3,528,027	16.6%
<b>TOTAL</b>	<b>173,700,000</b>	<b>109,327,354</b>	

## Annex 4: Sovereign Credit Fact Sheet

### A. Recent Economic Development

1. Uzbekistan is a lower-middle income country with GDP per capita at USD 1,534 and a population of 32.4 million.<sup>1</sup> The country's GDP growth picked up moderately to 5.1 percent in 2018 as bad weather reduced agricultural production, and binding intermediate input bottlenecks, such as energy and water shortages, constrained economic growth, despite a robust investment growth<sup>2</sup>. Driving by the exchange rate depreciation, inflation peaked at 20.5 percent at the beginning of 2018 and receded to 14.5 percent by end-2018, averaging at 17.5 percent. The fiscal stance remained prudent with the overall fiscal deficit<sup>3</sup> staying around 2 percent of GDP in 2018.

2. Since taking office in 2016, the new government has started reforms to transform Uzbekistan from a state-led to a more market-based economy.<sup>4</sup> FX market liberalization<sup>5</sup>, the removal of trade restriction, especially restrictions on regional trade<sup>6</sup>, and booming investment shifted the current account balance from a surplus of 2.5 percent of GDP in 2017 to a deficit of 7.1 percent in 2018. Nonetheless, Uzbekistan has substantial external buffers with reserves at around 13 months of imports and external debt at moderate 34.5 percent of GDP in 2018. External stability risks remain low due to high foreign exchange reserves and low external debt.

### B. Economic Indicators

#### Selected Macroeconomic Indicators - Uzbekistan (2016-2021)

Economic Indicators <sup>7</sup>	2016	2017	2018	2019*	2020*	2021*
Real GDP growth	6.1	4.5	5.1	5.5	6.0	6.0
CPI Inflation (% change, average)	8.8	13.9	17.5	14.7	14.1	10.6
Current account balance (% of GDP)	0.4	2.5	-7.1	-6.5	-5.6	-4.8
Overall fiscal balance (% of GDP)	-0.5	-1.9	-2.1	-1.6	-1.8	-1.8

<sup>1</sup> The income group classification for the fiscal year 2019 is based on World Bank criteria, details are as below: <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519>; GDP Per Capita and population use World Bank 2017 data.

<sup>2</sup> Nominal credit to the economy expanded by about 50 percent in 2018, which was to finance a massive increase in imports of capital goods as well as to fund investment in housing and infrastructure following decades of underinvestment.

<sup>3</sup> Overall fiscal balance is equal to consolidated fiscal balance minus policy lending. Consolidated fiscal balance is budget balance adjusted for operations of the Fund for Reconstruction and Development (FRD), equity injections, externally financed expenditures, and policy lending.

<sup>4</sup> The president was elected on 4 December 2016 and the prime minister was appointed on 14 December 2016. President Mirziyoyev's development strategy 2017-21 laid out an agreement that major structural reforms are needed across all economic policy areas and institutions.

<sup>5</sup> On September 5, 2017, Uzbekistan unified its official and parallel exchange rates and liberalized access to foreign exchange. The official nominal exchange rate depreciated from 4,250 to 8,100 sum per dollar.

<sup>6</sup> The previous state-led growth model sought to minimize regional trade and infrastructure interdependencies. Since the start of the reforms, significant progress has already been made in boosting regional trade and promoting regional integration, including reconnecting regional energy and transportation networks as well as defusing the region's age-old disputes about water rights.

<sup>7</sup> Due to statistical revisions and structural reforms, comparisons with previous debt sustainability analysis may not be informative. Significant historical revisions of national accounts and balance of payments statistics hinder the comparability. Public gross financing need and gross external financing need data in 2016 and 2017 are from previous DSAs.

Nominal gross public debt (% of GDP)	8.6	20.2	20.6	23.2	24.7	24.7
Public gross financing need (% of GDP)	0.3**	3.1**	2.6	2.7	3.0	3.0
External debt (% of GDP)	18.6	34.1	34.5	34.0	33.5	32.2
Gross external financing need (% of GDP) ***	0.6**	0.4**	11.9	9.0	7.7	6.2
Foreign Direct Investment (% of GDP) +	-2.0	-3.1	-1.3	-1.7	-1.9	-2.0
Gross official reserves (months of imports)	19.3	14.4	12.8	12.3	12.0	11.1
Broad money (M2, % change)	23.5	40.3	14.4	21.0	20.3	18.4
Exchange rate (NPR/USD, EOP) ****	3,198	8,115	8,331	8,474	--	--

Note: \* denotes projected figures. + Refer to foreign direct and portfolio investment. Negative values mean inflows.

\*\* Data from IMF Country Report No. 18/117

\*\*\* IMF and self-calculation \*\*\*\* FX rate data from Thomson Reuters. 2019 data as of June 5th, 2019

Source: IMF Country Report No. 19/129.

### C. Economic Outlook and Risks

3. Uzbekistan's growth is expected to pick up to 5.5 percent in 2019 and to 6.0 percent in 2020, reflecting mainly the higher investment and normalization of agricultural production growth. Its current account deficit is expected to remain high at 6.5 percent of GDP in 2019. Over the medium term, the current account is projected to gradually converge to a deficit level close to 4.5 percent of GDP.<sup>8</sup>

4. Given its bulging working-age population<sup>9</sup>, creating more and better jobs is the country's overarching priority. Uzbekistan has anchored its development agenda to the SDGs and total additional spending to reach the SDGs in social and infrastructure sectors is estimated at about 8.7 percent of GDP in 2030, with a focus on health and roads.<sup>10</sup>

5. On debt look, the IMF suggested that the risk of both external and overall debt distress remain low. Over the medium term, the public debt to GDP ratio is expected to increase moderately from 23.2 percent of GDP in 2019 to 24.8 percent in 2024, while the total external debt to GDP ratio is expected to decline from 34.0 percent of GDP in 2019 to 30.6 percent in 2024. Large foreign exchange reserve mitigates potential distress concerns. The debt sustainability analysis suggests that the most significant risks could result from worse-than-expected external inflow (mostly lower remittances) and significantly lower exports.<sup>11</sup>

<sup>8</sup> A relatively high and persistent current account deficit has been a typical feature of transitions from state-led to more market-based economies.

<sup>9</sup> The working-age population as a share of the total population in Uzbekistan has surged since the 1990s. It's predicted to peak around 2040 and then start to decline. The ratio will stay at around 70 percent during 2020-2050. The bulge in labor supply offers an opportunity window for rapid and inclusive catch-up growth.

<sup>10</sup> A presidential resolution adopted in October 2018 sets 16 of the 17 SDGs as national goals to attain by 2030, including 127 related targets. The additional spending needs on health, education and infrastructure-related are estimated at 2.3 percent, 0.3 percent and 6.1 percent of GDP in 2030 respectively.

<sup>11</sup> International Monetary Fund (IMF), 2019. 2019 article IV consultation—press release and staff report; No. 19/129, May 2019.