



Project Appraisal Document (PAD)

SUSTAINABLE RURAL DEVELOPMENT PROJECT

Project Number: UZB-1023
Country: Uzbekistan
Department: Country Relations and Services – Asia
Regional Hub: Regional Hub Almaty
Date of Submission: 30/10/2020

Acronyms and Abbreviations

ACG	Arab Coordination Group
APOT	Architectural-Planning Of Territories (in Rural Areas)
CUC	Cumulative Undisbursed Commitment
EA	Executing Agency
ESIA	Environment and Social Impact Assessment
ESMP	Environment and Social Management Plan
GOU	Government of Uzbekistan
ID	Islamic Dinar
IsDB	Islamic Development Bank
MCA	Mahalla Citizens' Assembly
MCPS	Member Country Partnership Strategy
MEDPR	Ministry of Economy Development and Poverty Reduction
MOF	Ministry of Finance
OPEC Fund	OPEC Fund for International Development
OCR	Ordinary Capital Resources
P5P	IsDB Presidency Program
PMU	Project Management Unit
PIU	Project Implementation Unit
PVP	Prosperous Villages Program (Obod Qishloq Program)
QCDP	Qishloq Community Development Plan
SDG	Sustainable Development Goal
SFD	Saudi Fund for Development
SPRP	Strategic Preparedness and Response Program of IsDB
TA	Technical Assistance
UNDP	United Nations Development Program
USD	US Dollars

Currency and Measurement Conversions

(as of 30/10/2020)

ID 1.00 = US\$

1.42

Currency Unit – Uzbek Soum

(UZS) US\$1.00 = UZS 10,354

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Sustainable Rural Development Project - Uzbekistan

A. Strategic Context and Rationale

Brief Historical Development of the Project:

1. The Islamic Development Bank (IsDB) received an official request from the Government of the Uzbekistan (GOU) in August 2019 to consider financing Sustainable Rural Development Project. The Project is part of the national investment program for the period of 2020-2022 approved by Presidential Decree¹ of Uzbekistan in January 2020. The project has a programmatic approach and supports the GOU's Prosperous Villages Program (PVP) adopted in 2018. The Program aims to improve the living standard of rural people by improving access to basic infrastructure, services, and economic opportunities.

2. The PVP program is supported by multiple donors, including World Bank, AIIB, and IsDB. The GOU requested IsDB to contribute to the PVP with total amount of US\$600 mln. The funding of the Program was discussed internally within the Bank in Mid-2019 during the development of IWP 2020-2022, where it was decided that IsDB investment will be limited to US\$ 330 mln under multi-tranche financing approach. The IsDB invited members of the ACG to join the program, where the OPEC Fund for International Development (OPEC Fund) and Saudi Fund for Development (SFD) expressed interest to contribute to the amount of US\$ 75 mln and US\$ 50 mln, respectively.

3. However, with the global economic challenges impacted by Covid-19 pandemic, and with a view to have balanced support to Member Countries in the social-economic recovery, the IsDB made decision in September 2020 to limit concentration of investments into single country based on financial sustainability strategy and public debt sustainability assessment. With a view of this and in order to have balanced distribution of funds across different sectors in Uzbekistan, the allocation to Sustainable Rural Development Project was limited to US\$200 million, while further funding of the Program could be considered in future as Phase-2. The Bank during the Project appraisal conveyed its planned support to the GOU and help mobilize resources from other development partners for future phase, if GOU decides to continue engagement with IsDB in this program and subject to availability of the needed resources.

4. The Project is designed to provide priority support to the rural people by improving access to basic infrastructure and related services. Major activities will be achieved through investment into climate resilient rural infrastructure and management, including agriculture infrastructure, rural water supply and sanitation, access roads, power supply, and various types of social facilities – public education facilities and health centers located in rural areas. The Project will be linked to the future interventions in economic empowerment support that was designed along the larger

¹ Decree of the President of Uzbekistan No. PP-4563 dated January 9, 2020

Sustainable Rural Development Program in order to bring higher impacts and benefits to the rural population.

5. The Project Appraisal Document is prepared based on the project technical studies submitted by the GOU; rapid assessment/validation by the United Nations Development Programme country office in Uzbekistan (UNDP) with project stakeholders and beneficiaries; and the outcome of the IsDB virtual appraisal mission from 12-19 October 2020 and negotiations held between IsDB and GOU on 6-7 November 2020.. The IsDB team benefited from the documents of World Bank and Asian Infrastructure Investment Bank related to Prosperous Villages Project in Uzbekistan.

IsDB Operations in the Country:

6. Uzbekistan joined the IsDB in 2003. Its share in subscribed capital is ID 13.4 million with paid-up capital of ID 2.9 million. Uzbekistan is also a member of ICD, ITFC, ICIEC, ISFD and IRTI. Since inception, the IsDB Group has been supporting socio-economic development in Uzbekistan through numerous financing and non-financing activities. The IsDB Group has an overall net portfolio of US\$2,035.2 million in Uzbekistan comprising US\$1,456.4 million of the IsDB financing; US\$419.7 million of ICD financing; US\$146.0 million of ITFC financing and US\$13.1 million of financing from other funds, as of 17 September 2020. For the IsDB Group, cumulatively the largest share of operations is in Agriculture & Rural Development (24.7%), followed by Finance (20.7%), Health (17.7%), Transportation (13.0%), and Energy (9.8%).

7. In terms of modes of financing, 71.0% of the IsDB Group Interventions are in form of Project Financing, mainly Istisna'a (46.5%), Instalment sale (16.1%) and Leasing (5.9%). Trade Financing operations equal to 27.2% and Concessional Financing makes up 1.8% of the operations. The IsDB Group country portfolio comprises of 92 projects with 47 active operations totaling US\$1,258.6 million and US\$776.5 million for 45 completed operations. Cumulative Undisbursed Commitment (CUC) amounts to US\$295.9 million. The projected repayment during July 2020-June 2021 is US\$55.5 million. Overall country has been honoring repayments on time in the past several years, except in August 2020 when dues exceeded the IsDB suspension threshold leading to disbursement suspension for 2 weeks. As of PAD date (25/09/2020) there is no outstanding repayments by the country. The Strategic Preparedness and Response Program (SPRP²) approvals for Uzbekistan includes US\$21.7 million (R1 approval), US\$41.6 million (R2 approval).

² Strategic Preparedness and Response Program of IsDB Group consists from 3R support: Response (R1), Restore (R2) and Restart (R3)

Project Context:

Country

Context:

8. Uzbekistan is a double-landlocked country strategically located in the heart of Central Asia, bordering Kazakhstan, Tajikistan, Kyrgyz Republic, Turkmenistan and Afghanistan. It is a lower middle-income country and rich with mineral resources. With 34 million population, Uzbekistan accounts for about 45% of the Central Asian region's total population. The economic growth rate at 5.6% (2019) was driven by continued expansion in industry, increased investment, and to a lesser extent, household spending. The construction, services and transportation sectors rose at a healthy pace, reflecting broad-based growth. Inflation has moderated to 14.5% in 2019 from 17.5% in 2018, mainly owing to a sharp fall in non-food inflation, which eased to 11.1% year-on-year in 2019 compared to 18% a year earlier. Nevertheless, inflationary pressures were strong in 2019 because of lagged effects of devaluation of local currency in 2017, as well as increased domestic demand for foodstuffs, which form a significant share of the consumer price index basket. Uzbekistan ranks 108th in the latest HDI with score of 0.710 (UNDP, 2018).

9. Government adopted its mid-term development strategy for the period 2017-2021, which includes five priority areas: (i) improving public administration and state buildings; (ii) ensuring the supremacy of law and reforming the judicial system; (iii) maintaining solid economic growth and liberalizing the economy; (iv) improving the social safety net; and (v) ensuring security. Alongside these reforms, the Government plans to implement investment projects worth US\$35 billion over the next five years in agriculture, water, energy and transport infrastructure, chemicals, pharmaceuticals and other sectors.

10. In February 2018, the Government adopted the state program to reinforce the implementation of the above-mentioned National Strategy. The focus is on the transparency and accountability of the public services, law supremacy and reforms in court system, persuasive economic development based on innovative approaches, advanced know-how and smart technologies and venture funding. The state program also envisions proactive social services, regional security and cohesion. Uzbekistan has made some progress towards SDG goals of eliminating extreme poverty and promote shared prosperity. However, vulnerability remains widespread with a large majority of the population being clustered near the poverty line. The population, therefore, faces high risks of falling back into poverty given the high exposure to shocks of COVID-19 pandemic and insufficient safety nets.

11. The IsDB Group launched its first Member Country Partnership Strategy for Uzbekistan on 18th September 2018. The strategy covers the period of 2018-2021 and focuses on the following pillars: i) Supporting Enhanced Competitiveness in energy, transport, agriculture and private sector; ii) Fostering inclusiveness in social sector, water and sanitation and integrated rural development and (iii) Cross-cutting theme of Capacity Development, supporting long-term sustainability of the Group interventions.

12. Uzbekistan's public debt remains sustainable and the risk of debt distress is low. According to the World Bank/IMF's Joint Debt Sustainability Analysis conducted in May 2020, present value of public and publicly guaranteed Debt-to GDP ratio has increased from 24.7% in 2019 to 29.5% in 2020 and is projected to remain at this level within 2020-2025 period. However, the COVID-19 pandemic imposed a significant strain on public finance by increasing additional expenditure for healthcare, reducing economic activity and growth. Lower remittances, rising unemployment, and inflationary risks from a sustained COVID-19 outbreak pose a significant threat to poverty reduction, which stood at 11.4% in 2018. Nevertheless, the authorities aim at mitigating the economic and social impact of the crisis, including by temporarily relaxing fiscal and financial policies to absorb the shock, and supporting an economic recovery, while maintaining macroeconomic and financial stability. Further information on country context provided in [Annex-4](#).

Thematic Context:

1. Climate Change

13. Uzbekistan has a sub-tropical and sharply continental climate. The main climatic features are aridness, abundance of heat and sunlight, and sharp day-night and winter- summer temperature variations. In addition, excessive solar radiation, atmosphere circulation and landscape features account for these specifics of climate. Uzbekistan is exposed to a range of weather-related extreme events, including dust storms, mudflows, floods, drought, and avalanches. Projected changes in Uzbekistan's climate include increased annual mean temperature, long-lasting heat waves, increased intensity of heavy rains and arid conditions. The energy sector serves as the predominant source of GHG emissions in Uzbekistan, with 89.4% of emissions from energy emissions, 13.1% from agriculture, 2.7% from industrial processes, and 2.4% from waste.

14. In 2015, the Republic of Uzbekistan submitted National Determined Contributions (NDC) to the United Nations Framework on Climate Change and stated its intentions to strengthen measures and actions to address climate change. Its primary mitigation objective is to decrease specific emissions of greenhouse gases per unit of GDP by 10% by 2030 from level of 2010. This also includes achievement of the NDC long-term objective by increasing access to advanced energy saving and environmentally friendly technologies as well as climate finance resources. Similarly, for adaptation, Uzbekistan intends to increase its effort for adaptation capacity building to reduce risk of climate change adverse impact on various sectors of economy, social sector and Priaralie (Aral Sea coastal zone).

2. Women and Youth Empowerment

15. Women account for 49.6% of the rural population of Uzbekistan. Rural women are mainly engaged in agriculture activities, however, many times these activities are seasonal, inconsistent and/or unpaid, leaving women vulnerable. Inequalities faced by rural women in agriculture include women's reduced access to land and productive resources, unequal burden of unpaid and informal labor, and limited access to

information and representation in decision-making and leadership. These inequalities put women at a disadvantage position, as farmers and entrepreneurs. Further to this, other difficulties rural women in Uzbekistan face include limited opportunities for employment outside of low-skilled agricultural works. They also have difficulties in accessing finance and, many times, are not registered as property owners. In fact, most of the times financial products are not in line with their needs as agricultural producers individually or collectively. As per official statistics of the Ministry of labor and employment in Uzbekistan the unemployment rate among women is almost two times higher than men (9.9% vs 17.4%).

16. Inadequate rural Infrastructure in Uzbekistan especially impacts women, increasing their domestic work burden business development obstacles. Most rural households and entrepreneurs have unreliable electricity supplies, unclean fuel sources for heating and cooking, and no piped water. Economically active women end up spending nearly 50% of their time on unpaid domestic labor, including gathering fuel and collecting water and are unable to use labor-saving technologies (such as washing machines, sewing machines or vacuum cleaners). Furthermore, the lack of affordable pre-schools in rural areas prevents women from achieving their full potential to engage in income generating activities such as agricultural enterprises or other entrepreneurial activities, to take part in training and capacity development, and to participate in local decision- making or community events.

17. Selection of the rural areas as a project implementation territory and focus to the women needs are in line with the point 29 of the Concluding observations on the Fifth periodic report of Uzbekistan by the Committee on the Elimination of Discrimination against Women dated 24 November 2015. These recommendations reflected concerns of the UN experts about “the disadvantaged status of women in rural areas, in particular that only 9% of all farms are headed by women and that rural women occupy only 4.2% of managerial positions in agriculture, primarily occupy low-paid positions and earn 82% of men’s salaries”.

18. The youth population in Uzbekistan is high, with 60% of the population under 30 years of age. The youth population is higher in rural areas than in urban areas. Ensuring employment opportunities and ensuring that youth are integrated into the labor market, is therefore a real challenge. This challenge is more pronounced for rural youth as they face more barriers, such as limited access to educational and training opportunities. This has led to youth labor migrating with hopes of a better future. Some of the reasons behind the high rate of youth unemployment in Uzbekistan is attributed to factors such as: growing youth population compared to the supply of new jobs in the labor market, inadequate level of technical and soft skills of young people, mismatch between curriculums and market needs as well as outdated curriculum, and poor levels of competence among youth graduates from vocational schools.

3. Disaster Risks Management Analysis:

19. Uzbekistan is prone to a range of natural hazards, such as earthquakes, droughts, sand and dust storms, floods, landslides and mudflows and others, including in the most disaster affected Aral Sea region. The Aral Sea disaster resulted in the reduced flow of water, land degradation and desertification, declined income generation opportunities, high poverty rates, shortage of drinking water, malnutrition and deteriorated health of the affected population.

20. The country is a signatory to Sendai framework (2015-2030) and in April 2019 Government adopted a National Disaster Risk Reduction (DRR) strategy along with the National Action Plan to mainstream the Sendai agreements. As Government is committed to implement Sendai Framework for DRR, it is requested the assistance of international organizations in bringing the State System in compliance with objectives and targets of Sendai Framework, based on advanced experience of other countries in this area. The work would involve review of legal, institutional and financial frameworks for DRR in Uzbekistan. One of the key priorities is strengthening risk monitoring & analysis of DRR stakeholders through mainstreaming innovative solutions (Crisis management Center establishment). There is need for establishment of modern early warning system - automatic collective notification system.

21. Uzbekistan has generally placed greater emphasis on emergency preparedness and prevention than on post-emergency recovery strategies. Though it is believed that Government has strong emergency response mechanism, the overall Government capacity was never assessed or tested against major humanitarian situation. National partners state that they have an established system of response to emergencies that proved effective during both the 2010 refugee crisis and the aftermath of the 2011 earthquake. A need also exists to further build community and institutional resilience, especially in terms of DRR knowledge, in areas such as best global practices for community-based or school-level preparedness, as well as in sharing best practices from other countries. Disasters particularly affect children's medium-term development when schools are destroyed, damaged or occupied as shelters, and when household assets and livelihood assets are lost. Government policy states that all schools should have emergency plans and conduct drills. However, extent to which this is adhered is unclear.

Sector Context:

22. Uzbekistan has a land area of 448,970 km², with 10% being arable land and 47% is covered by pastures. The administrative division of the country comprises: (i) the republic; (ii) 12 regions, one autonomous republic (Republic of Karakalpakstan), and one independent city (City of Tashkent); and (iii) 40 cities/urban districts and 162 rural districts, which are further subdivided into towns and qishloqs (villages). Currently there are over 11,700 qishloq, of which approximately 9,700 (88%) are small and medium with a population up to 5,000 people. Remaining are large qishloqs with a population of more than 5,000 people.

23. Agriculture: it is the largest economic sector, accounting for 34% of GDP and 27 per cent of the labour force in 2016. Almost half of the population in Uzbekistan lives in rural areas and engages directly in agriculture related activities, on which they depend largely depend for their livelihoods. However, a high percentage of this work is informal and takes the form of unpaid work on family farms, self-employment, temporary/ seasonal work.

24. Water and Sanitation: Uzbekistan is characterized by high water resource dependency and scarcity of available freshwater. Moreover, access water supply and sanitation remains a challenge in the country. The county's water supply and sanitation systems were established under the former Soviet Union, and facilities and distribution systems have been poorly maintained. This is especially apparent in the rural areas, where only 31% of population has access to safely managed water and only 12% of the population are served by a sewerage system.

25. Transportation: As a landlocked country, Uzbekistan's trade suffers from high transport costs. The principal modes of transportation are roads and railways. The core road network is grouped into (i) international (3,979 km), (ii) national (14,069 km), and (iii) regional (local) roads (24,606 km). There are also about 140,000 km of urban and rural roads, which are managed by city municipalities and local districts. The more densely trafficked international and national roads in Uzbekistan tend to suffer from backlogs in periodic maintenance and rehabilitation.

26. Energy: Uzbekistan has rich coal, oil and gas reserves. In particular, natural gas has contributed to the country's sustained economic development. However, domestic gas prices are low compared with international prices, and this has discouraged energy efficiency improvements, making economy dependent on energy- and carbon- intensive. Whilst demand for power in Uzbekistan has been increasing to keep pace with economic development, the aging power infrastructure and insufficient investment have increasingly widened the demand–supply gap and led to unreliable supply. Power outages are particularly severe in rural areas during the cold season (November–March)—from 6 hours a day to a few weeks in some villages. Unreliable supply disrupts local business operations and adversely affects households' quality of life, economic activity, and delivery of social services.

27. Social Sector: The social sector in Uzbekistan is understood to be a driver of transformation in the country, and the Government is committed to improving health and education under this umbrella. In particular, the health sector has undergone major reforms to expand and enhance primary care facilities, especially for rural areas. However, despite health indicators showing continuous signs of improvement since 1991, there remains wide inequalities and differences in health status and the ability to access services between urban and rural areas. The education system has also undergone significant reforms in the past years, with government prioritizing making education accessible, particularly for those living in rural areas. By 2021, the GOU aims to achieve 100% enrollment in preschool education. Another high priority is to reform

vocational and higher education to become more flexible and responsive to the needs of the labour market.

28. Despite the significant decline in poverty levels in Uzbekistan, poverty is still relatively high among rural populations (14.3%) compared to urban population (8.4%). The main driving factors are low agricultural productivity, high dependency rates within households, limited access to productive assets (infrastructure, energy, road, land, water, technical and financial services) and a high level of informality in rural labor markets. While the services sector and industry are areas of higher growth, agriculture is still one of the most significant employment sectors for rural population, where the half of the population of Uzbekistan lives.

29. Key sector challenges arise from gaps in infrastructure coverage and quality, with significant regional and intraregional variation. The situation is more severe in rural settlements, whereby (i) low availability of centralized public service (drinking water, heating, access road, internet, etc.), forms migration flows from village to city, usually young people, (ii) low accessibility to health facilities and insufficient number of secondary educational institutions in rural areas negatively impacts human productivity, (iii) low accessibility to economic opportunities and private business development, particularly for smallholders, women, youth, and (iv) weak capacity of local governments in planning and execution, poor community dialogue and community engagement.

30. The Aral Sea region remains the most vulnerable and deprived region of Uzbekistan. The disappearing Aral Sea has caused a complex range of human, environmental, socio-economic and demographic problems in the adjacent areas, with the Karakalpakstan at the epicenter of this man-made crisis. In addition to socio-economic challenges, the drying of the Aral Sea has led to environmental insecurities for the local population, namely in terms of land degradation and desertification. Polluted dust blowing from the dry seabed has led to the deterioration of the quality of land and water, and its effects reaching neighboring regions to Karakalpakstan – Khorezm, Bukhara and Noviy regions.

31. Institutional Framework: The overall responsibility for planning and implementing the regional development rests with the Ministry of Economic Development and Poverty Reduction. In rural Uzbekistan, there are three tiers of local authorities: 13 regions and 159 districts. These districts are further subdivided into qishloqs (villages). The president directly appoints regional governors, who in turn appoint district mayors. The regional and district heads serve as the central government's agents in the region and district respectively and are accountable to Tashkent.

32. At the bottom of these tiers, community self-governing bodies, or Mahalla citizens' assemblies (MCAs) exist at village level. MCAs play a role in carrying out public functions such as distributing social welfare payments, maintaining social stability, and preserving villages' cleanliness. MCAs are official legal entities.

33. Rural Development through Housing Program: The Government of Uzbekistan in 2009 launched the Integrated Rural Development (HIRD) Program to improve the quality of life in rural areas of Uzbekistan through rural housing construction, employment generation, private sector development, Small and Medium Scale Enterprises (SMEs) development and decreasing migration to urban cities and other countries. Since the Program's launch, more than 116 000 new houses were constructed in rural areas with a quality matching urban house. The construction of rural houses allowed approximately 120 000 rural families throughout the country to have access to improved living conditions. In total the rural housing project has created more than 4000 km water-supply network, 3300 km gas-supply network, an estimated 2800 km power-supply network and approximately 2800 km of access and internal roads constructed along with engineering and transport communications, social and market infrastructure facilities IFIs such as IsDB, ACG, ADB supported the Rural Housing Program with a cumulative investment of around US\$ 1.57 billion.

Rationale for IsDB involvement:

34. With about 34 million population, Uzbekistan has a very young, rapidly growing population and is facing a challenge in employment generation, especially in rural areas where half of its populations live. The undesirable situation escalated due to the COVID- 19 pandemic making rural poor more vulnerable and hence raising the risk of more people following under poverty line. Poor state of rural infrastructure and gaps in service delivery, exacerbated with negative consequence of drying Aral Sea in the west of the country is forcing rural migration to urban cities, and even outside of country in search for better life opportunity. In order to address the challenges, the Government of Uzbekistan (GOU) adopted number of measures targeted to improve access to basic infrastructure, services, and economic opportunities in rural area and particularly affected from the Aral Sea disaster. This Project directly supports the GOU initiatives targeted to sustainable socio-economic development of the rural areas and build steadfast resilience of targeted population towards vulnerable situations related to climate, environment, economic and social risks including vulnerable groups (rural poor, women, youth and others).

35. Project Alignment: The Project aligns with IsDB 10 years Strategy as Pillar 1 - Economic and Social Infrastructure: Developing the financing infrastructure and building capacity around it. The Project is aligned with P5P: Comprehensive Human Development and inclusiveness in poverty reduction. Project approach promotes innovation and technology in delivery and maintenance of the rural infrastructure.

36. The Project is aligned with the Bank's Agriculture and Rural Development Sector Policy (i) Promote inclusive, sustainable and integrated approaches and (ii) Build human and institutional capacity. The Project is also aligned with the thematic policies of the IsDB - Climate Change (building climate resilience), Women Empowerment (improving access to services), and Disaster Risk Management and Resilience (investing in resilient infrastructure).

37. The Project directly supports Government's efforts in achieving Sustainable Development Goals (SDG) – Poverty Reduction (SDG-1); Industry, innovation and infrastructure (SDG-9), Climate Action (SDG-13) and Partnership for Goals (SDG-17). Cross-sectoral development approach, the Project also supports number of other sector specific SGDs including food security, education, health, water, energy, and transport.

38. Additionality of Bank Support: Through this Project the Bank will: (i) support the Government's efforts in sustainable development of rural communities and ensuring equal access to men and women in economic resources, as well as access to basic services, particularly in the areas that have been impacted from the drying Aral Sea; (ii) promoting innovation and technology in development of resilient infrastructure with application of modern, energy efficient technologies and digitization of service delivery; and (iii) support the Government in mobilizing financial resources from development partners (Coordination Group and UN Agency).

39. The Project will contribute to Restart Pillar of the IsDB's Strategic Preparedness and Response Program aimed in sustaining and reviving the economic and social sectors in rural areas, where poverty rate is higher. The Project will build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters.

40. This Project is direct support to GOU ambitious program targeted to transform the Aral Sea region from a zone associated with an ecological-environmental-human crisis into a zone of sustainable socio-economic development based on environmental and ecological innovations and technologies and a green economy approach. This project will also complement the TA extended by the IsDB to the GOU as a part of support in establishment of the International Innovation Centre for Aral Sea region.

41. The IsDB jointly with ACG made substantial investment in development of rural settlement (2015-2020) and creating improved living environment through supporting National Affordable Rural Housing Program. The Project will have direct benefit from IsDB/ACG intervention in housing sector and increase cumulative impact of Bank's investments by improving access to social services (water supply, sanitation, health and education) and further increase employment opportunities in domestic construction industry.

B. Project Development Objective

Project

Objectives:

42. The Project objective is to raise rural residents' living standards by improving access to basic infrastructure and services through participatory local governance process and community engagement.

Project Location:

43. Project has a programmatic approach and proposed to be implemented in phases. Project investments in Phase-1 proposed to be concentrated in Karakalpakstan AR, Khorezm, Bukhara and Navoiy regions. In subsequent phases, project will be implemented in Samarkand, Kashkadarya and Surkhandarya regions if GOU decides to continue engagement with IsDB/ACG and subject to availability of needed funding.

44. Rural community selection: set of criteria developed in consultation with the MEDPR for identifying rural communities in project area:

- (i) Concentrated (co-location) approach with combining several densely populated villages into group of rural communities to have greater cumulative impacts and lower investment cost per-capita. Communities with absence of essential resources for livelihood and deprived from social-economic activity (water supply, power supply and road network) are given priority.
- (ii) Access to major (source) infrastructure that allows technical and cost-effective connection to ensure sustainability. Availability of architectural planning of rural territory will be pre-requisite for physical investment.
- (iii) Priority of identifying rural communities around peri-urban areas and proximity to major towns and satellite cities (e.g. within the range of 30 km). Subject project will be linked to the urbanization program of Uzbekistan from the perspective of Rural-Urban Linkage.
- (iv) Potential for growth of entrepreneurship based on competitive advantage of the specific region/community.

45. The project investments into basic infrastructure and services will be primarily implemented in 20 districts of above mentioned 4 regions that are located in the transport corridor of Nukus-Urgench and Bukhara-Navoiy cities. However, the activities related to investments into development of market infrastructure can have expanded coverage to have larger impacts. Similarly, capacity building activities as well as awareness raising expected to cover on regional level. The Project area is well linked to the central cities of the regions through access roads that are modest in condition. Project covered districts provided in Table-1 below and project location map is provided in Annex-2.

Table-1: Project location

Region	Districts
Karakalpkstan Republic	Nukus, Tahiatash, Amudarya, Torktkul, Ellikkala, Beruniy
Khorezm region	Gurlan, Yangibazar, Urgench, Khanka, Bagat, Khazarasp
Bukhara region	Bukhara, Kogon, Vobkent, Shafirkon, Gijduvan
Navoiy region	Kyzyltepa, Karmanay, Navbakhor

Project Beneficiaries and Stakeholder Consultations:

46. Beneficiaries: The Project is expected to benefit approximately 710,000 rural population living in 4 project regions with approximately equal proportion of women. Project beneficiaries will be: (i) 170 targeted rural communities; (ii) 20 district municipalities (hakimiyats) and 4 regional hakimiyats; (iv) 4 Single Customer Service (SCS) Engineering Company under regional hakimiyats and 4 regional departments for architecture and construction under the Ministry of Construction. Association of Agriculture Enterprises, Association of Women and Youth groups will be among the beneficiaries. Line ministries who will be directly involved in the project will benefit from institutional support activities, including the Ministry of Mahalla and Family Support, the Ministry of Preschool Education, the Ministry of Investments and Foreign Trade, Ministry of Construction, State Committee for Environment Protection and others.

47. Stakeholder Consultation: In December 2019, the IsDB *project identification mission*³ undertook consultation with project stakeholders in Tashkent (workshop) and at regional level by visiting some of the on-going Rural Housing and Obod Qishloq Programs sites in Jizzakh and Sirdarya region. Consultation was also held with development partners – WB, ADB and UNDP as a part of project identification and preparation phase.

48. Technical *project preparation mission*⁴ was conducted in March 2020 to discuss Project key development objectives, outcome, scope, location and preliminary implementation arrangement. Mission visited project site (Bukhara region) and held extensive consultation with the local beneficiaries to understand the population needs and familiarize with implementation of Prosperous Villages Program of the GOU being implemented since 2018. The remaining period IsDB Project team continued project preparation process remotely due to Covid-19 pandemic and restrictions in travel and worked closely with Technical Working Group (TWG) established by the GOU and led by Ministry of Economic Development and Poverty Reduction of the Uzbekistan (MEDPR) who acts as Project Executing Agency.

³ Mission members: Manager, Agriculture Infrastructure Division, Sr. Global Rural Infrastructure Specialist (GP), Operations Team Leader - OTL (Water), Project Management Specialist - PMS from RH Almaty, and Field Representative in Uzbekistan.

⁴ Mission members: OTL (Water), Country Manager, PMS, FDO and FPO from RH Almaty. Due to COVID-19 outbreak, the preparation mission was suspended mid-way and mission was called back to duty station.

49. Following finalization of Project Preparation Review Report at the end of September 2020, the Project Team conducted *project virtual appraisal*⁵ of the Project during the period 12-19 October 2020 to validate the Project design and approach with the concerned authorities in Uzbekistan. Considering the Project magnitude, and that IsDB leading the project processing process on behalf of ACG on one hand, and on the other hand inability for the IsDB staffs to visit the country for appraisal and due diligence, the IsDB management approved engagement of UNDP Country Office in Uzbekistan to support the IsDB team in the remaining period of Project processing to ensure Project Quality at Entry. The UNDP local team through its office in Tashkent and Nukus (Karakalpakstan) undertook Project validation, consultation with end beneficiaries in the project area, completing the missing data/gaps in the project document, and supported the IsDB Project Team in finalization of appraisal process.

C. Project Description

Project Design and Scope/Components:

50. The Project is designed to provide priority support to the rural households by improving access to basic infrastructure and related services, including access to market infrastructure. Major activities will be achieved through investment into climate resilient rural infrastructure with application of modern, energy efficient and resource saving technologies Institutional support will be provided in communications and community outreach, their engagement, women and youth empowerment, local governance capacity building and institutional support. Project activities are grouped into following components:

- A. Access to Basic Infrastructure and Services
- B. Engineering Services & Strengthening Capacity in Infrastructure Management
- C. Project Management Support
- D. Financial Audit Service
- E. Contingency for Emergency Response

51. Component A: Access to Basic Infrastructure and Services: works will be implemented through block investment to (i) construct/reconstruct the basic infrastructure with related structures (rural water supply, sanitation, local access road with small bridges, power supply, ICT network, irrigation & drainage schemes); (ii) construction/reconstruction of social facilities (education institutions, health and community centers) and improvement of public spaces (landscaping, sidewalks, outdoor lightening, etc.). Component will finance development of market infrastructure, through establishment of small-scale industrial zones. Scope considers construction of main engineering-communication-transport network.

52. Component B: Engineering Services & Strengthening Capacity in Infrastructure Management: provision of engineering services in development of architectural planning/master plans, detailed design, procurement, and construction supervision. Strengthening capacity in management of infrastructure will include technical review

⁵ All Project team members from head office and regional hub. Mission was led by Manager, RH Almaty

and contract management support; community engagement in planning, execution and sustaining infrastructure; and strengthening the local governments, municipalities and service providers in effective asset management. Undertaking baseline survey and impact assessment is part of component scope, including ESIA and Management Plans. SMART villages approach will be promoted to improve digital level of service delivery, specifically for vulnerable groups.

53. Component C: Project Management Support: establishing Project Management Unit (based in Tashkent) and regional Project Implementation Units to oversee project activities and coordinate procurement, financial management, and disbursement in accordance with relevant policies and procedures of financiers.

54. Component D: Financial Audit Service: provision of audit service by qualified and independent audit firm for monitoring eligibility of project expenditures, preparation of audit report in accordance with international auditing standards and overseeing operation of Project Special Account.

55. Component E: Contingency for Emergency Response: the component will finance emergency response and post-disaster emergency recovery eligible expenditures in support of the Government's rapid emergency response efforts, to reallocation of Project funds, which is subject to prior consultation with the IsDB. Detailed information on project components is provided in [Annex-5](#).

Past Lessons Learned and Reflected in Project Design

56. The lessons learned are based on (i) IsDB similar interventions in the Rural Housing Project Phase-1 and Phase-2⁶, (ii) the on-going IsDB projects in the country, (iii) OED evaluation⁷, and (iv) implementation of Prosperous Villages Program (Obod Qishloq Program), the following aspects were considered for preparing this project:

- In community driven development, it is challenging to have long-term planning for investment into specific small infrastructure as it requires participatory community dialogue and identifying priority needs. Hence, the subject Project adopted a block financing approach by setting a framework for investments. Nevertheless, a preliminary list of assets was identified through rapid assessment and based on past investments made by the GOU under Obod Qishloq Program.
- Unplanned and scattered location of rural communities increases the risk of high investment and supervision costs, especially in engineering infrastructure (due to proximity) and long-term sustainability becomes challenging (lack of O&M budget and human capital). Therefore, in this project, the focus is given to ensure adequate regional planning and availability of Architectural-Planning of Territories (APOT) and QCDP are pre-requisite for physical investment.

⁶ IsDB Project Completion Report of operation UZB-0075 dated December 2018

⁷ Lessons Learned and Recommendation from OED Evaluation 2015-2019

- Delays between approval and disbursement could be observed in most operations (except Rural Housing Program): pre-approval loan negotiations and the post- approval engagement by IsDB is considered in order to support the Project early start-up. Further ensuring project readiness (having the first line design packages ready through financed under retroactive finance) with sound procurement planning and capacity building of the Executing Agency (EA) will avoid implementation delays. The PMU requires to be staffed with qualified experts and proactively manage different level of interactions especially in such nature of project that has multi-sector approach.
- Sustainability is often neglected when it comes to small-scale infrastructure or investments made in rural areas, due to lack of local budget for maintenance or weak capacity of local community and operators. Therefore, provision of capacity building activities and overall awareness-raising on best practices is included into the Project scope covering wide range of activities including sustainable planning, cost-effective solutions, managing projects, efficient operation and maintenance, etc. Experience of UNDP on area-based community development in the country is considered in the course of design project approach.

D. Project Thematic Orientation

Climate Change:

57. Project Alignment: mainstreaming climate change in this Project aligns with the Bank's climate change policy Pillars-1 (mainstreaming climate change in the Bank's operations) and Pillar-2 (building climate resilience in member countries). Project contributes GOU efforts in SDG Goal No.13 – climate action.

58. Project Climate Change Risk: The main climate change risks identified through the IsDB's climate change risk screening (Aware for Project Tool⁸) and ThinkHazard⁹ show varying risks from high to medium across different project implementation locations (see Annex 6 and Annex 12). The climate parameters identified as high-risk factors for the project include temperature increase, floods and wind speed increase. The medium risk include precipitation decrease and increased solar radiation. The project geological hazard risk screening also shows an overall high geological risk level in terms of earthquake.

59. The Temperature Increase and Extreme Heat Risk is classified as high risk. This means that prolonged exposure to extreme heat, resulting in heat stress, is expected to occur at least once in the next five years in the project area and this might have significant consequences for the project infrastructure including water supply, sanitation, access roads, and water channels to be constructed. Similarly, Flood Risk is classified as high , particularly in rural communities located along the Amudarya and Zarafshan rivers and can pose potentially damaging and life-threatening risk to the

⁸ Climate risk screening tool developed by Acclimatize Group Ltd

⁹ [ThinkHazard](#)

project and human livelihood. Water Scarcity/Stress Risk is classified as high risk. This means that droughts are expected to occur on average every 5 years. Therefore, the impact of drought on the infrastructure to be constructed must be considered in all phases of the project, including its effect on personnel and stakeholders, and during the design of buildings and infrastructure.

60. The identified climate risks could pose significant risks to the physical infrastructural components/facilities financed under this project specifically and collectively as a system. Temperature increase may result in increased electricity demand for air conditioning over more days of the year and at a greater intensity during peak times. Similarly, increase of precipitation may result in higher likelihood of occurrence of floods, especially where impervious pavements force water to quickly run off. Also, increased wind speed could produce some damage to roof, power lines, electricity poles and may cause toppling of shallow rooted trees depending on the prevailing conditions. This has been observed in some of the regions like Khorezm and Bukhara regions in the past several years.

61. From the assessment conducted, there is a potential for an increase in incidences of these risks where current design standards, which were primarily build on old norms and standards may not be enough to address these risks especially in a rapidly changing climate which can have significant impact on critical thresholds and design standards. Therefore, it would be prudent to design the various components of the project to be robust to address these various climate risks in the short, medium and long-term. Specifically, the design, operational and maintenance standards (including project planning decisions, project design, and construction methods) should be reviewed - take into consideration current impacts as well as potential future changes. This should also be accompanied with tailored capacity building and technical training for project managers, government agencies and project beneficiaries at all levels.

62. Project Potential Contribution to Climate Adaptation, Mitigation, and Resilience: The project is a response to addressing climate vulnerabilities and livelihood support in locations around the Aral Sea in Uzbekistan. The negative consequence of the drying up of the Aral Sea is having substantial negative impact on the economies and livelihood support system of the communities, especially rural people. Therefore, the project has high level of adaptation and resilience components to the addressing these environmental challenges. Similarly, the project will also incorporate a range of mitigation measures such as promotion of energy efficiency investments through solar power and solar water heating in building, walls and window isolation, and associated low carbon technology, as applicable.

63. These climate mitigation and adaptation co-benefits will be integrated into the design of infrastructure activities under Component-A, and the inclusion of soft components under Component-B, which take climate change and disaster risk into account. For instance, some of the supported climate change adaptation measures will include the improved efficiency of qishloq-level water supply and sanitation systems, which would address water shortage in dry lands and further reduce leakages

and adopt measures to reduce demand, thus easing water scarcity, pressure on existing water sources, and reliance on non-renewable sources of water.

64. Addressing Adaptation and Building Climate Resilience in/through IsDB Project: In order to mainstream the climate change in the project, the project design would endeavor to factor in climate risk elements that are likely to negatively impact the long- term development effectiveness and sustainability of the project as well as other associated physical assets in project area. In order to actualize the climate co-benefits of the project, the project aims to build the overall resilience and adaptive capacity of the rural communities around the Aral Sea through economic diversification, sustainable infrastructure and engineering solutions. Specifically, it would help address the increasing challenge of drought and water availability driven largely by rapid changes in climatic pattern in the region and unpredictable seasonal variations in the four regions covered by the project.

Women and Youth Empowerment:

65. This project aligns with the Bank's Women Empowerment Policy (Pillar 1 - improving access to resources and services), the SDG 5 – Gender Equality and SDG 8- Decent Work and Economic Growth. In terms of integration of youth and women, the project aims to reduce gender inequality and create employment for women and youth. Selection of the rural areas as a project implementation territory and focus to the women needs are in line with the point 29 of the Concluding observations on the Fifth periodic report of Uzbekistan by the Committee on the Elimination of Discrimination against Women dated 24 November 2015. The Project will focus on supporting women and youth in following areas:

66. In Component A: Both women and youth will actively participate in conducting community dialogue/public hearings and participatory prioritization of the community needs. Deputy chairman of Mahalla Citizens Assembly (MCA) in charge for women and youth affairs and regional PIU will be responsible to ensure active engagement of women and youth in the decision-making process. Youth will be trained and employed during construction stages for unskilled works, such as auxiliary works in concrete casting, earth works, hand excavation and backfilling works. Women and youth will participate in the construction and operation and maintenance (O&M) of rural road, which could include cutting trees, shrubs, and grass and other less physically heavy works. Women expected to be involved into food-catering works, clearing works and other administrative works. For the students graduating from engineering specialties, the course practice can be done on construction sites under the arrangements and agreements between education institutions, Executing Agency and the Ministry of Mahalla and Family Support, particularly during the summer holiday internships. This will bring back the interest in engineering background in long-term perspective for the youth. Similarly, youth can be largely engaged in community awareness works as volunteers.

67. Component-B: Building sustainable human and social capital through enhancing

vocational literacy, professional skill building (improving capacity of mono-centers under the Ministry of Employment and Labor) and promote youth employment through vocational professional trainings, active labour market policies will be considered. Supporting community centers, local centers for professional development will be considered under capacity building activities to provide trainings for young men and women, mostly low- or semi-skilled persons, without tertiary education, and seeking employment and income opportunities. It will be ensured that 30% women and 30% received adequate training and capacity building and this will be closely monitored by the M&E function in the PMU.

68. The PMU composition considers employment of Community Development Specialist and Social/Gender Specialist, who will be responsible for overseeing social aspects of the project implementation, including ensuring the women and youth participation in the Project activities. Opportunity for women engagement in the other functions of the PMU will be provided such as financial management, accounting, public relations and others.

Disaster Risks Management Analysis:

69. This project is aligned with Disaster Risk Management and Resilience Policy of the IsDB (Pillar-3: Investing in Resilient Infrastructure and Disaster Risk-information).

70. The Project will support local authorities to integrate disaster risk management into the planning and evaluation of public investment and into the design of disaster and climate resilient infrastructure. This will be done during the development of architectural planning of rural territories, and in the stage of development QCDP through the participatory involvement of the local community. This approach in investments will lead to a progressive reduction of disaster risk and contribute to resilient and sustainable development. The detailed design for infrastructure will consider different aspects of engineering with improved quality to ensure resistance to earthquakes, flooding, windstorms and other natural hazards.

71. Further capacity building and institutional strengthening in early warning system will be introduced to minimize risks ahead of the episode, reducing livelihood losses to farm producers and other end users, as well as indirect disaster losses, for example through avoiding water and power shortages in dry episodes or flooding in wet episodes. Overall increasing resilience in community that are well informed and prepared on the culture of disaster risk reduction and management practices will be part of the consultant's terms of reference.

72. In project management component, the chief engineer, environment and safeguard specialist and community specialist in central office will collectively oversee the disaster risk management practices are well integrated into the project scope, both into infrastructure component capacity building.

E. Project Cost and Financing Plan

73. The total project cost is estimated at US\$ 388.00 million. The summary of the cost by components and financing plan provided below, while detail cost breakdown for each component is given in in Annex-7.

Table-2: Project Cost and Financing Plan (in USD million)

№	Components	IsDB		Co-financiers:						Government		Total Cost
				OPEC Fund		Saudi Fund		UNDP		Amount	%	
		Amount	%	Amount	%	Amount	%	Amount	%			
A	Access to Basic Infrastructure and Services	175.25	51.2	69.00	20.2	48.00	14.0	-	-	49.76	14.5	342.00
A.1	Block Investment for Rural Infrastructure Development	135.25	45.7	69.00	23.3	48.00	16.2	-	-	43.76	14.8	296.00
A.2	Market Infrastructure Development	40.00	87.0	-	-	-	-	-	-	6.00	13.0	46.00
B	Engineering Services and Strengthening Capacity in Infrastructure Management	13.92	51.6	2.30	8.5	-	-	3.00	11.1	7.74	28.7	26.96
B.1	Engineering Services (Planning, Design & Supervision)	8.92	57.3	-	-	-	-	-	-	6.64	42.7	15.57
B.2	Strengthening Capacity in Sustainable Management of Infrastructure, M&E	5.00	43.9	2.30	20.2	-	-	3.00	26.3	1.10	9.6	11.40
C	Project Management Support	2.61	67.7	0.80	20.9	-	-	-	-	0.44	11.4	3.85
D	Financial Audit Service	0.10	87.0	-	-	-	-	-	-	0.02	13.0	0.12
E	Contingency Emergency Response Component	-	-	-	-	-	-	-	-	-	-	-
	Base Cost	191.88	51.5	72.10	19.3	48.00	12.9	3.00	0.8	57.95	15.5	372.93
	Physical Contingency	4.06		1.45		1.00		0.05		1.00		7.56
	Price Contingency	4.06		1.45		1.00				1.00		7.51
	Grand Total	200.00	51.5	75.00	19.3	50.00	12.9	3.05	0.8	59.95	15.5	388.00

74. IsDB Involvement and lending instruments: Project is designed based on community demand driven approach with adopting block financing modality for development of assets. Installment Sale mode was recommended to be adopted for construction of assets with related services, which was duly reviewed by Bank's Sharia Advisory Unit and financing structure was confirmed. Each package/contract is stand-alone and financed by single donor. Therefore, parallel financing arrangement adopted between financiers – IsDB, OPEC Fund, SFD and UNDP.

75. For expediting project start-up activities, retroactive financing essential Project activities/components considered in accordance with the Bank's policy and/or guidelines on retroactive financing. These expenses will be financed by GOU and submitted to the IsDB for reimbursement, which will be restricted to expenditures incurred six (6) months before the expected signing date of the Financing Agreement. The ceiling established for retroactive financing is 0.5% of IsDB financing.

76. Co-financing and GOU contribution: The project will be co-financed by the OFID and SFD through loan operation in the amount of US\$ 75.0 million and US\$ 50.0 million respectively under sovereign borrowing. The OFID and SFD loan financing structure and terms are subject to internal discussion and finalization between OFID, SFD and GOU. The UNDP is expected to participate in the Project with allocation of US\$ 3.05 mln in the form of parallel funding from the ongoing and planned projects. The GOU contribution in this Project is expected in the amount of US\$ 59.95 million.

F. Implementation Arrangements

Executing Agency / Agencies (EAs):

77. The Ministry of Economic Development and Poverty Reduction (MEDPR) will be the Executing Agency for the Project. The Ministry is a State organization and according to the Decree of the President No.4653 of 03/26/2020, the Ministry is accountable to the Cabinet of Ministers of the Republic of Uzbekistan.

78. The MEDPR is an authorized state body for the development and implementation of State policy in the field of socio-economic and industrial development of the country, as well as the Strategy for the investment policy of the Republic of Uzbekistan. It has important coordination role as a lead agency responsible for national and regional development, including formulation of national investment plans, formation and monitoring state targeted programs.

79. The MEDPR has gained considerable experience in implementing rural development programs. It has successfully coordinated the implementation of Rural Housing Program nationwide since 2009, which was recognized to be one of the successful Programs of the GOU. The EA has overall responsibility for coordination of the Obod Qishloq State Program that started in 2018, including allocation of State funding, lending from IFI's, overseeing local government inputs, developing and implementing planning, monitoring, and reporting framework. The MEDPR will implement this Project through its Department for Regional Development in close coordination with structural divisions in the regions and local governments (hakimiyats) on regional level as well as district level.

Institutional Arrangements:

80. Project Management/Implementation Unit (PMU/PIU): A PMU will be established with central office in Tashkent based in the premise of MEDPR. The PMU will be led by Director who will be supported with 12 professional experts. The regional PIU office will be established in each four (4) project regions based in the premise of regional departments of MEDPR in Karakalpakstan Republic, Khorezm, Bukhara and Navoiy regions. The PIU will be led by the Regional Coordinator, who will oversee project implementation on the ground and liaison with central office. Regional Coordinator will be supported with 4 professional staffs, and he/she will be reporting to PMU Director. The PMU Director will be directly reporting to the Deputy Minister in performing his/her duties and day-to-day management of the Project activities.

81. The duties of the PMU will be to ensure (i) that the Project is implemented in accordance with its design; (ii) effective coordination of all activities and agencies involved; (iii) compliance with financing agreement covenants and IsDB, OFID and SFD procedures; (iv) maintaining appropriate accounts, including reports on withdrawal applications and disbursements; (v) managing procurement process in accordance with relevant financier's guidelines; (vi) preparation of periodic progress reports and other reports in formats agreed on with financiers; (vii) monitoring all contracts,

including development and maintaining effective M&E system; (viii) liaison with concerned departments in MEDPR, other ministries, and government organizations, as well as regional governments (hakimiyats).

82. UNDP Technical Advisory Support: The UNDP expected to be the implementing partner and assist the MEDPR in supporting communities and local authorities to work together in building capacity and sustainable management of infrastructure. The UNDP will conclude service agreement with MEDPR (or other suitable document) that will outline key areas of cooperation and commitment by parties concerned, and will also outline detailed Terms of Reference (TOR), including outputs, deliverables and the cost- budget breakdown. The agreement will be subject to IsDB prior review and clearance before conclusion, which will be basis for IsDB to transfer funds directly to UNDP upon submission withdrawal application by the Executing Agency/PMU to the IsDB.

83. At the regional level, the Single Customer Service Engineering Company (SCS- EC) under the Regional Administration (Hokimiyat), will act as an Employer for engineering design and construction works. The SCS Engineering Company under the regional Hokimiyat is a state agency and its operational activities covered by the service render by SCS Engineering Company to the GOU in relation to planning and delivery of the construction facilities.

84. The PMU/PIU will be supported by Technical Review and Contracts Management Support Consultant consisting from team of international and local experts primarily in supporting in management of Component-A activities. The responsibilities of consultant will be, inter alia, in following: coordination of planning process of infrastructure works, selection of engineering consultancy service, supervising preparation of detailed designs, in close consultation with designers, local municipalities and local communities, supporting in handing procurement of civil works packages, with related services and support to SCS Engineering Company in construction supervision, monitoring and periodic technical audit of facilities constructed. The consultant will be also tasked to develop robust M&E system for contracts management, provide capacity building support to key project stakeholders

– PMU/PIU, SCS Engineering Company, Regional Departments of the Ministry of Construction, and provide awareness raising to local engineering companies, and contractors on the advanced construction standards, technologies and practices.

Implementation Plan and Project Readiness:

85. Implementation period: Overall project implementation period will last five (5) years starting from the date of first disbursement. The Project milestone dates are given in Table-3 and tentative Project Implementation Plan provided in Annex-8.

Table-3: Key Implementation Dates

	Activity	Timeline
1.	IsDB Financing Approval by Board of Executive Directors	Dec 2020
2.	Selection of Project Consultant (advance contracting) (Financial Auditor, Engineering Consultant, PMU key staff)	Feb 2021
3.	Signing of Financing Agreement	Apr 2021
4.	Preparation of Detailed Design for 1 st batch of Civil Works packages	May 2021
5.	Tendering and Award of 1 st batch of contracts	Aug 2021
6.	Effectiveness of IsDB Financing Agreement	Aug 2021
7.	Date of First Disbursement (IsDB financing)	Sep 2021
8.	Project Start-Up Workshop	Nov 2021
9.	First Supervision Mission by IsDB	Jun 2022
10.	Project Mid-Term Review	Jun 2024
11.	Physical completion of all activities	Aug 2026
12.	Project Physical and Financial Closure (including audit)	Dec 2026
13.	Project Last Date of Disbursement	Dec 2026

86. Project readiness: Necessary due diligence is made to ensure technical readiness of the Project and improve quality at entry. The Executing Agency has experience in managing similar projects, including on-going Rural Housing Program with IsDB/CG financing. Due diligence on fiduciary aspects have been carried out and appropriate measures put in place for effective project implementation. The project sites are identified based on set of pre-agreed criteria and agreed with the EA and validated by the UNDP during the field visits, based on sampling approach. Land allocation under the facilities is not triggered at this stage, given that list of assets will be defined after adaptation of QCDP. It is expected that GOU with support of UNDP will support selected communities (10 communities) to prepare QCDP and make it available by February/March 2021. Following prioritizing of the investments, engineering consultant will be recruited by EA to prepare DED for civil works packages. Subsequently, the EA will embark on recruitment of local engineering consultants for preparation of detailed designs. At least first 5 civil work contracts expected to be awarded in Q3, 2021.

IsDB Project Monitoring and Implementation Support Plan:

87. Reporting: The EA/PMU will submit quarterly and annual reports to the IsDB, OPEC Fund and SFD following Project commencement. The reports will detail the progress including project achievements, problems encountered, and mitigation actions. The reports will also include project performance, financial and procurement monitoring activities. The reporting system will focus on outcomes, efficiency, and quality and will be consistent with adequate reporting standards.

88. Upon the start of the construction works, the Project Consultant/Engineer through the PMU will be submitting monthly progress reports on the status of the implementation of the civil works contracts. This will be the key document for monitoring progress of the civil works as well as consultant's deliveries. At the end of

the Project implementation, the EA/PMU will prepare Project Completion Report (PCR) for onward submission to the GOUz, and ACG.

89. Implementation Support by IsDB: The Bank’s post-approval support will be close follow-up with concerned authorities to ensure timely signature and effectiveness of the project by fulfillment of the completion of each process within six (6) months to avoid automatic cancellation of the project. Following commencement of the project (after effectiveness), a project start-up workshop will be organized by IsDB jointly with ACG to familiarize the EA, PMU and other key stakeholder on IsDB and ACG procedures and policies. The start-up workshop will also validate project interventions and elaborate in detail the project implementation arrangements, including project implementation and procurement plans.

90. The IsDB would conduct supervision reviews annually and will prepare project implementation assessment and supervision report (PIASR). In addition to regular reviews, a comprehensive mid-term review of the Project will be carried out jointly by the EA, ACG and UNDP. Mid-term review will, among other things, assess the overall performance of the Project and the need for changes in its design, budget reallocation, and modification of KPI targets (without substantial changes) to ensure timely achieving Project objectives. A final project completion mission will be undertaken at the end of the project to prepare Project Completion Report by the IsDB. List of IsDB missions provided in Table-4 below.

Table-4: IsDB implementation support

Mission Type	Indicative Date
Start-up workshop	November 2021
Supervision	June 2022
Supervision	June 2023
Mid-Term Review	June 2024
Supervision	June 2025
Completion (PCR)	Sep 2026

91. Monitoring and Evaluation: Monitoring and Evaluation: The PMU will be in charge of M&E of project implementation, which will focus on (i) ensuring that project activities are implemented in accordance with financiers’ procedures; (ii) providing information on project performance in terms of project benefits and institutional capacity development; and (iii) alerting the GOU and the Financiers on actual and/or potential problems in implementation so that adjustments can be made in a timely fashion.

92. To monitor the Project’s progress in achieving the planned outputs and outcome, the PMU will establish a project performance monitoring system within first year of project implementation. During project inception, a matrix of sub-indicators that substantiate the core performance indicators shown in Results Framework and Monitoring will be developed by the PMU. Baseline data for the agreed indicators will be gathered and updated every year and will be part of the annual report. Ensure all project locations and beneficiaries are geo-referenced.

G. Fiduciary Due Diligence

Procurement

Arrangements:

93. Procurement procedures under components financed by the IsDB shall be undertaken in accordance with the provisions contained in the Guidelines for Procurement of Consultant Services, and the Guidelines for Procurement of Goods, Works and Related Services under IsDB Project Financing (April 2019 edition). Procurement procedures under components with parallel financing, shall be undertaken in accordance with each co-financier's own procurement rules.

94. The PMU to be established within EA will be primarily responsible for procurement management who will receive support from Technical Review and Contracts Management Consultant to be recruited internationally and based on OPEC fund procedures, since the contract expected to be fully financed by OPEC Fund. The fiduciary capacity, built within the PMU of the IsDB funded Rural Housing Project (Phase I and II), which is expected to be completed by mid-2021, will be utilized for the new Project.

95. At the regional level, the SCS-EC under the Regional Administration (Hokimiyat), will act as an Employer for engineering design and construction works. The PMU and regional PIUs will provide a technical support to SCS-EC in design, tendering, contract administration and supervision of civil works. The series of procurement trainings will be delivered for the SCS-EC, regional level Tender Committees and other involved stakeholders to ensure compliance to the Project procurement procedures, aimed on gaining economy, efficiency, fairness, effectiveness, Value for Money and Fit-for- Purpose as it was done during the implementation of Rural Housing Projects. Each package/contract is stand-alone and will be financed by single donor. Therefore, each donors own procurement procedure will be applied in the course of procurement of works.

Below procurement procedures will be applied for the IsDB financed activities: Component A – Access to Basic Infrastructure and Services.

- i) Sub-Component A.1 - Block Financing Investment for Rural Infrastructure Development will be implemented through the integrated approach. Each procurement package integrates number of sub-projects with different type of infrastructure facilities based on community level development needs. Therefore, the exact number of packages will be defined based on the community consultations and need basis. Contractors for infrastructure subprojects will be selected through the National Competitive Bidding (NCB). Some packages that comprise a small works (below US\$ 200,000) will be procured through the Shopping procedure of the IsDB. The NCB/Shopping (Works) Standard Bidding Documents (SBD) will be used to proceed the procurement procedure under the Project infrastructure components.

- ii) Contractors under the Sub-Component A.2 – Market Infrastructure Development will be selected through the NCB. The estimated budget for the package, which includes construction of one small industrial zone/park is estimated US\$ 1.0 million, which can be largely procured locally.

Component B – Engineering Services and Strengthening Capacity in Infrastructure Management

- i) Sub-Component B.1 - Consultancy for detail design and supervision of infrastructure sub-projects: Engineering Services will be selected through the Quality and Cost Based Selection (QCBS) method, among the local short-listed consultancy firms.
- ii) Sub-Component B.2 – Consultancy for Strengthening Capacity in Sustainable Management of Infrastructure will be contracted based on Single Source Selection of UNDP country office in Uzbekistan. Due justification for SSS of UNDP provided in the Annex of the PAD under Procurement Arrangements.

Component C – Project Management Support

- (i) PMU and PIU staffs will be recruited through the Bank's operational directive under the prevailing Delegation of Authority.
- (ii) PMU office furniture, IT equipment, vehicles and IT software will be procured through the Shopping procedure by comparing written price quotations obtained from at least three Suppliers to assure competitive prices.

Component D – Financial Audit Service

Financial Audit will be selected through the Least Cost Selection (LCS) among the local short-listed consultancy firms. This will cover cost of audit service by independent audit firm for monitoring eligibility of project expenditures and overseeing operation of Special Account. Auditor will be selected based on appropriate international and/or regional qualifications and experience satisfactory to the Bank. This will be addressed during the advertising and short-listing stage.

96. Advance Contracting will be applied for timely start of project activities and will include selection of the: (i) Project Financial Audit, which is required prior to first disbursement from IsDB financing; (ii) detailed engineering design of the first line of civil works packages, and (iii) contracting UNDP. The selection of these consultancy services are expected to launch after Project approval. Advance Contracting will include preparation standard bidding documents (RFP), issuance of the invitation for bids/proposals, and evaluation of bids/proposals to contract signing. The Beneficiary undertakes such Advance Contracting at its own risk, and any concurrence by IsDB with the selection procedure or Proposal for award does not commit IsDB to provide the Project Financing for the Consultant Services in question.

97. Retroactive Financing: With a view to have prompt post-approval engagement by the EA and to expedite the signing and effectiveness process, the Project will apply Retroactive Financing to cover the cost that will be incurred prior to disbursement from

IsDB financing. Retractive Financing will be eligible for the expenses of PMU key staff salary, its operational expenses, locally recruited engineering services contract for development of first line of civil works packages, consultancy support from UNDP in relation to Qishloq Community Development Plans, which are pre-requisite for start of engineering designs and tendering process. These expenses will be financed by GOU from own resources and submitted to the IsDB for reimbursement based on retractive financing policy, which will be restricted to expenditures incurred and paid for by the Beneficiary six (6) months before the expected signing date of the Financing Agreement as per the provisions described in the IsDB Procurement Guidelines. Retractive financing will be limited up-to 0.5% (zero point five) of the IsDB Financing and cover the eligible expenditures incurred under the Project.

98. The Summary of the proposed procurement arrangements is given in Table-5 below. The justifications on the Procurement Arrangements, risk mitigation and Procurement Plan are detailed in the Annex-9.

Table-5: Summary of Procurement Procedures for IsDB Financed Components

Project Components/Sub-Components	Goods and Works		Shortlist Services	
	NCB	Shopping	National	SSS
Block Investment in Rural Infrastructure Development	X	X		
Market Infrastructure Development	X			
Engineering Services (Detailed Design & Supervision)			X	
Strengthening Capacity in Infrastructure Management				X
Project Management Unit (Office Equipment)		X		
Project Financial Audit			X	

Project Financial Management and Audit Arrangements:

99. The IsDB financing will be managed based on Bank's Project Financial Management Policy. The project will follow existing National accounting standards and system for all aspects of financial management including budgeting, accounting, internal controls, financial reporting using a suitable accounting software, and external audit. The annual project financial statements will be audited in accordance with International Standards on Auditing, which are acceptable to the IsDB.

100. Funds Flow Management: To ensure that funds are readily available for the project's implementation, the direct payment will be made to major consultancy contracts. A Project Special Account will be opened to cater to project's eligible expenditure, details of which is provided in Disbursement Arrangement section below.

101. Separation of Accounts: For subject Project, the EA/PMU will keep separate accounts to ensure that the MEDPR and the project's funds are not mixed. The Project, although not a separate legal entity, should be treated as such and proper separate accounts kept along with supporting documents.

102. Information System & Reporting: To properly document the implementation and financial management status of the project, quarterly and annual reports need to be prepared by the PMU. The UNDP will be submitting detailed quarterly and annual

reports for the expenditure incurred on the component being implemented by it.

103. Safeguarding of Assets: As far as the issue of safeguard over project assets is concerned, there are procedures in place for stock taking and recording of assets in the Fixed Assets Register. PMU will ensure that labelling project assets financed by financiers such as IsDB will be duly undertaken. All assets procured under IsDB financing should be adequately labelled with the Bank's name and logo.

104. Auditing arrangements: The project audit will be undertaken by an independent external auditor acceptable to the Bank in accordance with International Standards on Auditing (ISA). The audit report should be prepared as per the Bank's requirements, annually at the end of each fiscal year. A final audit would also be required to close the project at the completion of project disbursements and funds utilization. The private audit firm will be selected among certified national auditors, based on the terms of reference acceptable to the IsDB. Auditor are required to be accredited locally, having international experience, or affiliated to internationally known and reputable audit firms. The annual audit report will be submitted to the IsDB within 6 months of the end of the country's fiscal year. Each audit report should be accompanied with a Management Letter from the Auditor to the EA. Since UNDP will be implementing the capacity building component, the activities undertaken by UNDP along with their related detailed breakdown of expenses should be submitted to IsDB in the form of an official report on a quarterly and annual basis.

105. Financial Closure: The Project Accounts should be closed after IsDB has received satisfactory documentation that amounts advanced have been utilized for project purpose and eligible. In the event of any amount remaining outstanding after the closing date specified in the Financing Agreement, the beneficiary shall promptly upon notification by the IsDB refund to the Project Account. The detailed PFM arrangements presented in Annex-10.

Project Disbursement Arrangements:

106. Disbursements under IsDB financing will be made in accordance with IsDB Procedures and Guidelines, including Disbursement Handbook, Policy and Guideline for Operating Special Account. Disbursement modalities will be as follows: direct payment, reimbursement and payment through Special Account.

107. The Considering a large number of small-value contracts, and for more efficient disbursements, Project Special Account (SA) will be opened with ceiling up-to US\$ 10 million, which will be managed by PMU based on authorization of the Ministry of Finance of Uzbekistan in accordance with the Bank's Project Special Account Policy and Procedure. Eligible expenditures for financing through the SA will be following:

- i) Small-value civil works contracts. It is expected that high-value contracts will be financed through direct payment.
- ii) Local consultancy service support for development of engineering designs and related studies, as well as local supervision

- iii) PMU related costs (staff salary, operational expenses, and procurement of office equipment).

108. The ceiling of the SA can be modified based on Bank’s Project Special Account Policy and Procedure and the prevailing Delegation of Authority of the IsDB. Project will consider progressive SA replenishment approach taking into account the actual cash- flow needs of the Project. The concerned IsDB Project operation team (project management, disbursement and procurement officers) will jointly with EA/PMU team at the start of the financial year will determine the schedule of withdrawals with specific amounts to be advanced/replenished to SA in given year. The analysis will consider the state of project progress, including contracts concluded or expected to be concluded in the given year in accordance with procurement plan, and construction schedules. Both the annual procurement plan and disbursement plan will be periodically updated and are subject to prior review and approval by IsDB. This approach will help to plan mobilizing resource, and for the Beneficiary to reduce the risk of currency exposure as well as keeping large amount of funds in SA unutilized, which will have implications of the cost of borrowing due to fee charges on withdrawn funds. Project is expected to have indicatively following disbursement profile:

Table-6: Disbursement Forecast (IsDB financing)

Financial Year	2021	2022	2023	2024	2025	2026	Total
Amount (US\$ mln)	10	30	45	45	45	25	200

109. After the approval of the project, the Beneficiary through its authorized representative designate official(s) authorized to sign withdrawal applications in a prescribed form. The authorization request from the Beneficiary shall clearly state the number and/or combination of signatories required for making withdrawals. If authorized signatories change during the project implementation, the Beneficiary will promptly notify the IsDB of such changes and provide the names and original specimen signatures of the new signatories.

110. The disbursement will be initiated based on the presentation of the supporting documents (invoices and other related documents) to the PMU. Once reviewed and approved for payment, disbursement requests as per IsDB standard form will be prepared by the Executing Agency/PMU and submit to IsDB. Detailed disbursement arrangement and Special Account setup will be specified in Disbursement letter and communicated to the Executing Agency after signing of the Financing Agreement. The detailed project disbursement arrangements are presented in Annex-11.

H. Project Results and Monitoring

Key Development Results Indicators:

111. Key results: Overarching goal of the Project is to contribute to the national development target of GOU on poverty reduction, and promote economic development, through inclusive and sustainable growth. The key project outcomes will be:

- i) Approximate 710,000 rural population having access to basic infrastructure and improved services
- ii) 10,000 jobs opportunities created, with >30% women/youth
- iii) 10,000 people trained/capacity built with >30% women/youth

112. The Project directly supports Government's efforts in achieving Sustainable Development Goals (SDG) – Poverty Reduction (SDG-1); Industry, innovation and infrastructure (SDG-9), Climate Action (SDG-13) and Partnership for Goals (SDG-17). Considering the cross-sectoral development approach, the Project will also contribute in achievement of other SGDs such as food security, education, health, water, energy, and transport.

113. The Project expected to cover approximately 170 qishloqs (villages) over its five- year implementation period located in 20 districts in 4 western regions of the Uzbekistan. The project outputs provided in Table-7 below and Results Framework and Monitoring indicators provided in Annex-1:

Table-7: Key Project Outputs

Rural Water Supply network installed or upgraded (km)	1161
Rural roads/bridges constructed/rehabilitated (km)	626
Power supply network installed or upgraded (km);	1154
Irrigation and Drainage network installed (km)	693
Social facilities (health and education) (number)	155
Community Centers constructed/rehabilitated (number)	64
Market centers developed (number)	40

Monitoring and Evaluation of Outcomes/Results:

114. A progress towards achievement of the project implementation will be monitored through the indicators as defined in the Project Logical Framework. A baseline survey will be carried out at the start of the project (under Component B financing) mainly to set the current condition in the field level and define the baseline data, including development of interim targets and monitoring arrangements. The quarterly progress reports to be prepared and submitted by the PMU will provide the status of progress towards the output and outcome indicators, including likelihood of achievement of the targets and the risks associated with it. The Project Mid-Term Review in Year-3 will revisit the Key Performance Indicators (KPI) to ensure their feasibility to achieve and make necessary adjustment/corrections to the quantifiable targets, as required.

115. A participatory final evaluation will be conducted to undertake project impact assessment. The evaluation will include beneficiary survey in order to assess the level of satisfaction and other relevant indicators such as estimated time and cost savings arising from the project, changes in behavioral practices, and related factors. The project end assessment will also assess the preliminary impact of the project and beneficiary satisfaction, particularly in those areas where the system is fully operational for certain period. The Project will assess the economic, social and environmental impacts and preliminary assessment of the sustainability of the project intervention in a long run. Recommendations and lessons learned will be drawn-up for benefiting in the preparation of the future similar investments by the GOU and development partners.

I. Project Risks and Sustainability

Project

Risks:

116. The critical risk and possible mitigation options were reviewed at the stage of appraisal. In such of large-scale social program, outreach to rural poor, elite capture, capacity of contractors and contract managers, environment and social issues, and adequacy of monitoring system always pose a key risk. The project design includes specific mitigating measures mainly program level structural arrangement, ensuring strong government ownership and commitment, as well as multi-donor support that will provide its international expertise and ensure transparency and fairness.

117. The overall risk of the Project is deemed medium as the GOU commitment to support regional development, including rural areas to ensure balanced distribution of the benefits of the economic growth between different regions and across different income groups with specific attention to poverty reduction. The potential risks associated with the project, the degree/level of the identified risks, and the proposed mitigation measures are provided in the [Annex 12](#).

Project Sustainability:

118. Sustainability is a core principle which has been integrated into the design of this project at different levels. It includes careful consideration and planning to address a range of important factors, which covers following dimensions:

- (i) **Economic Sustainability:** The Project is concentrating investments in rural areas that has high density of population and potential of social-economic growth. Priority will be on local resource-based approaches to generate local employment and income opportunities for the local population and domestic construction industry. Creating opportunity for local contractors and service providers will generate additional revenue to local budget, which in turn would improve fund allocation into infrastructure maintenance, re-investment and upgrades.
- (ii) **Social Sustainability:** Community engagement at all level improves inclusive approach and consideration of the needs of the vulnerable and marginalized

groups. The capacity building programs will be implemented to induce knowledge, attitude and behavioral changes targeted towards rational use of resources. SMART villages approach (e.g. e-government, e-education, e-health, e-billing, etc.) will be mainstreamed to increase digital level of service delivery and improve access for different layer of population, including people with disability, children, and elderly people. Overall community engagement approach will lead to higher empowerment and increase ownership, which would translate into greater sustainability.

- (iii) Environmental Sustainability: The preliminary environment assessment shows a mix of both positive and negative environmental impacts of the project, however no major negative impacts observed since project intervention will be primarily limited to existing small-scale infrastructure in the settlements. Detailed Environment and Social Impact Assessment will outline the areas of investment intervention, which will be controlled at the investment planning stage. Engineering designs will adopt increased resource-use efficiency solutions and greater adoption of environmentally sound technologies, which is a requirement as per the updated building code of Uzbekistan (2020).
- (iv) Operational Sustainability: application of technical design standards and methods that supports operational sustainability will be considered to increase the resilience of infrastructures, promote efficient use of resources at all levels, and consideration of life-cycle costs for utility services, including promotion of billing system (metering/tariff) to ensure sufficient revenue for O&M of the assets. The local municipalities and rural communities will be supported to improve the community level asset management, through collective decision making, planning, delivery and management of the assets.

J. Project Justification

Technical Feasibility:

119. The Project is targeted on improvement of welfare of rural population through provision of access to basic rural infrastructure and services that will lead to improving the well-being of rural people, increase their productivity and resilience towards vulnerable situations related to climate, environment, economic and social risks, particularly those affected from Aral Sea disaster. The Project is designed to promote participatory, community-based development that addresses priority needs of the rural communities and strengthen the capacity in asset delivery and management. The Project will contribute to GOU efforts in sustaining and reviving the economic and social sectors in rural areas impacted by COVID-19. Finally, the Project will complement the IsDB support provided to the GOU in establishment and strengthening the International Innovation Center for the Aral Sea Basin under the President of the Republic of Uzbekistan which was started in 2018 and taking active turn in transforming the Aral Sea region into a zone of sustainable socio-economic development based on innovations, technologies and a green economy approach.

120. The Project is technically challenging, given that the country has limited experience with participatory approaches to planning and oversight of infrastructure projects with involvement of local communities. To address this challenge, the Project is taking an incremental approach and carefully tailoring the design to the country context. The Affordable Rural Housing Program and Prosperous Villages Program were considered to analyze the participatory approaches in the Project cycle. Some other development models were explored during the stage of conceptualizing the project value chain and its priority scope/activities. A mixed social and economic development approach was adopted after in-depth consultation with the beneficiaries, consultation with various stakeholders and partner institutions.

121. Preliminary assessment of the capacity of the local design institute Qishloq Qurulish Loyikha (mandated to prepare APOT and Master Plans) and regional SCS Engineering Company was conducted during the preparation/appraisal stage. Overall experience and capacity of QQL found to be sufficient and the institute has sufficient knowledge, expertise and resources to be engaged in the architectural planning of the rural territories. Some training and capacity building are included into the project scope to further familiarize local design team with modern technologies and best practiced in construction industry.

122. The SCS Engineering Company has necessary skills and experience in managing the construction work, including recruitment of local design institutes, and construction supervision, which is done through in-house engineers. The tendering process is normally done through the specialized tendering consulting center under the regional branches of the Ministry of Construction of Uzbekistan. However, there are some risks observed in terms of capability of SCS Engineering Company to manage the construction process as per the procedures of the IsDB and that of other development partners (OPEC Fund and SFD). Considering the scale of investments and number of civil works contracts/packages to be managed, Project envisions recruitment of consultancy firm with international experience to provide technical support to PMU, PIU and SCS Engineering Companies in coordination and management of the construction works.

123. During the Project implementation, the UNDP Uzbekistan will help support with training of key project stakeholders (PMU, Communities and local authorities) on preparation of regional and community development plans, community mobilization, ownership and social accountability through development of detailed process for community members involvement, and overseeing procurement and construction. Support will be provided in enhancing the capacities of local architecture-design institutions and regional departments of architecture and construction in improved engineering designs, master plans, with application of resource efficient technologies, planning tools and innovative solution, energy efficient and low carbon technology, climate resilience and green infrastructure.

124. Overall, above proposed technical approach will also provide opportunities to

build capacity of QQL and SCS-EC as well as inclusive community participation in the project cycle, which is likely to lead to better value for money, greater engagement of vulnerable groups, and higher levels of community satisfaction.

Economic and Financial Analysis:

125. The key benefit resulting from the Project investment is the improved access to basic infrastructure and service that will improve the well-being of rural people and enhance rural productivity. However, part of the project inputs are not production-oriented interventions in which expected outcomes are not tangible and easily quantifiable. Investments into social infrastructure such as domestic water supply, rural roads, power supply, increased access to assets and services; enhanced human capacities will bring larger long-term economic impacts.

126. In the particular case of community driven development projects, where communities collectively decide on the allocation of project resources, it is very difficult to foresee which productive activities will be targeted. In these cases, the fact that communities are making participatory decisions will grant the additional benefits that provides ownership, ensuring higher ownership as such increasing the sustainability of the chosen interventions.

127. Project will improve the living standard of approximately 710,000 people currently living in project area. Considering that infrastructure will be designed and operational for longer period (at least 15 years horizon beyond the completion, based on local building code), and the rural population growth (average 2% per annum), the medium term benefit of the investment (at the end of Year-6) will be reflected on 800,000 people and in-longer term (by Year-15) approximately 950,000 rural people will be benefiting from the built infrastructure, provided the Assets are well maintained and operational. Overall, the community engagement approach will lead to higher empowerment and ownership of project activities, which would translate into greater sustainability of the assets beyond 15 years. Improvement in living standard and productivity will be achieved through following activities:

- Domestic water supply: decrease in the time spent for collecting water, household level welfare gains associated with the reduced need for in-house treatment (e.g., boiling of water), and reduced incidence of water-related diseases.
- Rural roads: Reduced transport and vehicle maintenance costs (incl. vehicle operating costs and travel-time costs).
- Irrigation water supply: increased productivity through small-plot crop irrigation at household backyard gardening and nearby farming areas.
- Agriculture: Collective marketing; increased value of final product owing to increased quality and access to markets (through increased transportation of agri-products), improved handling, packaging and commercialization; Creation of internal and external markets that did not exist before investments, such as Small Industrial Zones.
- Institutional strengthening and capacity building: will generate benefits for

target groups and avoid losses or reduce them e.g. due to poor planning and prioritization, delays in implementation that affect project output and outcomes.

128. Based on the costs and benefits analysis the economic assessment result shows that expected Economic Internal Rate of Return is 21% and NPV measured at US\$ 167 million. The Financial Internal Rate of Return yielded 11% owing to substantial investment into social infrastructure, whose returns will rather be of a non-monetary nature. Details of the economic analysis is provided in Annex-13.

K. Conditions of Financing

129. Installment Sale mode was recommended to be adopted for construction of Assets with related services under Block Financing delivery, which was duly reviewed by Sharia Advisory Unit of the Bank and confirmed. Given the past experience in the country and capacity of the Project EA to fast-track project implementation, and to simplify project financing modality, single mode of operation (Installment Sale), was adopted instead of 2-step financing.

130. The Bank will, at the request of the Recipient acting on behalf of the GOU, will procure the Project assets, and sell the Project assets to the Recipient, in consideration of payment of the sale price in instalments. The Bank will appoint the Recipient as its agent in procuring the Project assets. The Recipient, in its capacity as the Bank's agent shall, on behalf of the Bank:

- i) negotiate and agree with the contractor/consultant for the relevant prices, specifications and delivery of the Project assets.
- ii) ensure that the procurement agreement(s) to be concluded between the contractor and the Recipient, as the Bank's agent, provides for the contractor's all risks insurance with a reputable insurance company acceptable to the Bank, and the Bank is named as a loss payee under the insurance policies so made.
- iii) submit request for disbursements for payments under the procurement agreement(s).
- iv) arrange and be responsible for all costs not covered by the Bank's financing.

131. The Recipient shall take delivery of the Project assets on behalf of the Bank and issue notice of delivery of the Project assets to the Bank. Upon the Recipient receiving a sale offer from the Bank, the Recipient shall, in exercise of its promise to purchase the Project assets from the Bank upon delivery, indicate its acceptance of the sale offer within seven (7) business days from the date of receipt of the sale offer.

132. Instalment Sale terms: the Sale Price determined at the time of sale of asset which shall be repaid over 20 years from the first date of disbursement to the due date of the last instalment, tentatively composed of a sale price payment period of 15 years after a gestation period of 5 years. The mark-up rate to be applied to each disbursement is the sum of (a) Reference rate of US Dollar mid-swap of 10 years (b) Contractual spread of 60 bps fixed for the entire duration of the financing and (c) Funding spread and risk premium prevailing at the time of disbursement which is 125 bps currently. Summary of IsDB Financing Term and Conditions provided in Annex-14.

Results Framework and Monitoring (Results Based Logical Framework)

<i>Project Contribution to the IsDBG Strategy Map (Level 2 – Results)</i>			
No.	Core Sector Indicators [Outputs and Outcomes]	Targets	Source
1	Rural population accessing the basic services	710,000	
2	Rural Water Supply network installed or upgraded (km)	1161	1
3	Rural roads/bridges constructed/rehabilitated (km)	626	2
4	Power supply network installed or upgraded (km);	1154	3
5	Irrigation and Drainage network installed (km)	693	4
6	Social facilities (health and education) (number)	155	5
7	Community Centers constructed/rehabilitated (number)	64	6
8	Market centers developed (number)	40	7
9	People trained (number)	10,000	8

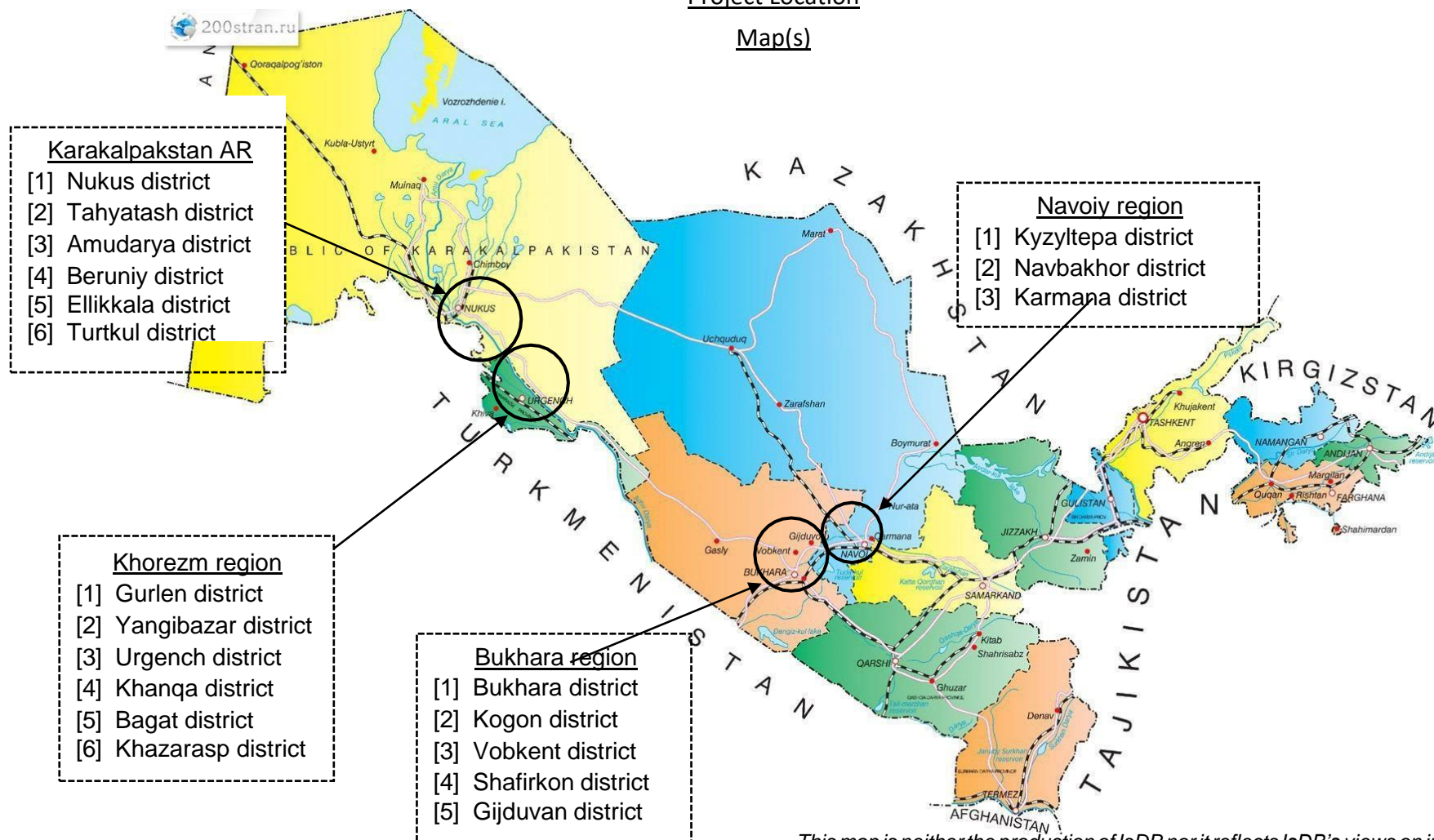
IMPACT: Contribute to the national development target on inclusive poverty reduction, and promote economic development, through inclusive and sustainable growth

Results Summary	Performance Indicators	Means of Verification	Risks / Assumptions
OUTCOME			
Improving well-being of rural people and creating economic and income opportunities	By 2030 a. Approximate 710,000 rural population having access to basic infrastructure and improved services (P5P, CSI) b. 10,000 jobs opportunities created, with >30% women/youth (P5P, CSI) c. 10,000 people trained/capacity built with >30% women/youth (P5P, CSI)	National/Regional Statistics IsDB PCR and OED post-evaluation report	Government commitment on delivery of State Program Assets are operated and maintained sustainably through adequate revenue and by qualified staffs
OUTPUTS			
Infrastructure developed and operational	By 2027 1. 1161 km rural water supply network constructed/rehabilitated (CSI) 2. 626 km of rural (access and internal) roads constructed/rehabilitated (CSI) 3. 1154 km rural power supply network constructed/rehabilitated (CSI) 4. 693 km irrigation & drainage networks constructed/ rehabilitated (CSI) 5. 155 education facilities and family health clinics in rural area constructed/ rehabilitated (CSI) 6. 64 rural community centers constructed/ rehabilitated	EA reports PMU reports Consultant Reports IsDB supervision missions	Community participation in the design and planning stage; Technical designs quality assured. Adherence to procurement procedures and schedule. Availability of qualified contractors. Adequate supervision and quality control; Cost-over

	<p>7. 40 rural market centers constructed/rehabilitated (CSI)</p> <p>8. Training conducted on Regional and Community Planning, Asset Delivery and Management (CSI)</p> <p>9. Approximately 350,000 people received awareness raising with >30% female/30% youth (CSI)</p>		<p>run managed, if applicable.</p> <p>Training and awareness campaigns conducted timely by qualified experts</p>
KEY ACTIVITIES		INPUTS	
<p>1 Rural Infrastructure Upgrade</p> <p>1.1 Community Development Plans and Master Plans completed (1st batch villages) (by Mar'2021)</p> <p>1.2 Detailed Designs completed by GOU (1st batch packages) (by May'2021)</p> <p>1.3 Procurement of Works and award of 1st civil works contract (by Aug'2021)</p> <p>1.4 Construction Supervision commenced (by Sep'2021)</p>		<p>- IsDB US\$ 200 mln</p> <p>- OFID US\$ 75 mln</p> <p>- SFD US\$ 50 mln</p> <p>- UNDP US\$ 3 mln</p> <p>- GOU US\$ 60 mln</p>	
<p>2 Strengthening Capacity in Infrastructure Management</p> <p>3.1 Selection/Contracting the Service Provider completed (by Jul'2021)</p> <p>3.2 Survey, Needs Assessment and Activity Design completed (by Mar'2022)</p> <p>3.3 Implementation of the Program (up-to Jun'2026)</p>		<p>TOTAL US\$ 388</p> <p>mln</p>	
<p>3 Project Management activities</p> <p>Pm1. GPN published and design consultant recruitment started (Jan'2021) Pm2. Recruitment of core PMU staffs based on retroactive financing arrangement (Feb'2021) and remaining staffs recruited (by Aug'2021)</p> <p>Pm3. Selection of Financial Auditor completed (by Aug'2021) and submission of annual audit reports (within 6 months after end of the financial year)</p> <p>Pm4. Project start-up workshop (Nov'2021) and Mid-term Review (Jun'2024)</p> <p>Pm5. Project Activity Completion (Oct'2026) and Financial Closure (Dec'2026)</p>			

Project Location

Map(s)



This map is neither the production of IsDB nor it reflects IsDB's views on international boundaries

List of Related Projects Financed By IsDB and/or OtherAgencies

Source	Project Name	Key Dates a. Approval b. Completion	Amount (US\$ m eq.)	Status Ongoing or Completed O/C
IsDB	Construction of modern rural houses Project	a. March 2014 b. December 2017	100	Completed
	Construction of modern rural houses 2-phase Project	a. March 2017 b. March 2021	300	Ongoing
	Reconstruction of Main Irrigation Canals of Tashsaka Irrigation System in Khorezm Region	a. March 2012 b. December 2020	90.4	Ongoing
	Improvement of Water Resources Management of Hazarbag Irrigation System in Surkhandarya Region	a. July 2013 b. December 2022	89.6	Ongoing
World Bank	Prosperous Villages Project	a. November 2019 b. December 2024	100	Ongoing
	Agriculture Modernization Project	a. June 2020 b. June 2025	500	Ongoing
AiIB	Prosperous Villages Project (jointly with WB)	a. December 2019 b. December 2024	82	Ongoing
UNDP	Addressing the urgent human insecurities in the Aral Sea region through promoting sustainable rural development (MPHSTF)	a. 01 Sep, 2019 b. 28 Feb, 2021	2.1	Ongoing
	Joint Project "Building the Resilience of Local Communities Against Health, Environmental and Economic Insecurities Caused by Environmental Destruction in the Aral Sea Region"	a. 01 Jan, 2020 b. 31 Dec, 2021	3.1	Ongoing
	Market Transformation for Sustainable Rural Housing in Uzbekistan (Rural Housing)	a. Feb, 2017 b. Feb, 2022	11.6	Ongoing

Country and Sector Context / Background

A. Country Context

1. Uzbekistan is a double-landlocked country strategically located in the heart of Central Asia, bordering Kazakhstan, Tajikistan, Kyrgyz Republic, Turkmenistan and Afghanistan. It is a lower middle-income country and rich with mineral resources. With 33 million population (2019), Uzbekistan accounts for about 45% of the Central Asian region's total population. It has a territory of 448.9 thousand km².
2. Recent Socio-Economic Developments: The real economic growth in Uzbekistan increased to 5.6% in 2019 compared to 5.4% in 2018. The growth was driven by continued expansion in industry, increased investment and, to a lesser extent, household spending. The construction, services and transportation sectors also rose at a healthy pace last year, reflecting broad-based growth.
3. Inflation has moderated to 14.5% in 2019 from 17.5% in 2018, mainly owing to a sharp fall in non-food inflation, which eased to 11.1% year-on-year in 2019 compared to 18% a year earlier. Nevertheless, inflationary pressures were strong in 2019 because of lagged effects of devaluation of local currency as well as increased domestic demand for foodstuffs, which form a significant share of the consumer price index basket. Literacy rate in Uzbekistan is universal. Life expectancy at birth stood at 71.6 years in 2018. Uzbekistan ranks 108th out of 189 countries scoring 0.710 in the latest Human Development Index (UNDP, 2018).
4. The Government of Uzbekistan has continued initiating and implementing an impressive number of reforms in public service, judicial, tax system, liberalization of foreign exchange regime followed by price liberalization measures, improving business and investment climate and important reforms in agriculture sector. All of these important initiatives have contributed to creation of enabling environment that can potentially result in a more sustainable and inclusive long-term economic growth.
5. However, the outbreak of COVID-19 pandemic has been hitting the economy of Uzbekistan very hard. All sectors are being impacted with extreme severity as measures are being taken to stop the spread of the virus. Uzbekistan's health sector preparedness is 34.3% (High category), according to the Global Health Security Index. The outbreak of the pandemic has weakened the macroeconomic outlook with projected real GDP growth of only 1.8% in 2020. Due to reduced consumption, inflation is forecast to decrease to 12.6% in 2020 from 14.5% in 2019. Remittances, an important income source for many of the poorest households, are projected to fall by more than 50%. Lower remittances, rising unemployment, and inflationary risks from a sustained COVID-19 outbreak pose a significant threat to poverty reduction.
6. Debt Sustainability Analysis, Uzbekistan: A debt sustainability analysis (DSA) assesses how a country's current level of debt and prospective borrowing affect its present and future ability to meet debt service obligations. It is a consensus that a key

factor for achieving external and public debt sustainability is macroeconomic stability. In the case of Uzbekistan, DSA considers the stocks of total external and public debt and their implication on the macroeconomic performance of the country. The debt profile of the country is represented by the external debts only. The GOU issued only a small amount of treasury bills in the past to borrow the resources from the domestic market, but this public debt is not taken into account in measuring the DSA indicator.

7. As per IMF report the external debt of Uzbekistan has been growing in the last three years from 34.1% in 2017 to 42.2% to GDP. The increase in external borrowings is explained by the robust implementation of the national investment programs directed to the economic diversification focused on high value chain development with emphasis on local content. The country's borrowing has soared by additional 2.8% in 2020 due to pandemic outbreak. The COVID-19 pandemic represents a challenge to the macroeconomic performance for Uzbekistan as it urged the government to re-direct its resources to respond to the disease outbreak in the country. The government has established an anti-crisis fund with US\$ 1.5 billion to address the COVID-19. The funds were directed to support healthcare, financial aid to the unemployed and poor, and financial assistance to affected firms and households.

8. The current crisis has already affected the macroeconomic performance of the country, which is expressed in exports decline, weakening local consumption, stumbling tourism and transportation sectors. Remittances are expected to decline due to weaker growth, depreciation of currencies in host countries, and the closure of borders. This has substantially affected the current account balance, which will grow from -5.6% in 2019 to -9.6% in 2020 and widened budget deficit from -3.9% in 2019 to -5.6% in 2020. On the financial account, multilateral and bilateral financing is expected to remain strong, but the direct investment will decline. All above factors will have an adverse effect on international reserves, which is expected to decline by about US\$ 1.5 billion in 2020.

9. Based on the debt sustainability analysis, the risk of debt distress has increased as the borrowing resources are not directed to support the economic growth. Debt sustainability ratios could further worsen in the mid-term period if the government fails to use the borrowing resource wisely.

10. IsDB Group Portfolio Performance and Pipeline: Uzbekistan joined the IsDB in 2003. Its share in subscribed capital is ID 13.4 million with paid-up capital of ID 2.9 million. Uzbekistan is also a member of ICD, ITFC, ICIEC, ISFD and IRTI.

11. The IsDB Group has an overall net portfolio of US\$2,035.2 million in Uzbekistan comprising US\$1,456.4 million of the IsDB financing; US\$419.7 million of ICD financing; US\$146.0 million of ITFC financing and US\$13.1 million of financing from other funds. For the IsDB Group, cumulatively the largest share of operations is in Agriculture (24.7%), followed by Finance (20.7%), Health (17.7%), Transportation (13.0%), and Energy (9.8%). In terms of modes of financing, 71.0% of the IsDB Group Interventions are in form of Project Financing, mainly Istisna'a (46.5%), Instalment sale (16.1%) and

Leasing (5.9%). Trade Financing operations equal to 27.2% and Concessional Financing makes up 1.8% of the operations. The IsDB Group country portfolio comprises of 92 projects with 47 active operations totaling US\$1,258.6 million and US\$776.5 million for 45 completed operations. CUC (OCR) amounts to US\$295.9 million. The projected repayment during July 2020-June 2021 is US\$55.5 million.

12. IsDB Group Partnership Strategy (MCPS): The IsDB Group launched its first Member Country Partnership Strategy for Uzbekistan on 18th September 2018. The strategy covers the period of 2018-2021 and focuses on the following pillars: i) Supporting Enhanced Competitiveness in energy, transport, agriculture and private sector; and ii) Fostering inclusiveness in social sector, water and sanitation and integrated rural development.

13. Development Results of IsDB Group Operations: The Bank's support have contributed in realizing 8 SDGs namely, SDG1- No Poverty, SDG 2- Zero Hunger, SDG 3- Good Health, SDG 4-Quality Education, SDG 6-Clean Water, SDG 7-Clean Energy, SDG 8-Decent Work, and SDG 9-Infrastructure. More specific development results of the Group's operations in Uzbekistan in agriculture and rural development sector:

14. In agriculture sector, financing reconstructing the irrigation and drainage network in selected areas and expanding irrigation area by 59,258 hectares; increasing crop production by at least 441,769 tons; establishment or upgrading of 58 local market centers. In rural housing, construction of a modern and affordable housing nearly 15,000 households across 9 regions of Uzbekistan benefited from the IsDB interventions.

15. Country Development Strategy and Challenges: The Government adopted its mid- term strategy for the period 2017-2021, which includes five priority areas: (i) improving public administration and state buildings; (ii) ensuring the supremacy of law and reforming the judicial system; (iii) maintaining solid economic growth and liberalizing the economy; (iv) improving the social safety net; and (v) ensuring security.

16. Alongside these reforms, the Government plans to implement investment projects worth US\$35 billion over the next five years in energy, infrastructure, chemicals, pharmaceuticals and other sectors. In order to attract the required foreign investment and advanced technologies, the Government plans to open four additional Free Economic Zones in the Samarkand, Bukhara, Fergana and Khorezm regions.

B. Description of Project Area

17. The proposed project is located in four regions of Uzbekistan: Bukhara region, Republic of Karakalpakstan, Khorezm region, and Navoi region.

18. *Bukhara region:* The Bukhara (Buxoro) region is located in the south of the country, bordering Turkmenistan, the Republic of Karakalpakstan, as well as Navoi, Kashkadarya and Khorezm regions. The region has a total land area of 40,220 sq. km (8.9% of Uzbekistan's total land area), and consists of 11 administrative districts, with the capital city being Bukhara. In 2019, the Bukhara region had a population of 1.93 million people (5.7% of Uzbekistan's total population), with 71% living in rural areas. The Bukhara region has significant natural resources, with its most developed industrial activities being oil refining, cotton ginning, and textiles. In 2019, the regional GDP increased by 6.1% (USD 2.57 billion).

19. *The autonomous Republic of Karakalpakstan (ROK):* The republic is located in the northwestern part of Uzbekistan, bordering Kazakhstan, Turkmenistan, as well as Khorezm, Navoi and Bukhara regions. The Region's capital is Nukus, and has a total land area of 166,600 sq. km (37% of Uzbekistan's total land area). The ROK consists of 14 districts and had a population of 1.89 million people in 2019 (5.6% of Uzbekistan's total population). The region's economy is predominantly agricultural. In 2019, the regional GDP increased by 6.1%, amounting to 18.7 trillion soums (USD 1.80 billion).

20. *Khorezm region:* The Khorezm region is located in the northwestern part of Uzbekistan, , bordering Turkmenistan, as well as the Karakalpakstan and Bukhara regions. The region has a total land area of 6,464 sq. km (1.4% of Uzbekistan's total land area), and a population of 1.86 million people in 2019(5.5% of Uzbekistan's total population). It is divided into 10 administrative districts, with the capital city of Urgench .The regional economy specializes in the food industry, textile and textile industry, agriculture and tourism. In 2019, the regional GDP increased by 7.7%(USD 1.80 billion).

21. *Navoi region:* It is located in the central north/northwest of the country, bordering Kazakhstan, the Republic of Karakalpakstan, as well as Jizzakh, Samarkand, Kashkadarya and Bukhara regions. The region has a total land area of 111,100 sq. km (24.7% of Uzbekistan's total land area), and consists of 8 administrative districts. In 2019, the Navoi region had a population of 0.99 million people (2.9% of Uzbekistan's total population), with over 60% living in rural areas. The capital is Navoiy. The Navoi region has significant natural resources, and its economy is heavily dependent on mining. In 2019, the regional GDP increased by 5.2% (USD 3.54 billion).

Uzbekistan – Key Indicators

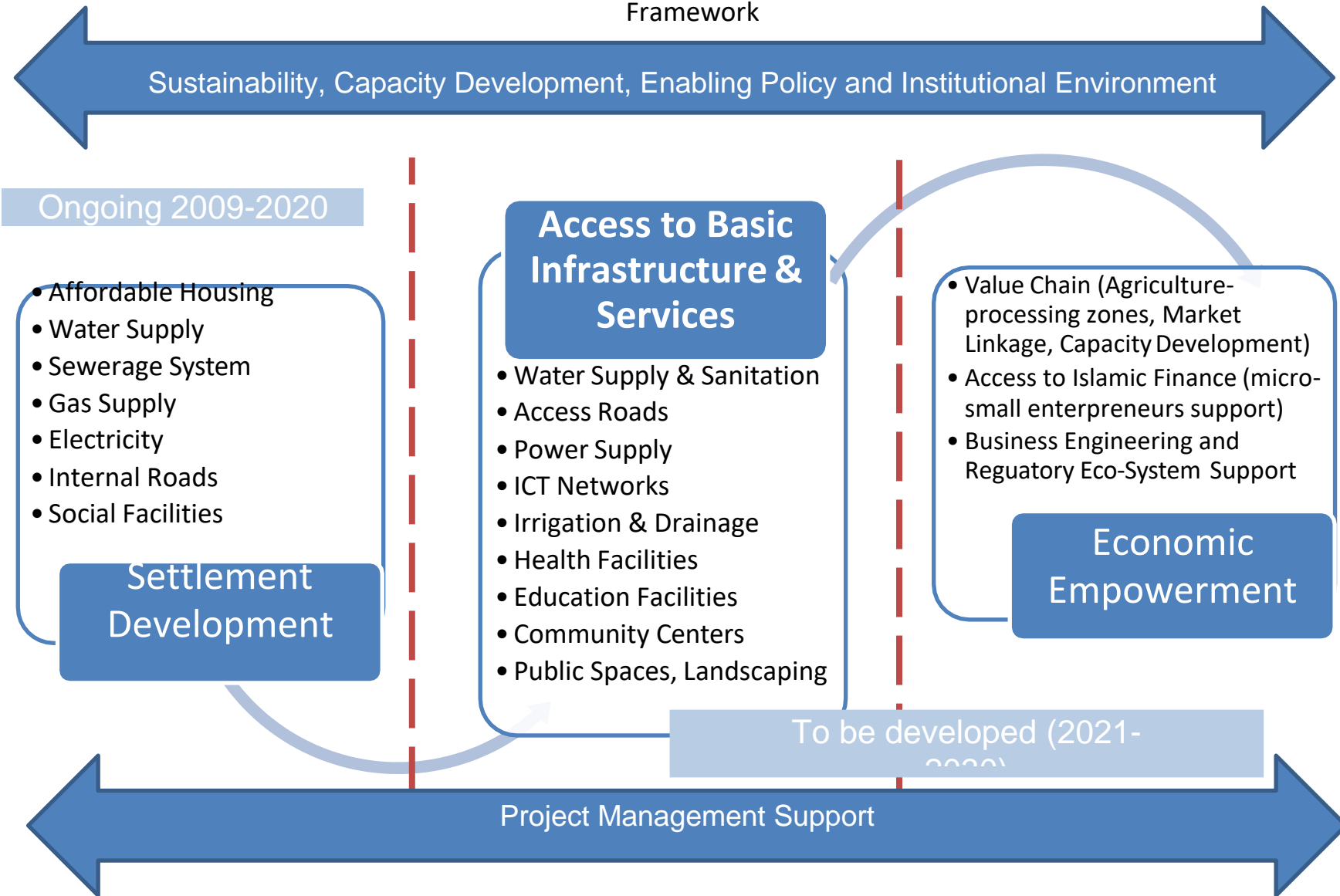
Indicator	2016	2017	2018	2019	2020 (f)
Population (million)	31.6	32.1	32.7	33.3	33.9
Real GDP Growth (% change)	6.1	4.5	5.4	5.6	0.7
Current GDP (US\$ billion)	81.3	58.1	50.4	57.9	59.8
Current GDP PPP (US\$ billion)	205.5	211.1	228.0	245.0	250.2
Inflation, average consumer prices (% change)	8.8	13.9	17.5	14.5	13.0
Current Account Balance (US\$ billion)	0.3	1.5	-3.6	-3.2	-3.8
Current Account Balance (% of GDP)	0.4	2.5	-7.1	-5.6	-6.4
Total foreign debt (US\$ billion)	15.8	16.9	17.6	15.3	19.0
Total debt (% of Exports goods and services)	119.6	106.3	96.6	72.6	120.9
Total debt (% of GDP)	19.3	28.6	35.0	26.3	29.6
International reserves (% of Total debt)	165.0	164.2	151.5	188.8	186.4
Debt-service ratio, paid (% of Exports goods and services)	10.4	12.0	5.5	14.8	11.1
Debt-service ratio, due (% of Exports goods and services)	10.4	12.0	5.5	14.8	11.1
Debt-service, paid (% of GDP)	1.7	3.2	2.0	5.4	2.7
Interest paid (% of debt-service paid)	26.7	24.8	31.2	19.5	31.1
Interest paid (% of Exports goods and services)	2.8	3.0	1.7	2.9	3.4
Interest paid (% of GDP)	0.5	0.8	0.6	1.0	0.8
Effective Interest rate (%)	2.7	3.0	1.8	3.3	3.5
Budget balance (% of GDP)	..	0.1	-0.2	-1.3	-5.5
Net debt (% of Exports goods and services)	-77.7	-68.3	-49.8	-64.5	-104.5
Net debt (% of GDP)	-12.6	-18.3	-18.0	-23.4	-25.6
Real effective exchange rate (CPI-based)	23.3	14.8	10.8	11.5	11.6

Source: IsDB Economic Research and Institutional Learning Department (ERIL) database. f = forecast.

Detailed Project Description

1. Background: The Government's rural development program focused on improving settlements in rural area that started in 2009 was one of the key Programs in supporting rural development aiming to improve the living standards in rural areas. The Program expanded access to affordable and improved housing, equipped with associated basic infrastructure as well as social and market facilities for the rural population. Local construction industry was boosted with increase in number of small and medium contractors, increase in domestic manufacturing of construction materials and service delivery. This in return created thousands of jobs primarily in rural areas and contributed to improvement of livelihood of rural people. The construction norms (building code) went through major transformation when it comes to building public and social buildings with integrating better standards, quality enhancement mechanisms, integrating energy efficiency and others.
2. Considering that GOU through its state funding and State-Owned Enterprises were main driver of the Rural Housing Program and after creating sufficient enabling environment recently the GOU adopted step-by-step approach to transfer this program to be implemented primarily by private sector. At the same time, the GOU continuing focus into improving the living standards of rural people by increasing access to basic infrastructure and services. Obod Qishloq Program was adopted in 2018 for this purpose and creating economic opportunities in rural areas. The present Sustainable Rural Development Project adopted the concept of moving from Settlements to development of basic Economic and Social Infrastructure and will also support Economic Empowerment in rural areas.
3. The Project is designed to provide priority support to the rural households by improving access to basic infrastructure and related services. Major activities will be achieved through investment into climate resilient rural infrastructure and management, including agriculture infrastructure, rural water supply and sanitation, access roads, power supply, and various types of social facilities – public schools, kindergartens and rural clinics. The project will be linked to the future interventions in economic empowerment support that will comprise from access to finance to the households, micro and small enterprises with equal access to women and youth. Institutional support will be provided in local governance capacity building, communications and community outreach, their engagement, women and youth empowerment, and rural business development. The illustrative concept of the IsDB approach in shift from settlement development to integrated rural development provided in Figure No.1 below. Present project primarily focuses on the development of basic infrastructure and capacity building around it, while Economic Empowerment aspects will be done under separate Program in coming years.

Sustainable Rural Development Program – Value-Chain Framework



Description of Project Components

Component A - Access to Basic Infrastructure and Services

Subcomponent A.1: Block Investment for Rural Infrastructure Development

1. This will finance local-level, climate-resilient subproject investments in basic infrastructure and services that communities plan and prioritize. Eligible investments subprojects include:

- i) **Basic Infrastructure:** construction and reconstruction of rural water supply and sanitation; local rural roads, with small scale road bridges; rural electricity and power supply, small scale irrigation and drainage networks, and ICT to increase mobile and internet connectivity.
- ii) **Social Facilities:** reconstruction/construction of education facilities (public schools, and pre-school education), family health facilities/clinics and community centers in rural area. Supply of basic equipment is part of the sub-component scope.
- iii) **Public Spaces:** improvement of landscaping, sidewalks, outdoor lightening, etc. targeted to improve public environment.

2. Approach: The Activities will be carried out in following 3 stages:

Stage No.1: Regional Development and Architectural Planning:

3. Through the adequate architectural planning linked to sub-national (district level) development plans of the Executing Agency (MEDPR) and local governments (Hokimiyats). This processing is on-going since 2009 when GOU adopted resolution for improvement of regional development. Part of the regional development includes preparation of architectural planning and organization of rural territories (APOT). Therefore, availability of APOT will be considered as one of the criteria in selection of investment facilities under the Project to ensure alignment to the EA's regional development plans.

4. The process of preparation APOT last approximately 3-6 months. The resulted output is architectural-planning scheme of the specific area with locating necessary engineering-communication network and structure, social facilities, public spaces and indicative area for commercial buildings and facilities, including location of manufacturing/processing zones. Based on the scheme, a detailed Master Plans of development of rural territory prepared for the horizon of 15 years.

5. The development of APOT is handled by locally specialized design institutes in close consultation with the local stakeholders, including beneficiary community affected, local municipality, regional architecture-construction department of the Ministry of Construction and departments of related sector ministries such (education, health, transport, energy, housing and communal services).

Stage No.2: Community engagement and prioritization of investments:

6. Infrastructure sub-projects (economic and social) will be identified through the community dialogue and public hearings based on the participatory decision-making. This can be done during development of APOT/Master Plans to ensure that community needs are well addressed from the architectural-planning perspective. Nevertheless, the Community Development Plans (CDPs) must be prepared in line with the architectural development plans of the territories to ensure that investments identified by the communities are technically feasible and sustainable. One CDP may integrate several infrastructure sub-projects per community/village or group of villages and will be endorsed by the local authorities in line with the local procedures.

7. The following community engagement activities to be carried out before the procurement packages formed and the bidding process commenced:

STEP-1	Conducting community dialogue/public hearings and participatory prioritization of the community needs	1 week
STEP-2	Formulation of the Community Development Plan (CDP), which represents prioritized community needs	3 weeks
STEP-3	Selection of infrastructure sub-projects from the CDP for the further implementation within the Project	1 week
STEP-4	Endorsement of the sectoral ministries and local authorities for the selected sub-projects	3 weeks
STEP-5	Formulation of the procurement package based on the selected and approved sub-projects	1 week

8. Accordingly, the exact number of procurement packages with specific content and estimated cost for the planned period, will be formulated depending on the results of community dialogue for each region and municipality. Indicative scope of work under Block Investment for Rural Infrastructure Upgrade is provided in Table below:

Infrastructure Type	Unit	Karakalpakstan	Khorezm	Bukhara	Navoiy	Total
Basic Infrastructure						
Water Supply & Sanitation	km	537	387	-	237	1,161
Local Access Road & Bridges	km	290	209	-	128	626
Telecom. & Networking	km	328	237	445	145	1,154
Power Supply	km	197	142	267	87	693
Irrigation & Drainage	km	410	296	556	181	1,443
Social Facilities						
Education Facilities	Units	27	20	18	12	76
Health Clinics	Units	20	14	36	9	78
Community Centers	Units	25	18	11	11	64
Public Spaces						
Sidewalks, Outdoor Lightening, Landscaping, etc.	km	39	28	18	17	103

9. The facilities above are indicative, and prepared based on the priority needs identified during the field validation process. Scope and specifications are subject to determination at the time of preparation of detailed design. The Project will not invest into Water Supply & Sanitation and Local Access Road & Bridges in Bukhara region, given that subject activities will be financed by the Asian Infrastructure Investment Bank during the same period.

10. Description of asset and key features:

- i) Rural Water Supply & Sanitation: Constructing drinking water supply system with production and distribution capacity in average 600 m³/day for serving one village with average size of 4,000 people. The scope includes construction of (i) water intake structure (2 units of borehole with pumps, bacteriological disinfection equipment, water tower with average storage capacity 50 m³), (ii) transmission and distribution pipe network (average diameter 110 mm), street water wells, hydrants including fire-protection and distribution valves. Households will be responsible for house connection and installation of metering system as per the local regulations. The sanitation works will consider reconstruction and expansion of existing sewerage network with installation of waste (liquid) collection pipeline, basic treatment facility (treatment pond/basin, main and reserve containers, disinfection equipment materials, reagents), discharge pipe, and operating building.
- ii) Local Access Road: Reconstruction of secondary and tertiary level paved road (Category III and IV based on local building code) connecting villages to main road/highway. Typical road width varies 4.5 to 6 meters and scope includes roadbed leveling, preparation of base, laying bitumen, and asphalt coating (approx. 5 cm thickness). Installation of pipe culverts under the road (diameter between 500 mm – 1000 mm) and water collector channels along the both side of the road, installation of road signs and labelling will be part of component scope. The project considers construction of small bridge with size not exceeding 10-12 m in width mainly for passing over the irrigation canals and small rivers.
- iii) Telecom and ICT: improvement of high speed networking through installation of underground fiber optical cable line (transfer rate upto 10 Gbps) connecting from main communication station to village, installation of internal overhead distribution cable connection line (up-to 300 mbps), construction/reconstruction of central control room and equipping with devices, control panels and networking facilities. Households will be responsible for digital lines connection based on subscription arrangement. However, connectivity to public facilities (schools, clinics, etc.) will be covered from the project cost.
- iv) Power Supply: Installation of rural level electricity grid with transformers tailored to 110-220 kWt power line transmission. Scope includes installation of pillar/towers (5 unit per km), transmission line (in average 110 kWt voltage), transformers and other electrical-mechanical works. Emphasis will be made to promote off-grid renewable energy solutions to expand electricity access in sustainable way.

Households will be responsible for house connection and installation of metering system as per local regulations.

- v) Irrigation & Drainage: Construction/reconstruction of tertiary level channels up-to 1 m³/s water flow capacity, primarily serving to collect and drain storm water to protect from flooding. The water channels also serve front and backyard gardening and other technical household use (excluding human and livestock consumption). The scope considers earthwork (digging, cleaning and profiling), installation of flumes (LK-60/80 or similar parameter as per local building code), water outlets, water gates and other regulating hydraulic structures.
- vi) Public School: Public building accommodating in average 500 pupils in 2 shifts study arrangement. Scope considers reconstruction of 2 story building with an area of 2,000 – 3,000 m². The facility will consist from (i) indoor facilities (class-rooms, education labs, indoor training center, gathering halls, food-court, indoor sanitation facilities – bathroom, toilets, etc) and (ii) outdoor facilities (sport activity stadium, outdoor toilet, security house, fencing works and others). Supply of basic equipment (furniture) will be part of contract scope.
- vii) Rural Health Clinics: Family clinic center for provision of basic medical services (diagnosis and treatment) with geographical coverage of population up-to 10,000 people per clinic (up-to 3 villages). The scope considers reconstruction of building, typically 2 floor on an area of 500 m² with (i) indoor facilities (doctors and nurse rooms, diagnostic and treatment rooms, ambulatory hospital beds – upto 10 units, indoor water supply and sanitation facilities, protected waste storage room and other compartments) and (ii) outdoor facilities – autonomous water supply system (reserve tanker with capacity 5 m³), power generator (as reserved), solid waste collection point, ambulance car parking space, fencing and protection zones.
- viii) Community Centers: reconstruction of community gathering place having 2 story building approximately size of 300-400 m³ per floor. The building consists from an average of 5 rooms, including conference room for public gathering/meetings.
- ix) Landscaping, Sidewalks, Outdoor Lightening: Mixed nature of works targeted for improvement of surrounding environment, safety of pedestrians, cleanliness and better open spaces. The scope includes construction of pedestrian sidewalks along the main road in densely populated area, construction of bus stops, installation of outdoor lightening network (pillars/towers, power cable and bulbs), installation of public water points and waste collection points. Tree and planting are part of project scope and normally handled by municipality with local communities.

The IsDB will finance sub-components (i) to (viii) under parallel financing with OPEC Fund and SFD. Sub-component (ix) will be financed by GOU through central and regional budget.

Subcomponent A.2: Market Infrastructure Development

11. The creation of small industrial zones (SIZ) is one of the priority directions of development in support to small business, the creation of new import-substituting industries and, on this basis, an increase income opportunities for the local population. Project will target development of 40 new SIZ in project regions and will be implemented as follows:

- (i) Planning stage: needs assessment based on competitive advantage of specific location, available resources (land, materials, easy access to major infrastructure, labor), identification of priority type of processing – food products and non-food products, as this has implications on the phytosanitary control approach. Based on needs assessment and evaluation of resources, an engineering company (to be recruited locally) will prepare detailed engineering designs, works will be tendered, and contracts awarded based on competitive process.
- (ii) Identification of entrepreneurs: undertaking selection process based on pre-determined criteria and mechanism adopted since 2017 under Governmental resolution. Priority is given to business plans that are oriented to export of manufactured products, availability of financial resources (or access to finance), commitment to establish business within 6 months following completion of construction works and operating in the same location for at least 3 years. Conclusion of long-term lease agreement between Entrepreneur and local Municipality. Upon successful operating for 10 years, the entrepreneur has the right to privatize the land allocated under the property. This activity will be managed by the local government (hakimiyats) under its on-going SIZ program.
- (iii) Construction stage: The construction works, and facilities will be of two type:
 - a. *External works*: development of key engineering and communication infrastructure between main infrastructure (e.g. highway, power-station, water main, etc) and small industrial zone. Works include construction of water supply, sewerage system, access road, power supply (electricity and gas) and other auxiliary works such as fencing, security control, lightening system, and others. This will be financed by the Project under IsDB resources.
 - b. *Internal works*: development of internal facilities such as buildings, workshops, storage facilities, and others depending on the type of processing/manufacturing business adopted. This will be financed by entrepreneurs whom the land plot will be allocated.

Stage No.3: Development of Engineering Designs, Tendering and Construction

Component B- Engineering Services and Strengthening Capacity in Infrastructure Management

Subcomponent B.1: Engineering Services (Planning, Design & Supervision)

12. Activities consider provision of consultancy services in:

- (i) Architectural planning and organization of rural territories, including development of masterplans to be financed by the Government of Uzbekistan. This will be handled by locally specialized design firm Qishloq Qurulish Loyikha who was created and capacitated during the execution of the Housing Program.
- (ii) Development of detailed engineering designs based on prioritization made and outcome of community development plans. This will be carried out by locally licensed engineering companies who will be recruited on competitive basis selection. DED will be converted to procurement documents by the PMU based on IsDB standard documentations, and tendering will be carried out accordingly to identify contractors.
- (iii) Construction supervision will be carried out in 3 layers including:
 - a. Technical Supervision by Single Customer Services Engineering Company under local municipality
 - b. Author Supervision by Engineering company who prepared detailed designs, to ensure compliance of construction to DED
 - c. Quality Assurance Supervision by State Inspectorate for Architecture and Construction under Ministry of Construction

13. Environmental and Social Aspects of the Sub-projects: Preliminary assessment was carried out on the possible environment and social impacts of the project during the Project validation process conducted at the time of project appraisal. Following key findings and recommendations emerged and to the extent possible needs to be addressed in details during the development of detailed engineering designs:

- (i) Application of Environmental Friendly Approach in Project design: Environmental Safe activities should be applied in the places close to environmental sensitive areas (ESA) such as natural reserves and forestry. For this: (a) Maps of such areas need to be obtained from governmental partners and taken into account in selection of Project Design; (b) In the case environmental sensitive areas border with the selected Project Districts, minimum distance to ESA, 1000 meters from the last border or more, should be taken into account; (c) No blasting works; (d) Site- specific Environmental Management Plan should be prepared; (e) Project should be categorized as Category-A with high risk to environment.
- (ii) Linking the massive construction and adaptation requirements: Requirements resulting from recommended adaptation measures should be included in the design stage, also to ensure that the required procurement of materials is included in the Bill of Quantities (BQs) and that construction measures are reflected in the construction plans (albums) that the contractor receives (i.e. the integration of adaptation measures has costs that need to be included in the built).
- (iii) Training on wood management and gas pipeline for the villagers that use wood for energy. Introduction of gas pipeline in the areas where people might cause negative impact to forestry: Taking into account deterioration of forestry areas from improper wood management for heating by people, development of gas

pipeline is recommended by ESE within the Project activities in such sites. Villagers who practice wood for heating should be trained for proper wood management before gas pipeline is in place.

- (iv) Introduction of law for tree ratio rate: Majority of different project activities include cut/fell of trees that fall under project line construction activities. In Uzbekistan there is no law that clearly indicates ratio rate for cut trees. Project could make attempts to discuss such gap with state officials and improve appropriate laws.
- (v) Introduction of energy efficiency: Interviews with population at sites showed their interest in introduction of solar energy for future energy efficiency in the regions (both for internal and external needs). Further involvement of energy-saving bulbs is another alternative that is already used for some years within the country.
- (vi) Population of verified four regions is mainly occupied in agriculture (growing cotton, wheat, rice, fruits), where water and soil resources need accurate/rational use approach taking into account water scarcity in regions. Laser land leveling could be very good approach in energy efficiency of the regions. By this, precisely leveled soil would demand less water resources, accordingly less energy in irrigation and would show advantage in other resources.
- (vii) Afforestation as wind screen shields in dust and sand areas: Project could take into account improve of environmental situation deteriorated by dust and sand winds by linear afforestation of areas as wind screen shields that would protect neighborhood population from deteriorated air.
- (viii) Smart waste management – Segregation, treatment and utilization: The system on proper waste management, segregation of waste to hazardous and non-hazardous, treatment and utilization is poor, particularly in rural areas. Such system needs to be developed at governmental level and introduced to people. Trainings on ‘Waste management mind change’ should be introduced to population (At schools, kindergartens, mahallas. Via trainings, tv, radio).

Sub-component B.2. Strengthening Capacity in Sustainable Management of Infrastructure, M&E:

14. Technical Review and Contracts Management Support: This considers provision of consultancy service to support the EA/PMU in coordinating engineering designs, tendering process, contracts management through establishment of robust IT based monitoring & evaluation, and technical audit of construction works. The consultant will also provide capacity building support to local stakeholders in effective contract management.

15. The Technical Support Consultant consisting from team of international and local experts will be primarily supporting in management of all civil works activities, including coordination of:

- (i) Planning and supervising preparation of detailed designs (but not clearance) in close consultation with designers, local municipalities and local communities.
- (ii) Technical support in procurement of civil works packages and contracts management.
- (iii) Support to SCS Engineering Company in construction supervision.
- (iv) Periodic technical audit of facilities constructed. The consultant will be also tasked to develop robust IT based M&E system for contracts management, to ensure proper logging of contract related data, relevant guarantees and policies, monitoring of interim payment certificates and contract end data, including commissioning and management of defect period.
- (v) Consultant will also provide capacity building support to key project stakeholders – PMU/PIU, SCS Engineering Company, Regional Departments of the Ministry of Construction, and provide awareness raising to local engineering companies.

16. Support in Sustainable Management of Infrastructure: This sub-component is targeted to enhance sustainable management of infrastructure through strengthening government institutions and community empowerment in rural areas. The activities will be targeted on following, which will be implemented by the UNDP:

- i) Facilitate the process of preparation of Community Development Plan for identifying the priority infrastructure for investment through community engagement (including women and youth) and consultation with sub-regional and local authorities.
- ii) Support in enhancing the capacities of local architecture-design institutions and regional departments of architecture and construction in improved engineering designs, master plans, with application of resource efficient technologies, planning tools and innovative solution, energy efficient and low carbon technology, climate resilience and green infrastructure.
- iii) Building capacity of construction-architecture and public service delivery sector in digital transformation, innovative IT solution, including development of IT infrastructure and information systems to ensure better access to social facilities and services in rural areas, including green redevelopment/regeneration and increasing resilience in post-disaster situations (such as pandemic).
- iv) Strengthening local communities (including women, youth, elderly, people with disabilities) and national/sub-regional/local government capacities and institutionalization in operation and maintenance of the infrastructure to ensure sustainable functioning.

17. Baseline Survey and Impact Assessment (ESIA/ESMP): A baseline survey will be carried out at the start of the project mainly to set the current condition in the field level and define the baseline line data more accurately, including development of interim targets and monitoring arrangements. The study will also undertake Environmental and Social Impact Assessment, and development of Environmental and Social Mitigation

Management Plans individually for each of the sub-projects or collectively for group of sub-projects if they will be prepared and implemented around the same time period.

18. Preparation of Environmental and Social Impact Assessment prior to construction activities: Project EA/PMU before start of construction activities will conduct Environmental and Social Impact Assessment (ESIA) for the selected project sites. A framework for ESIA could be a document named “Environmental and Social Management Framework” similar to prepared for Project of World Bank “Prosperous villages” in September 2019. Accordingly, prior to construction activities, Project EA/PMU should endorse ESIA at Goskomekspertiza under State Committee for Ecology and Environmental protection.

19. Preparation of Resettlement Assessment prior to construction activities: Project EA/PMU before start of construction activities needs to conduct Resettlement Assessment (RS) for the selected project sites. A framework for RS could be a document named “Resettlement Policy Framework” similar to prepared for Project of World Bank “Prosperous villages” in September 2019. In accordance with RA, Project EA/PPMU prior to construction activities should apply all compensations identified within the assessment.

Component C - Project Management Support

20. This component will provide project management support through establishment of PMU and PIU under the EA for effective coordination of project activities as per the procedures and requirements of the financing institutions – IsDB, OFID and SFD. New PMU will be established under MoEDPR (stationed in Tashkent) reporting to Deputy Minister for day-to-day management of the project. 4 Regional PIU will be established in Nukus city of Karakalpakstan AR, Urgench city of Khorezm region, Bukhara city of Bukhara region and Navoiy city of Navoiy region reporting to Central PMU. Regional PIU will be stationed in the departmental branches of the MoEDPR in each concerned city.

21. The PMU/PIU support will consider covering all related expenses including staff salaries, IT equipment and furniture, vehicle, IT software and operational costs. Project Start-up Workshop into the component scope that will be undertaken after the project effectiveness to familiarize with relevant IsDB and other donors’ procedures. Additionally, PMU/PIU staffs will have external training in the field of project management, procurement, disbursement, M&E, environment/safeguards, and similar offered by the accredited institutions locally and internationally.

22. The duties of the PMU will be to ensure (i) that the Project is implemented in accordance with its design; (ii) effective coordination of all activities and agencies involved; (iii) compliance with financing agreement covenants and IsDB, OFID and SFD procedures; (iv) maintaining appropriate accounts, including reports on withdrawal applications and disbursements; (v) managing procurement process in accordance with relevant IsDB, OFID and SFD guidelines; (vi) preparation of periodic progress reports and other reports in formats agreed on with IsDB, OFID and SFD; (vii) monitoring all contracts, including development and maintaining effective M&E system; (viii)

liaison with concerned departments in MoEDPR in implementation of the project activities; and (ix) supporting the functional operation of the various Project Working Groups (Tendering Committee, Technical-Engineering Groups, etc).

Component D – Financial Audit Service

23. Consultancy service for undertaking annual audit of the project as well as regular verification of expenditures incurred through special account at the time of its replenishment. The scope of the audit firm will include: (a) assessment of the control systems for monitoring and controlling financial transactions and expenditure; (b) ensuring the documentation system as per the accounting standards; (c) verification of the disbursement requests of the expenditures to the Financier; and (d) identification of any in-eligibility of the expenditures. Auditor are required to be accredited locally, having international experience, or affiliated to internationally known and reputable audit firms. The Auditor will use the reports provided by UNDP for providing information on the utilization of resources by UNDP.

Component E - Contingency for Emergency Response

24. Due to recurrent natural disasters in Uzbekistan (storm wind, draught, landslides, etc.) the proposed project will have Contingency Emergency Response Component (CERC) with US\$ zero (0) allocation to enhancing effective emergency response and to “Build Back Better” in recovery, rehabilitation and reconstruct phase. The CERC funds will finance emergency response and post-disaster emergency recovery eligible expenditures in support of the Government’s rapid emergency response efforts, and subject to prior consultation with IsDB prior to reallocation of Project funds.

25. With this component, IsDB will work with humanitarian organizations and development partners to support the Government of Uzbekistan to respond swiftly to an event or imminence of a major crisis or emergency by allowing the country to submit a request to reallocate funding vis-à-vis the allocation of uncommitted financial resources to CERC to address emergency response needs. The use of such resources will be subject to the Bank non-objection.

Climate Change Mainstreaming and Risk Rating



Section 3 of 19

03 Project Climate Risk Ratings

Below you will find the overall climate risk level for the project together with a radar chart presenting the level of risk associated with each individual climate risk topic analysed in Aware™. Projects with a final “High risk” rating are always recommended for further more detailed climate risk analyses.

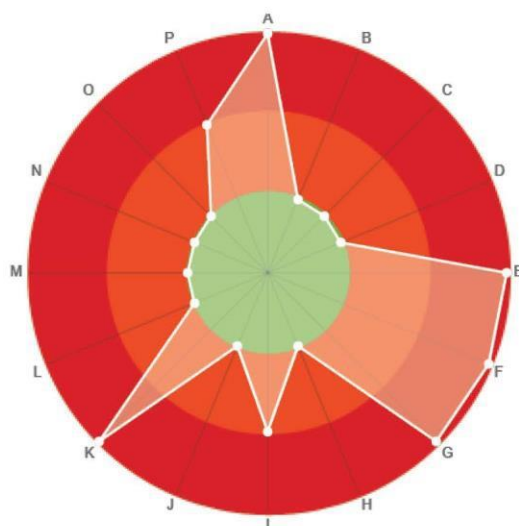
The radar chart provides an overview of which individual risks are most significant. This should be used in conjunction with the final rating to determine whether the project as a whole, or its individual components, should be assessed in further detail. The red band (outer circle) suggests a higher level of risk in relation to a risk topic. The green band (inner circle) suggests a lower level of risk in relation to a risk topic.

In the remaining sections of this report more detailed commentary is provided. Information is given on existing and possible future climate conditions and associated hazards. A number of questions are provided to help stimulate a conversation with project designers in order to determine how they would manage current and future climate change risks at the design stage. Links are provided to recent case studies, relevant data portals and other technical resources for further research.

Final project climate risk ratings

High Risk

Breakdown of climate risk topic ratings



- A) Temperature increase
- B) Wild fire
- C) Permafrost
- D) Sea ice
- E) Precipitation increase
- F) Flood
- G) Snow loading
- H) Landslide
- I) Precipitation decrease
- J) Water availability
- K) Wind speed increase
- L) Onshore Category 1 storms
- M) Offshore Category 1 storms
- N) Wind speed decrease
- O) Sea level rise
- P) Solar radiation change

12

Project Geological Hazard Risk Ratings

Below you will find the overall geological hazard risk level for the project together with a radar chart presenting the level of risk associated with each individual geological risk topic analysed in Aware™. Projects with a final “High risk” rating are always recommended for further more detailed geological risk analyses.

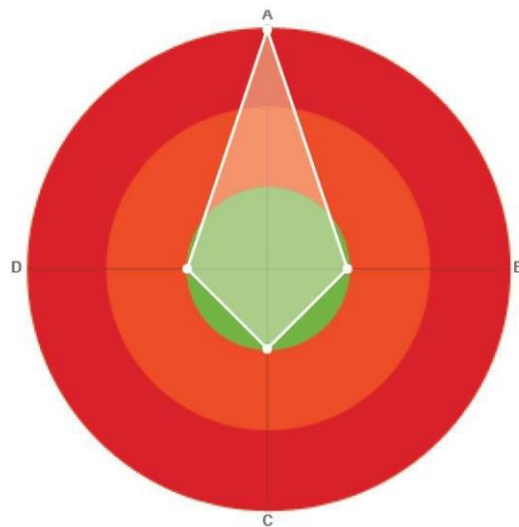
The radar chart provides an overview of which individual risks are most significant. This should be used in conjunction with the final rating to determine whether the project as a whole, or its individual components, should be assessed in further detail. The red band (outer circle) suggests a higher level of risk in relation to a risk topic. The green band (inner circle) suggests a lower level of risk in relation to a risk topic.

In the remaining sections of this report more detailed commentary is provided. Information is given on existing geological conditions and associated hazards. A number of questions are provided to help stimulate a conversation with project designers in order to determine how they would manage geological risks at the design stage. Links are provided to recent case studies, relevant data portals and other technical resources for further research.

Final project geological hazard risk ratings

Medium Risk

Breakdown of geological hazard risk topic ratings



- A) Earthquake
- B) Seismic landslide
- C) Tsunami
- D) Volcano

Tentative Project Costs / Detailed Financing
Plan

USD million

№	Components	IsDB	Co-financiers:			GOUz	Total Cost
			OPEC Fund	SFD	UNDP		
A	Access to Basic Infrastructure and Services	175.25	69.00	48.00	-	49.76	342.00
A.1	Block Investment for Rural Infrastructure Development	135.25	69.00	48.00	-	43.76	296.00
(i)	Basic Infrastructure (water supply, access road, power supply, ICT, irrigation)	92.06	39.00	38.00	-	25.36	194.42
(ii)	Social Facilities (education facilities, health and community centers)	43.19	30.00	10.00	-	12.48	95.67
(iii)	Public Spaces (landscape, sidewalks, outdoor lightening, etc.)	-	-	-	-	5.92	5.92
A.2	Market Infrastructure Development	40.00	-	-	-	6.00	46.00
B	Engineering Services & Strengthening Capacity in Infrastructure Management	13.92	2.30	-	3.00	7.74	26.96
B.1	Engineering Services (Planning, Design & Supervision)	8.92	-	-	-	6.64	15.57
(i)	Architectural Planning (Master Plans)	-	-	-	-	1.89	1.89
(ii)	Detailed Engineering Design & Supervision	8.92	-	-	-	1.34	10.26
(iii)	Construction Supervision (by Employer)	-	-	-	-	3.42	3.42
B.2	Strengthening Capacity in Sustainable Management of Infrastructure, M&E	5.00	2.30	-	3.00	1.10	11.40
(i)	Technical Review and Contracts Management Support	-	2.00	-	-	0.30	2.30
(ii)	Support in Sustainable Management of Infrastructure	5.00	-	-	3.00	0.75	8.75
(iii)	Baseline Survey and Impact Assessment (ESIA/ESMP)	-	0.30	-	-	0.05	0.35
C	Project Management Support	2.61	0.80	-	-	0.44	3.85
D	Financial Audit Service	0.10	-	-	-	0.02	0.12
E	Contingency for Emergency Response	-	-	-	-	-	-
	Base Cost	191.88	72.10	48.00	3.00	57.95	372.93
	Physical Contingency	4.06	1.45	1.00	0.05	1.00	7.56
	Price Contingency	4.06	1.45	1.00		1.00	7.51
	Grand Total	200.00	75.00	50.00	3.05	59.95	388.00

Note: Each package/contract is stand-alone and financed by single donor, except partial co-financing by the GOU to cover local tax and duties. Therefore, parallel financing arrangement adopted between financiers – IsDB, OPEC Fund, SFD and UNDP.

Implementation Arrangements/Progress
Reporting

A. Institutional Arrangement:

Figure-1: Project Implementation chart

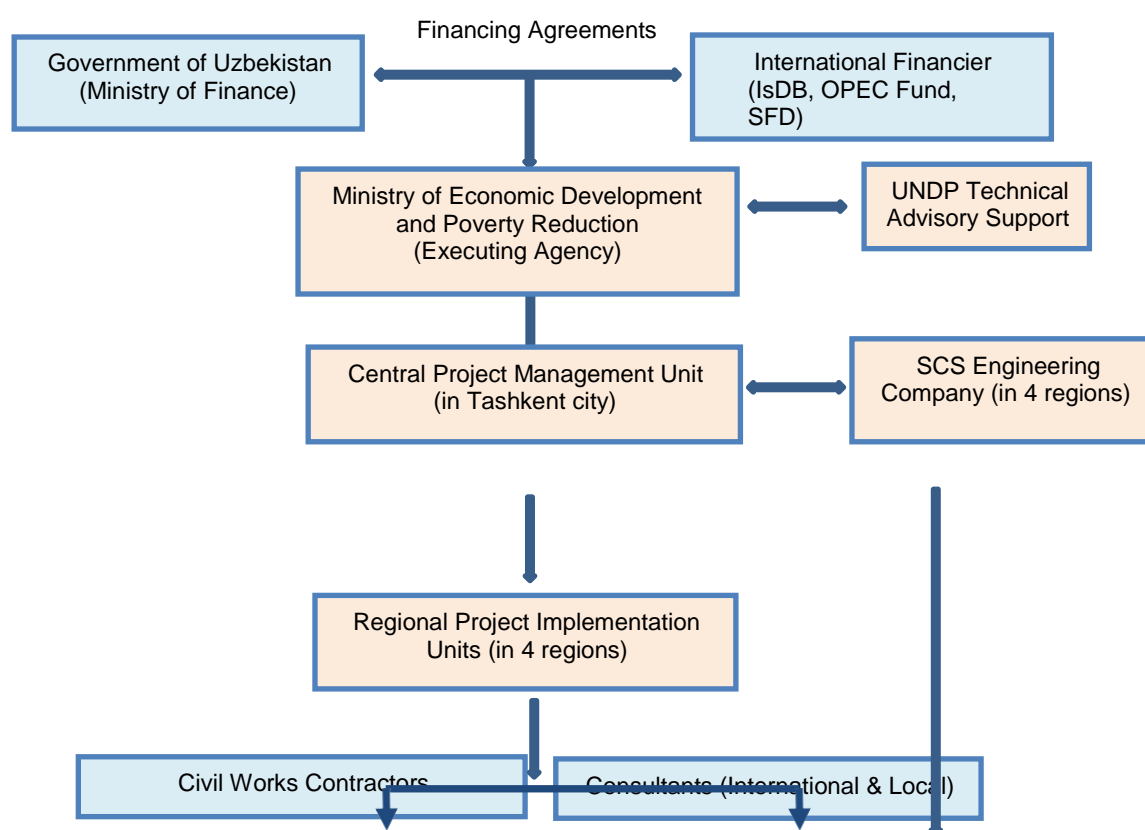
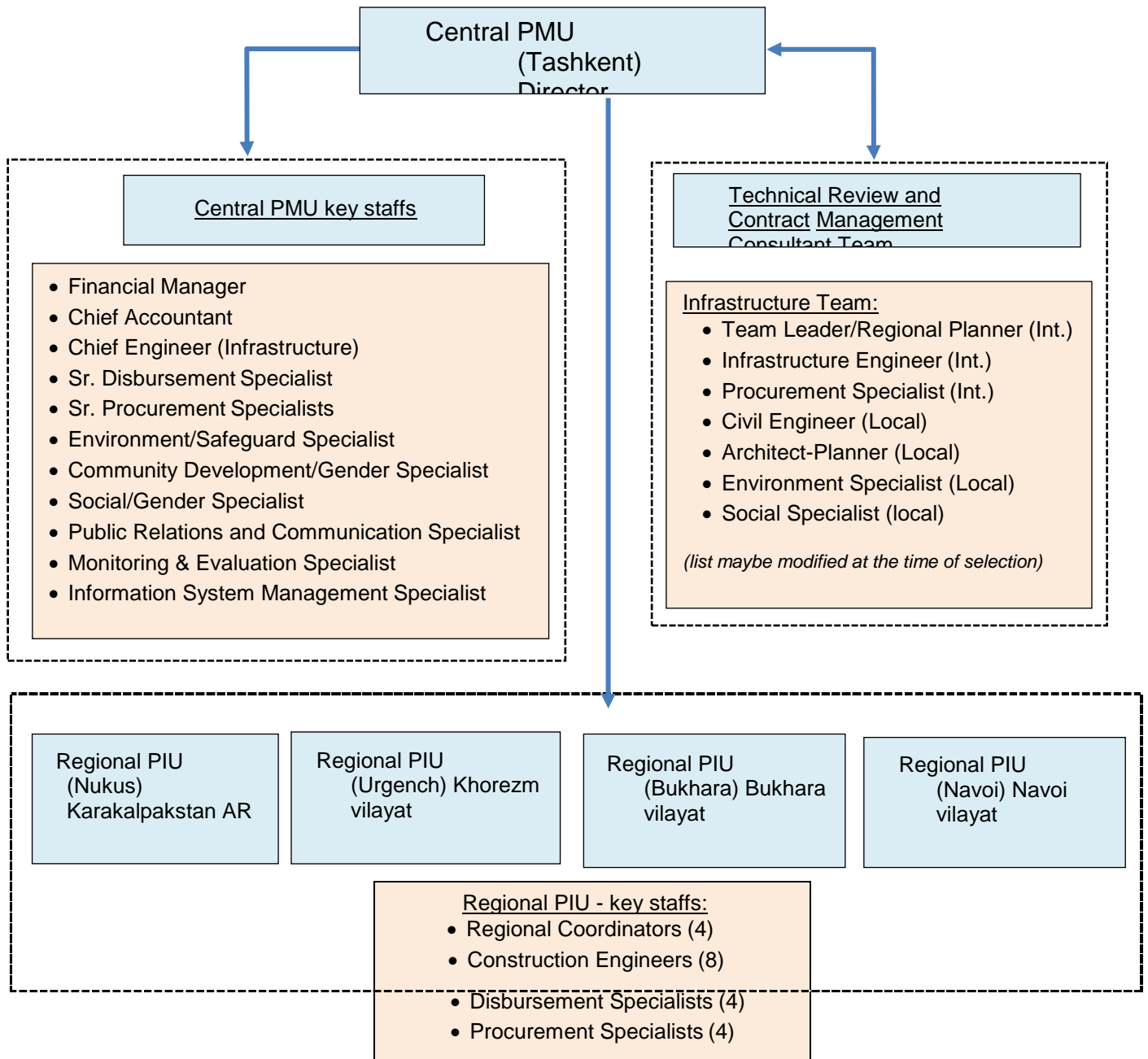


Figure-2: Project Management Structure



Procurement
Arrangements

Country Procurement
Context

1. The national procurement system is regulated by the new Public Procurement Law (PPL) No.ZRU-472 adopted in April 2018¹⁰. Public procurement system ensures key procurement principles: openness, transparency, competition, value for money, fit-for-purpose, objectivity, proportionality, unity and integrity of public procurement system, non-admission of corruption.
2. The PPL takes into account the existing experience of international practice, including the main provisions of the model legislation of the UN Commission on International Trade Law, legislation of the EU and other countries. The effect of this Law extends to public procurement, as well as foreign grants under the treaties signed by the President of the Republic of Uzbekistan (RoU) and Government of Uzbekistan (GOU) with donor-countries, international governmental and non-governmental organizations and foreign loans under the sovereign guarantee of the Republic of Uzbekistan.
3. As a complaint handling mechanism, a special-order No. 180 *‘On the Approval of Regulations and Consideration of Complaints in Public Procurement’* has been issued in May 2018 right after adoption of the new PPL. For the prompt review of complaints, the Organizer of tenders establishes a permanent Grievance Commission to ensure fair, prompt and efficient review of complaints. The Grievance Commission notifies the customer within three (3) business days of receipt of the complaint and suspend the procurement for a total period of up to ten (10) days. The Grievance Commission is responsible for reviewing the complaint with participation of the customer and the bidder/proposer and takes its decision within seven (7) business days from receipt of the complaint and then posts the outcome on the Portal.
4. The PPL envisages establishment of the permanent Procurement Commission representing Ministry of Investments and Foreign Trade, “UzEngineering” design institute under the Cabinet of Ministers of the RoU and other respective entities depending on the category (goods, works, services) subject to procurement. Procurement Commission endorses bidding documents and qualification/evaluation criteria, identifies bid submission date, bid opening ceremony, bids evaluation, contract award.
5. The Public Procurement Department under the Ministry of Finance of the Republic of Uzbekistan is responsible for implementation of the public procurement, which is coordinating almost all sectors: Agriculture, Education, Energy & Extractives, Financial Sector, Health, Industry & Trade Sector, Info & Communication, Public Administration, Social Protection, Transportation, Water / Sanitation / Waste¹¹.
6. The Public procurement is implemented through the following modes of procurement: (i) e-shop, (ii) auction, (iii) competitive bidding, (iv) tendering, and (v) single source selection/direct contracting. All the invitations for tenders are published in special

¹⁰ <http://xarid.uz/regulatoryact>

¹¹ https://www.globalpublicprocurementdata.org/gppd/country_profile/UZ

web-site tenderweek.com,tenderweek.com, which is actively used both by the local and foreign business community.

7. The country procurement system is principally harmonized with the international procurement practices, including such as IsDB procurement procedures. It allows the Beneficiary to proceed the procurement in advance stage as per its own regulations and national bidding documents.

8. The country has a sufficient number of construction companies to be involved in the construction of infrastructure facilities that have sufficient experience and qualifications for the successful completion of works. There are also companies that are engaged in construction of turnkey facilities, which are capable to perform contracts from project development to installation of equipment. The experience of the Construction of Modern Rural Housing Project shows that there are companies in the regions, which are qualified and looks are stable as many of them are operating in the market for the long-term period.

9. Since the starting of the Rural Housing Program in 2009 (where IsDB made substantial investment), nearly 1,500 contractors were established with significant interest and capacity to build rural housing and basic infrastructure. Overall, there are more than 3,000 civil works contractors countrywide that are functioning well with having average turnover between 0.5 to 5.0 mln USD annually. This provides a comfort that the works contracts would be competitive enough in the regions

Assessment of Executing Agency's capacity to implement procurement.

10. The Ministry of Economic Development and Poverty Reduction (MEDPR) is the Project Executing Agency (EA), which is a national level executive state institution reporting to the Cabinet of Ministers of the Republic of Uzbekistan.

11. The Project procurement activities will be directly handled by the Project Management Unit (PMU), which is expected to be established under the Ministry of Economic Development and Poverty Reduction (MoEDPR) of the Republic of Uzbekistan with the central office based in Tashkent. The PMU is represented in four (4) target regions through the field offices (PIUs) to coordinate Project implementation at the field level.

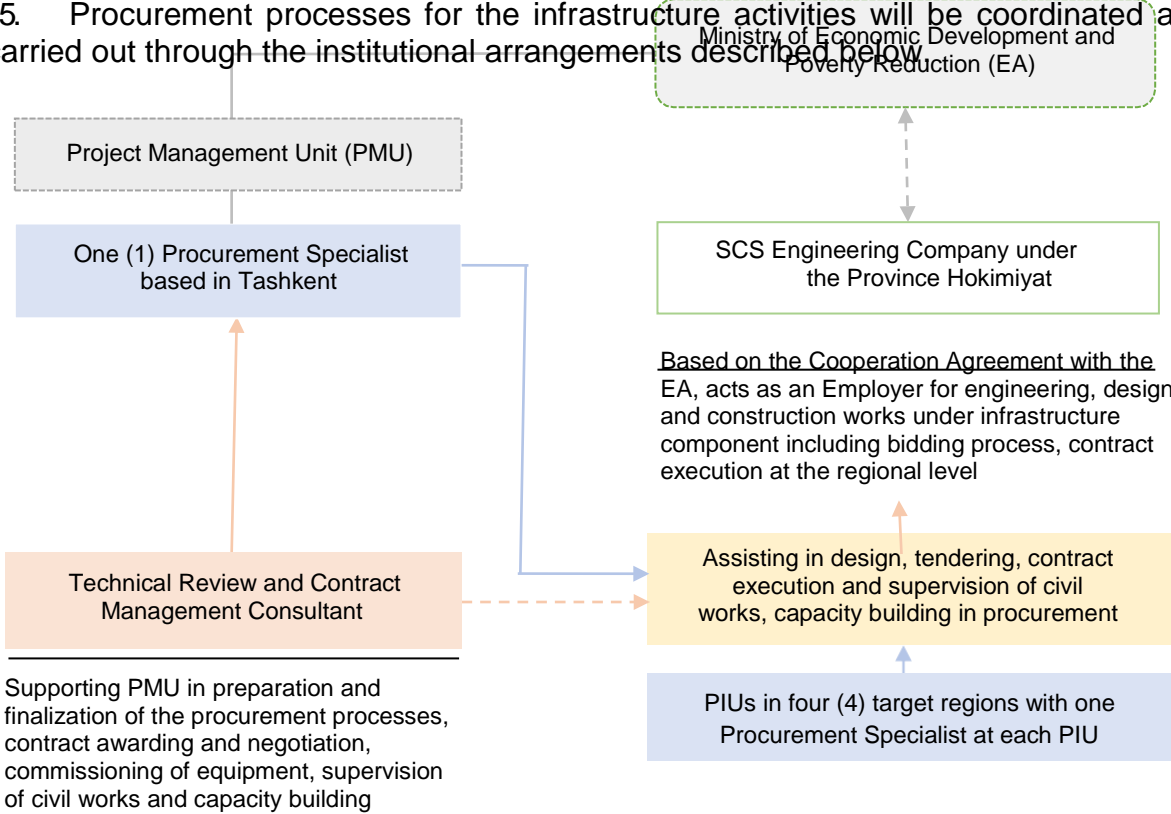
12. The procurement capacity, which is built under the Construction of Modern Rural Housing Project (Phase I and II) in Uzbekistan will be utilized for the new Project. The Rural Housing Project Phase II will be completed by mid-2021 and its procurement capacity a qualified Procurement Specialist with experience in IFIs procurement management, shall be assigned to handle procurement activities at the PMU central level.

13. One Procurement Specialist per PIU (total 4 specialists) will be hired to handle procurement activities, each will be based in respective province level PIU. Procurement Specialists in the regions will be supporting SCS Engineering Company under the Province Hokimiyat of each target province, which is responsible for implementation of the Project infrastructure components. The SCS Engineering Company under the

Province Hokimiyat is a state agency and its operational activities are fully covered by the Government of Uzbekistan.

14. The procurement staff of the PMU central and PIUs regional level will be capable to handle procurement of Goods, Works and Services at all stages: preparation of technical specs/BoQ/TORs; bidding; evaluation; contract negotiations; contract administration and performance monitoring; handover and maintenance follow-up; complaint handling.

15. Procurement processes for the infrastructure activities will be coordinated and carried out through the institutional arrangements described below



16. To ensure proper administration of the contracts, one Procurement Specialist will be assigned for PMU central office in Tashkent, as well as 4 Procurement Specialists at the PIU regional levels. The international Technical Support Consultant's capacity will be also used to manage contract execution. The Project Construction Engineers (both at the central and regional levels), Financial Specialist and Monitoring & Evaluation

Specialist interact and provide their expert support at the different stages of procurement: (i) BoQ and specifications for the BDs; (ii) TORs and qualification requirements for RFPs; (iii) contract administration etc.

17. The PMU will manage all aspects of safeguards, procurement, and supervision, perform all fiduciary tasks and necessary coordination of institutional support with regions and districts and conduct consolidated reporting and project management.

18. The Technical Review and Contracts Management Consultant with a team of experienced international and local consultants will be supporting PMU and its field

offices in preparation of detailed technical specifications, conducting procurement process and supervising the contract award and execution, as well as construction supervision. The Consultant will provide the MoEDPR regular quarterly progress reports and the final report upon completion of the Project. The series of procurement training will be delivered for the SCS Engineering Company, District and Community level technical working/evaluation groups and other stakeholders to ensure economy, efficiency, fairness, effectiveness, VfM and FfP.

General description of procurement procedures to be carried out within the Project.

19. Procurement procedures under components jointly financed by the IsDB and the Government of Uzbekistan (GOUz), shall be undertaken in accordance with the provisions contained in the Guidelines for Procurement of Consultant Services, and the Guidelines for Procurement of Goods, Works and Related Services under IsDB Project Financing (April 2019 edition).

20. Procurement procedures under components with parallel co-financing, shall be undertaken in accordance with each co-financier own procurement rules.

21. Advance Contracting: will be applied for timely start of project activities and will include selection of the: (i) Project Financial Audit, which is required prior to first disbursement since of the Project envision Special Account; (ii) detailed engineering design on the first line of civil works packages, and (iii) contracting UNDP. These consultancy services are expected to be selected after Project approval and the contracts will be signed immediately upon effectiveness of the Project. Advance Contracting will include preparation standard bidding documents, issuance of the invitation for bids/proposals, and evaluation of bids/proposals to contract signing. The Beneficiary undertakes such Advance Contracting at its own risk, and any concurrence by IsDB with the selection procedure or Proposal for award does not commit IsDB to provide the Project Financing for the Consultant Services in question.

22. Retroactive Financing: With a view to have prompt post-approval engagement by the EA and to expedite the signing and effectiveness process, the Project will apply Retroactive Financing to cover the cost of establishing PMU. Retractive Financing will be eligible for the expenses of PMU key staff salary, its operational expenses and locally recruited engineering services contract for development of first line of civil works packages, as well as consultancy support from UNDP in relation to Qishloq Community Development Plans and selective review of Master-Plans, which are pre-requisite for start of engineering designs and tendering process. These expenses will be financed by GOU from other resources and submitted to the IsDB for reimbursement based on retractive financing policy, which will be restricted to expenditures incurred and paid for by the Beneficiary six (6) months before the expected signing date of the Financing Agreement as per the provisions described in the IsDB Procurement Guidelines. It is estimated that approximately 0.5% (zero point five) of the IsDB Financing will be allocated to cover the eligible expenditures under Retroactive Financing. The following procurement approach will be applied for the IsDB financed activities:

Component A – Access to Basic Infrastructure and Services

Sub-component A.1. Block Investment for Rural Infrastructure Development:

23. Procurement activities within the Component will be carried out through the community engagement. Infrastructure sub-projects will be identified through the community dialogue and public hearings based on the participatory decision-making. The community development needs to be presented in the form of Community Development Plans (CDPs). The local authorities (municipality and district levels) develop the Master Plans (APOTs), which are also reflecting infrastructure development projects. One procurement package will integrate several infrastructure sub-projects per community/village, which will be selected from the CDPs and endorsed by the local authorities, as well as APOTs. The exact number of packages will be defined based on the community consultations. Contractors for infrastructure sub-projects will be selected through the National Competitive Bidding (NCB). Also, some packages may comprise small works, which will be selected through the Shopping procedure by comparing written price quotations obtained from at least three domestic firms to assure competitive prices.

24. The NCB/Shopping (Works) IsDB Standard Bidding Documents (SBD) will be used to proceed the procurement procedure under the Project infrastructure components. All the procurement packages with estimated budget up to US\$ 1mln. under NCB and small packages with estimated budget up to US\$ 0.2mln. under Shopping (Works) will be subject to the Bank's post-review. The first three (3) packages both for NCB and Shopping, regardless estimated budget, will be prior-reviewed by the Bank.

25. To mitigate possible risks under the NCB packages, the following measures will be taken into consideration:

- open advertising of the procurement opportunity at the national and international level
- procurement under NCB is open to eligible firms from any country and provided it meets IsDB procurement guidelines provision
- request for bids/request for proposals document shall require that Bidders/Proposers submitting Bids/Proposals present a signed acceptance at the time of bidding, to be incorporated in any resulting contracts, confirming application of, and compliance with, the IsDB's Anti-Corruption Policy, including without limitation the IsDB's right to sanction and the IsDB's inspection and audit rights
- contracts with an appropriate allocation of responsibilities, risks and liabilities
- publication of contract award information
- rights for the IsDB to review procurement documentation and activities
- effective complaints mechanism including debriefing and stand still period, and
- maintenance of records of the procurement Process.

26. This approach is justifying due to following:

- i) The project is having rural community driven approach and targeting to rehabilitate small scale infrastructure in rural areas. Following adaptation of community development plans, the scope of works will be defined and finalized.

- ii) Location of villages are scattered throughout the regions which will involve having relatively small values of civil work contracts using locally sourced construction materials and supplies. The Obod Qishloq Program has to be implemented according to a program where the government is committed to undertake works in defined number of villages on an annual basis. Generally, these constructions in average 8-10 months, the longest time taken for constructing multi-story houses (12 months).
- iii) This Project is part of National Program Obod Qishloq that aims to significantly stimulate the rural construction sector through local resource-based approaches to generate local employment and income opportunities for the local population and domestic construction industry. Creating opportunity for local contractors and service providers will generate additional revenue to local budget, which in turn would improve fund allocation into infrastructure maintenance, re-investment and upgrades. Therefore, the packages size/scope suits capability of the rural contractors.
- iv) The nature and scope of work is simple as such does not require high technology to be imported from abroad and can be managed by the local contractors that gained a large experience on construction of rural houses and basic infrastructure during the last decade.

Sub-component A.2. Rural Market Development:

27. Contractors for construction of the small industrial zones in the target areas will be selected through the National Competitive Bidding (NCB), because the estimated budget for the package, which includes construction one industrial zone, is approx. US\$ 1mln. and it is not complex. The local market has enough construction companies to handle such type of civil works, therefore NCB is a most efficient mode of procurement to apply.

Component-B: Engineering Services and Strengthening Capacity in Infrastructure Management

B.1. Engineering Services (Planning, Design and Supervision):

28. Consultancy services for the detail engineering design and author supervision of infrastructure sub-projects will be selected through the QCBS among the local short-listed consultancy firms. Like stated above, the scope of work is small, relatively simple in nature and limited to small-scale rural infrastructure, that are scattered throughout the regions. Therefore, it is more efficient to involve local consulting firms both from time and cost point of view. Approximately 1,200 licensed engineering firms exist in the country. Part of them permanently based in 4 project regions. Engineering services related to development of APOT/Master Plans and Construction Supervision by Employer will be fully financed by the GOU from own resources. Accordingly, GOU PPL procedures will be applied in the course of consultancy selection.

B.2. Strengthening Capacity in Sustainable Management of Infrastructure, M&E

B.2.2 Support in Sustainable Management of Infrastructure:

29. UNDP Uzbekistan Country Office will be engaged as 'Use of UN Agency' to provide institutional strengthening and capacity building. The UNDP implemented number of similar activities in the country. The project will benefit from scaling up the experience and additional resources mobilization. The UNDP expected to co-finance (in the form of parallel funding) the component with Technical Assistance grant to be extended to the EA. Engagement of UNDP as implementing partner is justified as follows:

- UNDP works in more than 170 countries and territories, helping to achieve the eradication of poverty, and the reduction of inequalities and exclusion. UNDP help countries to develop policies, leadership skills, partnering abilities, institutional capabilities and build resilience in order to sustain development results;
- UNDP Uzbekistan works in close cooperation with Government. UNDP continues to provide extensive support to the Ministry of Economic Development and Poverty Reduction, and other government bodies, to develop strategic documents and legislation in regional development and community-based development, including national Poverty Reduction Strategy. Over 60 small-scale social infrastructure projects were implemented engaging non-government organizations and community-based organizations, benefiting 65 thousand rural people in Aral Sea region;
- UNDP focus on capacity development for provision of services (at the district, community and family levels for vulnerable groups, particularly in rural areas) including through promotion of digitalization in public service delivery, energy efficient and resource saving technologies and supporting job creation and entrepreneurship (rural economic development) that created hundreds of new jobs within remote, rural communities, by supporting local value-chain and generating increase of incomes for rural households. UNDP pursues partnerships with the private sector to promote corporate social responsibility and initiatives to generate and share knowledge in economic reform and regional trade;
- The Government trusted institution in the country as UN development agency and has extensive experience on the institutional development as well as capacity development and introduction of different innovative technologies including in Aral Sea region (e.g. technical support was provided to the Government of Uzbekistan to establish the Multi-partner human Security Trust Fund for the Aral Sea region, provided expert support to fine-tune Aral Sea zoon Concept on Environmental Innovation and Technology, and develop the roadmap for its operationalization, etc.) and best practices;
- The UNDP is launching relevant project with same Executing Agency that IsDB project will be implemented under the Multi-partner human Security Trust Fund for Aral Sea region. The Project is being developed in consultation with key stakeholders, in full alignment with the policy priorities of the GOU and SDGs. National ownership is ensured through active participation of national Governmental and non-governmental institutions. To ensure long-term

sustainable impact, the Project builds upon experiences and best-practices, and synergizes with on-going development activities;

- UNDP has a strong capacity through implementing similar activities as well as developed model to process the project day-to-day activities, M&E system in place, reporting timely (Inception, Quarter, Annual, Midterm and Final), Auditing funds, as well as UNDP uses funds very efficient, transparent with a concept of best value for money. From small input to large impact and high probability for replication of the projects and well PR camping, great media coverage in the local media, as well as internationally through using its channels;
- UNDP: (i) is well represented countrywide including with project support office in Karakalpakstan; (ii) has a specific expertise in community mobilization and community development including improvement and strengthening the participatory decision-making mechanisms at the community level; (iii) has an effective interaction at all level of the public administration; (iv) has a deep knowledge of the country development policies, including local governance and public administration reform; (v) can leverage expertise more effectively, harnessing innovative tools and bringing most relevant international expertise through its regional and global networks.

30. UNDP's value added in this context stems from its wide expertise in project design and management in diverse contexts to help governments and IFIs be more efficient. UNDP also brings its country level presence, intellectual rigor, an ability to influence policy and build capacity, and an established role as a trusted neutral partner working across sectors and with multiple stakeholders, often on sensitive issues. UNDP's experience in challenging environments, including crisis and post-conflict situations, can be instrumental to IFIs and national or transitional authorities, who may have limited access, capacity or mandate to implement directly. UNDP also demonstrates project scalability, risk mitigation, strong local ownership, and can help safeguard the project's sustainability— economic, social and environmental.

31. The benefits of UNDP's support for loan implementation through the tripartite approach include capacity development, speedier implementation, lower costs, leveraged resources and increased transparency. As a global leader in supporting institutional capacity development, drawing on its experience in both development and implementation, UNDP provides governmental institutions with sustainable human development principles and methodologies. It supports ministries in areas that are essential to national ownership and sustainability, notably support services in financial management, recruitment, and training on policies and procedures as necessary to support effective project execution. Through a "learning by doing" approach, UNDP supports long-term institutional capacity for program management to achieve effective and timely project delivery. Its support services include:

- Recruitment through transparent and competitive standards: UNDP has accumulated vast experience in recruiting project staff based on the principles of transparency, gender sensitivity, and competitiveness;

- Cost-effective international training and technical assistance: As part of a global organization, UNDP has access to an international network of professional, tested trainers with experience coaching staff and government counterparts on a number of issues that help to build their own and their institution's capacity;
- Cost saving on project staff: UNDP has built significant professional staff capacity and experience on project implementation and administrative/operational services. This often leads to reduction in the number of project implementation positions foreseen in projects, generating cost-savings to the overall loan portfolio;
- Procurement according to guidelines: UNDP monitors to ensure that internationally- recognized procurement principles
- (competitiveness, best value for money, transparency, fairness, efficiency and economy) and provisions of the loans are respected. UNDP has institutional knowledge of the "Procurement Rules and Procedures" that international organizations require in the implementation of externally funded projects;
- Full package of financial management and reporting: UNDP is specialized in the "Financial Management and Reporting Rules and Procedures" that IFIs require. This includes preparation of annual work plans and budgets in the appropriate format, preparation and issuance of loan withdrawal applications, annual review of progress against work plan and cash flow controls, agreement on necessary budget revisions, preparation of reports (including annual financial statements for presentation to auditors), and control of financial productivity for timely delivery. Implementation support services also address difficulties arising from occasional discord in domestic legislation and bureaucracy.

Other consultancy service assignments: B.2.1 Technical Review and Contracts Management Support Services and B.2.3. Baseline Survey and Impact Assessment (ESIA/ESMP) are under OPEC fund financing and will be subject to procurement/selection procedures of the OPEC fund. However, IsDB will participate in the process of drafting Terms of Reference to ensure that tasks and deliverables outlined in satisfaction to the IsDB.

Component C – Project Management Support

- (i) PMU and PIU staffs will be recruited through the Bank's operational directive under the prevailing Delegation of Authority.
- (ii) PMU office furniture, IT equipment, vehicles and IT software will be procured through the Shopping procedure by comparing written price quotations obtained from at least three Suppliers to assure competitive prices.

Component D – Financial Audit Service

Financial Audit will be selected through the Least Cost Selection (LCS) among the local short-listed consultancy firms. This will cover cost of audit service by independent audit firm for monitoring eligibility of project expenditures and overseeing operation of Special Account. Auditor will be selected based on appropriate international and/or regional qualifications and experience satisfactory to the Bank. This will be addressed during the advertising and short-listing stage.

The Project Procurement Risk Assessment

The Procurement Risk-Based Framework (PRBF) applies at the country, sector/agency, and project levels. The table below demonstrates the risk assessment conducted at each stage of the procurement cycle. The risk assessment table contains information from different assessment reports done by the GOU, MDBs (ADB, EBRD, IsDB, WB etc.) and other stakeholders.

Risk Management Tool	Country	Sector	Agency	Project	Comment
MAPS Assessment					No MAPS Assessment is conducted for Uzbekistan
Procurement Risk Categorization	X	X	X	X	All the procurement related risks – public procurement rules and institutional framework, sector-based and market related, as well as project implementation risks will be subject to assessment and response measures
Project Procurement Risk Assessment			X	X	Based on the experience and lessons learned from the on-going Rural Housing Project and other IsDB funded projects, the project procurement related risks identified and assessed
Contract Management Plan			X	X	The contract administration and execution risks also assessed based on the on-going projects implemented in the sector

Procurement Risk Assessment

Risk Description	A	B	Overall Risk Score (A*B)	Description of Proposed Mitigation	Risk Owner	Procurement Stage
	Likelihood Rating	Impact Rating				
COUNTY LEVEL RISK ASSESSMENT ACCORDIN TO THE RISK-BASED APPROACH (Attachment 1 of the Procurement Strategy)						
Weak e-Procurement system limits access to the public procurement data, which is weakening transparency and accountability of the public procurement procedures	4	1	4	IsDB is planning to conduct a study on the existing e-GP mechanisms and tools to further come up with findings and recommendations to improve the e-GP systems in the country	Beneficiary, IsDB	Whole process
Lack of guidance documents and weak capacity of the concerned public stakeholders (EA, UCS Engineering Company, local authorities and others) in public procurement may negatively affect implementation of the Project components jointly/parallel financed by GOU	5	1	5	Capacity building trainings on IsDB procurement rules including integrity, fraud and anticorruption will be provided for the concerned local authorities, EA and UCS Engineering Company which is going to be act as an Employer in the Project target areas	Beneficiary, IsDB	Whole process
EA/PMU LEVEL RISK ASSESSMENT ACCORDING TO THE RISK-BASED APPROACH (Attachment 2 of the Procurement Strategy)						
Lack of experience and weak contract management capacity	3	2	6	Capacity building training on contract management will be provided. One Procurement Specialist at the PMU central office based in Tashkent and four Procurement Specialists one per PIU based on the province level will be hired. Project Service Support Consultant will be engaged in contract administration	Beneficiary, IsDB, Project Service Support Consultant	Contract negotiation and implementation
Weak competition observed within the on-going Rural Housing Project Phase II. Average number of Bidders per case is approx. 3-4. There are cases with a single Bid received against number BDs issued. The contract amount of most of cases is below or close to the project estimated cost. Lot of cases, when the Bidders failed to provide a Bid Security	2	3	6	The EA and PMU will apply all resources for wide advertisement as possible. The EA and PMU will establish a strong BECs and ensure maximum transparency both in bidding and evaluation processes. Capacity building training and awareness session on IsDB documents and process at PIU level to the local potential bidders	Beneficiary (EA and PMU)	Advertisement, bidding stage and evaluation procedure

Risk Description	A	B	Overall Risk Score (A*B)	Description of Proposed Mitigation	Risk Owner	Procurement Stage
	Likelihood Rating	Impact Rating				
Formulation of the procurement packages for the Component A will be depending on the community engagement, which is time consuming process. It may create a delay in bidding process	3	3	9	<p>QQL will undertake villages master plans and district regional plans in consultation with local beneficiaries which will guide the prioritization of the community plans.</p> <p>UNDP is expected to be engaged, who has an expertise in community mobilization in project cycle, community development, as well as capacity building at all levels of public administration</p>	Beneficiary, IsDB, UNDP	Pre-bidding stage
The EA and UCS Engineering Company capacity and knowledge of IsDB procurement procedures	2	2	4	Capacity building trainings on IsDB procurement rules will be provided; Project Management Support Consultant and PIU concerned staff will provide necessary support and coordinate the organization of engineering designs and tender documents, in addition providing necessary capacity building support. 2 permanent procurement specialists supported by 1 international procurement expert will be coordinating the procurement and contracting process	Beneficiary, IsDB, Project Service Support Consultant	Whole process

Risk management analysis Matrix:

CONSEQUENCE/
IMPACT

LIKELIHOOD	CONSEQUENCE/IMPACT				
	INSIGNIFICANT 1	MINOR 2	SIGNIFICANT 3	MAJOR 4	SEVERE 5
ALMOST CERTAIN 1					
LIKELY 2		VERY LOW 4	MODERATE 6		
MODERATE 3		MODERATE 6	MODERATE 9		
UNLIKELY 4	VERY LOW 4				
RARE 5	VERY LOW 5				

Project Procurement Plan and Arrangements

Project Information

Country	Republic of Uzbekistan
Name of Borrower	Government of Uzbekistan
Project Name	Sustainable Rural Development
Project Number	UZB-1023
Date of Approval (tentative)	December 2020
Date of Signature (tentative)	June 2021 (latest)
Date of Effectiveness (tentative)	December 2021 (latest)
Amount IsDB financing	US\$ 200.0 million
Amount ACG (OPEC Fund; SFD) financing	US\$ 125.0 million
UNDP	US\$ 3.05 million
Amount GOUz financing	US\$ 59.95 million
Executing Agency/ Implementing Agency	Ministry of Economic Development & Poverty Reduction
Excepted Date of GPN	Feb 2021
Advance Contracting	Yes
Retroactive Financing	Yes
Period Covered by this Plan	2021-2022 (18 months)

<i>Procurement Package Summary - Goods and Works</i>		
Procurement Method	Number of packages	Total US\$ million
National Competitive Bidding (NCB) - multiple packages/lots	180	175.25
Shopping/Small Works - multiple packages		
Shopping/Goods	4	0.32
Subtotal Goods and Works	184	175.56
<i>Procurement Package Summary - Consultancy Services/Technical Assistance</i>		
Procurement Method	Number of packages	Total US\$ million
Quality and Cost-Based Selection (QCBS) - LC (multiple packages)	1	8.92
Least Cost Selection (LCS)	1	0.10
Us of UN Agency based on SSS	1	5.00
Subtotal Consultancy services Technical Assistance	3	14.02
Total Procurement Package	187	189.59

**Procurement Packaging Details (IsDB
Financing)**

Package No	Contract Package	Budget (US\$ million)	Procurement	Review
			Method	
	Goods:			
C.1	Office IT equipment	0.06	Shopping	Prior
C.2	Office Furniture	0.06	Shopping	Post
C.3	Office Vehicle	0.15	Shopping	Post
C.4	IT system (1C and Project Management)	0.05	Shopping	Prior
Subtotal for Goods:		0.32		
	Works:			
A.1	Block Investment for Rural Infrastructure	135.25	NCB/	Prior/
A.2	Market Infrastructure Development	40.00	Shopping*	Post
Subtotal for Works:		175.25		
	Services:			
B.1.2	Detail Design and Supervision	8.92	QCBS /Local	Prior
B.2.2	Institutional Strengthening and Capacity Support	5.00	SSS	Prior
D.1	Project Financial Audit	0.10	LCS	Prior
Subtotal for Services:		14.02		
Total:		189.59		

NCB = National Competitive Bidding, SSS = Single Source Selection (Use of UN Agency)

Procurement Review:

- 1) All procurement packages with estimated budget up to US\$ 1 million under NCB and small packages with estimated budget up to US\$ 0.2 million under Shopping (Works) will be subject to the Bank's procurement post-review. The first three (3) packages both for NCB and Shopping (Works), regardless estimated budget, will be prior-reviewed by the Bank.
- 2) The detail of procurement process and review approach (prior/post) is provided in Procurement Plan, which will be periodically updated with prior approval of the IsDB. The annual ex-post procurement review will be conducted during IsDB supervision mission.
- 3) PMU/PIU staffs will be recruited as per the IsDB procedures

Detail Procurement Plan

The detail Procurement Plan for 18 months presented in separate Excel file.

Project Financial Management

1. As per the PEFA Assessment 2018 for Uzbekistan overall, fiscal discipline is satisfactory, and most elements in the overall PFM system that contribute to achieving this objective appear to be sound although there are variances less than 10% in expenditure against the original budget and on the revenue side, performance is also satisfactory.

2. Uzbekistan's latest strategy on PFM reforms covers the period 2018-2028, and it is mainly based on improving the efficiency and effectiveness of the Government of Uzbekistan, through the introduction of program budgeting and its use to improve the quality of services provided. The strategy completes the already launched reforms (introduction of ISUGF¹² (GFMIS), improvement of legislation, inter-budget relations, expansion of fiscal transparency) and elaborates on the direction and priorities for PFM reform in accordance with the previous Strategy and Action Plan for 2017-2021.

Financial Management Review: The Financial Management Assessment of the EA, MEDPR included the following:

3. Executing Agency: MEDPR is the central governmental entity for management of economic development in the country. It accomplishes its work in interaction with other state administration bodies, executive bodies of the Republic of Karakalpakstan, regions, city of Tashkent and other public organizations. Moreover, in its activities the Ministry follows the Constitution of the Republic of Uzbekistan, laws and other acts of the Oliy Majlis (Parliament) of the Republic of Uzbekistan, resolutions and orders of the President of the Republic of Uzbekistan, resolutions and orders of the Cabinet of Ministers, other legislative acts of the Republic of Uzbekistan. The MEDPR is also experienced in the area of international project finance as it has already implemented World Bank projects for Prosperous Villages project.

4. Funds Flow Arrangements: To ensure that funds are readily available for the project's implementation, the direct payment will be made to major consultancy contracts as well as disbursements made to commercial banks. There will also be a Special Account opened to cater to project's eligible expenditure.

5. Staffing: As the PMU is newly being created, Efforts should be made to hire persons who have prior experience in the management of disbursements, and other requirements from other MDBs. It must be ensured that a Financial Management Specialist with relevant experience should be hired in the team responsible for managing the project at the EA/PMU level, in order to follow up on the project's financial management arrangements, generate the project financial statements and coordinate the project's financial activities between the various stakeholders.

¹² ISUGF is the Government Financial Management Information System (GFMIS) name in Russian language.

6. Policies and Procedures¹³: The Bank's procedures requires that the accounting and audit procedures are carried out in line with International Accounting Standards (IAS). In Uzbekistan, accounting standards applied to all financial reports are consistent with the legal framework and ensure consistency of reporting over time. Accounting used to be done on cash basis. The MoF introduced the Uzbekistan Automated System for Budget Organizations (UzASBO) central accounting system in 2014. The new unified COA was approved in March 2016. It is now used internally by the Treasury but has not yet been officially registered with the Ministry of Justice and therefore not used by all budgetary organizations.

7. According to PEFA's assessment, the annual financial statements do not contain a consolidated cashflow statement supported by detailed segmental reporting and they do not disclose accounting policies and other information (for example on contingent liabilities and full disclosures of financial assets and liabilities) that are typically required by internationally recognized accounting standards. In addition, they do not contain the disclosures of accounting policies.

8. The Annual Financial Statements (AFS) cover the State budget, which does not cover all ministries, agencies and other budget entities. They are prepared according to the cash basis of accounting, which is in accordance with the legal framework. However, this framework does not comply with International Public Sector Accounting Standards (IPSAS).

9. The Government initiated the PFM reforms in 2000, however, not all reform objectives could be covered up to the period of the PEFA Assessment. Accrual-based accounting and adoption of the international accounting standards, which were not achieved, have been carried forward to the new PFM Reform Strategy (2018-2028) where a more gradual approach to implementation of the accounting standards will be adopted. This will involve starting with the implementation of IPSAS Cash Basis then moving to accrual basis (Valid up to the end of PEFA 2018 Assessment). Most of the local authorities, including MEDPR is following the Accrual basis of accounting according to the National Accounting Standards.

10. Physical safeguards and Labelling of Project Assets: As far as the issue of safeguard over project assets is concerned, there are procedures in place for stock taking and recording of assets in the Fixed Assets Register. Labeling of assets is required for identifying as to which assets have been financed by which financiers, thus reducing chances of misuse of assets and at the same time promoting the Bank's name in its constituency.

11. Internal Audit: As per the PFM's FMA questionnaire, the MEDPR has informed that there is no internal audit undertaken of the project. As such, in order to strengthen internal controls and mitigate risks, it is proposed that the MEDPR may consider undertaking internal audits in the future for all projects. The outcome of the FMA is recapitulated in the table below:

¹³ Valid up to the date of the last PEFA Assessment in 2018

Table 1. Financial Management Assessment

	High	Moderate	Low
Executing / Implementing Agency (EA/IA)			X
Funds Flow Arrangements		X	
Staffing			X
Policies and Procedures		X	
Safeguard over Assets			X
Internal Audit	X		

12. Project Financial Management Arrangements: To summarize, based on the outcome of the financial management assessment, to mitigate the inherent risks, and for the purpose of efficient project management following is recommended:

- i. Staffing: Hiring of a Financial Management Specialist.
- ii. Segregation of project related accounts from that of the MEDPR.
- iii. The funds flow management should be arranged in such a manner that funds are available to complete the project with the requisite efficiency. Furthermore, the GOU co-financing allocation for the project availability must be ensured.
- iv. In accordance with Financing Agreement, the beneficiary is required to retain and keep in safe custody all records (e.g. contracts, orders, invoices, bills, receipts, etc.) and other documentation that evidences eligible expenditures. Such records and documentation must be made available to the IsDB's representatives and/or external auditors on request for at least 10 years after operational completion of the project. The current practice in the MEDPR is to retain records and original documents for up to 5 years.
- v. The Project Accounts should be closed after IsDB has received satisfactory documentation showing how the amounts advanced have been used. A bank statement showing that the account balance has been reduced to zero and the accounts closed should be provided along with the final application giving evidence of eligible expenditures. In the event of any amount remaining outstanding after the closing date specified in the Financing Agreement, the beneficiary shall promptly upon notification by the IsDB refund to the Project Account with IsDB any balance outstanding in the account.

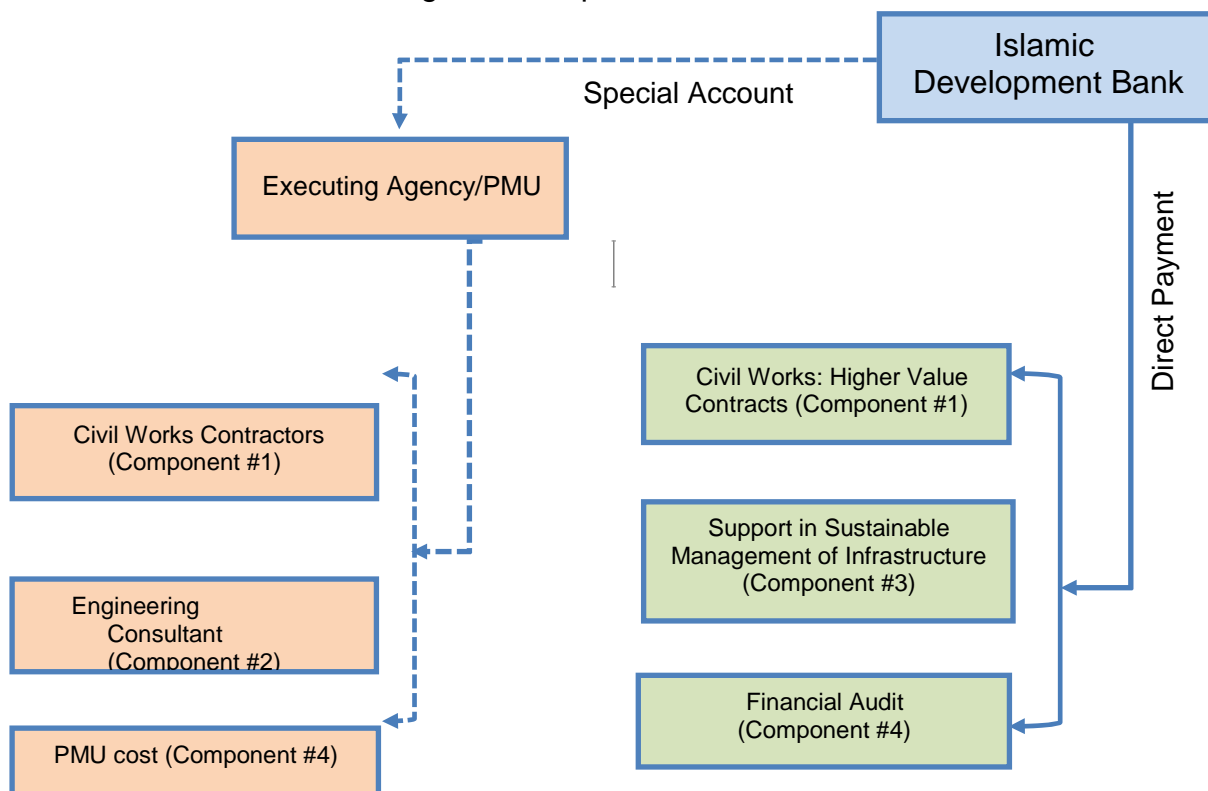
13. Audit Arrangements: The audit of the annual Project Financial statement should be carried out in accordance with International Accounting Standards (IAS), and comprehensively cover all aspects of the project (i.e., all sources and utilization of funds, and expenditures incurred) by satisfying the IsDB's requirements. The Terms of Reference (TORs) for this assignment would cover an audit of financial transactions, and an assessment of the financial management system, including review of internal control mechanisms. Auditor Certified copies of any audit report are required to be submitted to the IsDB as follows: (i) for annual audit reports, not later than [6] months after the financial year to which such report relates closes; and (ii) for any other audit

reports required by the IsDB, not later than the date specified by the IsDB for submission of such report. Each of the audit reports should be accompanied with a Management Letter from the Auditors to the EA.

14. The project financial audit would include: (a) assessment on the adequacy of accounting and financial control systems to monitor expenditures and other financial transactions related to the project, and to ensure safe custody of the project assets, (b) verification on expenditures submitted to IDB, which shall be eligible for financing and meeting the financing covenants, (c) assessment whether the beneficiary of the project maintains adequate documentation on all relevant transactions, (d) identification on any ineligible expenditures and propose improvement for the project financial management.

15. The auditor will also carry out final audit of the entire Project before closing project accounts and bring to management's attention any issues, which need to be addressed. Since UNDP will be implementing the capacity building component, the activities undertaken by UNDP along with their related detailed breakdown of expenses should be submitted to IsDB in the form of quarterly and annual official report.

Figure-1: Proposed Fund Flow:



Project Disbursement Arrangements

Executing Agency/Implementation

1. The existing PMU implementing IsDB financed project within same EA (MEDPR) has capacity and ability to record, control and manage IsDB project's resources and timely produce required reporting. During implementation period PMU and dedicated Financial specialist (accountant) demonstrated due diligence in handling the disbursement through Special Account. Nevertheless, there is a need to arrange the introductory training, either on-site or virtual, to familiarize the EA and PMU news staffs with updated procedures of the IsDB. Key PMU staff engaged into on-going Rural Housing Project may be redeployed under newly established PMU to benefit on human capital.

Proposed Disbursement Arrangements:

2. Disbursements under IsDB financing will be made in accordance with IsDB Procedures and Guidelines, including Disbursement Handbook, Policy and Guideline for Operating Special Account. Disbursement modalities will be as follows: direct payment, reimbursement and payment through Special Account. Detailed Special Account setup will be specified in Disbursement letter.

3. Special Account: Considering larger number of small value contracts, it is recommended to establish Special Account to finance civil works and engineering consultancy contracts under Component A and B, in addition to regular PMU expenditures. Justification for this approach is as follows:

- a) The small-value contracts require frequent payment to contractors to avoid interruptions in cash flow, especially during the construction season (March to November). For this, the standard contract term will envision payment to contractor every 15 days, i.e. 2 times a month upon submitting IPC satisfactory to the Employer and PMU. This approach provided to be effective based on experience from Rural Housing Project financed by the IsDB. The approach is also adopted by World Bank and AIIB funded Prosperous Villages Project being implemented in the in the other regions of the country.
- b) Approximately 180 small-value civil works contracts are expected to be concluded during the project cycle (under IsDB financing), with majority being implemented in year 2022-2024. Average duration of the contract will be 12-18 months (and 24 months if nature of work requires specialized skills, e.g. constructing local sewage treatment system). Similarly, local consultancy service contract will have multiple number of small payments: (i) multiple payments linked to delivery of designs for specific packages consisting from group of villages, and (ii) monthly payment during supervision stage.

4. The Considering a large number of small-value contracts, and for more efficient disbursements, Project Special Account (SA) will be opened with ceiling up-to US\$ 10 million, which will be managed by PMU based on authorization of the Ministry of Finance of Uzbekistan in accordance with the Bank's Project Special Account Policy and Procedure. Eligible expenditures for financing through the SA will be following:

- iv) Small-value civil works contracts. It is expected that high-value contracts will be financed through direct payment.
- v) Local consultancy service support for development of engineering designs and related studies, as well as local supervision
- vi) PMU related costs (staff salary, operational expenses, and procurement of office equipment).

5. The operation of Special Account under IsDB financing of new project will follow compliance requirement as stipulated under IsDB disbursement procedures:

- i) Availability of qualified auditor prior to making advance to SA
- ii) Replenishment amount equivalent to 3 to 6 months forecasted expenses
- iii) Replenishment upon satisfactory utilization at least 50% of previously advanced funds, duly verified by financial auditor in a format acceptable to the IsDB.
- iv) Opening of SA in local bank satisfactory to the IsDB
- v) Having authorized person not lower than deputy minister level for signing WAs.
- vi) Any other conditions stipulated in the Guideline for Use of Special Account.

6. Staffing arrangement: To handle project disbursements with expected volume of transactions, the Project proposes requirement of 6 specialists to management Project funds as listed below:

- 3 specialists based in central PMU office: Financial Manager, Chief Accountant and Senior Disbursement Specialist.
- 4 specialists based in regional PIU offices: Field Disbursement Specialists

7. The Financial Manager and Chief Accountant will be reporting directly to PMU Director, while Sr Disbursement Specialist and Field Disbursement Specialists will be coordinated by Financial Manager and reporting to him/her accordingly. The TOR and recruitment process of above listed staff positions will be conducted in accordance with IsDB procedures.

Project Risk Matrix

<u>Risk</u>	<u>Impact Level</u>	<u>Likelihood</u>	<u>Mitigation Measure</u>	<u>Impact after Mitigation</u>
<u>A. Stakeholders Risk</u> Delays in post-approval process (signing/ effectiveness) and start-up of major c/w contracts	Medium	Likely	Pre-approval negotiations and post-approval engagement by IsDB field offices; early start of consultant recruitment process (following project approval); Parallel financing among donors, with independent stand-alone contracts	Low
Delays of community engagement and needs identification during COVID-19	High	Very Likely	Planning of activities to engage each community separately and utilizing open space facilities, using local media, social media and others by adhering to sanitation requirements; block financing approach adopted linked to community investment plans, prepared with technical support of UNDP.	Medium
Poor performance by consultant/contractor, limited involvement of women and youth (W&Y) in capacity development opportunities	Medium	Likely	Performance regulated by effective procurement and contract management by qualified PMU/PIU, supported by international consultant; advocacy and awareness campaign amongst W&Y and other community members, training and opportunities in professional development	Low
<u>Project Risk</u> Delays in preparing designs, inadequate quality based on old standards; possible cost over-run and variations	Medium	Less Likely	Cost control through community investment plans and engineering designs; international consultant support for quality review; involvement of communities in decision making, engagement at design and implementation; allocation of contingencies, handling cost over-run by GOU	Low

Weak ownership by beneficiary and inadequate budget for O&M of rural facilities/schemes	Medium	Very Likely	Institutional strengthening of facility operators, public awareness raising on rationale use of resources; inducing tariff/billing system for adequate support in O&M; inclusive community participation and engagement to increase the sense of ownership and accountability.	Low/ Medium
Climate risks: temperature increase, floods, wind speed increase, solar radiation. Geological hazard risks: earthquake and seismic landslide.	High/ Medium	Very Likely	ESIA/EMP developed and applied by contractors and monitored by consultant; adopting appropriate technical solution to ensure infrastructure resilient; inclusive community participation to ensure timely addressing environmental and social issues and adopting early warning system/mechanism.	Low/ Medium
<u>Executing Agency Risk</u> Non-compliance to IsDB procedures; lack of knowledge in procurement disbursement procedures	Medium / Low	Likely	Setting up rigorous procurement process (prior/post-review), supported by int. consultant; Engagement of auditor for review of eligibility of expenditures, and use of funds through Special Account; Capacity building of EA/PMU, recruitment of qualified staff, including in the field level.	Low
Weak coordination among stakeholders, including with rural communities	Medium	Likely	Setting-up effective coordination mechanism through the PMU/PIU and UNDP team, supported by consultants.	Low/ Medium

Economic
Analysis

Year		Cost (Economic Value)			Total Benefit	Total	Discount Factor	Discount Value		Discount Factor 10%	Discount Value	
		Investment	Operating	Total	(Financial Value)			Total Cost	Total Benefit		Total Cost	Total Benefit
	0											
2021	1	28,124		28,124	2,798	(25,326)	1.00	28,124	2,798	1.00	28,124	2,798
2022	2	57,684	811	58,495	21,090	(37,406)	0.89	52,228	18,830	0.91	53,178	19,173
2023	3	99,893	2,408	102,301	58,475	(43,826)	0.80	81,553	46,616	0.83	84,546	48,326
2024	4	91,451	4,646	96,096	74,151	(21,945)	0.71	68,400	52,780	0.75	72,199	55,711
2025	5	97,280	6,761	104,041	77,067	(26,974)	0.64	66,120	48,977	0.68	71,061	52,638
2026	6	13,568	11,663	25,231	67,711	42,480	0.57	14,317	38,421	0.62	15,666	42,043
2027	7		14,146	14,146	66,234	52,088	0.51	7,167	33,556	0.56	7,985	37,387
2028	8		13,287	13,287	66,234	52,947	0.45	6,011	29,961	0.51	6,819	33,989
2029	9		12,419	12,419	66,234	53,815	0.40	5,016	26,751	0.47	5,794	30,899
2030	10		10,654	10,654	66,234	55,580	0.36	3,842	23,885	0.42	4,518	28,090
2031	11		9,757	9,757	66,234	56,477	0.32	3,142	21,326	0.39	3,762	25,536
2032	12		8,850	8,850	66,234	57,384	0.29	2,544	19,041	0.35	3,102	23,215
2033	13		7,932	7,932	66,234	58,302	0.26	2,036	17,001	0.32	2,527	21,104
2034	14		7,003	7,003	66,234	59,231	0.23	1,605	15,179	0.29	2,029	19,186
2035	15		6,063	6,063	66,234	60,171	0.20	1,241	13,553	0.26	1,597	17,442
2036	16		5,112	5,112	66,234	61,122	0.18	934	12,101	0.24	1,224	15,856
2037	17		4,149	4,149	66,234	62,085	0.16	677	10,804	0.22	903	14,414
2038	18		3,175	3,175	66,234	63,059	0.15	462	9,647	0.20	628	13,104
2039	19		2,187	2,187	66,234	64,047	0.13	284	8,613	0.18	393	11,913
2040	20		1,188	1,188	66,234	65,046	0.12	138	7,690	0.16	194	10,830
2041	21		936	936	66,234	65,298	0.10	97	6,866	0.15	139	9,845
		388,000	133,148	521,148	1,294,803	773,656		345,937	464,394		366,387	533,497

- EIRR: 21.30%
- NPV: US\$ 167.3 million
- Present value index: 1.46
- Payback period: 8.1 years

Terms and Conditions of
Financing

Recipient:	Republic of Uzbekistan
Project Title:	SUSTAINABLE RURAL DEVELOPMENT PROJECT - UZB1023
Financing Mode:	INSTALMENT SALE
Financing Structure:	The Bank shall, at the request of the Recipient, procure the Project assets, and sell the Project assets to the Recipient, in consideration of payment of the sale price in instalments. The Bank shall appoint the Recipient as its agent in procuring the Project assets.
Financing Amount:	USD 200,000,000.00 (UNITED STATES DOLLARS TWO HUNDRED MILLION)
Maturity:	20 years from the date of first disbursement to the due date of last installment of the sale price; tentatively composed of a sale price payment period of 15 years after a gestation period of 5 years.
Mark up Rate:	<p>(i) To be applied to each disbursement, the sum of:</p> <p>(a) Reference rate of 10-year US DOLLAR mid swap rates as of the disbursement date fixed for the entire duration of financing.</p> <p>(b) Contractual spread of 60 bps fixed for the entire duration of financing.</p> <p>(c) Funding spread prevailing at the time of disbursement which from 1 July to 31 December 2020 is 75 bps.</p> <p>(d) Risk premium of 50 BPS</p> <p>(ii) The funding spread is subject to semi-annual update by the Bank to reflect cost of funding as published on the Bank's website.</p> <p>In the event that the reference rate is negative, the reference rate shall be deemed to be zero.</p>
Advance Payment:	Optional semi-annual payments of accruing mark-up during the gestation period.
Documentation	The Framework Agreement and the Agency Agreement (together the Financing Agreements) shall respectively be subject to 2020 Edition of the IsDB General Conditions Applicable to Instalment Sale Financing and 2020 Edition of the IsDB General Conditions Applicable to Agency Agreements approved by the Bank's Board of Executive Directors on 16 th February 2020 (the General Conditions).
Effectiveness Conditions:	(i) Legal opinion acceptable to the Bank issued by the Legal Authority of the Recipient stating that the terms and conditions of the Financing Agreements constitute enforceable and binding obligations upon the Recipient.
Procurement:	<p>Unless otherwise indicated in the Agency Agreement, the Recipient, as an agent of the Bank, shall follow the Bank's Procurement Guidelines and Procedures in procuring the Project assets.</p> <p>(i) Block Financing for Rural Infrastructure Development shall be procured through National Competitive Bidding and Shopping</p> <p>(ii) Market Infrastructure Development shall be procured through National Competitive Bidding</p> <p>(iii) Detailed Design and Supervision Service shall be procured through National short-list</p>

- (iv) Sustainable Management of Infrastructure Service shall be procured through Single-Source Selection of the UNDP
- (v) Project Management Support shall be procured through Shopping (Goods)
- (vi) Financial Audit Service shall be procured through National Short-List

Executing Agency: Ministry of Economic Development and Poverty Reduction of the Republic of Uzbekistan

Implementation: The Recipient, in its capacity as the Bank's agent shall, on behalf of the Bank:

- (i) negotiate and agree with the contractor/consultant for the relevant prices, specifications and delivery of the Project assets.
- (ii) ensure that the procurement agreement(s) to be concluded between the contractor and the Recipient, as the Bank's agent, provides for the contractor's all risks insurance with a reputable insurance company acceptable to the Bank, and the Bank is named as a loss payee under the insurance policies so made.
- (iii) submit request for disbursements for payments under the procurement agreement(s).
- (iv) arrange and be responsible for all costs not covered by the Bank's financing.

Delivery Notice: The Recipient shall take delivery of the Project assets on behalf of the Bank and issue notice of delivery of the Project assets to the Bank.

Offer and Acceptance : Upon the Recipient receiving a sale offer from the Bank, the Recipient shall, in exercise of its promise to purchase the Project assets from the Bank upon delivery, indicate its acceptance of the sale offer within seven (7) business days from the date of receipt of the sale offer.

Deadlines: If at any time a binding obligation of the Recipient is not fulfilled within the stipulated time, the Bank has the right to terminate the Financing Agreements. If the deadline of any of:

- (i) signing the Financing Agreements within 6 (six) months from the approval date of the Project; or
- (ii) satisfying the conditions for the effectiveness of the Financing Agreements within 6 (six) months from the signature date of the Financing Agreements; or
- (iii) submitting the request for the first disbursement with 6 (six) months of the effectiveness date,

is not met, the Financing Amount approval will be automatically cancelled and, if applicable, the Financing Agreements will be automatically terminated.

Other provision(s):

- (i) The General Conditions are incorporated by reference to these Terms and Conditions.
- (ii) Disbursements shall be made to a special account that shall be opened in the name of the Project to which the Approved Amount shall be disbursed with a ceiling of US\$ 10,000,000 (United States Dollar Ten Million) in accordance with Project Special Account Policy and Procedure of IsDB.
- (iii) A maximum of 0.5 (zero point five) percent of the Approved Amount may be used for retractive financing of essential Project activities/components in accordance with the Bank's policy and/or guidelines on retroactive financing.