

**Validation Report**  
August 2021

# Uzbekistan: Water Supply and Sanitation Services Investment Program (Multitranche Financing Facility and Tranche 4)

Reference Number: PVR-785  
Program Number: 42489-053  
MFF Number: 0036  
Loan Number: 3064



*Raising development impact through evaluation*

## ABBREVIATIONS

ADB	– Asian Development Bank
DMF	– design and monitoring framework
EIRR	– economic internal rate of return
FIRR	– financial internal rate of return
GAP	– gender action plan
MFF	– multitranche financing facility
O&M	– operation and maintenance
PCR	– program completion report
PCU	– project coordination unit
PMC	– project management consultant
PPMU	– project preparation and management unit
RRP	– report and recommendation of the President
UCSA	– Uzbekistan communal services agency (Uzkommunhizmat)
WACC	– weighted average cost of capital
WSS	– water supply and sanitation
WSSSIP	– Water Supply and Sanitation Services Investment Program
WWTP	– wastewater treatment plant

## NOTE

In this report, “\$” refers to United States dollars.

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### PROGRAM BASIC DATA

Program number	42489-053	PCR circulation date	Dec 2020	
Loan and MFF numbers	0036, 2564, 2633, 2825, 3064	PCR validation date	Aug 2021	
Program name	Water Supply and Sanitation Services Investment Program (Multitranche Financing Facility and Tranche 4)			
Sector and subsector	Water and other urban infrastructure and services	Urban policy, institutional and capacity development Urban sanitation Urban sewerage Urban water supply		
Strategic agenda	Environmentally sustainable growth Inclusive economic growth			
Safeguard categories	Environment		B	
	Involuntary resettlement		C	
	Indigenous peoples		C	
Country	Uzbekistan		Approved (\$ million)	Actual (\$ million)
ADB financing (\$ million)	ADF: 300.00	Total program costs	300.00	282.70
	OCR: 0.00	Loan and Grant		
		L2564	60.00	57.46
		L2633	140.00	133.39
		L2825	58.00	52.71
		L3064	42.00	39.14
		Borrower	75.00	36.41
		L2564	15.00	11.30
		L2633	35.00	17.90
		L2825	14.50	5.60
L3064	10.50	1.61		
	Beneficiaries	0.00	0.00	
	Others	0.00	0.00	
Cofinancier		Total cofinancing	0.00	0.00
Approval dates		Effectiveness dates		
L2564	8 Oct 2009	L2564	15 Jan 2010	21 Apr 2010
L2633	21 Apr 2010	L2633	15 Jun 2010	10 Aug 2010
L2825	7 Dec 2011	L2825	1 Apr 2012	20 Apr 2012
L3064	25 Nov 2013	L3064	28 Apr 2014	5 Sept 2014
Signing dates		Closing dates		
L2564	1 Dec 2009	L2564	30 Jun 2015	9 Jan 2019
L2633	1 May 2010	L2633	31 Jan 2016	31 Dec 2016
L2825	16 Feb 2012	L2825	31 Dec 2016	20 Feb 2018
L3064	27 Feb 2014	L3064	30 Mar 2018	1 Aug 2018
Program officers		Location	From	To
MFF	Y. Ye	ADB headquarters	Sep 2009	Mar 2011
MFF	A. Kelly	ADB headquarters	Apr 2011	Jul 2012
L3064	L. Zheng	ADB headquarters	Jul 2012	May 2013
L3064	N. Talipova	ADB headquarters	May 2013	Dec 2014
L3064	H. Zhang	ADB headquarters	Jan 2014	May 2017
L3064	R. Hu	ADB headquarters	Jan 2018	Apr 2019
IED review director	N. Subramaniam, IESP			
Team leader	J. Jovellanos, Associate Evaluation Officer, IESP*			

ADB = Asian Development Bank, ADF = Asian Development Fund, IED = Independent Evaluation Department, IESP = IED Sector and Project Division, MFF = multitranchise financing facility, OCR = ordinary capital resources, PCR = program completion report.

\*Team members: S. Venkata (quality reviewer), F. De Guzman (Senior Evaluation Officer), and R. Pollard (consultant).

## I. PROGRAM DESCRIPTION

### A. Rationale

1. Uzbekistan's water supply and sanitation (WSS) systems were established under the former Soviet Union. The systems were all owned and operated by public sector enterprises (*vodokanals*) and funded from the government's central budget. Most of the *vodokanals* had not adopted modern management and commercial practices, and many lacked accountability or incentives to improve services. Tariffs were nominal. *Vodokanals* were poorly managed and underfunded and WSS service coverage was low and unreliable. In addition, most WSS infrastructure reached the end of their economic life and required extensive rehabilitation.<sup>1</sup>

2. The Government of Uzbekistan considered the improvement of the WSS to be a national priority in its 2007 Poverty Reduction and Welfare Improvement Strategy.<sup>2</sup> The strategy aimed to achieve 100% WSS service coverage in urban areas within a decade. To support this, a sector policy framework and an investment plan were put in place, which required an investment of \$2.9 billion in the WSS services by 2020.<sup>3</sup> The Water Supply and Sanitation Services Investment Program (WSSSIP) of the Asian Development Bank (ADB) was established to help achieve the government's objectives of improving institutional effectiveness in delivering services, enhancing operational and commercial efficiencies, and achieving financial sustainability. A multitranche financing facility (MFF) was selected as the modality for ADB financing to allow greater flexibility.

3. The program aimed to improve WSS services in provincial cities and secondary towns in eight provinces. Physical investments included rehabilitation and expansion of the WSS infrastructure. Nonphysical investments included sector planning, policy analysis and reforms, support for project management, *vodokanal* management, a customer awareness campaign, and hygiene promotion. The program was implemented in four tranches. Tranche 4, which is the subject of this report along with the entire MFF, was approved in November 2013. It aimed to improve sewerage and waste treatment services in Fergana, Margilan, and Tashlak cities and strengthen institutional and project implementation capacity.

### B. Expected Impacts, Outcomes, and Outputs

4. The program's expected impact, as stated in the design and monitoring framework (DMF), was improvement in living standards, environment, and public health in the urban centers of Uzbekistan. Its intended outcome was safe, reliable, and sustainable water supply; improved sanitation services; and improved hygiene in the project towns. Three program outputs were expected: (i) rehabilitation and improvement of WSS systems; (ii) improvement in the management structure and capacity for WSS operation; and (iii) provision of effective support for program implementation.

5. The expected impact of tranche 4 comprised improvements in the following: the people's living standards; the environment; and public health in Fergana, Margilan, and Tashlak cities and the surrounding districts. The intended outcome was a safe, reliable, and sustainable sewerage services for the same cities and geographic area. The two expected outputs were (i) rehabilitated

<sup>1</sup> ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranchise Financing Facility to the Republic of Uzbekistan for a Water Supply and Sanitation Services Investment Program*. Manila.

<sup>2</sup> Government of Uzbekistan. 2007. *Welfare Improvement Strategy (2008–2010)*. Tashkent.

<sup>3</sup> Government of Uzbekistan. 2008. *National Water Supply and Wastewater System Development and Modernization Plan*. Tashkent.

and expanded sewerage management systems in Fergana and Margilan cities; and (ii) improved management structures and capacity for the *vodokanals* in the two cities, along with effective support for program implementation.<sup>4</sup>

### C. Provision of Inputs

6. The MFF was approved in September 2009 with a planned closing date of 30 June 2018. There were four extensions to the program tranches. The actual closing date of the MFF was extended by 10 months to 30 April 2019 to allow the completion of all civil works. The effectiveness dates of the first three tranches were also delayed due to protracted government administrative procedures, which led to delays in procuring consultants and executing civil works contracts.

7. The loan for tranche 4 was approved on 25 November 2013 and the agreement was signed on 27 February 2014. Effectiveness was delayed by over 6 months to September 2014 due to the longer-than-expected government procedures for approving the project feasibility study. Civil works were completed by the end of May 2018 or 2 months later than the original planned date of 31 March 2018.

8. At appraisal, the MFF was estimated to cost \$375.0 million. Of this amount, \$300.0 million was allocated from ADB's ordinary capital resources spread over the four tranches—about 80% of the total program cost. At closing date, the program disbursed \$282.7 million of the ADB allocation through the four project loans. The actual total cost of the program was \$319.1 million.

9. Tranche 1 had an estimated cost of \$75.0 million and an actual cost of \$68.8 million. It covered WSS services in Bukhara city in Navoi province and Termez city in Surkhandarya province. The estimated cost for tranche 2 was \$175.0 million against the actual cost of \$151.2 million. It rehabilitated and expanded WSS services in Andijan and Kokand cities; and the water supply systems in Fergana, Margilan, and Rishtan cities, along with capacity-building measures that strengthened project management. Tranche 3 financed improvements in water supply services in Djizzak, Karakalpakstan, and Khorezm provinces and sewerage management systems in Andijan city at an estimated cost of \$72.5 million. The actual cost of tranche 3 was \$58.3 million.

10. Tranche 4 had an estimated total cost of \$52.5 million and an actual cost of \$40.8 million. It financed improvements to wastewater management and *vodokanal* operations in Fergana and Margilan cities and their surrounding areas. Loan savings of \$3.6 million resulted from bid prices for civil works, mechanical equipment, and consulting services that were lower than estimated, and from lower-than-expected interest charges—due to the loan's slow disbursement during the early stages.

11. Project management consultants (PMC) for the entire program were procured through quality- and cost-based selection during tranche 1. The original estimate for consulting services was 114.0 person-months of international consultants but the actual provision was just 405.9 person-months. For national consultants, the estimate was 504 person-months, and the actual consultant provision was 1,050 person-months. The original budget allocated for consulting services was \$6.80 million, as against the actual consulting services costs were \$3.78 million. For tranche 4, the estimated cost of consulting services was \$0.50 million, while the actual cost was \$0.34 million. For tranche 4, the key consulting service was engaged for the detailed design of

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<sup>4</sup> The *vodokanal* for Margilan city also provides services for Tashlak and the surrounding areas.

sewerage system in Fergana and Margilan cities.<sup>5</sup> According to the Facility Administration Manual, 193 person-months were to be utilized for the detailed design, but the program completion report (PCR) did not indicate the actual person-months provided for this component.

12. The MFF was classified as category B for environment at appraisal. The four projects under the program were not expected to have long-term adverse impacts. The negative impacts of construction activities were anticipated to be short-lived. At appraisal, the program was also classified as category B for land acquisition and for involuntary resettlement. It was category C for indigenous peoples.

13. Tranche 4 was low risk for environmental impacts and classified as category B due to the civil works involved. No land acquisition or resettlement was required; hence, it was classified as category C for these safeguards aspects.

14. A gender action plan (GAP) for the MFF was prepared that included 22 activities and performance targets for each. The activities included gender analysis through consultations and surveys to assess specific gender-disaggregated needs related to WSS services; community-level gender awareness workshops for groups, schools, and other local institutions; and measures to ensure female representation in decision-making processes, in trainings for *vodokanals*, and in other project activities. Baseline and outcome data were to be collected to monitor GAP implementation. Supplementary GAPs were prepared for each tranche subproject.

15. Tranche 4 was classified as effective gender mainstreaming and a subproject GAP was prepared. The project agreement stipulated that gender mainstreaming targets were to be monitored. These included ensuring that at least 30% of employees are women—at the customer care units for wastewater utilities and in water consumer groups established by the project. In project trainings, at least 30% of participants should also be women, and that sex-disaggregated consumer databases for wastewater services were to be developed and maintained. The DMF of tranche 4 included four gender-specific performance targets.

## **D. Implementation Arrangements**

16. The Uzbekistan Communal Services Authority (UCSA) was the executing agency for the MFF and the four tranches. UCSA was responsible for program and subproject coordination and liaison with other government agencies, ADB, and the WSS sector development partners. A program preparation and management unit (PPMU) within UCSA managed all executive responsibilities for the program and other implementation-related activities. The PPMU and the provincial project implementation units for subprojects were financed through a project management facility. In 2015, in response to a Presidential resolution,<sup>6</sup> the PPMU and five provincial project implementation units were consolidated into a single entity—the project coordination unit (PCU). ADB concurred with this arrangement. An interagency council was responsible for the broad policy direction and guidance for the program.<sup>7</sup>

<sup>5</sup> ADB (Central and West Asia Department). 2014. Loan Inception Mission to Uzbekistan: Water Supply and Sanitation Investment Program – Tranche 4. Back-to-office report. 9 December (internal).

<sup>6</sup> Government of Uzbekistan. 2015. About Measures for Enhancement of the Mechanism of Implementation of Investment Projects with Participation of the International Financial Institutions. Resolution of the Cabinet of Ministers of Uzbekistan No. 334. Tashkent (23 November).

<sup>7</sup> The interagency council for cooperation with international financial institutions, organizations, and donor countries, which was tasked with implementing large and strategically important projects, was established in accordance with Resolution N-229, dated 12 August 2009, of the Cabinet of Ministers.

17. The WSSSIP was UCSA's first experience with the MFF program modality. A detailed capacity assessment was carried out as a part of program preparation. Based on this assessment, project management consultants (PMCs) were hired during tranche 1 to support UCSA throughout the program and to build institutional capacity.

18. The MFF program agreement contained 17 covenants—nine were fully complied with, six were partially complied with, and two were not complied with. The tranche 4 loan agreement had 36 covenants of which 25 were fully complied with, 9 were partly complied with, and 2 were not complied with. The key issues include (i) delayed submission of audited financial statements by *vodokanals*, (ii) failure to conduct semiannual reviews to adjust tariffs based on full cost recovery, (iii) failure to establish performance-based management for *vodokanals* partly due to national policy changes that led to the consolidation of WSS utilities in more centralized structures,<sup>8</sup> (iv) failure to establish a benchmarking system for WSS utility performance, and (v) operation and maintenance (O&M) manuals for project-financed WSS infrastructure were not prepared.

## II. EVALUATION OF PERFORMANCE AND RATINGS

### A. Relevance of Design and Formulation

19. The PCR rated the program and tranche 4 relevant. The MFF supported Uzbekistan's Welfare Improvement Strategy and its poverty reduction and sustainable development program for 2008–2015, which prioritized improving access to basic services and responding to urbanization issues. The program's impact, outcome, and outputs, as described in the DMF, were aligned with the government's objective to reform WSS service delivery by introducing market economy principles. The government was committed to (i) opening the sector for external funding and private sector participation; (ii) metering customer supplies; (iii) decentralizing the responsibility for the daily operation of the facilities to the *vodokanals*; and (iv) allowing tariffs to reflect the full cost recovery of investments. The program directly supported the operationalization of these reforms and contributed to financing the implementation of the government's WSS sector road map.

20. The program design drew on ADB's and on global WSS sector experience, along with extensive stakeholder consultations in Uzbekistan. The justification for the choice of MFF as the financing modality allowed flexibility in the design of tranche subprojects to complement and guide WSS sector reforms. The DMF for the program was well-designed and provided a logical flow from physical and process outputs to a single outcome—safe, reliable, and sustainable services and hygiene in project towns, which was expected to achieve improved living standards and public health in the project urban centers. There were attribution issues for the second impact indicator, which concerned the reduction of waterborne infections. There were many factors that may have affected waterborne disease rates in addition to the outputs and outcome of the WSSIP, making clear attribution to the project difficult. This validation assesses the MFF relevant.

21. The objective, expected impact, and design of the tranche 4 project were consistent with the program's DMF. The design of tranche 4 reflected the relevance of the MFF design and drew on the implementation experience of the preceding three tranches to moderately improve project implementation and target resource allocations to geographic areas in greatest need. Greater attention in the design of tranche 4 could have been given to strengthen institutional capacity and establish performance incentives for the *suvokova*, given the experiences in the preceding

<sup>8</sup> Legislative changes in late 2019 may enable performance-based management contracts under the new, more centralized structure for WSS utilities.

tranches. On the whole, the design of the tranche was sound and responded to national and regional development needs and priorities. This validation assesses tranche 4 and the MFF relevant.

## **B. Effectiveness in Achieving Project Outcomes and Outputs**

22. The PCR rated the program and tranche 4 less than effective. The program had 10 performance indicators for the single outcome of providing safe and reliable WSS services in the program towns. Of these 10 indicators, three were achieved, five were partially achieved, and two were not assessed. The program was successful in achieving its fiscal targets of covering all O&M and depreciation costs for WSS services, and in achieving at least 90% tariff collection rates by *vodokanals*, and later *suvokovas*.<sup>9</sup> The fiscal targets were supported by official decrees and had strong government support. Improved services also increased consumers' willingness to pay.

23. The program did not meet its water supply service coverage target of 3 million people. It was able to reach a total of 2.25 million people through the outputs of tranches 1–3 (tranche 4 only focused on wastewater services). The water supply reliability target to provide service at least 20 hours per day was not achieved in most program areas. Water service reliability improved significantly in almost all areas, but the target was not achieved in most areas. The physical leakage reduction target of 30% or less was achieved in all towns except in Djizzak, where the rehabilitation of the deteriorated water network was not included in any of the tranches. National water quality standards were met in most, but not in all towns, and not consistently. The wastewater treatment target of at least 70% collection and treatment was not achieved in two out of the three cities that received improved wastewater treatment facilities. National effluent standards were not being consistently met at these facilities.

24. Two outcome indicators were not assessed—the rural population near subproject towns that received bulk water supplies through the projects, and consumer satisfaction at 90% or higher. Baseline consumer satisfaction surveys were conducted in some cities (e.g., Djizzak) that indicated satisfaction levels in the range of 50% before the program. At the conclusion of tranche 3, informal surveys indicated that customers in the project areas were “fully satisfied” with their WSS services.

25. The program's physical output of rehabilitated and improved WSS systems was largely met or exceeded. The output to improve the management and capacity for WSS services was partially achieved. The introduction of performance-based contracting was hindered by evolving government policies. The government introduced a regulatory framework supporting public-private participation only in 2019. This, however, may allow the program target to be achieved by 2022. The O&M manuals were not developed for the WSS utilities, which may compromise the sustainability of the infrastructure.

26. The PCR stated that the four targets for the project outcome to provide safe, reliable, and sustainable sewerage service were all achieved, but a site visit by ADB in December 2019 found that the wastewater treatment facilities were not operational due to equipment malfunction and inadequate maintenance. The quality of wastewater treatment was not consistently being maintained, and therefore, one of the targets has not been met. Project outputs, except in developing and applying an O&M manual, were met or partially met. For the program,

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<sup>9</sup> In 2015, the government carried out extensive reforms to the WSS sector and replaced city and district *vodokanals* with regional *suvokovas*. The *suvokovas* were merged in 2019 into a single, national joint-stock company to improve service provision.



performance benchmarking for WSS utilities was not established under the project. A parallel activity financed by Swiss technical assistance under a World Bank project developed a benchmarking program that is currently being introduced.<sup>10</sup>

27. The program and tranche 4 were classified as category B for environment. This was appropriate since the subprojects were mainly focused on the rehabilitation and expansion of existing water supply and wastewater management systems located in urban and peri-urban areas with no environmentally sensitive locations. Given the nature of the investments and construction activities under the MFF, the land acquisition and resettlement impacts were minimal or none. The MFF was, therefore, correctly assessed as category B for involuntary resettlement. For tranche 4, the May 2013 social compliance audit report confirmed that no land acquisition or resettlement was to take place and recommended that the project be recategorized for involuntary resettlement from category B to C. ADB concurred with this recommendation. The risk classification for indigenous peoples was category C for the program and in all tranches since no beneficiaries meeting the definition of indigenous peoples were living in the project areas or were affected by the projects. The program and its tranches were compliant with ADB and Uzbekistan safeguard policies and laws.

28. Both the program and tranche 4 included comprehensive GAPs. The program's GAP included 18 indicators. This GAP was replicated and updated with specific details for each of the four tranches. The gender targets were largely achieved, with some delays in achieving 30% women's employment in the PCU. At the local level, the program and the four tranches were effective in improving gender equity. Customer care units in WSS utilities were established with 49% female representation. One-third of the members of the 127 water consumer groups established are women. Women and children, as the primary collectors of water, when house connections are not available, benefited from the connections and improved service reliability provided through the program.

29. On the whole, the program and tranche 4 were effective in achieving their physical targets for the improvement of WSS infrastructure. However, both were less effective in meeting the targets for strengthening the institutions that manage the services. Field observations at the end of the project indicated that some of the wastewater treatment infrastructure financed by the program were already functioning at less-than-optimal levels and not achieving national treatment standards. The use of funds for institutional strengthening capacity building and training was significantly less than what was budgeted. ADB and the borrower could have benefited from better cooperation with other donors to optimize the use of budgeted funds to strengthen institutional capacity and increase the likelihood of outcomes being sustained. In view of the cited deficiencies relative to the outcomes, this validation assesses tranche 4 and the MFF less than effective.

### **C. Efficiency of Resource Use**

30. The PCR rated both the MFF and tranche 4 efficient. The MFF rating was based on a reevaluation of the economic internal rates of return (EIRR) for subprojects in each tranche as presented in their respective PCRs. The project validation reports for tranches 2 and 3 found weaknesses in their economic assessments. The reevaluation for the entire MFF was consistent with the approach taken at appraisal of the program and aligned with ADB guidelines. The economic analysis presented in the report and recommendation of the President (RRP) evaluated

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<sup>10</sup> The Government of Switzerland provided a grant of SwF12 million for technical assistance and institutional strengthening to UCSA through the World Bank-financed Syrdarya Water Supply Project.

a sample of four subprojects that were planned for tranche 1 as a basis for the ex-ante assessment on the economic viability of the entire program. The RRP-estimated EIRRs ranged between 17.0% and 17.5%. At completion, the EIRR for the entire MFF was calculated at 15.8%, which was above the 12% threshold for economic viability. The economic benefits of tranches 1–3 were valued in revenues alone and did not include consumer surplus.

31. For tranche 4, the EIRR was estimated at 33.7%. The economic analysis did not disaggregate the tranche activities in subprojects since the main infrastructure investment was a single wastewater treatment plant that serves multiple cities. The EIRR was calculated using constant 2020 prices in US dollar terms and world price numeraire. Both the MFF and tranche 4 achieved EIRRs that were above the minimum 12%. In view of these viability indicators at project completion, this validation assesses tranche 4 and the MFF efficient.

#### **D. Preliminary Assessment of Sustainability**

32. The PCR rated both the MFF and tranche 4 likely sustainable. This was based on the estimated financial internal rates of return (FIRRs) for the program and the project, both of which exceeded their respective weighted average cost of capital (WACC). The financial internal rate of return (FIRR) for the entire MFF was estimated to be 3.5%, compared to a WACC of 2.6%. For tranche 4, the FIRR was assessed at 3.1%, higher than the WACC of 1.0%. These indicated that the program and the project were financially viable. Strong government support for tariffs that reflected the full costs of depreciation and O&M, and improvements in tariff collection, as demonstrated in all tranches, supported this conclusion. The wastewater tariff for domestic consumers was raised by an average of 30% each year between 2011 and 2019, exceeding the 9% annual increase that was proposed at the outset of the program. New increases are planned for 2021 to further raise tariffs by at least 140% nationwide.

33. It should be noted, however, that the failure to prepare or adopt O&M manuals and procedures necessitates a question on the operational and environmental sustainability of both the program and tranche 4. An ADB mission at the end of tranche 4 noted wastewater systems not operating properly, and untreated effluents were being released. Lack of accountability and weak environmental monitoring exacerbate the risks to sustainability. The intended performance-based management and contracting and benchmarking to be introduced during the MFF were not realized. These measures could have potentially improved the operational and environmental sustainability of the program and of project outcomes. However, the government is currently introducing a benchmarking program. Considering the developments in tariff progression and collection, and the supportive policy direction of the current government, this validation assesses tranche 4 and the MFF likely sustainable.

### **III. OTHER PERFORMANCE ASSESSMENTS**

#### **A. Preliminary Assessment of Development Impact**

34. The PCR rated the development impact of the MFF and tranche 4 satisfactory. The MFF partially achieved its two impact indicators. The program expanded access to safe WSS services in the project area by improving infrastructure and management systems that resulted in benefits for more than 2.25 million people. Women and children particularly benefited from reduced time spent collecting water and reduced waterborne disease incidence. Safe and reliable water supply services are provided for 6–20 per day in the project areas, against the target of at least 20 hours in all towns. In varying extents, there were declines in the incidence of waterborne infectious diseases in all areas. However, there were data collection constraints for accurately monitoring

disease incidence in some project areas, and the impact target was for 2020. There were no data available for 2020 at the time the program ended. In addition, it is difficult to attribute this health impact indicator solely to the project.

35. Tranche 4's impact target of achieving 90% public satisfaction with sewerage services was not assessed.<sup>11</sup> The PCR stated that the target of reducing by half the time spent by women caring for family members who are sick from waterborne diseases was achieved. However, there was no documentation on how this was assessed. Notwithstanding these, this validation assesses, on the whole, the development impact of the MFF and tranche 4 satisfactory.

## **B. Performance of the Borrower and Executing Agency**

36. The PCR rated the borrower and the executing agency's performance satisfactory. There were significant delays in government processing of project clearances and procurement procedures, but in general, government agencies and procedures adequately supported the implementation of the program and tranche 4. The government utilized and established UCSA for executing the program and its tranches and maintained a stable institutional setting for the projects throughout the program. The ministries of finance and economy collaborated closely with UCSA and ADB missions to monitor and support program execution and respond to issues. The interagency council that was established for strategic guidance did not meet or function as originally anticipated to support institutional development and sector reforms. This reduced or delayed the achievement of some capacity development and reform objectives. On balance, this validation assesses the borrower and the executing agency's performance satisfactory.

## **C. Performance of the Asian Development Bank**

37. The PCR rated ADB's performance satisfactory. The ADB staff worked closely with the borrower, the executing agency, and with other stakeholders to provide a sound foundation for the MFF during preparation and appraisal. Advanced procurement and retroactive financing were approved for all tranches in an effort to expedite implementation. The program was initially managed from Manila. In 2015, this was transferred to ADB's resident mission in Tashkent to facilitate closer and more frequent interactions with the borrower and with UCSA. Review missions for all projects were undertaken at least twice each year. ADB was responsive and flexible in responding to requests from the executing agency throughout the program. The project supervision teams were generally proactive in identifying issues and supported UCSA in seeking solutions. As an example, to address civil works quality issues in tranche 3, ADB hired international technical supervision consultants to support local contractors in improving civil works quality.

38. Environment and social safeguards specialists on the ADB task team were involved right from program inception and appraisal, and in each tranche to screen for potential environmental and social impacts. A review of back-to-office-reports and aide memoires indicated that safeguards issues were adequately addressed during supervision. This validation assesses ADB performance satisfactory.

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<sup>11</sup> A follow-up gender-disaggregated socioeconomic survey to assess the target indicators was to be conducted in 2020, but a report is not yet available.

## IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

### A. Overall Assessment and Ratings

39. For the MFF and tranche 4, the PCR's overall rating was successful. The provision of safe and reliable water supplies and wastewater management services to over 2.25 million people was improved, and service delivery institutions were strengthened. The program and tranche 4 were relevant to Uzbekistan's efforts to reform WSS sector policies and in implementing the country's development strategy for urban services. The program and the project were less than effective in delivering all expected outcomes and outputs. Although civil works targets were fully achieved, there were shortcomings in achieving a few institutional development, capacity building, and policy reform objectives. The MFF and tranche 4 were efficient in that they achieved EIRRs above 12%. Both are likely sustainable in view of the FIRR exceeding the WACC and due to the government's continuing commitment to move to performance-based management of WSS services and to strengthen the capacity for O&M. This validation assesses the entire program relevant, less than effective, efficient, and likely sustainable. The program is rated successful.

#### Overall Ratings

Validation Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
Relevance L2564 (Tranche 1) L2633 (Tranche 2) L2825 (Tranche 3) L3064 (Tranche 4) MFF 0036	Relevant Highly relevant Relevant Relevant Relevant	Relevant Relevant Relevant Relevant Relevant	
Effectiveness L2564 (Tranche 1) L2633 (Tranche 2) L2825 (Tranche 3) L3064 (Tranche 4) MFF 0036	Less than effective Effective Less than effective Less than effective Less than effective	Less than effective Effective Less than effective Less than effective Less than effective	
Efficiency L2564 (Tranche 1) L2633 (Tranche 2) L2825 (Tranche 3) L3064 (Tranche 4) MFF 0036	Efficient Efficient Efficient Efficient Efficient	Efficient Efficient Efficient Efficient Efficient	
Sustainability L2564 (Tranche 1) L2633 (Tranche 2) L2825 (Tranche 3) L3064 (Tranche 4) MFF 0036	Likely sustainable Likely sustainable Likely sustainable Likely sustainable Likely sustainable	Likely sustainable Likely sustainable Likely sustainable Likely sustainable Likely sustainable	
<b>Overall Assessment</b> L2564 (Tranche 1) L2633 (Tranche 2) L2825 (Tranche 3) L3064 (Tranche 4) MFF 0036	<b>Successful</b> <b>Successful</b> <b>Successful</b> <b>Successful</b> <b>Successful</b>	<b>Successful</b> <b>Successful</b> <b>Successful</b> <b>Successful</b> <b>Successful</b>	

Validation Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
Preliminary assessment of impact L2564 (Tranche 1) L2633 (Tranche 2) L2825 (Tranche 3) L3064 (Tranche 4) MFF 0036	Satisfactory Satisfactory Satisfactory Satisfactory Satisfactory	Satisfactory Satisfactory Satisfactory Satisfactory Satisfactory	
Borrower and executing agency L2564 (Tranche 1) L2633 (Tranche 2) L2825 (Tranche 3) L3064 (Tranche 4) MFF 0036	Satisfactory Satisfactory Satisfactory Satisfactory Satisfactory	Satisfactory Satisfactory Satisfactory Satisfactory Satisfactory	
Performance of ADB L2564 (Tranche 1) L2633 (Tranche 2) L2825 (Tranche 3) L3064 (Tranche 4) MFF 0036	Satisfactory Satisfactory Satisfactory Satisfactory Satisfactory	Satisfactory Satisfactory Satisfactory Satisfactory Satisfactory	
Quality of PCR		Satisfactory	Para. 44.

ADB = Asian Development Bank, IED = Independent Evaluation Department, MFF = multitranche financing facility, PCR = program completion report.

Source: ADB (Independent Evaluation Department).

## B. Lessons

40. The PCR included four lessons. These lessons, which were essentially presented as recommendations, were: First, develop higher project readiness to reduce subproject start-up delays and avoid gaps in monitoring. Second, ensure that a dedicated PCU is in place with a full-time director. The project was affected by the high turnover of PCU consultant staff, including that of the PCU director. Third, introduce public accountability and grievance redress mechanisms for transparency and to develop trust with customers. The accountability of WSS utilities to their customers is critical in improving service delivery performance and in ensuring the willingness of customers to pay for services. Finally, modernize wastewater discharge standards based on international best practice.

41. In addition, this validation offers a results framework lesson and a project-level lesson:

- (i) A DMF's usefulness hinges measurable and attributable indicators to assess achievement of targets. In this program, health impact targets had no baseline within the specific project areas as a basis for accurately measuring project impacts. In addition, health impacts are likely due to a wide variety of causes and the extent to which they can be attributed to a particular project intervention is difficult to measure. A case and/or control methodology could have provided an approximation of project-specific health impacts in the absence of project-specific baseline data.

- (ii) Comprehensive stakeholder consultations during the program or project design can strengthen the feasibility and effectiveness of project results. In this program, a strong GAP was developed and implemented in all tranches through a consultative process that led to a strong, positive community and institutional outcomes.

### **C. Recommendations for Follow-Up**

42. The PCR included seven recommendations for follow up by the government. These are as follows: (i) provide high-level program oversight, (ii) provide capacity-building support to new project implementation bodies, (iii) enhance measures for ensuring financial sustainability, (iv) build the capacity of WSS utility operators and sector institutions, (v) give greater emphasis to sustaining O&M, vi) strengthen water quality monitoring and enforcement, and (vii) ensure stronger compliance with loan covenants particularly those pertaining to achieving full cost recovery. This validation considers these to be useful and appropriate recommendations.

## **V. OTHER CONSIDERATIONS AND FOLLOW-UP**

### **A. Monitoring and Reporting**

43. At the start of the program, UCSA established a project performance monitoring system to track progress against the targets in the DMF, but this monitoring system was not used to update progress on a regular basis despite repeated urgings from the ADB supervision team. This was attributed to the high staff turnover at the PCU, and the priority given to achieving physical progress in each tranche. The PCU submitted audited financial statements for each project with no material misstatements, but submissions were often delayed. ADB engaged local specialists who developed comprehensive guidelines for UCSA on maintaining appropriate accounting for loan funds. The audited financial statements for Fergana and Andijan were often late and of poor quality.

### **B. Comments on Project Completion Report Quality**

44. The PCR is assessed satisfactory. It was well prepared, clearly written, and generally consistent with ADB guidelines. The findings were consistent with those laid out in the PCRs for tranches 1, 2, and 3. Major design and implementation issues were adequately explained, and safeguards and gender aspects were well summarized. The economic and financial evaluations were comprehensive and clearly presented.

### **C. Data Sources for Validation**

45. Data sources for this validation include the PCR for the program and for tranches 1–4, the RRP, the project validation reports for tranches 1–3, loan mission reports, national and ADB strategies, and the ADB Evaluation Guidelines.

### **D. Recommendation for Independent Evaluation Department Follow-Up**

50. The sustainability of the impacts of MFF and of tranche 4 will likely be affected by the degree to which *suvokovas* are able to strengthen the O&M of the program-financed infrastructure, as well as the extent to which government follows through with its commitments on the performance-based management and benchmarking of WSS services. This validation recommends that a program impact assessment be carried out 2–3 years following program completion.