ASIAN INFRASTRUCTURE INVESTMENT BANK

Sovereign-backed Financing

Project Document

P000915 Kyrgyz Republic
Water Supply and Sanitation Universal Access Program – 1 Project

Currency Equivalents

(As of November 20, 2024; National Bank of the Kyrgyz Republic)

Currency Unit – Kyrgyzstan Som (KGS)
KGS1.00=USD0.0116
USD1.00 = KGS86.5000

Borrower's Fiscal year

January 1 – December 31

Abbreviations

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
AO	Aiyl Okmotu (the executive body of local self-government in rural areas)
ARIS	Community Development and Investment Agency
CDWO	Community Drinking Water Organization
CDWUU	Community Drinking Water User Union
CRWSP	Climate Resilient Water Service Project (WB existing project)
DWSSP	District Water and Sanitation Service Provider
E&S	Environment and Social
EIRR	Economic Internal Rate of Return
ESIA	Environmental and Social Impact Assessment
ESMF	Environmental and Social Management Framework
ESMP	Environmental and Social Management Plan
FM	Financial Management
FSM	Fecal sludge management
GDP	Gross Domestic Product
GHG	Greenhouse gas emission
GoKR	Government of Kyrgyz Republic
GRS	Grievance Redress Service
GRM	Grievance Redress Mechanism
IA	Implementing Agency
IDA	International Development Association
IsDB	Islamic Development Bank
IFIs	International Financial Institutions
IFR	Interim Financial Reports
KGS	Kyrgyzstan Som
MOF	Ministry of Finance
MPA	Multi-phase Approach
MWE	Municipal Water Enterprise
MWRAPI	Ministry of Water Resources, Agriculture and Processing Industry
O&M	Operation and Maintenance
OP 7.50	World Bank's Operational Policy for Projects on International Waterways
OPIR	AIIB's Operational Policy on International Relations

PCU	Project Coordination Unit
PIU	Project Implementation Unit
PP	Procurement Plan
PPSD	Project Procurement Strategy for Development
PPSF	Project Preparation Special Fund
RPF	Resettlement Policy Framework
SEP	Shareholder Engagement Plan
SIDWSWD	State Institution of Drinking Water Supply and Wastewater Disposal
SIASAR	Rural Water Supply and Sanitation Information System
SRWSSDP	Sustainable Rural Water Supply and Sanitation Development Project
TA	Technical Assistance
USD	United States Dollar
VAT	Value-added Tax
WB	World Bank
WRS	Water Resources Service
WSS	Water Supply and Sanitation

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1. Executive Summary

1. The Kyrgyz Republic is a lower-middle-income country with a GDP per capita of around USD2,800 and a population of 7.2 million in 2025. The economy recovered stronger than expected after the pandemic and growth reached 9.0 percent in 2024, despite the market fluctuations and external shocks, mainly driven by gold mining, agriculture and the service sector. S&P recently upgraded the country's credit rating to B+, citing a relatively strong fiscal position and sustained economic growth.

2. Over the past two decades, access to basic infrastructure services has significantly increased in the Kyrgyz Republic as a result of sustained investments and policy reforms led by the Government of the Kyrgyz Republic (GoKR) and supported by International Financial Institutions (IFIs). Despite the persistent investment efforts made in the water sector, universal access to basic WSS services has not been achieved yet. Challenges remains in aspects including improving infrastructure performance and service quality, providing sustainable WSS services, building climate resilience of WSS services, and enhancing institutional performance and efficiency.

3. The Project is proposed to be part of the Water Supply and Sanitation Universal Access Program, designed and co-financed by the World Bank (WB) under a Multiphase Programmatic Approach (MPA) to provide universal access and improve the sustainability of water supply and sanitation services in the Kyrgyz Republic, through three progressive phases. Phase 1 of the Program will be jointly co-financed by AIIB, WB, and OPEC Fund, for the construction and upgrade of water supply infrastructure with climate-resilient features and priority improvements to on-site sanitation for households and public institutions and technical assistance, in 126 rural villages and small towns in Chui, Issyk-Kul, and Osh regions, benefitting around 450,000 people. The Project is planned to have five components and AIIB will provide a loan equivalent to USD 50 million in Chinese RMB to finance Component 1.2, related to the Water Supply Upgrades.

4. In addition to the proposed sovereign-backed loan, AIIB has approved a Project Preparation Special Fund (PPSF) grant of USD 4 million to support the Project. Through the PPSF grant, AIIB will support to enhance technical readiness and ensure high level of E&S safeguards. AIIB's participation and support in the Project also aims to promote the long-term sustainable development of the Water Supply and Sanitation Sector of the Kyrgyz Republic.

5. As the lead co-financier, the WB Environmental and Social Management Framework including its environmental and social standards will apply to the Project in lieu of AIIB's ESF. Procurement of goods, works, non-consulting services and consulting services will be conducted in accordance with the World Bank's Procurement Regulations for IPF Borrowers (September 2023). The Project will also be subject to the World Bank's Anti-Corruption Guidelines (July 1, 2016). AIIB's Policy on Prohibited Practices also applies to the Project to the extent that Prohibited Practices are not covered by the World Bank's Anticorruption Guidelines.

<table>
<tr><td>Project No. and Name</td><td colspan="3">P000915 Water Supply and Sanitation Universal Access Program – 1 Project</td></tr>
<tr><td>AIIB Member</td><td colspan="3">Kyrgyz Republic</td></tr>
<tr><td>Borrower</td><td colspan="3">Kyrgyz Republic</td></tr>
<tr><td>Guarantor</td><td colspan="3">Kyrgyz Republic</td></tr>
<tr><td>Project Implementation Agency</td><td colspan="3">State Institution of Drinking Water Supply and Wastewater Disposal (SIDWSWD) under Water Resources Service under the Ministry of Water Resource, Agriculture and Processing Industry</td></tr>
<tr><td rowspan="2">Proposed Amount of AIIB Financing (USDm)</td><td rowspan="2">USD50 million</td><td>Instrument type (Instrument subtype)</td><td>Loan (Direct Sovereign)</td></tr>
<tr><td>Currency of financing requested</td><td>Yuan Renminbi</td></tr>
<tr><td>Sector (Subsector)</td><td colspan="3">Water
(Water supply, sanitation, and wastewater treatment)</td></tr>
<tr><td>Environmental and Social Category</td><td colspan="3">B
Applicable Policy and the Categorization. As the lead co-financier, the World Bank's (WB) Environmental and Social Management Framework (ESF) including its environmental and social (ES) standards will govern this Project, which is in lieu of AIIB's ESF. These ES risks and impacts are readily identifiable and can be avoided, minimized, or mitigated through proper assessment and the implementation of readily available mitigation measures. The scope of Project excludes activities that could have high ES risks. Therefore, WB has categorized the ES risk of the Project as Substantial for Environmental risk and Moderate for Social risk. According to AIIB's ESF, the Project is classified as Category B.

Environmental and Social Instruments: While the types of subprojects and the regions/districts to be supported are known, the precise locations and design options for each subproject are not yet determined and will be finalized during Project implementation. As a result, a framework approach to ES risk management will be applied. The borrower has prepared the necessary framework documents, including an ES Management Framework (ESMF), Stakeholder Engagement Plan (SEP), Resettlement Policy Framework (RPF), and Labor Management Procedures (LMP). The ESMF provides a general assessment of the ES risks and impacts based on the nature and type of subprojects and the location of these sub-projects. It will outline generic mitigation measures in line with the mitigation hierarchy and provide guidance for subproject planning, design, construction, operation, implementation, and monitoring. Subproject-specific ES instruments will be developed during Project implementation, based on the framework documents.

The Borrower has disclosed the ES instruments in English and Russian on its website (http://tunuksuu.kg/vb-zashitnye-mery/) and WB disclosed the ES instruments in English on its website</td></tr>
</table>

	(Development Projects : Kyrgyz Republic: Water Supply and Sanitation Universal Access Program-1 Project - P500620) An ES Commitment Plan (ESCP) was prepared and disclosed (Environmental and Social Commitment Plan (ESCP) - Kyrgyz Republic: Water Supply and Sanitation Universal Access Program-1 Project - P500620)
Project Objective	The Project Objective is to increase access to water supply and sanitation (WSS) services and improve the service delivery capacity in selected areas of the Kyrgyz Republic.
Project Description	The Project is proposed to be part of the Water Supply and Sanitation Universal Access Program, designed and co- financed by the World Bank (WB) under a Multiphase Programmatic Approach (MPA) to provide universal access and improve the sustainability of water supply and sanitation services in the Kyrgyz Republic, through three progressive phases. The Project, as the Phase 1 of the WB Program will be jointly co-financed by AIIB, WB and OPEC Fund, for the construction and upgrade of water supply infrastructure with climate-resilient features and priority improvements to on-site sanitation for households and public institutions (schools, hospitals, etc.) and technical assistance, in 126 rural villages and small towns in Chui, Issyk-Kul, and Osh regions, benefitting around 450,000 people. The Project is planned to have five components as described below: • Component 1. Water Supply Investments; • Component 2. Sanitation Development; • Component 3. Performance-based Service Improvement; • Component 4. Program Structuring and Management and Institutional Development Support; and • Component 5. Contingent Emergency Response. AIIB will provide a loan to finance Component 1.2 Water Supply Upgrades. In addition to the proposed sovereign-backed loan, AIIB has approved a Project Preparation Special Fund (PPSF) grant of USD 4 million to support the subproject preparation and early implementation under the Project, and program structuring, management and institutional development [1], regarding the Component 1 and 4 of the Project. Through the PPSF grant, AIIB will support the detailed design of subproject with climate mitigation and resilience features, E&S baseline survey and institutional development, to enhance technical readiness and ensure high level of E&S safeguards throughout the envisaged PPSF support to project preparation. AIIB's participation and support in the Project also aims to promote the long-term sustainable development of the Water Supply and Sanitation Sector of the Kyrgyz Republic.

[1] Kyrgyzstan: Water Supply and Sanitation Universal Access Project – Grant Summary - AIIB

Implementation Period	Start Date: October 30, 2025 End Date: December 31, 2029	**Expected Loan Closing Date**	June 30, 2030
Lead financier	World Bank	**Following other MDB's E&S Policy?**	Yes
Co-financing type	Joint co-financing	**Following other MDB's Procurement Policy?**	Yes
Cost and Financing Plan	Project cost estimate is about USD 200 million. <u>Financing Plan</u>: AIIB loan: equivalent of USD 50 million (RMB 363.9 million) WB financing (IDA): USD 121 million OPEC fund: USD 20 million Trust Fund (Swiss Government): USD 9 million		
Risk (Low/Medium/High)	Medium		
Conditions for Effectiveness	• the Co-financing Agreements have been executed on behalf of the Co-lenders and the Borrower, and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals under it (other than the effectiveness of this Loan Agreement) have been fulfilled; • the PPSF Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals under it (other than the effectiveness of this Loan Agreement) have been fulfilled; • the Project Co-Lenders' Agreement has been executed on behalf of the Bank and the Co-financier, and all conditions precedent to its effectiveness (except for the effectiveness of this Loan Agreement) have been satisfied; and • the Borrower has adopted the Project Operations Manual ("POM") in form and substance satisfactory to the Bank.		
Key Covenants/Conditions for Disbursement	• No withdrawal shall be made for payments made prior to the date of loan agreement		
Retroactive Financing (Loan % and dates)	0%		
Policy Assurance	The Vice President, Policy and Strategy, confirms an overall assurance that the Bank is in compliance with the policies applicable to the Project.		

Risk	
Key risks	**Mitigation Measures**

• **Technical Risk:** The Project involves a large number of small communities and villages. The timely preparation could be challenging.	• Professional Design Institutions (DIs) will be hired using the AIIB PPSF grant and WB ongoing project to provide appropriate design solutions. Tendering for the DIs will be carefully packaged into several manageable consulting service contracts, to accelerate preparation and mitigate risks.
• **Implementation Capacity:** The PIU lacks adequate resources and capacity to manage this project in addition to other IFI projects that it is managing.	• Capacity building activities, including training and workshops for IT systems will be carried out at national and local district levels. AIIB PPSF grant will finance a team of local consultants and an international engineer to enhance the PCU and help with design, quality control, supervision, M&E and other daily work of project implementation.
• **E&S Risk：** Challenge of ensuring the effective and timely application of environmental and social (E&S) policies and requirements in each subproject, primarily due to capacity constraints during preparation and implementation.	• The Project allocates resources for E&S capacity strengthening. Additionally, AIIB has plans to mobilize a grant to support capacity-building efforts, scope of which will also include measures for enhancing E&S capabilities. AIIB staff will provide guidance along with supervision and monitoring to ensure compliance and effective implementation.
Economic Capital (ECap) Consumption	USD 20.8 million (50.62%)

Strategic Alignment				
Alignment with AIIB's thematic priorities		Green infrastructure, Technology-enabled Infrastructure		
Alignment with AIIB's strategies		Water Strategy		
Key Outcomes	**Indicator**	**Unit of measure**	**Baseline**	**Target (Year)**
Infrastructure development for Water supply, sanitation, and wastewater treatment	People provided with at least basic water	Number	0	450000 (2029)
Infrastructure development for Water supply, sanitation, and wastewater treatment	Of the people provided with at least basic water, percentage of female beneficiaries	Percentage	0	50 (2029)
Infrastructure development for Water supply, sanitation, and wastewater treatment	People provided with at least basic sanitation	Number	0	19000 (2029)
Infrastructure development for Water supply, sanitation, and wastewater treatment	Of the people provided with at least basic sanitation, percentage of female beneficiaries	Percentage	0	50 (2029)
Green infrastructure	People benefiting from climate resilient infrastructure	Number	0	255000 (2029)
Infrastructure development for Water	Water supply and sanitation service	Percentage	0	80 (2029)

supply, sanitation, and wastewater treatment	providers with an operating cost coverage ratio of at least 100%			

Other Key Financing Requirements	
Conditions of Effectiveness	• the Co-financing Agreements have been executed on behalf of the Co-lenders and the Borrower, and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals under it (other than the effectiveness of this Loan Agreement) have been fulfilled; • the PPSF Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals under it (other than the effectiveness of this Loan Agreement) have been fulfilled; • the Project Co-Lenders' Agreement has been executed on behalf of the Bank and the Co-financier, and all conditions precedent to its effectiveness (except for the effectiveness of this Loan Agreement) have been satisfied; and • the Borrower has adopted the Project Operations Manual ("POM") in form and substance satisfactory to the Bank.
Key Conditions for 1st Disbursement	• No withdrawal shall be made for payments made prior to the date of loan agreement
Key Covenants	N/A

President	Jin Liqun
Chief Investment Officer	Konstantin Limitovskiy
Director General	Xiaohong Yang
Project Team Leader (PTL)	Jingjing Zhao, Investment Officer
Co-PTL	Manuel Cervero, Investment Officer
Team Members	Jonathan Kamkwalala, Senior Consultant Drona Ghimire, Senior Environmental Specialist Shagun Mehrotra, Social Development Specialist Shodi Nazarov, Financial Management Specialist Julija Kuklyte Polycarp, Climate Specialist Luiz Eduardo Rodrigues, Counsel Frances Larla Savella, Procurement Associate Echo Yuyou Guo, Project Assistant
Credit Officer	Wei Zhang, Senior Credit Risk Officer

2. Context

A. Country and Macroeconomic Overview

2.1 **Country context.** The Kyrgyz Republic is a lower-middle-income country with volatile economic growth. Historically, the economic growth pattern of the Kyrgyz Republic has been fluctuating, with an average Gross Domestic Product (GDP) growth rate of 4.4 percent between 2003 and 2023[2]. The country's economic dependence on resources-based commodities and remittances is one of the causes leading to the fluctuation of GDP in the past 20 years. In 2018, in response to an outdated old growth model, the new leadership established the National Development Strategy for 2018–2040 (NDS), which aims to foster sustainable economic growth, social development, and environmental sustainability and, more importantly, delegates responsibility for implementing the reforms to regional and local authorities. The economic growth halted during the Coronavirus 2019 disease (COVID-19) outbreak and hit bottom in 2020 due to external instabilities, compounded by high global food and fuel prices. Economy recovered stronger than expected after the pandemic and growth reached 9.0 percent in 2024, despite the market fluctuations and external shocks, mainly driven by gold mining, agriculture and the service sector.

2.2 **Climate Change Exposure and Vulnerability**. Key sectors of the Kyrgyz economy including the water, energy and agricultural sectors are vulnerable to climate change, facing extreme climate-related hazards such as droughts and water scarcity, floods, and mudslides. The country is one of the most at-risk countries in the Central Asia region, with projections indicating that the country could experience up to 5.6°C of warming (above the global average rise of 3.7°C) by 2090. The annual probability of severe drought is expected to double from 14 percent in the 2020s to 31 percent in the coming 20 years. Climate vulnerability disproportionally affects the poor and vulnerable, with women and children being at the highest risk, especially in rural areas, due to limited access to essential services. Climate change will also increase sanitation-related risks to public health and, with floods and droughts expected to become more intense and frequent, will exacerbate the spread and transmission of water-related diseases.

2.3 **Urban - Rural Infrastructure and Service Gap**. The Kyrgyz Republic faces challenges in its development due to infrastructure and services deficit. This quantitative and qualitative gap is even greater in rural areas where the quality of services often becomes a source of disagreement and instability within communities. Water and sanitation investments have lagged behind other sectors such as energy and transport. In addition, the country suffers from policy uncertainty and institutional capacity gaps that further encroach into the limited fiscal space with subsidized utilities and services. Thus, stronger institutions, a stable regulatory environment, and robust tariff policies are among the key reforms needed to increase investment financing efficiency and harness the transformative potential of infrastructure and services, especially in climate-vulnerable sectors.

B. Sector Overview

[2] Data Source: https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=KG

2.4 **Water Supply and Sanitation (WSS) Sector Overview.** Universal access to WSS basic services is a key enabler and contributor to health and education development outcomes, thus a critical step towards socioeconomic growth and enhanced human capital. Over the past two decades, access to basic infrastructure services has significantly increased in the Kyrgyz Republic as a result of sustained investments and policy reforms supported by International Financial Institutions (IFIs). Currently, it is estimated that 90.8 percent of the population has access to basic water services and cumulatively 80 percent of the 2,014 villages in the country are now served with basic functioning water schemes, though upgrading and expansion are needed.

2.5 **Challenges in WSS Sector.** Despite the persistent investment efforts made in the water sector by the Government of the Kyrgyz Republic (GoKR) in the past decade, universal access to basic WSS services has not been achieved yet. Challenges remain in the following aspects:

- **Poor WSS infrastructure performance and service quality**. WSS service quality, reliability and sustainability are significantly affected by poor infrastructure performance, low tariffs, and operational inefficiency. Historically, the sector has been trying to find a sustainable approach with long-term perspective in infrastructure investments, to resolve the issues such as lack of efficiency and sustainable service provision for infrastructure, and breaking the recurring cycle of reinvestment, repairs and replacements, particularly in small communities and rural areas. An estimated 37 percent of the rural settlements that were provided with initial investments of WSS infrastructures in the last 20 years require upgrading or replacement[3]. Poor WSS infrastructure performance directly led to the low quality and reliability of WSS services, resulting in poor hygiene conditions and public health problems, especially for children and the vulnerable. It is estimated by WB that the impact of poor WSS service costs the country US$120 million annually.
- **Unsustainable WSS service supply**. Under maintained water transmission and distribution networks, underfunded operating and capital expenditure budgets, fragmented sector structure, low tariff and limited customer willingness to pay for WSS services contribute to an unsustainable WSS service provision especially in rural areas. Households without centralized water connections resort to non-potable sources such as surface water or polluted irrigation water, or costly tanker truck services. Since rural areas lack access to the centralized sewage network, wastewater is disposed directly into the environment without treatment. Achieving universal access will require significant scale-up and consistency in the WSS investments through a program focused on closing the access gap and strengthening the sustainability of existing and new investments.
- **Poor WSS service exacerbated by climate vulnerability.** Groundwater accounts for more than 85 percent of the water supply in the Kyrgyz Republic, and ice melt from glaciers is a major source of surface water. Increasing water demand and abstraction, particularly for irrigation, and depleted glaciers due to climate change compromise water resource availability and its sustainable accessibility throughout the year. Currently, more than a third of existing groundwater reserves are being exploited. In addition, the lack of sanitation is a major source of pollution for individual and communal groundwater sources. Given these unfavorable factors deepened by climate change, water operators

[3] Based on data from the SIDWSWD, Water Resources Service, Ministry of WRAPI, Kyrgyz Republic.

in some settlements are struggling to maintain more than eight hours of water supply a day. Further, extremely low temperatures during winter, which are becoming more frequent and severe, result in infrastructure failure and lead to prolonged service interruptions.

- **Inefficient institutional performance**. According to data from the Rural Water Supply and Sanitation Information System (SIASAR), a rural water information system hosted by the Community Development and Investment Agency (ARIS), less than one-third of WSS service providers, (whether municipal or community managed), are fully operational and only 9 percent are financially sustainable. Municipal water enterprises (MWEs) tend to perform better than community drinking water user unions (CDWUUs), but still struggle with poor service management. Challenges for the WSS service providers include low tariffs, high levels of debt, lack of qualified staff, high turnover and poor water and service quality. This situation is worsened by the lack of water metering, which leads to inefficient water consumption practices. Consequently, infrastructure performance is relatively low, with high levels of non-revenue water (NRW) exceeding 50 percent.

2.6 **WSS Institutional Sector structure and reforms.** At the country level, the National Development Strategy 2018-2040 guides the efforts to modernize the Kyrgyz economy. The construction and development of efficient WSS networks is one of the key pillars in this strategy. Another top priority for the implementation of the strategy is public administration reforms. These reforms aim to adopt higher standards in public accountability, better enforcement of control over the budget, and stronger management of public assets. At the WSS sector level, the Water Code was updated and enacted in 2005, advocating for the fundamental principles of integrated water resource management and introducing the management of resources at the river basin level through multi-stakeholder councils and supported by basin administrations. The nodal agency responsible for the implementation of the Water Code is the Water Resources Service under the Ministry of Water Resources, Agriculture, and Processing Industry (MWRAPI) of the Kyrgyz Republic.

2.7 **Adapting sector institutions**. On March 7, 2025, the sector was reformed by transferring the SIDWSWD from the State Architecture, Construction and Housing Agency under the Cabinet of Ministers of the Kyrgyz Republic to the Water Resources Service under the MWRAPI, with the purpose of consolidating water resources management under one state body.

2.8 **Enhancing service delivery.** The aggregation of management, operation and maintenance of WSS services into district water supply utilities is expected to optimize revenues and finance necessary operating costs to improve operational efficiency and extend services to unserved areas. For institutional capacity building, the SIASAR system was introduced, and extensive training programs were implemented through multiple investment projects, targeting key sector institutions at the central and local levels, with more than 1,000 sector professionals trained. The WSS sector reform and restructuring are still on-going and are expected to streamline human resources and technical capacity, leverage economies of scale, and promote financial efficiency.

2.9 This Project builds on the recent experience and implementation of the ongoing Climate Resilient Water Services Project (CRWSP) and the Sustainable Rural Water Supply and Sanitation Development Project (SRWSSD), applying a gradual, stepwise and flexible approach to improve institutional performance and promote change. This Project will follow a similar approach, focusing on practical and selected areas for institutional improvement and empowering existing institutional structures including Water Resources Service (WRS), State Institution of Drinking Water Supply and Wastewater Disposal (SIDWSWD) and MWRAPI) and enabling existing legislations in water sector rather than pushing for an overhaul of the country's water sector institutions. Given the complexity of institutional change, building support for reform and capacity through, for example, developing norms and standards, introducing capacity training for water quality monitoring, is a proven pragmatic and effective approach.

2.10 **Further Policy, Institutions and Regulation improvements are required to reduce the sector's fragmentation.** Although WSS is now consolidated under a single ministry, ARIS, a government agency responsible for water and sanitation investments in rural and semi-urban areas, still manages a large part of the infrastructure investments, though SIDWSWD is gradually increasing its role in investment management. ARIS also hosts the SIASAR system, which supports investment planning and service monitoring. Water tariffs are agreed with the Anti-Monopoly Regulation Service (the entity responsible for economic regulation) under the Ministry of Economy and approved by local Keneshes (local council elections). Service provision is decentralized to urban and municipal WSS utilities in the cities and district capitals to MWEs and CDWUUs in rural areas, many of which lack the capacity to manage and sustain WSS services. Thus, it is critical that the regulatory instruments operationalizing a proposed new WSS law, including a clear set of guiding principles for service delegation and tariff setting, are adopted.

C. Addressing Key Development Challenges: Project Contributions.

2.11 **The Water Supply and Sanitation Universal Access Program** (the WB Program) is designed as a Multiphase Programmatic Approach (MPA), to support the authorities' efforts to provide universal access and improve the sustainability of water supply and sanitation services in the Kyrgyz Republic. It is a vehicle to help implement the government's strategy of investments and reforms aimed at achieving Universal WSS Access by 2030. The WB Program will be implemented over 10 years through three progressive project phases, each independent but subsequent and relevant to achieve the project goals:

- Phase 1 (2025-2029) will focus on investments in water and sanitation covering unserved and underserved rural settlements while piloting the aggregated district-level service delivery structure and enhancing the capacity using performance-based grants.
- Phase 2 (2028-2032) will build on lessons learnt in Phase 1 and scale-up the investments, shifting to upgrade and expansion of water supply infrastructure, sewage investments and scale-up the service delivery model with a focus on operational and financial efficiency, as well as climate adaptation.
- Phase 3 (2031-2034) will scale-up sanitation investments, consolidate water supply improvements, with a strong emphasis on knowledge exchange and adoption of the policies, plans and tools developed under the previous two phases.

2.12 **AIIB will jointly co-finance with the WB, Phase 1 of the Program** (the Project). The Project will support the Kyrgyz Republic to increase access to water supply and sanitation services in the selected areas and contribute to the goal of Universal WSS Access by 2030, by initially targeting Chui, Issyk-Kul, and Osh regions, which are characterized by high population growth and a level of economic development that has not kept pace with their potential. The Project will finance the construction of new WSS infrastructures rehabilitation and upgrading of existing infrastructures as well as improve WSS service quality, reliability and sustainability by streamlining the WSS service structures in rural areas, and thus promoting the establishment and sustainable operation of DWSSPs, strengthening the institutional capacities at national and local levels. By providing necessary WSS services with high quality and resilience to climate change, the Project will benefit the population in rural areas and promote sustainable development in the Kyrgyz Republic.

3. Rationale

3.1 **Project Objective.** The objective of the Project is to increase access to WSS services and improve the service delivery capacity in selected areas of the Kyrgyz Republic.

3.2 **Expected Beneficiaries.** The Project is expected to benefit the following beneficiaries:

- **Residents:** More than 450,000 people residing in 126 rural villages and small towns in Chui, Issyk-Kul and Osh regions of the Kyrgyz Republic will be provided with piped and safe drinking water services through new connections to households. About 115,000 people, mostly children, will benefit from improved sanitation facilities in public institutions (schools and other eligible public institutions such as health clinics) as well as change in hygiene behaviors. Direct beneficiaries include vulnerable groups such as low-income households, female-headed households, youth and people with disabilities. Women will be released from water fetching activities and able to allocate more time to other economic activities.
- **Social Institutions:** More than 300 local public institutions such as schools and hospitals will benefit from decentralized sanitation systems, including toilet upgrades, and the construction and modernization of sanitation facilities.
- **Cabinet of Ministers of the Kyrgyz Republic:** Through the Project, the Cabinet of Ministers of the Kyrgyz Republic will continue with its on-going efforts in WSS sector reforms and restructuring and consolidation of the WSS service institutions to improve quality, efficiency and sustainability of WSS service delivery. National institutions and district-level institutions will all benefit from the institutional support and capacity building activities included in the Project.
- **WSS Sector:** The WSS sector will benefit from expansion and upgrading of infrastructure systems, as well as the institutional support and capacity building activities in planning, management and operations capacities, including innovative solutions to improve climate resilience, asset and operational management, customer service, tariff setting procedures, and financial management, monitoring and reporting.
- **Local authorities:** The Project will benefit local authorities of the three regions that have suffered from fragmented sector performance and struggled to meet residents' needs in WSS services due to inefficient and unsustainable operation and maintenance of its assets. Through delegation or entering into contracts with District Water and Sanitation Service Providers (DWSSPs), the local authorities and ultimately, residents and consumers in the project areas will benefit from quality service delivery improvements.

3.3 **Expected Results.** The Project will focus on delivering two key areas of results: (i) increased access to WSS services and (ii) improved capacity of WSS services, including quality, financial sustainability and operational efficiency. Expected Results will be measured using the following performance indicators (for details please see Annex 1)**:**

- Outcome 1: To increase access to improved WSS services:
  - (i) People provided with new or improved access to safely managed drinking water supply services (Number),
  - (ii) People provided with new or improved access to sanitation facilities (Number).

(iii) People benefiting from climate resilient infrastructure (Number).

- Outcome 2: To improve the service delivery capacity of the water supply service providers, especially the capacity to provide quality water service, to implement cost-recovery water tariff and collect bills, and to operate and maintain water assets in a sustainable way. The Main indicator is proposed as follows:

  (i) Water supply service providers with an operating cost coverage ratio of 100%.

3.4 **Strategic Fit for AIIB.** The **Project** is aligned with AIIB's **Corporate Strategy** thematic priorities, specifically contributing to (i) Green Infrastructure and (ii) Technology-enabled Infrastructure.

- **Green Infrastructure:** The investments under this project will address accessibility and inclusion by increasing basic WSS services in unserved and underserved rural and peri-urban areas and thereby supporting the government of the Kyrgyz Republic in addressing WSS challenges in an integrated approach. The Project will improve the local environment and sustain natural capital by reducing pollution to water resources through improved sanitation services. The Project will improve energy efficiency and conserve water resources by modernizing infrastructure assets, thus contributing to climate mitigation. The Project will also prioritize the efficient utilization of groundwater, thus mitigating the impacts of climate extremes and enhancing climate resilience of the infrastructure and rural communities.
- **Energy-Efficient Technology for Infrastructure.** The Project will finance upgrades of old and poor performing infrastructure to improve service quality, enhance efficient water management, secure water supply and reduce vulnerability to climate impacts. Gravity systems that use less energy, upgrade of pumping stations with energy efficient ones, and installation of solar power will help reduce the system's energy consumption and benefit climate mitigation. The overall improved infrastructure is expected to help streamline the WSS service efficiency in project areas, while enhancing economic and social benefits and promoting sustainability, quality and safety as well as reducing financial costs and risks.

3.5 The Project is aligned with the following principles adopted in **AIIB's Water Sector Strategy**: Principle 1 – Promoting sustainable infrastructure by improving the water systems for more accessible and reliable water service, better resources management, more efficient water management and sustainable financing and operation; and Principle 4 – Adopting Innovative Technology: by supporting investments in energy efficient water systems including more energy efficient pumping stations, solar energy solutions, smart meters and water monitoring systems, the Project will promote efficient water use and consumption, and better institutional performance by the water service providers, thus improving overall water service delivery. The Project contributes to two priority investment areas as identified in the Water Sector Strategy:

- **Water and Sanitation Services.** The investment will enhance access to water supply with a focus on remote rural districts of the Kyrgyz Republic. It will include improvements to water services and expanding access to clean water by investing in water treatment and distribution, rehabilitation and upgrading service provision, as well as reduction in water losses, which are key elements of the water sector strategy. It will also support capacity building, stakeholder engagement, and the development of detailed

engineering designs for water supply facilities in small towns and remote rural areas, as well as decentralized sanitation systems for local public institutions such as schools and hospitals.

- **Resource Management.** The Project will develop a performance-based capacity-building program to enhance the efficiency of WSS service providers. By supporting adequate tariffs for service provision, the Project will encourage efficient water use. This in turn will support increased efficiency in water use by consumers, as well as improvements to water service providers' operational and financial sustainability. Sanitation investments under the Project will reduce unsafe disposal of waste into water sources, thus helping improvement of water quality and reduction of water pollution, which are also key elements of the water sector strategy's areas of investment focus.

3.6 The Project will also contribute to the United Nations' Sustainable Development Goals (SDGs) and the global efforts to address environmental, social and economic challenges, specifically:

- **SDG 6. Clean Water and Sanitation for All.** Within SDG 6, the Project supports the Kyrgyz Republic in advancing towards the following targets: (i) universal and equitable access to safe and affordable drinking water, sanitation, and hygiene (SDG 6.1. and SDG 6.2), and (ii) improved water quality by reducing pollution and halving the proportion of untreated wastewater and increasing recycling and safe reuse (SDG 6.3.1).
- **SDG 3. Good Health and Well-being.** Within SDG 3, the Project provides safe drinking water and enhances sanitation services, thus supporting the Kyrgyz Republic in combating water-borne diseases (SDG 3.3) and sustainably reduce the number of deaths and illnesses from hazardous water and soil pollution and contamination.
- **SDG 5. Gender Equality.** Within SDG 5, the Project will reduce the time that women and girls spend on water-fetching activities as well as reduce the proportion of time spent on unpaid domestic work (SDG 5.4.1), while enabling the women and girls to reallocate the time to economic activities and education.
- **SDG 13. Climate Action. Within SDG 13, the Project will** support the development of water supply infrastructure that enhances energy efficiency and utilizes groundwater, benefitting both climate mitigation and climate resilience of the project areas in Kyrgyz Republic (SDG 13.1).

3.7 **Paris Agreement Alignment and Climate Finance.** In line with AIIB methodology for assessing the alignment with the mitigation and adaptation goals of the Paris Climate Agreement, the Project is assessed as aligned to the Paris Agreement on both mitigation and adaptation. In line with the joint MDB methodology for tracking mitigation finance, it is estimated that USD 17 million of the Project cost contributes to support mitigation; in line with the joint MDB methodology for tracking adaptation finance, it is estimated that USD 100 million of the Project cost contributes to support adaptation.

3.8 **Value Addition by AIIB.** Beyond the provision of financing, AIIB's participation will strengthen the Project by leveraging institutional knowledge and expertise gained from the preparation of water projects in the Republic of Uzbekistan and other countries. AIIB's participation would also enhance technical preparation, including sustainability and climate

aspects, and ensure high level of E&S safeguards through the approved Project Preparation Special Fund (PPSF) grant - support to sub-project preparation, and fill a critical financing gap, which would allow the Kyrgyz Republic to further extend and scale-up WSS services in a climate-resilient way.

3.9 **Value Addition to AIIB.** This Project will be AIIB's first infrastructure investment and operation in the water sector in the Kyrgyz Republic. It will strengthen the relationship between AIIB and the member, increasing AIIB's visibility in the country and Central Asian region. It will also reinforce AIIB's position as an important partner in the WSS sector, given the country's high priority placed on improving basic services throughout the country. Further, co-financing with WB will provide a good learning opportunity for AIIB on how to develop and implement projects in remote regions with a harsh climate in the new country. This will enable AIIB to develop the capacity to take on standalone financing operations within the water sector in the Kyrgyz Republic and other parts of the Central Asian region.

3.10 **Lessons Learned.** The project's design is informed by experiences and lessons learned from the ongoing WB-financed Sustainable Rural Water Supply and Sanitation Development Project (SRWSSDP) and Climate Resilient Water Services Project (CRWSP) by providing incentives to service improvements (through performance-based grants) in parallel with infrastructure development to ensure the sustainability of these investments. The Project also draws lessons from AIIB's experiences in designing and implementing the Bukhara Region Water Supply and Sewerage project in Uzbekistan. Relevant lessons that will be incorporated into project design and implementation include water supply development and management with features for adaptation to climate change and water scarcity, adoption of energy efficiency technologies and renewable energy in water infrastructures, sanitation and hygiene improvement in rural areas, etc.

4. Project Description

A. Components

4.1 **Components.** The Project (Phase 1 of the WB Program) will support the construction and upgrade of water supply infrastructure with climate-resilient features and priority on-site sanitation improvements for households and public institutions (schools and hospitals). The Project will also support a performance-based service improvement program as well as Program management and institutional development. The Project will have five components as described below:

4.1.1 **Component 1: Water Supply Investments.** This Component will be co-financed by the WB, AIIB and OPEC fund. In this Component, project activities include the construction and upgrade of water supply systems in 126 rural villages and small towns in Chui, Issyk-Kul, and Osh regions, benefiting around 450,000 people. The Project will prioritize the use of gravity systems, energy-efficient pumping equipment, and solar energy, where feasible, to minimize GHG emissions. Water source development will target groundwater utilization to minimize the impacts of climate change, and network construction will utilize materials resistant to high-temperature variations. The scheme design will follow a participatory approach, with consultations involving communities, including vulnerable people, building on local knowledge and historical data. Component 1 has the following two subcomponents:

- **Subcomponent 1.1 – Water Supply Access to the Unserved.** This subcomponent will finance the design and construction of climate-resilient water supply schemes in 48 currently unserved settlements (around 128,000 beneficiaries). Specifically, the Project will finance resilient water source development, water treatment infrastructure to ensure high drinking water quality, robust transmission and distribution networks capable of withstanding extreme weather conditions and metered household connections to ensure sustainable water use. The component will also include reforestation of approximately 74 ha of land.
- **Subcomponent 1.2 – Water Supply Upgrades.** This subcomponent will finance the design, rehabilitation, and upgrade of water supply schemes in 78 villages and district centers in Aravan, Aksu, Alai, Kara-Kulja, Kara Suu, Panfilov, Sokuluk and Uzgen districts (around 322,000 beneficiaries). The upgrades will prioritize investments with demonstrated impacts on service reliability, financial viability, and climate resilience. Specifically, the Project will finance investments focused on source and storage increase, network hydraulic improvements, and expansion to secure water supply in the face of climate variability, ensure efficient water management, and reduce vulnerability to climate impacts.

4.1.2 **Component 2: Sanitation Development.** Mainly financed by WB, this Component will support the (i) construction, rehabilitation/retrofitting of decentralized sanitation systems, including toilet upgrades for vulnerable households and selected public institutions (schools, kindergartens, and health centers) in all 126 target settlements, thereby enhancing community resilience to climate-related health risks; (ii) technical assistance (TA), equipment and works for the Fecal Sludge Management (FSM) services improvement, including the preparation of guidelines for fecal sludge collection, transport, treatment, and re-use, which will contribute to climate mitigation by preventing the

release of methane from untreated waste; (iii) the implementation of a sanitation marketing and behavioral change strategy to incentivize the adoption and use of improved Water, Sanitation and Hygiene (WASH) and behaviors that are essential for climate resilience and mitigating the pressures on water resources; and (iv) TA for the design of sewage systems in priority settlements.

4.1.3 **Component 3: Performance-based Service Improvement Program.** This Component will be financed by the WB and a grant from the Swiss Agency for Development and Cooperation (SDC). In this Component, the WB and SDC will (i) provide Performance Based Grants (PBGs) for District Water and Sanitation Service Providers (DWSSPs) to finance WSS service improvements and enhance the sustainability of WSS services, and (ii) finance the professional and vocational development program for WSS staff and employees.

4.1.4 **Component 4: Program Structuring, Management and Institutional Development Support.** This Component includes technical assistance and institutional capacity building for the establishment of a program management framework and WSS infrastructure development capacity. Specifically, the component will finance: (i) TA and training for the development of the program management tools, including standard E&S instruments, implementation manuals and protocols, to enhance coordination and Program implementation efficiency, and preparation of an M&E system; (ii) TA for the preparation of investment packages, engineering design, and E&S instruments for future interventions planned for the subsequent phases of the MPA; (iii) Incremental operating costs, TA and equipment for program management; (iv) TA, equipment and services to support a knowledge development program and communications strategy for the MPA aiming to build awareness and understanding among stakeholders about the importance of accelerated WSS access, service delivery sustainability and climate resilience; (v) TA for the preparation of service contract agreements between the operator and asset owner and the PBG independent verification; and (vi) TA for targeted policy regulations, particularly focused on the implementation of the new tariff framework. In parallel, AIIB's PPSF grant will contribute and support Component 4 items (ii) and (iii) as mentioned above.

4.1.5 **Component 5: Contingency Emergency Response (CERC):** This component will provide preparedness and rapid response measures to address disaster, emergency, and/or catastrophic events in accordance with the WB applicable CERC guidelines. Following an eligible crisis or emergency event, the Kyrgyz Government may request to reallocate a part of uncommitted funds to support the emergency response and reconstruction.

B. Cost and Financing Plan

4.2 **Cost and Financing Plan.** The Project cost estimate is about USD200.0 million. Table 1 shows the preliminary estimate of each component and financing plan. In addition, and in parallel, AIIB is providing a PPSF grant of USD 4 million, to support the preparation of Subcomponent 1.1 and 1.2, also contribute to Component 4 of the Project.

Table 1. Project Cost and Financing Plan

Component	Total + AIIB's PPSF grant	Co-Financing					Parallel
		Total	IDA	AIIB	OPEC	SDC	AIIB Grant
Component 1: Water Supply Investments	**143.75**	**140.00**	**70.00**	**50.00**	**20.00**	**-**	**3.75**
Subcomponent 1.1: Water Supply Access to the Unserved	43.70	41.70	21.70	-	20.00	-	2.00
Subcomponent 1.2: Water Supply Upgrades	100.05	98.30	48.30	50.00	-	-	1.75
Component 2: Sanitation Development	**29.00**	**29.00**	**29.00**	**-**	**-**	**-**	**-**
Component 3: Performance-based Service Improvement Program	**22.00**	**22.00**	**13.00**	**-**	**-**	**9.00**	**-**
Component 4: Program Structuring and Management and Institutional Development Support	**9.25**	**9.00**	**9.00**				**0.25**
Component 5: Contingency emergency Response (CERC)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Costs:	**204.00**	**200.00**	**121.00**	**50.00**	**20.00**	**9.00**	**4.00**

C. Implementation Arrangements and Readiness

4.3 **Implementation Period.** The Project is planned to be implemented over a period of four years between October 30, 2025, and December 31, 2029.

4.4 **Implementation Arrangements.** The Project's institutional set-up and implementation arrangement are built on existing practices, experiences in previous WSS projects financed by IFIs and adapted to ongoing institutional reforms and sector restructuring. As detailed below, key institutions involved in the Project implementation are the Ministry of Finance (MOF), Ministry of Water Resources, Agriculture and Processing Industry (MWRAPI), Water Resources Service (WRS) and its State Institution of Drinking Water Supply and Wastewater Disposal (SIDWSWD), the District Water and Sanitation Service Providers (DWSSPs) and local self-government bodies (Aiyl Okmotus, AOs). The Project Implementation Unit (PIU, to be restructured into a Project Coordination Unit (PCU)) is established under SIDWSWD, and will be responsible for the control, coordination and implementation of the day-to-day activities under the Project. District Water and Sanitation Service Providers (DWSSPs) will assist the PIU in carrying out its duties, and local self-government bodies (Aiyl Okmotus, AOs) will also participate in the supervision of the project implementation.

- **WRS:** The WRS acts as an executive agency, which provides strategic guidance, oversight, and coordination of the Project, and ensures compliance with intergovernmental procedures as may be required for the Project implementation.
- **SIDWSWD** acts as the implementation agency, under the WRS under MWRAPI and succeeded the erstwhile Department of Drinking Water Supply and Wastewater Disposal and took over the overall sector mandate, including policy development, service regulation and gradually, investment management as an outcome of the ongoing sector restructuring that aims to reduce the sector's fragmentation and enhance service delivery functions.

- **The PIU/PCU.** A Project Implementation Unit (PIU, to be restructured to a Project Coordination Unit (PCU)) will be responsible for central-level coordination and daily management of the project in all aspects including technical, procurement, E&S and financial management. The PIU was established under SIDWSWD for the WB financed project currently under implementation (CRWSP). The PIU will be expanded, strengthened and restructured into a PCU under SIDWSWD at the central level based in Bishkek, with a dedicated team of specialists comprising a PCU Director, Project Coordinators and dedicated Project staff, consisting of a finance manager, procurement specialists, disbursement specialists, an environmental specialist, a social development specialist, WSS engineers, an institutional development specialist, Monitoring and Evaluation (M&E) specialist, communications specialist, and administrative staff. At the district level, PCU will establish district units with technical teams to support project implementation and M&E. The technical teams will include at least a district project coordinator, a water engineer, a sanitation officer, an E&S officer, and an institutional development officer. These district technical teams will work closely with the central PCU and be responsible for day-to-day project oversight in respective districts, including technical support in the implementation.

- **DWSSP**s will be established at the district level. As planned in the ongoing sector reform, the management, operation, and maintenance of WSS services will be delivered through the DWSSPs with a delegated management or service contract from the AOs. For the Project, eight DWSSPs will be established in Chui, Issy-Kul and Osh regions respectively, either by aggregating existing entities or by establishing ring-fenced structures from current water and irrigation units, subject to the government's further consideration. The Project includes a capacity-building program for the DWSSPs to enable them to independently expand and enhance the quality of services within their districts. Planned cost recovery tariffs are also aimed at improving the financial viability of the DWSSPs and long-term sustainability of service delivery.

- **Local self-government bodies (Aiyl Okmotus, AOs)** are considered owners of water supply infrastructures and representatives of end-users. As per existing practice of the ongoing WB's CRWSP Project, AO representatives will participate in the supervision of the project implementation through regular meetings with the Contractors, PIU and its district units. In the proposed Project, AOs will take similar role in project implementation and construction.

4.5 **Procurement Arrangements.** The World Bank is the lead co-financer of this project. Procurement of goods, works, non-consulting services and consulting services will be conducted in accordance with the World Bank's Procurement Regulations for IPF Borrowers (September 2023). The Project will also be subject to the World Bank's Anti-Corruption Guidelines (July 1, 2016). The World Bank's Procurement Regulations and Anti-corruption Guidelines are materially consistent with AIIB's Procurement Policy and Policy on Prohibited Practices which are deemed fit-for-purpose. AIIB's Policy on Prohibited Practices also applies to the Project to the extent that Prohibited Practices are not covered by the World Bank's Anticorruption Guidelines. AIIB is committed to preventing fraud and corruption in the projects it finances, thus, 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 address any issues in a timely manner, as appropriate.

Detailed requirements will be specified in the Loan Agreement and the AIIB-funded packages' tender documents.

4.6 The Project Procurement Strategy for Development has been prepared together with the Procurement Plan which includes contract packages to be procured for the first 18 months of the Project. Key contracts for goods, works and non-consulting services will be tendered using Request for Bids with open international and national market approach. For the civil works packages, international market approach with relevant rated criteria will be used. Key contracts for consulting services will be procured following quality and cost-based selection. WB's procurement system, Systematic Tracking of Exchanges in Procurement (STEP), will be used to track procurement and contract management processes under the Project.

4.7 **Financial Management**. The PIU now, and later the PCU, will be responsible for maintaining the Project's financial management system under components co-financed by AIIB and the WB. The WB has conducted an FM assessment focusing on a review of funds flow, staffing, accounting policies and procedures, financial reporting and monitoring, and audits. AIIB is satisfied with the WB's FM assessment capacity and process. AIIB's assessment and results are mainly based on the WB's findings.

4.8 The WB will provide FM and disbursement-related services as a lead co-financier according to the WB-AIIB Co-Financing Agreement (CFA)'s standard terms. Such services will include sharing the results of periodic financial report reviews, annual audits of project financial statements, review of withdrawal applications, and any other FM-related activities.

4.9 **Monitoring and Evaluation (M&E).** The Project will adopt the following institutional set-up, system and reporting mechanism for M&E.

- **Institutional Set-up for M&E.** The existing M&E team at the PIU (PCU after restructuring) will be expanded to coordinate all Project M&E activities and strengthened to operate the M&E system. The definition of M&E roles and responsibilities between DWSSPs and the PCU will be specified in the Project Operation Manual.
- **Main System for M&E.** The Project M&E activities will rely on the existing Rural Water Supply and Sanitation Information System (SIASAR system), which will be updated, transferred to the SIDWSWD, and expanded to cover all districts. The Project results monitoring framework and indicators will form the basis for tracking progress on project outcomes, with data collected through the SIASAR system. The Project will adopt a multi-layered approach to monitoring and results verification at the field level, integrating data generated through the SIASAR, combined with targeted data collection exercises with mobile-based reporting and geo-tagged photos, and periodic field visits. All teams involved in project implementation will be trained on the use of SIASAR, including data collection, compilation, and analysis.
- **Additional System for M&E.** Process monitoring will use existing project management mechanisms at the PCU and be enhanced with IT platforms to track critical management processes to achieve the project's objectives. Procurement and contract management activities will be monitored through the Standard Procurement Documents and the Systematic Tracking of Exchanges in Procurement (STEP) system.
- **Reporting Mechanism.** Reporting on most Project activities will be undertaken semi-annually to build a learning platform to inform Project implementation. Reports will cover implementation status and results, challenges and proposed actions to address them,

procurement and disbursements, and E&S standards. The M&E team will also conduct annual beneficiary surveys for completed sub-projects to assess customer satisfaction. The Project will finance equipment and capacity building, incremental costs to strengthen M&E at the project level and equip the PCU to carry out these responsibilities. To the extent possible, project monitoring data will be made publicly available.

4.10 **Implementation readiness.** The Project is moderately ready for implementation. Given the fact that investments under the Project involve a large number of small towns and settlements scattered in a vast and remote geographical area, a framework approach is adopted for project preparation especially on technical and ES aspects. The framework approach will involve the selection, design and implementation of the subprojects scattered in vast project area on an on-going and rolling basis during the implementation period. Under the framework, qualified villages under Osh, Chui and Issyk-kul regions are selected based on availability and status of water supply and sanitation infrastructures and services, among which villages without any WSS infrastructures will be prioritized. An Environmental and Social Management Framework (ESF) has been prepared, which will provide guidelines for the screening and preparation of ES instruments at subproject level. A Project Operational Manual (POM) will be prepared to guide the selection and preparation of subprojects in engineering, E&S, procurement, financial management and reporting aspects. A priority package of water supply investments, comprising around 40 percent of the Project financing, will be designed through the ongoing WB's CRWSP project. These priority works are expected to start in the first 12 months after Project effectiveness as outlined in the 18-month Procurement Plan (PP)**.** However, preparation of detailed designs and ES instruments for such a large number of sub-projects scattered over 126 villages will remain a challenge for the GoKR. Therefore, GoKR requested AIIB to provide a grant for help with project preparation.

4.11 **AIIB's Preparation and Implementation Support** include the following**:**

- **AIIB PPSF Grant.** On August 30, 2024, AIIB approved a PPSF grant of USD4 million to support the project preparation and early implementation. The PPSF Grant will enhance technical readiness, ensure a high level of Environmental and Social (E&S) safeguards, and support project preparation and ensure smooth and rapid launching of implementation. With the support of the PPSF, the implementing agency expects to deliver successful infrastructure investments that are sustainable, energy efficient and climate resilient. Specifically, the scope of work to be covered by PPSF Grant will include the following components:
- **Grant Component 1: Preparation of Infrastructure Investments**. This component of the PPSF Grant will finance the preparation of: (i) detailed engineering designs for the selected villages in Chui, Issyk-Kul, and Osh regions; (ii) baseline studies, which include beneficiary surveys, household surveys regarding current WSS services, data verification and collection, field measurements and other necessary studies to inform the financial and economic analysis and greenhouse gas analysis before project implementation; (iii) detailed environmental and social screening documents, Environmental and Social Management Plans (ESMPs) for site sub-projects, Resettlement Action Plans (RAPs) if applicable and other E&S instruments as required by ES Frameworks that have been developed for the Project.

- **Grant Component 2: Management.** This component of the PPSF Grant will finance: (i) the preparation of the Operational Manual; (ii) auditing services for the grant; (iii) project preparation and implementation support, including an international engineer consultant for quality control and a team of local consultants supporting the implementation and management of grant activities; and (iv) incremental operating costs including training, capacity building and purchasing small equipment to establish a fully operational unit or entity for project implementation.
- **Project Implementation Support Missions** will be carried out together with the WB on a regular basis. Lessons learnt during the project M&E and/or implementation support missions will be adopted to improve the Project implementation. In case of any implementation issues, challenges or compliance deviations, AIIB will discuss with WB and help the PCU to develop corrective action plans.
- **Knowledge sharing.** AIIB will also leverage institutional knowledges and experiences accumulated in similar projects in the WSS sector to share with the PCU and support project implementation.

5. Project Assessment

A. Technical

5.1 **Project Design.** The Project's rationale, scope, and technical design are based on lessons learnt from the WB and other IFI-funded sector investments and findings from analytical work and climate risk assessment. The technical design of the infrastructure investments is informed by the data collected through the SIASAR system and lessons from the WB's previous and ongoing projects, and also relies on strong citizen engagement as reflected in the stakeholder engagement plan (SEP). In addition, the AIIB's PPSF grant will help further improve the Project design by financing baseline surveys and detailed designs, where the baseline survey will collect necessary data from beneficiaries, households and current WSS service to inform detailed technical design, financial and climate analysis, improving the technical readiness and soundness.

5.2 **Framework Approach.** The Project takes a framework approach to the selection, design and implementation of the small-scale subprojects scattered in the vast project area of four districts. In the framework, villages and towns are selected and prioritized based on the following criteria and order for water supply investments:

- the unserved villages without access to water and a population above 1,000 people.
- the underserved villages and communities with a low level of access to water (70%-80%) and old water infrastructures.
- the district centers and economically important satellite villages close to regional centers, though having a good level of access to water (80%-90%), with old and poor performing infrastructures and low level of services (e.g. less than 8 hours of supply per day).
- the villages with a good level of access but with old and poor performing infrastructures.
- Lastly, villages where the population is less than 1,000 people or the cost per capital for providing centralized water supply may be too high or not financially justifiable.

The framework approach is technically feasible and will (i) allow the Project to achieve WSS universal access; (ii) allow gradual upgrading of obsolete water infrastructure where it is most needed to enhance system efficiency and service quality, as well as social-economic benefits of the Project; and (iii) through appropriate sequencing and rolling out subprojects in batches, promote learning from practice and continuous improving throughout the implementation period.

5.3 For sanitation investments, the project design will prioritize simpler technical options such as small-scale onsite sanitation focused on household and institutional containment solutions. For larger communities with high density residential populations and having multi-story building such as district centers, more complex sanitation solutions will be considered to replace septic tanks and thereby reducing incidences of extensive untreated sewage overflowing into the environment and resulting in public health risks.

5.4 **Project readiness and technical assessments.** Based on technical assessments, observations and discussions with WB, PIU and local authorities, the Project will mainly adopt state-of-art technology with climate adaptation features, making the overall technical risk as medium. To smooth the launch of project implementation, a priority package of water supply

investments, comprising around 60 percent of the Project financing, will be designed through the ongoing CRWSP and the AIIB PPSF grant. These works will be committed in the first 18 months after Project effectiveness as outlined in the 18-month procurement plan (PP).

5.5 **Continuous Technical Support and Improvements.** The Project will provide opportunities for a progressive approach to the technical design improvements and optimization, to be assessed at project inception during the AIIB PPSF grant implementation. This progressive approach will allow AIIB to provide technical advisory and support on the infrastructure technology elements, as part of its thematic priority's knowledge and expertise. For the infrastructure technology elements that could be potentially included in the Project, AIIB will assess the latest available technologies, and propose solutions that are technically, financially, environmentally, and socially feasible when rolling out the investments under Phase 1 and also providing suggestions for future scale-up and enhancement in the next phases.

5.6 **Operational Sustainability.** Building service delivery capacity and operational sustainability is one of the key result indicators of the Project. The Project is expected to achieve operational sustainability by (i) adopting climate-resilient water supply infrastructure with energy efficiency technologies; (ii) developing economic and easy-to-build sanitation infrastructure for households and public institutions focused on containment while exploring appropriate wastewater solutions for future scale-up in denser communities; (iii) undertaking financial models reforms and developing cost recovery tariffs; and (iv) capacity building at both national and local district levels to supplement infrastructure development and further enhance operational sustainability and service quality.

B. Economic and Financial Analysis

5.7 **Economic Analysis.** The project economic assessment is based on Cost-Benefit Analysis. The economic costs of the Project are estimated based on: (i) the costs of civil works, purchase and installation of water supply, treatment and sanitation equipment under Component 1, 2 and 4, but excluding Component 3 which is performance-based grant and excluding Component 5 which is a zero component; and (ii) operation and maintenance costs.

5.8 The economic benefits of the Project are mainly derived from investment in WSS systems benefiting households and local public institutions, specifically:

- Improvements in water access, water quality, reliability of water supply in terms of increased duration of water supply service and reduced variation due to seasonal fluctuations and climate change.
- Enhancement in public welfare by reducing coping costs, such as time saved from water fetching, reduced expenses for in-house drinking water treatment, reduced investments in household storage, and in some areas, reduced fees for purchasing water from tanker trucks.
- Safe, reliable drinking water supply and improvement in sanitation services resulting in a reduction in the incidence of water-borne diseases and improved public health.

- Adoption of gravity water transmission systems, renewable energy and energy efficiency technologies to reduce energy consumption at the system level and reduce GHG emissions.

Quantified economic benefits include: (i) time saving in water collection; (ii) reduction in water treatment costs; (iii) reduction in direct health costs due to water-borne diseases; (iv) reduction in lost time due to water-born illness; (v) improvement in system energy efficiency and energy savings that contribute to reduction in GHG emission.

5.9 The Economic analysis indicates that the Project is economically viable. The Economic Internal Rate of Return (EIRR) is estimated at 23.47 percent and Economic Net Present Value (ENPV) at USD 175.07 million, based on a 10 percent social discount rate. A sensitivity analysis of the EIRR and ENPV is conducted with respect to: (i) an increase of 10 percent in capital costs; (ii) a decrease of 10 percent in benefits; (iii) an increase of 10 percent in operation and maintenance costs; and (iv) a worst-case scenario combining the three above scenarios. The ENPV remains above zero and EIRR above the 10 percent social discount rate, indicating the robustness of the Project.

5.10 **Financial Sustainability.** As the water sector restructuring at district level is on-going and the DWSSPs are yet to be established, the financial analysis for the DWSSPs will be carried out under Component 4 of the Project during the implementation after the DWSSPs are formally established by the GoKR. The financial sustainability of the Project and the DWSSPs is assessed based on the following assumptions:

- At the policy level, the GoKR strategy is to transform WSS service providers into commercially viable entities that can provide high-quality and viable services while being able to meet its operating costs from its revenues. The Water Code was enacted in 2005, and the Law on Drinking Water Supply and Sanitation[4] (the new WSS law) and the regulation on procedure to determine cost reflective tariffs for services of centralized drinking water supply and wastewater disposal (the draft Procedure to Determine Tariff) are being amended and under government discussion to better align the sector's institutional framework with the local government structures, promote quality infrastructure development, and enhance WSS service delivery efficiency and cost recovery. Tariff structures are authorized by the Anti-Monopoly Committee and approved by the respective local government or AO, in which the DWSSP is located. The current proposals for a cost-recovery tariff structure include financial support from the local government to help the water utility meet its operating costs if the local government cannot approve cost reflective tariffs. These reforms, once they become effective, will greatly stimulate the WSS sector and enhance the sector’s financial sustainability.
- At the Project level, financial sustainability will be achieved by implementing the following sets of activities: (i) focusing on energy efficient sustainable WSS infrastructure that will improve operational efficiency and thereby reduce operating costs; (ii) implementation of a metering system as part of the project to establish volume-based metered consumption; (iii) implementation of full cost recovery tariffs as part of the proposed GoKR tariff regime; (iv) investment in rehabilitation of distribution networks as part of the Project’s system upgrade (Component 1) to reduce non-revenue water, and thus

[4] Pending government approval (Developed under the World Bank-funded Sustainable Rural Water Supply and Sanitation Development Project)

increase billable water; (v) institutional capacity building (Component 3) and providing incentives to improve billing and collection performance under the performance-based grant (PBG) system (Component 4). With these activities, it is expected that most of the water utility operators will move towards achieving 100% cost recovery by end of the Project.

C. Fiduciary and Governance

5.11 **Procurement:** The project procurement risk is assessed as Medium. The PIU will be responsible for planning, budgeting, procurement, financial management, monitoring and evaluation, reporting, and safeguards aspects of all project components in collaboration with other partners. The WB conducted a capacity assessment of SIDWSWD and found that the existing procurement arrangements are adequate for the project's implementation. SIDWSWD has experience implementing projects financed by IFIs and appropriate controls and procedures have been established. The PIU is currently staffed with a Senior Procurement Specialist and a Procurement Specialist with relevant experience, qualifications, and training to handle procurement and contract management under the Project. The recruitment of a Procurement Assistant is underway and one additional Procurement Specialist will be financed by the PPSF grant to support the expanding workload of the PIU.

5.12 The PIU has prepared a draft Project Procurement Strategy for Development and Procurement Plan, which the AIIB and WB reviewed. The details will be agreed upon before loan negotiations. The agreed procurement method, market approach, cost estimate, review requirements, and time frame for the implementation of contracts financed by the loan will be reflected in the procurement plan.

5.13 **Financial Management:** Based on the assessment carried out, the project residual FM risk is Medium. The paragraphs below describe the details of the financial management arrangements to be applied for the proposed Project.

- **Budgeting:** The current PIU has acceptable planning and budgeting capacity under the ongoing WB-financed project. The PIU prepares project budgets based on the procurement and working plans, the Minister of the MWRAPI endorses them, and MOF approves them. The MOF also approves budget revisions that occur twice a year. The budget data will be entered into the accounting software to monitor variances between actual and budgeted expenditures. The existing budgeting practice will be followed under the AIIB financing.
- **Staffing:** The PIU has experienced FM staff, consisting of a Financial Manager and a Disbursement Specialist. The PIU will recruit an additional Disbursement Specialist for the proposed Project at a later stage. The existing Financial Manager will be responsible for the overall FM arrangements for the proposed Project. The Financial Manager has sufficient experience working on the WB-financed projects.
- **Accounting system:** The cash basis of accounting will be applied to the proposed Project's accounting. The PCU will maintain project accounts and custody of supporting documents. The originals will be kept in the office for at least six years. The PIU has procured and installed the 1C accounting software for the ongoing WB financed project, and the same software can be used for the proposed Project once the necessary customization is completed. The PPSF grant project will be tracked through the same 1C

program but under a separate module. All transactions will be recorded and maintained in the existing 1C accounting software, with a specific profile created for the proposed Project. The Project's Chart of Accounts (CoA) will be further modified to allow tracking of project transactions by the project components and significant activities.

- **Internal Control:** The internal controls system at the existing PIU was assessed by the WB to be capable of providing timely information and reporting on the proposed Project. The FM arrangements are adequate with thoroughly documented accounting and financial reporting policies and internal control procedures. Similar internal control systems will be maintained for the proposed Project. Expenditures incurred by the proposed Project will be authorized by the Director of SIDWSWD for the respective components and verified for eligibility and accuracy by the Financial Manager. Similarly, a Project Operational Manual (POM) will be prepared for the proposed Project to reflect specific activities of the Project, including a Chart of Accounts, Audit ToR, the format of Interim unaudited Financial Reports (IFRs), and so forth. The POM will be developed under the PPSF Grant financing, and its acceptance will be one of the conditions of loan effectiveness of the proposed Project.
- **Financial Reporting:** To monitor the Project's progress and financial performance, consolidated IFRs will be prepared under the proposed Project. The consolidation will cover all financing sources under the proposed Project except the ongoing AIIB grant financing, which has separate financial management arrangements. The PIU shall deliver a complete set of consolidated IFRs quarterly, covering all components of the Project throughout its life. The IFR format will be agreed upon between the WB and PIU. These financial reports will be submitted to the WB within 45 days of the end of each calendar quarter via the Client Connection system. The WB will promptly share with AIIB the IFR and, later, the results of its review.
- **External Audit:** The proposed Project audit will be conducted (i) by independent private auditors acceptable to the WB, on the Terms of Reference (ToR) acceptable to the WB and selected by the PCU, and (ii) according to the ISA issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. The ToR will include: (i) audits of financial statements, (ii) assessments of the accounting system, and (iii) a review of the internal control mechanisms. The audited reports and management letters will be submitted to the WB within six months of the end of each year.

5.14 **Disbursements:** Considering the joint co-financing approach for the components financed with the WB, the WB will handle all project disbursements under those components according to its disbursement procedures. Disbursements will follow the transaction-based method, including the following procedures: an Advance procedure (through advances to the Designated Account (DA)), a Direct Payment procedure, a Special Commitment procedure and a Reimbursement procedure with full documentation, including reimbursements under the Retroactive Financing procedure.

5.15 One Designated Account (DA) for USD and another DA for RMB will be opened under AIIB's loan financing. Both DAs will be opened at a financial institution acceptable to AIIB.

5.16 The current practice in the Kyrgyz Republic is that all WB-financed projects consider domestic taxes as eligible expenses. Without counterpart funding, all relevant domestic taxes will be paid from project financing. This is the case under the ongoing WB-financed project

and will be followed under the proposed Project. It is estimated that around USD 5.75 million relevant domestic taxes will be covered under the AIIB financing.

5.17 Under the co-financed components, specifically under Component 1.2 to be supported by AIIB loan, the WB will issue the Disbursement and Financial Information Letter (DFIL) where all required details will be described. The payments for the AIIB portion will be made directly by AIIB after receiving the payment instructions from the WB, along with a copy of the application and the results of the WB's review of that application.

5.18 **Cybersecurity:** The infrastructure financed under the Project is not considered as Critical Infrastructure.

D. Environmental and Social

5.19 **Environmental and Social Policy and Categorization**: As the lead co-financier, the World Bank's (WB) Environmental and Social Management Framework (ESF), including its environmental and social (ES) standards, will govern this Project which is in lieu of AIIB's ESF. The Project's main environmental risks and impacts are associated with the construction and operation of water supply (Component 1) and sanitation (Component 2) subprojects, which are small to medium in scale. These subprojects will be implemented in various locations and will include new schemes as well as the rehabilitation or retrofitting of existing schemes and facilities. The Project is not expected to involve the construction of dams or reservoirs for water supply, and the primary water source will be groundwater. The scope excludes activities that could have high ES risks[5]. The construction activities are expected to have site-specific impacts in a small to medium scale of hazardous and non-hazardous waste (such as oil, paints, asbestos, accidental spills of fuel and lubricants), traffic congestion, dust, noise, vibration, disturbance to ecosystems, and occupational and community health and safety, issues, requirement of land acquisition, temporary land use restrictions and involuntary resettlement. The anticipated risks during operation of completed schemes include fecal sludge management (FSM) from sanitation facilities, pollution, etc. These environmental and social risks and impacts are readily identifiable and can be avoided, minimized, or mitigated through proper assessment and the implementation of readily available mitigation measures, in accordance with Good International Industry Practice (GIIP). The scope of Project excludes activities that could have high ES risks. Therefore, the World Bank has categorized the Environmental and Social (E&S) risk of the project as Substantial—Substantial for Environmental risk and Moderate for Social risk. According to AIIB's Environmental and Social Framework (ESF), the Project is classified as Category B.

5.20 **Environmental and Social Instruments:** While the types of subprojects (water supply and sanitation) and the regions/districts (e.g. Chui, Issyk-Kul, Osh regions) to be supported are known, the precise locations and design options for each subproject are not yet determined and will be finalized during Project implementation. As a result, a framework approach to environmental and social risk management will be applied. The borrower has prepared the necessary framework documents, including an Environmental and Social

[5] For excluded activities, see Section 7.1.3 Procedure for conducting social and environmental assessment for the Project of the Environmental and Social Management Framework.

Management Framework (ESMF), Stakeholder Engagement Plan (SEP), Resettlement Policy Framework (RPF), and Labor Management Procedures (LMP). The ESMF is a guiding instrument in identifying and assessing the potential environmental and social impacts of sub-projects, in preparing environmental and social management plans (ESMPs) that will summarize necessary mitigation measures to minimize or prevent identified risks and impacts. The ESMF, SEP, RPF, and LMP will serve as the main project instruments for the management of E&S risks and impacts across subprojects investments. The RPF will guide the preparation of Resettlement Action Plans (RAPs) if any of the sites have involuntary resettlement issues. AIIB has received and reviewed draft versions of these documents, and the revised versions were disclosed on client and WB websites and have been shared with stakeholders for consultation. The ESMF provides a general assessment of the environmental and social risks and impacts based on the nature and type of subprojects and the location of these sub-projects. It outlines generic mitigation measures in line with the mitigation hierarchy and provide guidance for subproject planning, design, construction, operation, implementation, and monitoring. Subproject-specific Environmental and Social (ES) instruments will be developed during Project implementation, based on the framework documents mentioned above. An Environmental and Social Commitment Plan (ESCP) has been prepared, updated and disclosed on WB website on March 17, 2025, the ESCP has been reviewed by the Bank team.

5.21 **Environment Aspects:** The Project's environmental risks and impacts are mainly associated with small and medium-scale activities under Component 1 (water supply) and Component 2 (sanitation development). Component 1 will finance the construction of water supply schemes, including boreholes, well fields, intakes, and disinfection units, along with water transmission and distribution infrastructure such as networks, storage facilities, and meters. Component 2 will support the construction and rehabilitation of on-site sanitation systems, including upgrades to toilets for households and public institutions (schools, kindergartens, and health centers), conveyance systems, and localized wastewater treatment facilities, where technically, financially, and environmentally feasible. The subprojects will be located in rural and semi-urban areas. The project involves clearing and leveling of land, excavations, laying pipelines, storage and transportation of construction materials and equipment, drilling boreholes, installation of pumps, construction of distribution tanks, and establishment of worker facilities, among other activities. The anticipated risks and impacts during construction include pollution from the generation of hazardous and non-hazardous waste (such as oil, paints, asbestos, accidental spills of fuel and lubricants), traffic congestion, dust, noise, vibration, disturbance to ecosystems, and occupational and community health and safety issues. During operation, risks are mainly related to the management of wastewater and fecal sludge from sanitation facilities, which could lead to contamination of soil and water resources, pathogen exposure, and odors if not properly managed. Pollution and resource efficiency considerations include minimizing dust, noise, and waste generation, handling hazardous materials, and managing wastewater and sludge during both construction and operation. The Project also presents opportunities to enhance water use efficiency, reduce water losses, and minimize GHG emissions through energy-efficient equipment and potential use of solar energy. Construction activities in rural areas could temporarily disturb or degrade habitats, and accidental leakages or spillages from sanitation, and wastewater facilities could harm nearby natural habitats. Since specific locations and designs will be determined during Project implementation, the Project's ESMF, draft of which has been prepared, provides guidance for preparing site-specific ES instruments and plans/ site specific ESMP, and will

guide pollution prevention, resource efficiency, and biodiversity management measures in site specific manner. Water abstraction permits will be obtained prior to the implementation of subprojects and approved together with the detail design scheme by the State Agency of Construction.

5.22 **Social Aspects:** The Project's main social risks and impacts are associated with the construction of new water supply schemes under Component 1 and the construction and/or rehabilitation and/or retrofitting of decentralized sanitation systems under Component 2. The construction of new water supply schemes may require land acquisition, temporary land use restrictions and involuntary resettlement that could impact livelihoods in the area around the project facilities. Similarly, investments under the Sanitation Development component could involve land acquisition, temporary land use restrictions and involuntary resettlement, with potential impacts to community livelihoods. No significant risks related to labor influx and Sexual Exploitation and Abuse/Sexual Harassment (SEA/SH) are expected under the Project during construction, as most project workers will be recruited locally. RPF has provisions related to both Land Acquisition and temporary land use to manage land acquisition impacts. Also, RPF will require local government to provide budget support for its responsibility to compensate land acquisition (if any) and temporary land use as per the requirements of RPF, before the implementation of respective subproject, demonstrating that sufficient budget and planning are in place to undertake land acquisition in accordance with WB ESS5 for all potential sub-projects within the designated AOs.

5.23 **Occupational Health and Safety, Labor and Employment Conditions:** The WSS subprojects involve construction and operational activities that may pose Occupational Health and Safety (OHS) risks, including hazards related to excavations, confined space entry, working at heights, and exposure to pathogens. Many activities will occur near settlements, potentially exposing communities to risks such as traffic hazards, noise, dust, vibrations, and access restrictions during construction. The Environmental and Social Management Framework (ESMF) and Labor Management Procedures (LMP) has assessed these risks and provided generic OHS and Community Health and Safety (CHS) guidance based on the nature of activities and associated risks. Site-specific Environmental and Social Management Plans (ESMPs) will screen and address these risks, while a draft Grievance Redress Mechanism (GRM), separate for the affected communities and for workers, has been proposed, which will be established and operationalized during implementation of subprojects in accordance with the requirements of the ESMF. Once established, the PIU will facilitate in setting up community grievance mechanisms and workers grievance mechanisms will be set up when the contractors are on board. Subproject-specific ES instruments will incorporate tailored OHS and CHS measures, and the Project will maintain records of accidents, with any fatalities or major incidents reported immediately to the WB and AIIB.

5.24 **Stakeholder Engagement, Consultation and Information Disclosure:** A Stakeholder's Engagement Plan (SEP) has been prepared to identify the various stakeholders and outline the approach for engaging with them throughout the project life cycle. The SEP provides guidance in citizen engagement and defines appropriate mechanisms to engage with both direct and indirect project beneficiaries and other concerned parties, including vulnerable groups. These information/awareness-building processes will be supplemented by a grievance redress mechanism (GRM) that covers all aspects of project implementation, including grievances related to involuntary resettlement. Furthermore, the ESMF provides

mechanisms for effective community engagement through disclosure of project-related information, consultations, input and feedback. The Borrower has disclosed the ES instruments in English and Russian on its website (http://tunuksuu.kg/vb-zashitnye-mery/) and WB disclosed the ES instruments in English on its website (Development Projects : Kyrgyz Republic: Water Supply and Sanitation Universal Access Program-1 Project - P500620). An ES Commitment Plan (ESCP) was prepared and disclosed (Environmental and Social Commitment Plan (ESCP) - Kyrgyz Republic: Water Supply and Sanitation Universal Access Program-1 Project – P500620).

5.25 **Project Grievance Redress Mechanism:** In accordance with the requirement of the World Bank and AIIB, a dedicated grievance mechanism will be established for the Project as project-level GRM. The GRM for both affected communities and workers will be established and operational prior to the commencement of the Project and will be maintained throughout the Project Implementation. Specific communication materials (GRM brochures, posters) will be created to help local residents become familiar with grievance channels and procedures. Internal GRM training will also be provided to PIU staff and contractors. The Project website will contain clear information on the Project GRM as well as how any interested party can submit feedback, questions, comments, concerns and complaints, and will include the ability to submit complaints electronically. The community GRM will operate at three levels—subproject, Aiyl Okmotu, and national level—with multiple channels for grievance submission. For the worker GRM, each contractor is also required to prepare a contract-specific LMP with its own GRM to address workers' grievances.

5.26 **Independent Accountability Mechanism:** The WB's ESF applies to this Project. The WB's corporate Grievance Redress Service (GRS) and its Independent Accountability Mechanism, the Inspection Panel, which review the WB's compliance with its policies and procedures, will handle complaints relating to the WB's compliance with its ESF with respect to the Project. In accordance with AIIB's Policy on the Project affected People's Mechanism (PPM), submissions made to the PPM regarding such complaints under this Project will not be eligible for consideration by the PPM. Information on the WB's corporate GRS is available at http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service. Information on the WB's Inspection Panel is available at http://www.inspectionpanel.org.

5.27 **Monitoring and Supervision Arrangements:** The SIDWSWD and PIU will be responsible for managing the day-to-day project implementation activities, including ensuring the E&S compliance of the Project. The PIU will recruit one Environmental Specialist and one Social Specialist, and PIU's each local district units will recruit one E&S Specialist. The Bank's E&S Specialists will carry out field-based E&S supervision missions to monitor the implementation of E&S instruments and the Borrower's E&S performance. E&S monitoring during subproject implementation provides essential data on impacts and mitigation effectiveness, enabling the PIU to assess progress and ensure timely corrective actions. PIU E&S specialists will monitor compliance with the Environmental and Social Management Framework (ESMF) and Environmental and Social Management Plans (ESMPs) using checklists that have been developed. The PIU will prepare and submit semi-annual reports to WB and AIIB for review in accordance with the agreed format. Contractors will submit monthly monitoring reports on E&S activities and issues, and supervision consultants' monthly reports will also cover E&S compliance. The monitoring approach includes visual inspections, regular

checks of dust, noise, and vibration levels, and certified testing of air or water quality when complaints arise, with contractors addressing any issues that exceed acceptable norms. The PIU will instruct the contractor to address any non-compliance issues. Continuous monitoring from the start of project implementation will help the PIU evaluate mitigation success and enables timely interventions. Health and safety logs, accident records, and environmental quality monitoring results will be documented, ensuring thorough oversight and accountability to prevent or mitigate adverse impacts.

5.28 **ES Capacity and Staffing**. The Project's ES capacity requires strengthening. Currently, the Project Implementation Unit (PIU) has only one environmental specialist, which is insufficient for effective support. To enhance ES capacity, the PIU plans to recruit an environmental specialist, a social development specialist, and an ES assistant at the central level. Additionally, each of the PIU's district unit will have one ES specialist. ES capacity-building orientation and training are also included within the project's scope. Accordingly, the Project allocates resources for E&S capacity strengthening. Additionally, AIIB plans to mobilize grants to support capacity-building efforts, scope of which will also include measures for enhancing E&S capabilities. AIIB staff will provide guidance along with supervision and monitoring to ensure compliance and effective implementation.

E. Climate Change

5.29 **Climate Change:** The Project is aligned with the goals of the Paris Agreement on both mitigation and adaptation.

- **Climate Mitigation.** The Project addresses climate mitigation across various components by focusing on reducing GHG emissions and enhancing resource efficiency. The Project is aligned with BB1 (mitigation goals) as all of its activities fall under the universally aligned list based on the AIIB's Paris alignment assessment methodology. For Component 1 - water supply investments, the Project incorporates energy-efficient technologies and solar energy solutions, alongside gravity systems that minimize energy use, particularly in pumping operations. The metering and incentive programs for water conservation will promote water use (and energy) efficiency improvements. Collectively, climate mitigation benefits will be accrued from (i) improvement in energy efficiency of water infrastructure; (ii) the reduction in nonrevenue water and reduction in water abstraction, (iii) avoided usage of fuel to boil and treat water at household level and transport drinking water by trucks, and (iv) improvement in collection and treatment of sewage by sanitation services onsite and (v) reforestation of land. With these interventions, the Project will facilitate green development and will result in reducing total CO2 and GHG emissions as well as improving water conservancy and reducing pollutions.
- **Climate Adaptation.** The Project also addresses adaptation risks by enhancing resilience against climate variability and extreme weather conditions. Components 1 and 2 support the adaptation of WSS services to drought and flood shocks through efficiency improvements, diversified water sources and water source protection, thus directly addressing the climate vulnerability of water systems. Further, the Project will finance infrastructure using resilient design principles to ensure that assets are robust to climate change. Water supply infrastructures will be designed with materials resistant to high temperature variations and capable of withstanding extreme weather, ensuring

continuous service despite climate-induced variability in water availability. Component 3 also includes the design of climate-responsive operational procedures. The service improvement program enhances the capacity of water sector institutions to adaptively manage water resources in the face of climate variability, ensuring sustainable service delivery and water scarcity resilience. The management and structuring component incorporates training and technical assistance for climate resilience planning, ensuring that long-term sustainability and effectiveness of WSS services are maintained even as climatic conditions change.

F. Gender Aspects

5.30 **Gender Aspects:** Building on the ongoing CRWSP and experience and lessons learned to promote gender equality in households and workplaces, the Project narrows two critical gender gaps: (a) unequal economic opportunities between men and women due to poor access to safe and reliable water by women and the heavy burden on women for water collection and (b) limited access by women into the WSS sector employment.

5.31 **Socioeconomic Inequality Gender gap.** In the Kyrgyz republic, women are the primary (55 percent) household members responsible for provision of water, cleaning, and sanitation[6]. Rural women spend on average 237 minutes cooking, washing dishes, laundry, cleaning houses, and taking care of children and other family members, while rural men spend on average 15 minutes[7]. The Project is expected to eliminate disproportional time-use burden on women in project areas, contribute to girls' learning environment and reduce health risks for women. It will also increase, at the same time, women's access to safe and reliable water supply under Component 1, and free up time for productive and care activities. Water collection is time-consuming, with 16.2 percent of women spending between 30 minutes and three hours a day on the task. Annual sample surveys in completed subprojects will assess the reduction in time spent by women and use for other activities.

5.32 **Professional Gender gaps in the WSS sector**. SIASAR data reports that around 30 percent of staff in rural water service providers are women. Within the oblast water authorities, as well as within WUA management committees, women are underrepresented at all levels and in particular at technical and managerial levels in the WSS sector. Only 20 percent of staff in WRS oblast and rayon departments are women (14 percent of staff in technical positions and 11 percent of staff in managerial positions). And on average, the representation of female farmers within WRS decision-making bodies is significantly lower. Although there are no legal restrictions on the employment of female staff, evidence suggests that women have less access to jobs and careers within the WSS utility sector. There remains a strong patriarchal social norm that hinder the full potential of women to participate in the sector.

5.33 The proposed project interventions will promote gender diversity in the workplace through gender-neutral recruitment policies and procedures, better working conditions, the development of guidelines for a safe work environment and career opportunities for female graduates. These actions will be supported and leveraged by a public awareness communication campaign and reflected in the result indicator "Percentage of females who

[6] National Statistical Committee and UNICEF. 2024. Kyrgyzstan Multiple Indicator Cluster Survey 2024, Survey Findings Report.
[7] UNECE. 2021. Childcare, Women's Employment and the COVID-19 Impact and Response: The Case of the Kyrgyz Republic

received training in the Professional and Vocational Development Plan (PVDP) who are then hired by the water services sector" which is included in the Result Monitoring Framework (RMF). The Project will also support reviewing HR policies on recruitment, promotion, and retention in the water sector, as well as developing guidelines for a safe work environment and a sexual harassment reporting mechanism. The Project will engage communications tools such as customer service centers, media platforms, and community outreach meetings to respond to inquiries raised by concerned stakeholders. More specifically, under components 1 and 2, local community members have been consulted through the ESF development process and will be further engaged during implementation through Detailed Engineering Design, monitoring, and evaluation/lesson learning.

G. Operational Policy on International Relations

5.34 **Operational Policy on International Relations (OPIR):** AIIB's OPIR and WB's Operational Policy on International Waterways (OP 7.50) apply because the Project will finance the construction, upgrade, and expansion of water supply systems located within the transboundary of the Chui and Syr Darya river basins. New construction of water supply infrastructure is expected to require only a low cumulative water abstraction due to the small population size in the unserved settlements. Infrastructure upgrades and water supply service improvements will increase system efficiency and reduce water losses. Water conservation will be promoted through improved demand-management measures and installation of water meters. WB assessments concluded that the Project is expected to have minimal or no impact on the riparians, even under the worst-case scenario.

5.35 As per the WB's Operational Policy for Projects on International Waterways (OP 7.50), WB is requested to notify the riparians. Therefore, on behalf of the GoKR, WB notified the riparians regarding the Project and its assessments of the Project's minimal or no impacts on riparians on October 10, 2024, there was no objection to proceed by the riparian countries.

5.36 Based on the assessments of WB (the lead co-financier), OPIR de minimis exception of notification requirements shall apply, specifically 3.3 (c) (i) "Projects that are expected to have minimal or no effect on any of the other riparians", AIIB is not requested by OPIR to notify the riparians.

H. Risks and Mitigants

Table 2: Summary of Risks and Mitigating Measures

Risk Description	Assessment (H/M/L)	Mitigation Measures
Program/Project Preparation Risks		
Technical designs		
▪ The Project involves a large number of small communities and villages. The timely preparation of detailed designs for such a large number of villages and towns could be	Medium	▪ Professional Design Institutions (DIs) will be hired using the AIIB PPSF grant and WB ongoing project to provide appropriate design solutions. Tendering for the DIs will be carefully packaged into several manageable consulting service contracts, to accelerate preparation and mitigate risks.

Risk Description	Assessment (H/M/L)	Mitigation Measures
challenging to the PCU		▪ Standardized detailed designs will be first carried out for typical schemes, either for utilization of groundwater, or for using surface water. Adaptations to local geo-conditions, environment and climate change will be developed based on standard schemes.
Program/Project Implementation Risks		
Implementation capacity		
▪ The PIU lacks adequate resources and capacity to manage this project in addition to other IFI projects that it is managing	Medium	▪ Capacity building activities, including training and workshops for IT systems will be carried out at national and local district levels. ▪ AIIB PPSF grant will finance a team of local consultants and an international engineer to enhance the PCU and help with design, quality control, supervision, M&E and other daily work of project implementation.
Land acquisition and resettlement		
▪ Delay in land acquisition (if any)	Medium	▪ Local governments will be required to provide commitment for budget support to compensate land acquisition (if any) and temporary land occupation. ▪ Strict implementation and frequent monitoring of land acquisition following the required measures in the RPF. ▪ The PIU will implement and monitor activities and submit the semi-annual E&S monitoring Reports. ▪ AIIB will work closely with the Borrower to ensure E&S compliance. It will carry out field-based E&S supervision missions to monitor the implementation of E&S instruments and the Borrower's E&S performance.
Financial management		
▪ The absence of specific Project FM procedures, a dedicated project financial management staff with required experience, and manual accounting may lead to deficiencies in project accounting and financial reporting.	Medium	▪ These risks are manageable, and detailed mitigation measures have been agreed upon and described in the FM-related paragraphs.
Procurement		
▪ Weak procurement and contract management capacity of the PIU may lead to procurement delays or inappropriate procurement decisions.	Medium	▪ Provision of extensive training on procurement and contract management to the staff of the PIU. ▪ Document procurement and contract management processes in the Project Operational Manual.

Risk Description	Assessment (H/M/L)	Mitigation Measures
		▪ Carrying out regional market outreach activities to improve participation of contractors, suppliers, and consultants in tenders. ▪ Additional resources through the recruitment of individual consultants or PIU staff to support procurement under the Project may be provided. ▪ Close supervision of the Project Team during implementation.
Time and cost overruns		
▪ Cost overruns ▪ Delays in implementation due to challenges in the preparation of detailed design and detailed ES instruments	Medium	▪ Cost estimates were prepared based on unit infrastructure development costs from ongoing World Bank and other IFIs-funded projects, complemented by the latest market rates, including the required contingency to cover unforeseen market changes and design complexity. ▪ Resources have been mobilized from WB ongoing projects in Kyrgyz water sector and AIIB PPSF grant, to improve project readiness and accelerate the preparation of first batch of sub-investments in all aspects.
E&S risks and impacts during construction and operation		
▪ Challenge of ensuring the effective and timely application of environmental and social (E&S) policies and requirements in each subproject, primarily due to capacity constraints during preparation and implementation.	Medium	▪ The Project allocates resources for E&S capacity strengthening. Additionally, AIIB has plans to mobilize a grant to support capacity-building efforts, scope of which will also include measures for enhancing E&S capabilities. AIIB staff will provide guidance along with supervision and monitoring to ensure compliance and effective implementation.

Annex 1: Results Monitoring Framework

Project Objective (PO):	The Project Objective is to increase access to WSS services and improve the service delivery capacity in selected areas of the Kyrgyz Republic.								
Indicator Name	**Unit of measure**	**Base-line Data 2024**	**Cumulative Target Values**				**End Target 2029**	**Monitoring Frequency**	**Responsibility**
			2025	**2026**	**2027**	**2028**			
Project Objective Indicators:									
1. People provided with at least basic water	Number	0	0	15,000	90,000	247,500	450,000	Annual	SIDWSWD
2. Of the people provided with at least basic water, percentage of female beneficiaries	Percentage	0	0	50	50	50	50	Annual	SIDWSWD
3. People provided with at least basic sanitation	Number	0	0	7,000	3,800	10,450	19,000	Annual	SIDWSWD
4. Of the people provided with at least basic sanitation, percentage of female beneficiaries	Percentage	0	0	50	50	50	50	Annual	SIDWSWD
5. People benefiting from climate resilient infrastructure	Number	0	0	15,000	16,800	140,250	255,000	Annual	SIDWSWD
6. Water supply and sanitation service providers with an operating cost coverage ratio of at least 100%	Percentage	0	0	3	20	50	80	Annual	SIDWSWD
Intermediate Results Indicators:									
1. Legally created and fully operation district water service providers	Number	0	0	1	3	6	8	Semi-Annual	SIDWSWD
2. Villages with water supply systems constructed or rehabilitated with climate-resilient design standards	Number	0	0	3	27	69	126	Semi-annual	SIDWSWD
3. New metered piped household water connections	Number	0	0	6,000	18,000	49,500	90,071	Semi-annual	SIDWSWD
4. Households with new or improved sanitation facilities	Number	0	0	95	660	1,815	3,300	Semi-annual	SIDWSWD
5. Social Institutions with new or improved sanitation facilities	Number	0	0	5	78	214	389	Semi-annual	SIDWSWD
6. Continuity of water supply in participating water utilities (service hour per day)	Hours	8	8	8	12	16	20	Semi-annual	SIDWSWD
7. Customer Satisfaction Index	Percentage	0	0	50	60	70	80	Annual	SIDWSWD

Project Objective (PO):	**The Project Objective is to increase access to WSS services and improve the service delivery capacity in selected areas of the Kyrgyz Republic.**							
Indicator Name	**Unit of measure**	**Base-line Data 2024**	**Cumulative Target Values**				**End Target 2029**	**Monitoring Frequency**	**Responsibility**
			2025	**2026**	**2027**	**2028**			
8. Percentage of females who received training in the Professional and Vocational Development Plan	Percentage	0	0	10	20	30	30	Annual	SIDWSWD
9. Water supply systems that maintain their non-revenue water below 30%	Percentage	0	0	1	20	50	100	Annual	SIDWSWD

Annex 2: Country Credit Fact Sheet

1. **Background:** The Kyrgyz Republic is a lower-middle-income country with a GDP per capita of around USD2,800 and a population of 7.2 million in 2025. The country is endowed with abundant natural resources and has the potential to expand its hydroelectricity production and develop its tourism industry. The growth potential of the economy is further supported by a young population, increasing economic ties with China, and its strategic geographic position between Asia and Europe. At the same time, the economy remains heavily dependent on trade with, and remittances from, Russia, as well as on the domestic gold sector, which is currently dominated by a single operation. Constraints in human capital and infrastructure, particularly in transportation and power supply, continue to limit the country's overall competitiveness.

Key Economic Indicators	2020	2021	2022	2023	2024	2025*	2026*	2027*
Real GDP growth 1/	-7.1	5.5	9.0	9.0	9.0	6.8	5.3	5.8
Inflation (CPI, average) 1/	6.3	11.9	13.9	10.8	5.0	7.0	5.7	5.2
Fiscal balance	-3.1	-0.7	-0.3	1.6	1.9	-3.4	-2.8	-3.2
Public debt	63.6	56.2	46.8	42.0	36.6	38.5	39.5	40.3
Gross public financing needs	4.8	3.9	2.4	3.1	5.3	5.4	5.5	5.9
Current account balance	4.5	-8.0	-41.9	-44.9	-31.1	-8.5	-7.5	-8.5
External debt	54.5	46.7	39.5	37.1	34.4	32.5	30.6	29.0
FX reserves (USD million) 2/	2,808	2,978	2,789	3,236	5,088	5,191	..	..
Exchange rate, KGS/USD 2/	77.4	84.7	83.2	89.0	85.5	87.5		

Source: IMF WEO April 2025; IMF Country Report 24/64; Press release no. 24/68 in percent of GDP unless indicated otherwise; '*' = projections.1/ percent change, year-on-year 2/ end-of-period, most recent data from central bank; as of April 30

2. **Recent development.** The economic impact of geopolitical tension has been less severe than expected, similar to other countries in the region. Following a robust post-pandemic recovery in 2021, growth accelerated further in 2022, fueled by an influx of productive labor and income from Russia, along with a sharp rise in trade—primarily re-exports from China to Russia. This momentum continued to support economic growth throughout 2023. In 2024, growth remained strong, driven by rapid expansion in the services sector and a notable increase in both foreign and domestic investment, which boosted construction activity.

3. Inflation fell from 10.8 percent in 2023 to 5.0 percent in 2024, landing within the central bank's target range of 5.0–7.0 percent. The slowdown was broad-based, with significant declines in food prices, thanks to lower import costs, improved supply, currency appreciation, and monetary tightening. As a result, the central bank was able to reduce its policy rate by 400 basis points to 9 percent—the lowest level since early 2022. Inflation is expected to increase to 7 percent in 2025, driven by robust domestic demand, utility tariff increases and possible currency depreciation.

4. The current account deficit surged to 41.9 percent in 2022 and to 44.9 percent in 2023, but these figures were significantly overstated due to a sharp increase in unrecorded re-exports of goods to Russia. The current account deficit is expected to gradually decline in the

medium term. Meanwhile, high levels of dollarization—common in many economies in the region—have been improving as credit dollarization declines. Banks remain well-capitalized, with around half of the system being foreign-owned. As of January 2025, gross international reserves hit a record high of USD5.19 billion, marking an increase of nearly 57 percent over the past year. This total includes the country's substantial non-monetary gold reserves.

5. **Outlook and Risks.** Output is projected to grow by 6.8 percent this year and between 5-6 percent in the medium term. Inflation is projected to remain stable. However, inflationary risks persist, driven by volatile global food and energy prices, potential currency depreciation, elevated inflation expectations, and strong demand pressures.

6. In 2023, the fiscal position improved with a budget surplus driven by higher tax revenues, particularly from VAT on imports, and non-tax income, which offset increased public spending on wages, social transfers, pensions, and infrastructure. As a result, public debt declined to 36.6 percent of GDP by 2024, down from 42.0 percent in 2023. Over the next few years debt is expected to rise moderately due to a planned Eurobond issuance program. Public debt is assessed as sustainable by the IMF, with moderate risks of debt distress. The country remains vulnerable to external shocks, particularly due to high dollarization of debt (80 percent of total), though much of it is concessional with low debt-servicing costs. Continued support from development partners remains crucial.

7. S&P recently upgraded the country's credit rating to B+, citing a relatively strong fiscal position and sustained economic growth. Moody’s reaffirmed its B3 rating with a stable outlook, while Fitch maintained its B rating, also with a stable outlook.