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Report No: PAD1262

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT IN THE AMOUNT OF SDR 9.6 MILLION
(US\$13.5 MILLION EQUIVALENT)

TO THE

REPUBLIC OF TAJIKISTAN

FOR A

COMMUNAL SERVICES DEVELOPMENT FUND PROJECT

February 24, 2015

Global Practice for Social Urban Rural Resilience
EUROPE AND CENTRAL ASIA

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CURRENCY EQUIVALENTS

(Exchange Rate Effective January 31, 2015)

Currency Unit = Tajikistan Somoni (TJS)

TJS5.52 = US\$1

US\$1.41 = SDR 1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

CMC	Community Management Committees
CSDF	Communal Services Development Fund
CSDFP	Communal Services Development Fund Project
DA	Designated Account
EMF	Environmental Management Framework
EMP	Environmental Management Plan
GoRT	Government of Republic of Tajikistan
GRFM	Grievance Redressal and Feedback Mechanism
IIP	Integrated Investment Plan
ICB	International Competitive Bidding
IDA	International Development Association
IGT	Intergovernmental Transfer
IIP	Integrated Investment Plan
IP	Implementation Progress
ISR	Implementation Status and Results Report
HCS	Housing and Communal Services
KMK	State Unitary Enterprise “Khojagiyi Manziliyu Kommunalii”
LGU	Local Government Units (aka municipalities)
NCB	National Competitive Bidding
MCS	Municipal and Communal Services Development Strategy
MIS	Monitoring Information System
MIDP	Municipal Infrastructure Development Project
MIDP-AF	Municipal Infrastructure Development Project Additional Financing
MOEDT	Ministry of Economic Development and Trade
MOF	Ministry of Finance
MSS	Municipal Sector Strategy
O&M	Operation and Maintenance
PDO	Project Development Objective
POM	Project Operations Manual
PMU	Project Management Unit
PRS	Poverty Reduction Strategy
RPF	Resettlement Policy Framework
RAP	Resettlement Action Plan

SOE Statement of Expenditures
SDR Special Drawing Rights
TJS Tajik Somoni
WSS Water Supply and Sanitation
SWM Solid Waste Management

Regional Vice President:	Laura Tuck
Country Director:	Saroj Kumar Jha
Senior Global Practice Director:	Ede Jorge Ijjasz-Vasquez
Acting Practice Manager:	Bernice Van Bronkhorst
Task Team Leaders:	Yarissa Lyngdoh Sommer / Soraya Goga

TAJKISTAN
COMMUNAL SERVICES DEVELOPMENT FUND PROJECT

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Map: IBRD 33493R1

PAD DATA SHEET*Tajikistan**Communal Services Development Fund (P133449)***PROJECT APPRAISAL DOCUMENT***EUROPE AND CENTRAL ASIA**0000009081*

Report No.: PAD1262

Basic Information			
Project ID P133449	EA Category B - Partial Assessment	Team Leader(s) Soraya Goga/Yarissa Lyngdoh Sommer	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints []		
	Financial Intermediaries []		
	Series of Projects []		
Project Implementation Start Date 15-Sep-2015	Project Implementation End Date 30-Aug-2019		
Expected Effectiveness Date 15-Aug-2015	Expected Closing Date 31-Dec-2019		
Joint IFC No			
Practice Manager/Manager	Senior Global Practice Director	Country Director	Regional Vice President
Bernice K. Van Bronkhorst	Ede Jorge Ijjasz-Vasquez	Saroj Kumar Jha	Laura Tuck
Borrower: Government of Tajikistan			
Responsible Agency: Khochagii Manziliu Komunali			
Contact:	Mr. Alimurod Tagoimurodov	Title:	DG
Telephone No.:	992 372 21 77 98	Email:	khmk@tojikiston.com
Project Financing Data(in USD Million)			
<input type="checkbox"/> Loan	<input checked="" type="checkbox"/> IDA Grant	<input type="checkbox"/> Guarantee	
<input type="checkbox"/> Credit	<input type="checkbox"/> Grant	<input type="checkbox"/> Other	
Total Project Cost:	13.50	Total Bank Financing:	13.50

Financing Gap:	0.00									
Financing Source								Amount		
BORROWER/RECIPIENT								0.00		
International Development Association (IDA)								13.50		
Total								13.50		
Expected Disbursements (in USD Million)										
Fiscal Year	2015	2016	2017	2018	2019	2020	2021	0000	0000	0000
Annual	0.00	0.50	3.00	4.00	4.00	2.00	0.00	0.00	0.00	0.00
Cumulative	0.00	0.50	3.50	7.50	11.50	13.50	0.00	0.00	0.00	0.00
Institutional Data										
Practice Area (Lead)										
Social, Urban, Rural and Resilience Global Practice										
Contributing Practice Areas										
Cross Cutting Areas										
[] Climate Change										
[] Fragile, Conflict & Violence										
[] Gender										
[] Jobs										
[] Public Private Partnership										
Sectors / Climate Change										
Sector (Maximum 5 and total % must equal 100)										
Major Sector	Sector						%	Adaptation Co-benefits %	Mitigation Co-benefits %	
Public Administration, Law, and Justice	Sub-national government administration						40			
Water, sanitation and flood protection	Water supply						30			
Water, sanitation and flood protection	Wastewater Collection and Transportation						15			
Water, sanitation and flood protection	Solid waste management						15			
Total						100				
<input checked="" type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.										

Themes		
Theme (Maximum 5 and total % must equal 100)		
Major theme	Theme	%
Urban development	Urban services and housing for the poor	50
Urban development	Municipal finance	50
Total		100
Proposed Development Objective(s)		
The project development objective (PDO) is to improve basic communal and municipal services in participating cities and towns.		
Components		
Component Name	Cost (USD Millions)	
Component A: Support for the Establishment of the Communal Services Development Fund and for Required Reforms	0.45	
Component B: Sub-Grants for the benefit of Local Governments and Local Utilities for Communal Services Investments	11.00	
Component C: Implementation Support, Monitoring and Evaluation	2.05	
Systematic Operations Risk- Rating Tool (SORT)		
Risk Category	Rating	
1. Political and Governance	Substantial	
2. Macroeconomic	Substantial	
3. Sector Strategies and Policies	Moderate	
4. Technical Design of Project or Program	Substantial	
5. Institutional Capacity for Implementation and Sustainability	Substantial	
6. Fiduciary	Substantial	
7. Environment and Social	Moderate	
8. Stakeholders	Substantial	
9. Other		
OVERALL	Substantial	
Compliance		
Policy		
Does the project depart from the CAS in content or in other significant respects?	Yes []	No [X]

Does the project require any waivers of Bank policies?	Yes []	No [X]
Have these been approved by Bank management?	Yes []	No []
Is approval for any policy waiver sought from the Board?	Yes []	No [X]
Explanation:		
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No []
Safeguard Policies Triggered by the Project		
	Yes	No
Environmental Assessment OP/BP 4.01	X	
Natural Habitats OP/BP 4.04		X
Forests OP/BP 4.36		X
Pest Management OP 4.09		X
Physical Cultural Resources OP/BP 4.11		X
Indigenous Peoples OP/BP 4.10		X
Involuntary Resettlement OP/BP 4.12	X	
Safety of Dams OP/BP 4.37		X
Projects on International Waterways OP/BP 7.50	X	
Projects in Disputed Areas OP/BP 7.60		X
Legal Covenants		
Name	Recurrent	Due Date
Description of Covenant		
Conditions		
Source Of Fund	Name	Type
IDA	Project Operations Manual (POM) adopted by Khochagii Manziliu Komunali (KMK)	Effectiveness
Description of Condition		
The Operational Manual has been adopted by the Recipient in a manner acceptable to the Association		
Source Of Fund	Name	Type
IDA	Project Implementation Agreement Signed	Effectiveness
Description of Condition		
The Project Implementation Agreement has been signed by parties thereto in a manner acceptable to the Association		
Source Of Fund	Name	Type

IDA	PMU Charter Amended	Effectiveness	
Description of Condition			
Recipient has amended the PMU Charter to enable the PMU to: (i) carry out the activities and tasks under the Project; and (ii) be transferred from the KMK to the CSDF upon the establishment of the CSDF;			
Source Of Fund	Name	Type	
IDA	Subsidiary Agreement	Effectiveness	
Description of Condition			
The Subsidiary Agreement has been signed by the parties thereto in a manner acceptable to the Association			
Source Of Fund	Name	Type	
IDA	Legal Opinion	Effectiveness	
Description of Condition: execution and delivery of this Agreement on behalf of the Recipient have been duly authorized or ratified by all necessary government action.			
Source Of Fund	Name	Type	
IDA	Contract for Installation of Accounting Software	Effectiveness	
Description of Condition			
The Recipient has caused the PMU to sign the contract for installation and adaptation of the 1C accounting software for Project accounting, budgeting and reporting under terms and in a manner acceptable to the Association			
Team Composition			
Bank Staff			
Name	Role	Title	Unit
Soraya Goga	Team Leader (ADM Responsible)	Lead Urban Specialist	GSURR
Yarissa Lyngdoh Sommer	Team Leader	Urban Specialist	GSURR
Dilshod Karimova	Procurement Specialist	Procurement Specialist	GGODR
Niso Bazidova	Financial Management Specialist	Financial Management Analyst	GGODR
Angela Nyawira Khaminwa	Team Member	Senior Social Development Specialist	GSURR
Arcadii Capcelea	Environmental Specialist	Senior Environmental Specialist	GENDR
Faridun Sanginov	Team Member	Consultant	GWADR
Jasna Mestnik	Team Member	Finance Officer	WFALA
Leyla Talipova	Team Member	Consultant	GWADR
Natalia Robalino	Counsel	Senior Counsel	LEGIA
Extended Team			

Name	Title	Office Phone	Location
Svetlana Sharipova	Social Development Consultant		GSURR, Washington
Navruza Aliqulova	Program Assistant		Dushanbe, Tajikistan
Lisa Fonick Haworth	Office Manager	37152	GSURR, Washington

Locations

Country	First Administrative Division	Location	Planned	Actual	Comments

Consultants (Will be disclosed in the Monthly Operational Summary)

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I. STRATEGIC CONTEXT

A. Country Context

1. With current population of above 8 million people, and a population growth of 2 percent annually, Tajikistan is one of the youngest and fastest growing countries in the region. After gaining independence in 1991, Tajikistan fell into a devastating civil war, which lasted until 1997. The country achieved stability shortly after, with initial reforms leading to sound economic growth over the last 15 years. This growth has allowed Tajikistan to achieve remarkable poverty reduction; from 81 percent in 1999 to an approximate 36 percent in 2012.¹
2. Despite the stability gains post the civil war and a per capita GNI of US\$980 in 2013, Tajikistan remains the poorest country in Europe and Central Asia (ECA), and the prospects for future growth also look bleak. GDP growth for 2015 is projected to decrease by 4.2 percent, due to the economic slowdown in Russia, where about 40 percent of the Tajikistan's working age population seeks employment. Consequently, remittances, estimated at 48 percent of GDP in 2013, are likely to drop.
3. Although Tajikistan was successful in reducing monetary poverty, there was little progress in reducing non-monetary poverty between 2007 and 2013. Recent data suggest that limited access to sewage, heating and education are the main contributors to non-monetary poverty. These three dimensions are also the most unequally distributed services, with access to sewerage and heating varying by location. Regional breakdown shows that non-monetary poverty increased in Soghd, and Regions of Republican Subordination, while in Khatlon it remained unchanged, thus indicating lack of noticeable improvement. Data comparing deprivation in the bottom 40 and top 60 percent of the population between 2007 and 2013, shows reduced coverage and increased inequality in access to sanitation.² In addition, Life in Transition Survey (LiTS) in 2010 found that access to tap water in Tajikistan was the lowest among CIS countries.³

B. Sectoral and Institutional Context

4. Addressing the needs of urban sector in Tajikistan - which consists of 74 units that are classified as urban territories, including 17 units that have a status of city and 57 units that have a status of small town (posyolok) – remains as a critical intervention in retaining economic growth and addressing the non-monetary dimension of poverty in Tajikistan.
5. Services (43 percent), industry (13 percent) and construction (10.2 percent), which are major contributors to GDP, are overwhelmingly located in urban areas. Although, historically, these areas are better serviced than rural areas, the infrastructure in urban areas inherited from the Soviet times has significantly deteriorated since the fall of the Soviet Union and it is currently estimated that approximately 80 percent of such infrastructure is in need of rehabilitation⁴. Macro estimates

¹ Poverty estimates for 1999, 2003, 2007 and 2009 are based on Living Standards Survey (LSS) and data for 2012 on Tajikistan Household Budget Survey (HBS)

² *TJ CPS FY 2015-2018* and Azevedo J.P, Atamanov A. and Rajabov A. forthcoming “Non-monetary aspects of poverty in Tajikistan in 2007 and 2013”

³ ECA Region – Life in Transition Survey 2010, After the Crisis (World Bank)

⁴ Estimates from SUE KMK.

indicate that small and medium sized cities have suffered greater deterioration of civic infrastructure than larger cities with coverage as low as 36% in some cities⁵. Weak institutional management capacity at the central and local levels coupled with vast unmet investment needs exacerbates the continued deterioration of infrastructure.

6. To address service deficiencies, during post-independence period, the GoRT experimented with both symmetric decentralization of communal service provision to the local government units (LGUs) or ‘Hukumats’ and then the concentration of these services back to the center following the failure to adequately provide them at the local level. The re-concentration mandated the responsibility of communal services delivery to a central agency, the State Unitary Enterprise (SUE) ‘Khojagii Manziliyu Kommunalni’ (KMK), through its local subsidiaries. Although the national laws passed in 2009 and 2010 supported increased decentralization, progress on this front is slow.

7. Currently, therefore, urban service delivery, asset ownership and investment responsibilities are split between KMK and local governments. KMK is mandated with management and delivery of water supply, sanitation and solid waste services, whilst local governments are charged with inner city roads management, as well as social infrastructure, such as schools and hospitals. Therefore, local utilities in each town or city have dual subordination to both the central KMK and the local self-governments. The resultant distorted lines of authority and accountability⁶; creates serious challenges for integrated investment planning at a local level.

8. The sector is also significantly underfunded. In 2011, KMK has estimated investment needs for water supply and sanitation alone at about US\$2 billion. The Government is unable to meet these needs independently either through national and local budgetary allocation or through funds collected by KMK utilities from consumers. LGs have limited fiscal autonomy, with property taxes which are collected at the central level, and with few non-tax revenue resources mandated for collection by the local governments. In addition, fiscal transfers are ad-hoc resulting in unpredictable budgetary and cash flow situation. Utility revenues cover only 70% of operational costs⁷, due to very modest levels of tariffs, poor collections, large volumes of non-revenue water and sewerage services. Consequently, borrowing capacity of these local entities is extremely poor. International Donors provide some of the required investments⁸, while domestic financial institutions are not involved in any type of financing in the sector⁹.

9. To address deficiencies in the sector, the GoRT, with the assistance of the World Bank, has prepared a Municipal and Communal Service Development Strategy (MCSDS) which is currently undergoing GoRT review for endorsement. Its vision is that the ‘*citizens of Tajikistan have access to affordable, sustainable, and quality municipal and communal services*’. Priority actions include service infrastructure rehabilitation and modernization; service delivery management

⁵ Diagnostic Assessment of Tajikistans Municipal & Communal Services Sector (26 Urban Centers), ICMA 2015

⁶ Dual subordination does not apply to several larger towns and cities including Dushanbe and Khujand municipalities have full ownership and control for provision of all municipal and communal services

⁷ Sector Diagnostic under taken for the Municipal and Communal Services Development Strategy, 2013,

⁸ The World Bank and EBRD are active in urban infrastructure while Swiss Development Cooperation (SDC), United Nations Development Program (UNDP), and Oxfam mostly focus on rural water programs.

⁹ World Bank’s Water and Sanitation Sector Note 2009

improvement and service delivery financial sustainability. Creation of a communal services development fund, a planning framework, tariff reform, and strengthening the autonomy of service provider are some of the key required reforms highlighted in the Strategy.

10. Municipal Development Funds have had some success internationally in mobilizing both national and international financing and have also proved effective at ensuring a platform that can also co-ordinate disparate international donor investments¹⁰. The Government is committed to donor co-ordination through establishing a single rules based framework for such financing and key donors in the sector, including the World Bank, EBRD, USAID, SIDA and SECO have expressed their support for harmonized investments. Grants and loans from Municipal Funds have also been effective at providing incentives for improving municipal services at the local level. However, the success of such Funds also require reforms that would address the autonomy (including financial autonomy of local governments) through improvements in their own source revenue, and access to regular transfers through a rule based intergovernmental fiscal transfer system. This would allow them to borrow and repay debt from their own revenue streams (including the Intergovernmental Transfer - IGT), thus ensuring the sector's sustainability.

11. The GoRT through the Ministry of Economic Development and Trade (MOEDT), and SUE KMK, had requested World Bank assistance in developing a Municipal and Communal Services Strategy, under which one of the recommendations is to establish a Communal Services Development Fund¹¹ (CSDF). The CSDF is envisioned as an effective mechanism of mobilizing national and international financial resources for infrastructure investment at the local level; and in implementing national and local level reforms to support more efficient financing and delivery of communal services. The establishment of the CSDF was endorsed at a Working Group meeting, attended by key Ministries and Agencies, held on December 10, 2014.¹² The World Bank is well placed for such assistance. It has already provided financing for four operations aimed to assist in the delivery of urban services, including two ongoing projects (the Second Dushanbe Water Supply Project and the Additional Financing for Municipal Infrastructure Development Project). In addition, the Bank has significant experience in assisting national governments in reforming local government institutions, including setting up the financing mechanisms for infrastructure development. Some examples include the Bank supported operations in Bangladesh, Georgia, India, Jordan etc.

C. Higher Level Objectives to which the Project Contributes

12. The proposed Communal Services Development Fund (CSDF) project supports the second pillar of the Country Partnership Strategy which seeks to address extreme poverty and promote shared prosperity by improving delivery of social services that expand opportunities for excluded and vulnerable groups.

¹⁰ Such as the MDLF in Palestine, the CVDB in Jordan, MDF in Georgia, BMDF in Bangladesh, Iller Bank in Turkey, INCA in South Africa, TNUDF in Tamil Nadu, India

¹¹ CSDF is identified in the Draft Strategy as priority action for the rehabilitation and modernization of infrastructure

¹² GoRT representatives at the Working Group Session included Deputy Ministerial and Management levels from Ministries of Finance, Economic Development and Trade, Justice, Executive Office of the President, State Committee on Investments and State Property Management, and SUE "KMK"

13. It also supports the GoRT's ambitious goals for 2020: to double GDP, to reduce poverty to 20 percent, and to expand the middle class. Provision of improved basic municipal and communal services will positively impact nutrition and health outcomes, reduce mortality rates and will also positively impact the lives of women and girls who assume the primary burden of fetching, storing and managing water for household use. Moreover, over the mid to long term period, activities under the Project as well as the design of the Fund itself, can be further tailored to include a greater array of urban and municipal services that require investments, so as to reduce the level of non-monetary poverty in the country.

II. PROJECT DEVELOPMENT OBJECTIVES

A. Project Development Objectives

14. The proposed project development objective (PDO) is to improve basic communal and municipal services in participating cities and towns.

B. Project Beneficiaries

15. The primary project beneficiaries will be the inhabitants of participating cities and towns. The project is demand based so primary project beneficiaries have not been identified in advance. Direct beneficiaries are participating local governments and municipalities and communal service providers/utilities that will qualify for financing and technical assistance under CSDFP.

C. PDO Level Results Indicators

16. The PDO will be measured by the following main indicators:
- Number of local governments and local utilities that have improved their performance results (measured as achieving one the following: i) increase in billing and collections; ii) formulation of local level Integrated Investment Plans (IIPs); and (iii) improvements in financial management and procurement capacity.
 - Number of people in urban areas provided with access to Improved Water Sources under the project, gender disaggregated; (Core)
 - Number of people in urban areas provided with access to Improved Sanitation under the project, gender disaggregated; (Core)
 - Number of people in urban areas provided with access to regular solid waste collection under the project, gender disaggregated; (Core)

III. PROJECT DESCRIPTION

17. The project will assist the Government of Tajikistan in establishing a Communal Services Development Fund (CSDF). It is expected that the CSDF would initially operate only as a results-based grant facility and during that time it would use a rule based mechanism to allocate grants to eligible cities and towns; thus simulating a proxy for a rule based intergovernmental transfer that could then be adopted by the Government of Tajikistan. The results based grant will provide an incentive to local government and municipalities to improve their ability to plan for capital

investments, their efficiency in operations and their financial status. It is expected that the CSDF would, in the long term, be transformed into a capital debt facility (5-10 years).

18. The Project would also provide financing for the results based grants to local utilities and local governments for basic infrastructure sub-projects. Finally, it would provide assistance to a) local governments and local utilities to enable them to achieve expected results (improved ability to plan for capital investments, operational efficiency and financial position; and b) national government entities to assist them in undertaking required reforms in the sector.

A. Project Components

Component A: Support for the Establishment of the Communal Services Development Fund and for Required Reforms (IDA Financing USD 0.45 million)

19. *Sub-Component A1: Support for Establishment of the CSDF (IDA Financing USD 0.25million):* The sub-component will finance procurement of consultant services and goods (such as office equipment, computers etc.) to support activities required for the establishment of the Communal Services Development Fund (CSDF). Anticipated activities to be performed by a consulting firm hired for this sub-component include assistance to the Government for determining a) the structure and institutional arrangements for CSDF; b) grant financing policy; c) loan financing policy; d) fund capitalization strategy; e) operational policies and procedures (including appraisal, financial management, procurement, audit, environment and social, monitoring and evaluation, disbursement); f) human resource policies and staffing plan; g) finalization of an operational manual which would incorporate all of the above.

20. The World Bank will consider the fund as ‘established’ when the following conditions are met: a) decree establishing CSDF is passed by the GoRT; b) CSDF Supervisory Structure, as per the decree, is established; c) the established Supervisory Structure has approved all appropriate policies and procedure as described in the preceding paragraph (apart from loan policy); d) required staff including for management, appraisal, procurement, audit, disbursement, safeguards etc. are in place, as per approved staffing plan; e) operational manual for CSDF is adopted. The World Bank will conduct an assessment of the Fund, once established, to determine that the Bank is satisfied with its establishment. Only thereafter would the CSDF be eligible to manage any World Bank financing.

21. *Subcomponent A2: Technical Assistance to the National Government (IDA Financing USD \$0.20million) :* This sub-component will finance assistance to national government entities in undertaking reforms identified in the Municipal and Communal Services Development Strategy (MCSDS), and in the Government’s Decree on Concept of Housing and Communal Services Sector Reform (2010-2015)¹³. The Sub-component will also support feasibility studies for Solid Waste Management investments

¹³ Government Decree titled “Concept of Housing and Communal Services Sector Reform (2010-2015)

Component B: Sub-Grants for the benefit of Local Governments and Local Utilities for Communal Services Investments (IDA Financing USD 11.00 million)

22. The component will provide financing in the form of results based grants for investments for local government and utilities in participating cities and towns both prior and after the set-up of CSDF. It will also provide assistance to the participating cities and towns in developing feasibility studies for investments and in improving their results, as per the terms of the grant. The component will finance procurement of goods, works and services and will consist of two sub-components.

23. Proposed participating cities and towns (i.e. eligible participating entities) for the World Bank financing include the 6 cities shortlisted from an original 17 defined as ‘cities’ by TajStats in their Annual demographics report for 2013, excluding Dushanbe, Khujand, Nurek and Rogun due to their size and two additional cities based on GoRT priorities. The 8 eligible cities, which include Chkalovsk, Gissar, Kanibadam, Kurgan-Tube, Sarband, Dangara, Vose, and Fakhor, have been identified based on each utilities’ financial standing and indicated Government priorities. Physical Investments will be limited to Gissar, Kanibadam, Sarband, Dangara, Vose, and Fakhor. Chkalovsk, and Kurgan-Tube will benefit from non-civil works and procurement of goods for utilities.

24. Eligible sectors would comprise communal and municipal services including water supply and sanitation, solid waste management, local roads, street lighting and storm water drainage. However, with regards to water supply, the project will only support the rehabilitation, improvement or minor additions/expansions of the existing networks in the participating towns and cities. In addition, any new small scale water supply networks that may draw water from an ‘international waterway’ will not be eligible for the project financing.

25. *Sub-Component B1: Sub-Grants for the benefit of Local Governments and Local Utilities (IDA Financing USD\$8.80 million).* Grants will be financed both prior to and after the set-up of the CSDF. Prior to CSDF set up, allocation will be determined through a¹⁴ results-based Grant allocation for each city and town determined on the following proposed interim formula: Population (40%) + Water and Sanitation and Solid Waste Management Service Coverage (60%). To access financing, a city/town would have to present an Integrated Investment Plan (IIP) that identifies priority investments and that is jointly agreed between the local utilities and the Local Government and acceptable to KMK and the City Administration. For year 1 investments, the cities and towns will have to present the IIP within 6 months of project effectiveness in order to access any additional grants. Civil works on proposed sub-projects may not start until appropriate safeguards documents have been prepared. Based on the choice of the sub-project financed by the results based grant, a series of results will be agreed with the local government and the utility (as per Subcomponent B3). Subsequent to the set-up of the CSDF, its grant financing policy will be followed, provided it is satisfactory to the World Bank.

26. *Sub-Component B2: Institutional Strengthening Support to Cities and Towns in Achieving Results as Stipulated by the Results Based Grant (under Sub-Component B1) (IDA Financing USD \$2.20 million).* Assistance will be provided to the targeted cities and town to achieve results as

¹⁴ Note that grants will be continued to be allocated in accordance with this formula and sub-projects will continue to be implemented until such time that the CSDF is set up. CSDF set up is expected to take 12-18 months.

stipulated by the Results-Based grant. As described above, expected results under each of the grants would be tailored for each participating city/town and its local government and its local utilities based on the chosen sub-project to be financed under the grant. However, there will be a basic menu of the expected results. Expected results will include a) development of an integrated investment plan; b) improved financial management through improved billings and collections, asset management and strengthened internal controls; c) improving efficiency of local utilities through improved billing and collection, metering, pumping efficiencies etc.; d) improved citizens engagement in management and maintenance of investments; e) training and capacity building for improved capacity to manage infrastructure.

Component C: Implementation Support, Monitoring and Evaluation (IDA Financing USD 2.05 million)

27. The Component will finance project management costs for the Project Management Unit and the Communal Services Development Fund (CSDF) once it is established. In particular, the component will finance a) *operating costs of the Project Management Unit (PMU)*, including salaries both of current and planned staff, in-country travel costs, relevant social tax contributions, consumables, communications, trainings, vehicle insurance and maintenance, as well as rehabilitation of office equipment, and furniture; b) *audits* including annual financial as well as two technical audits of sub-project design and implementation standards including environmental and social safeguards. c) *hiring of qualified design and engineering experts, as needed, to secure additional support in successful project implementation.* d) *communication and public awareness campaigns* in all project participating towns.

28. Upon establishment of the CSDF to the satisfaction of the World Bank the operating costs shall be transferred accordingly to support the Fund’s management. The PMU of the on-going Bank funded Municipal Infrastructure Development Project Additional Financing scheduled to close on August 3, 2014 will be retained as the PMU for CSDFP. This will require an amendment of its existing Charter.

B. Project Financing

The proposed financial instrument for the project is Investment Project Financing.

C. Project Cost and Financing

The project cost and financing is presented in the table below.

Project Cost and Financing			
Project Components	Project cost (USD)	IDA Financing (USD)	% Financing
Component A: Support for Establishment of CSDFP and Required Reforms	450,000.00	450,000.00	100%
Component B: Sub-grants for the benefit of Local Governments and Local Utility Enterprises	11,000,000.00	11,000,000.00	100%

Component C: Implementation Support, Monitoring and Evaluation	2,050,000.00	2,050,000.00	100%
Total Project Costs	13,500,000.00	13,500,000.00	100%
Total Financing Required	13,500,000.00	13,500,000.00	100%

29. **Co-financing Parameters.** The Ministry of Finance (MOF) confirmed that it would not provide counterpart financing for the proposed CSDFP. The MOF however confirmed that the cost of the CSDFP will be exempt of value added tax (VAT) and customs fees and taxes by the GoRT for goods and material purchased outside Tajikistan.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

30. The CSDFP project will be implemented over four years. The State Unitary Enterprise “Khojagii Manziliu Kommunalii” (KMK) will act as the Project Implementing Agency, and will mandate a Project Management Unit (PMU) for the Project. Prior to the establishment of CSDF, the existing PMU that was established for the management of MIDP and the on-going MIDP AF will be the mandated as PMU for CSDFP.

31. The PMU is headed by a Director who manages staff responsible for procurement, disbursement, financial management, technical supervision and monitoring and evaluation. A Consultant will also be hired to support the PMU as needed in the course of the project’s implementation. The PMU charter will be amended to include activities under CSDFP under its responsibility. In addition, the Project Implementation Agreement between KMK and PMU will be amended.

32. Fiduciary functions including procurement will be performed by the PMU mandated under the State Unitary Enterprise “Khojagii Manziliu Kommunalii” (KMK) for implementation of the CSDFP. This arrangement will continue during the transition period until CSDF is established. With the establishment of the CSDF to the satisfaction of the World Bank, fiduciary functions will be transferred to the CSDF.

33. The World Bank has conducted a procurement capacity assessment of the PMU. A procurement capacity assessment of the CSDF will be conducted for implementation of procurement activities once it is established. The sub-projects under Grants and Loans for Municipal and Communal Services Investments (Component B) shall follow the Bank Procurement and Consultant Guidelines. An initial procurement plan (for other than Component B) has been developed by the PMU and was reviewed and approved by the World Bank on January 30, 2015 and will be published on the World Bank’s website as per World Bank requirements. The procurement for the sub-projects will be managed by the PMU with gradual transfer of

procurement responsibilities to local government and utilities. Depending on procurement capacity and meeting minimum requirements, LGUs and utilities will undertake procurement following a shopping procedure. Further, procurement arrangements for sub-projects will be detailed in the Project Operation Manual. A procurement plan will be updated from time to time or at least once a year, and each update will be subject to the World Bank's prior review and will be published on the Bank's external website.

34. The financial management responsibilities for the CSDFP would remain with the PMU, which currently implements the MIDP AF. The PMU has gained the required capacity in implementing donor funded projects. The PMU is adequately staffed and appropriate controls and procedures have been instituted. The financial management arrangements for the CSDFP including accounting and reporting arrangements, internal control procedures, planning and budgeting, external audits, funds flow, organization and staffing arrangements are assessed as moderately satisfactory.

B. Results Monitoring and Evaluation

35. Continuous Monitoring and Evaluation (M&E) of CSDFP implementation will be conducted initially by the PMU and later by the CSDF (once established). The PMU will monitor progress in the development of institutional capacity of local governments and local utilities. The results of M&E activities will be reflected in quarterly and annual progress reports prepared by the PMU and submitted to the Bank. The report for the fourth quarter of each year will be prepared in the form of an annual report. A Mid-Term Review (MTR) of the project will be conducted by the Bank no later than July 2017 or two years after commencement of CSDF implementation. The MTR will include the results of the first of two technical audits. The second technical audit report will be conducted in year 4 of the project and results will be included in the year 4 annual progress report.

C. Sustainability

36. The project's results based grant encourages long-term performance improvements in key areas of financial management, planning, public participation and efficiency. The focus on financial management (improving accounting systems, updating consumer database and billing and collections) creates a system that ensures long term fiduciary and accountability improvements beyond the scope of the project. Improvements in community participation and citizen engagement through the management and maintenance of newly constructed Sanitation Zones systemically strengthen the relationship between the local entities and its citizens and these effects are expected to continue beyond the life of the project.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

37. The overall Project risk is rated as substantial, given the governance risks, looming macroeconomic strains, existing institutional capacity limitations in the sector, and some potential stakeholder risks.

38. Macroeconomic risks are substantial and include possible external shocks, slippages in macroeconomic management, stalled structural reforms, and poor governance especially in the financial sector. The country's economy remains dependent on remittances, and has a narrow export base, a high dependence on concessional financing, and large infrastructure needs (including in the social sectors). This makes the country extremely vulnerable to external shocks, whilst the ability to dampen the shocks is limited due to low external and fiscal buffers but, more importantly, due to weak institutions and governance issues. The macro-situation might further be exacerbated by a recession in Russia, with spillover effects on Tajikistan's growth prospects in 2015. The expected sharp fall in remittances may lead to a disruption in economic activities thus negatively impacting growth, employment, and poverty incidence. Tajikistan's growth is projected to decelerate from 7.4 percent in 2013 to an estimated 4.2 percent in 2015. Given the effects of a looming recession in Russia on Tajikistan's economy, implementation of CSDFP becomes quite timely in light of the project's social focus of improving basic services for the residents of target towns, which will be achieved by way of implementation of service infrastructure rehabilitation and service provision improvements. In parallel to assisting the GoRT in achieving better basic social services provision, implementation of CSDFP will also provide partial temporary employment for the residents of target towns as part of civil works, thus mitigating some of the negative macro effects.

39. Project design risk is rated as substantial due to the establishment of the Fund. This risk is mitigated by ensuring that the establishment of the CSDF is gradual, starting with a simple results based grant fund. In addition, identification and implementation of investments for infrastructure sub-projects will continue even prior to the CSDF set-up and evaluation and appraisal of sub-projects financed by the sub-grant will be carried out by an experienced PMU.

40. Institutional capacity for implementation and sustainability is substantial. The Project will work with local governments and utilities that have poor capacity for implementation and experience considerable fiscal constraints. This risk is mitigated through the use of an experienced PMU. The project also aims at improving the financial position of the local entities.

VI. APPRAISAL SUMMARY

A. Economic and Financial (if applicable) Analysis

41. Under CSDFP, the identification and prioritization of sub-projects will be made by each participating local governments and utilities on a demand-driven basis, reflecting its respective priorities. The economic and financial benefits of the sub-projects cannot therefore be measured *ex-ante*. Economic analysis will be conducted on the chosen subprojects (including roads rehabilitation, construction equipment, street lighting, public buildings, public parks, water and sewers) will be evaluated based on methodologies detailed in the draft guidelines that have been developed for the project.

42. The guidelines provide the methodology for estimating economic costs and benefits. The net incremental economic costs and benefits of the proposed sub-projects will be assessed by constructing "with" and "without" sub-project scenarios. The cash flows will be discounted using

the appropriate opportunity cost of capital in Tajikistan. The analysis will include calculation of the Net Present Value (NPV) and the Economic Rate of Return (ERR). Finally, sensitivity analyses by testing a number of scenarios will be conducted to assess the impact of changes in critical assumptions on the economic viability of the sub-project. The guideline also indicates the data sources for the analysis, including "Willingness to Pay" surveys that need to be conducted in the case of utility investments.

B. Technical

43. A draft decree establishing CSDF is currently under review by the Government. Once accepted, the Government will, thereafter, start the development of a CSDF Charter. Establishment of the Fund is expected to occur under project implementation.

44. Although the investment sub-project would be identified on a demand driven basis, some initial investments have already been identified. In addition, the PMU has been assessed as adequate in managing sub-project investments. Finally, all assistance packages (under Sub-component B2) at the local level have been piloted under the ongoing MIDP-AF, apart from the IIP.

C. Financial Management

45. *Financial Management and Disbursement.* The financial management responsibilities for the CSDFP would remain with the PMU which currently implements the AF MIDP. The PMU has gained the required capacity to implement World Bank and other donor funded projects. The PMU is adequately staffed, and appropriate controls and procedures have been instituted. The PMU submits quarterly Interim Financial Reports (IFRs) on time.

46. For implementation of the CSDFP the PMU has to sign a contract for installation and adaptation of the 1C accounting software for project accounting, budgeting and reporting; and update the financial management chapter of the Operational Manual prior to effectiveness.

47. The MIDP-AF audit for CY2013 was conducted in May –June 2014, and an unmodified (clean) audit report for the project financial statements (PFS) was submitted on time in June, 2014 and was assessed as acceptable to the Bank. The Entity audit report for CY 2013 was received with some delays in October 2014; the auditors rendered a disclaimer of opinion on the company's financial statements as they were unable to obtain sufficient appropriate audit evidence to provide a basis for their opinion. This will not directly affect the existing implementation arrangements for the proposed CSDFP since the PMU was established as a standalone entity.

48. The PMU is recommended to open the Designated Account (DA) in a commercial bank acceptable to the World Bank for the portion of grant funds allocated to it. Payments in local currency (Somon) will be made through the commercial banking system. The ceiling for the Designated Account and other disbursement details will be provided in the Disbursement Letters.

49. The PMU will submit quarterly interim un-audited financial reports (IFRs) that will be generated by the respective accounting software based on formats agreed with the World Bank. The reports, to include Statement of Sources and Uses of Funds, Uses of Funds by Project activities

(Components & Expenditure Categories) and Statement of DA, will be submitted to the World Bank within 45 days of the end of each quarter, with the first reports under the proposed Project being submitted after the end of the first full quarter following initial disbursement.

50. The PMU will submit the annual audited project financial statements within six months of the end of each fiscal year of the Client or within six months of the end of the disbursement deadline date. Each such audit will include the project financial statements, statement of expenditures (SOEs) and DA Statement. The cost of the audit will be financed from the project funds. Following the Bank's formal receipt of the audited financial statements from the PMU, the Bank will make them available to the public in accordance with the Bank's Access to Information (AI) Policy through its website. In addition, the PIG will publish the audit reports in a manner acceptable to the Bank.

51. The proposed CSDFP will use the same disbursement mechanism as the MIDP-AF. Disbursements for all components will follow the transaction-based method, including Advance and Replenishments to the Designated Account; Reimbursements with full documentation; (SOE); Direct Payments and Special Commitments. The PMU would open a Designated Account in USD for administering the CSDFP in a commercial bank acceptable to the World Bank. The ceiling for the Designated Account and other disbursement details will be provided in the Disbursement Letter.

D. Procurement

52. Fiduciary functions, including procurement, will be performed by the PMU established under KMK for implementation of the MIDP and MIDP-AF. The Bank has conducted a procurement capacity assessment of the PMU and the risks are: involvement of SCISPM in bid opening and review of evaluation reports and associated potential delays; lack of resources for extensive supervision of scattered civil works; contract administration procedures inadequate to ensure efficient and timely contract implementation; limited procurement experience and lack of knowledge of international bidding/hiring process of LGUs and utilities receiving grants. The following risk mitigation measures were agreed: procurement plan should be based on the timeline for bidding process agreed by the World Bank and SCISPM; procurement progress should be monitored against the detailed procurement plan; hiring of Third Party QA/QC Consultant; establishment of contract management system; procurement capacity building at local level; detailed instruction on competitive procurement methods in the OM for CSDF.

53. This procurement arrangement will continue during the transition period until the CSDF is established. Once CSDF is established, the Bank will conduct procurement capacity assessment. If the assessment is satisfactory, then the procurement function will be transferred to the CSDF.

54. An initial procurement plan has been developed by the PMU for the first 18 months and agreed upon by the Bank. Thereafter, the procurement plan will be updated from time to time or at least once a year and each update will be subject to the Bank's prior review. The initial procurement plan and subsequent updates will be published on the Bank's external website in line with Bank's requirements.

E. Social (including Safeguards)

55. The CSDF project is expected to have a range of positive social impacts from the improved municipal service delivery and community infrastructure, such as sanitation facilities, schools, roads and hospitals. The project's gender impacts are particularly notable, given that sub-project activities will likely reduce the burden of fetching, storing and managing water for household use - a laborious and routine household duty traditionally assumed by women and especially girls. The Project's limited negative impacts are primarily related to potential for land acquisition and/or resettlement associated with construction and networks rehabilitation works.

56. CSDFP is also expected to directly create approximately 1000 jobs during the life of the Project. The calculations are based on results under MIDP-AF. Under that project, a total of 179 people in the towns of Farkhor (129) and Vose (50) were employed through civil works contracts, community mobilization and administration of surveys between August 2012 – December 2014. 50% of the community mobilizers hired under MIDP-AF were women. An additional 70 people are expected to be employed by the project closing date in August 2015. The number of local people that would be employed is expected to increase by 3 folds across the 8 beneficiary cities and towns under the CSDFP.

57. The CSDF project triggers Involuntary Resettlement policy OP 4.12 to mitigate potential land acquisition and/or resettlement impacts from sub-project activities. It is expected that most of the sub-projects will involve only strengthening and rehabilitation of existing facilities/networks with limited potential for physical resettlement. However, given that the detailed design for sub-projects are not known at this stage and the typical construction and networks rehabilitation works for sub-project, such as pumping stations, treatment plants, landfills etc., would require additional land or could restrict access to assets, the GoRT has prepared a Resettlement Policy Framework (RPF) for CSDFP. The project RPF was disclosed on January 13, 2015 in Tajikistan in Russian and Tajik languages and public consultations were held on January 28, 2015 in Vose and Kulyab. The consultations were attended by both male and female community residents. While questions regarding project activities were raised no feedback on the RPF was documented. Site specific Resettlement Action Plans (RAPs) will be prepared for each sub-project activity necessitating land acquisition and/or resettlement.

58. The project will continue to use community monitoring tools that were piloted under MIDP and MIDP-AF—local associations referred to as Community Management Committees (CMCs). The role of the CMCs will be strengthened, through training, to provide a citizen platform to participate in the decision-making and the oversight of the newly built or rehabilitated facilities. Anecdotal evidence points to the dominance of women in the CMCs, reflecting their role in managing water. It is expected, that under CSDFP, women will continue to actively engage in monitoring the sub-projects and the PMU will maintain gender-disaggregated data on participation.

59. Local women's association's groups and non-governmental associations are also expected to be both participants and the contributors to the project's public awareness efforts, especially for such issues as water conservation, capacity- building efforts in the solid waste disposal and the metering programs. The project expects to integrate citizen feedback from CMC as part of the larger Grievance Redress and Feedback Mechanism (GRFM) developed for the project.

60. *Grievance Redressal and Feedback Mechanism:* CSDFP will adopt and formalize the existing grievance redressal mechanism currently being implemented in the PMU under the ongoing MIDP-AF. The existing system will be scaled up whereby grievances can be submitted to the PMU Director either directly by beneficiaries or through the two local community mobilizers (one male and one female) that will be hired in each participating city. In addition, a community development specialist local consultant will be hired in the PMU to manage citizen engagement and community participation initiatives along the lines implemented under MIDP-AF. GRFM will be detailed in the Project Operational Manual.

61. The project will explore opportunities to increase the involvement of civil society and local NGOs participation in implementing M&E, for example as third party monitoring agents. In particular, the PMU will be encouraged to disseminate information on opportunities for conducting HH survey contracts among a wide range of stakeholders so that local civil society organizations and NGOs can bid following Bank procurement rules. Furthermore, the project will make best efforts to explore training opportunities that can be provided to local NGOs working in the sector to enhance their capacity to bid successfully for such contracts under the project.

F. Environment (including Safeguards)

62. The project will support various communal services sub-projects (water supply, sanitation, domestic wastewater/sewage, drainage/storm water, solid waste management, roads and terminals, community infrastructure and electrification) which might generate, along with a series of environmental and social benefits, adverse environmental impacts as follows: (a) air pollution; (b) health and safety impacts; (c) groundwater and surface water contamination; (d) changes in hydrology/drainage due to laying of water or sewage pipelines; (e) solid waste generation arising out of construction/rehabilitation of infrastructure. Impacts will be largely site specific and temporary by nature and can be mitigated and managed through good projects design and implementation practices. Taking this into consideration these impacts, in accordance with the Bank's safeguard policies the project is classified as Category B.

63. The project triggers OP 4.01 on Environmental Assessment (EA) as it will generate some environmental and social impacts. However, sub-project investments have not been identified prior to appraisal. Consequently, to address potential impacts the borrower has prepared an Environmental Management Framework (EMF) which outlines: the project background/context; the EA policy and regulatory framework; description of the environmental impacts and mitigation measures of possible CSDFP sub-projects; EA procedures and guidelines; institutional arrangements, and requirements for EA reports consultation and disclosure. The EMF also provides details on responsibilities for sub-project environmental screening, conducting Environmental Impact Assessment (EIA) and/or designing simple Environmental Management Plans (EMPs), their review, approval, implementing and monitoring. The EMF specifies also the guidelines for preparing in the case of small-scale construction sub-projects the EMP checklist. Under institutional arrangements, the EMF proposes a series of EA training and capacity building activities for sub-project beneficiaries and contractors which will be implemented by a local consultant before the civil works will start.

64. All sub-projects to be supported by the CSDFP will be subject to environmental screening as per criteria laid down in the EMF. The EMF specifies the sub-projects which may cause significant impacts which require a full EIA (Category A projects), will be not financed under the Project. Also the sub-projects located in protected areas, critical habitats or culturally or socially sensitive areas, will be excluded from the Project financing. It is expected most of the subprojects proposed for financing will fall under Category B and will require a simple EIA and/or preparation of a simple EMP. It is also expected that many subprojects will have insignificant impacts and will fall under Category C which does not require further EA activities. The EMF was disclosed on 30 December, 2014 and public consultations were held on 20 January, 2015.

G. Other Safeguards Policies Triggered

65. The project triggers OP 7.50 on International Waters, because some water supply subprojects are likely to be on international rivers or their catchment areas. However, the project will only support the rehabilitation, improvement or minor additions or expansions of existing schemes in participating towns and cities. In addition, any new small scale water supply schemes that may draw water from an ‘international waterway’ will not be eligible for financing. Consequently, an exception to the external notification requirements of OP 7.50, set forth in paragraph 7(a) for the CSDFP has been approved by the ECA Regional Vice President on January 14, 2015 (Management memorandum is available in Project Files).

Annex 1: Results Framework and Monitoring

Country: Tajikistan

Project Name: Communal Services Development Fund (P133449)

Results Framework

Project Development Objectives

PDO Statement:

The proposed project development objective (PDO) is to improve basic communal and municipal services in participating cities and towns.

These results are at | Project Level

Project Development Objective Indicators

Indicator Name	Baseline	Cumulative Target Values										
		YR1	YR2	YR3	YR4	YR5	YR6	YR7	YR8	YR9	End Target	
Number of local governments and local utilities that have improved their performance results. (Number)	0.00	3.00	8.00	8.00	8.00							8.00
Number of people in urban areas provided with access to	0.00	0.00	4045.00	16180.00	28315.00							40450.00

Improved Water Sources under the project (Number) - (Core)											
of which female (Percentage - Sub-Type: Supplemental)	0.00	0.00	55.00	55.00	55.00						55.00
Number of people in urban areas provided with access to regular solid waste collection under the project (Number) - (Core)	0.00	13660.00	27320.00	40980.00	54640.00						68300.00
of which female (Percentage - Sub-Type: Supplemental)	0.00	55.00	55.00	55.00	55.00						55.00
Number of people in urban areas provided with access to Improved Sanitation under the project (Number) - (Core)	0.00	693.00	3989.00	7285.00	10581.00						13877.00
of which female	0.00	55.00	55.00	55.00	55.00						55.00

(Percentage - Sub-Type: Supplemental)											
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Intermediate Results Indicators

Indicator Name	Baseline	Cumulative Target Values									
		YR1	YR2	YR3	YR4	YR5	YR6	YR7	YR8	YR9	End Target
Direct project beneficiaries (Number) - (Core)	0.00	13700.00	22947.00	49894.00	75841.00						103790.00
Female beneficiaries (Percentage - Sub-Type: Supplemental) - (Core)	0.00	55.00	55.00	55.00	55.00						55.00
Number of municipalities and utilities that have met their results plan, as per the stipulations of the results grant. (Number)	0.00	0.00	3.00	5.00	8.00						8.00
Improvement in Billing and Collections rates of participating water utilities (Percentage)	0.00	30.00	30.00	40.00	50.00						50.00

Number of urban centers having Integrated Investment Plans (IIPs) (Number)	0.00	4.00	6.00	8.00	8.00						8.00
Number of Local Government Units with improved FM and Procurement (including accounting, internal controls and auditing) (Number)	0.00	0.00	4.00	6.00	8.00						8.00
Citizens and/or communities involved in planning/implementation/evaluation of development programs (Yes/No)	No	Yes	Yes	Yes	Yes						Yes
Intended beneficiaries aware of project info. and project investments (%) (Percentage) - (Core)	0.00	35.00	55.00	70.00	85.00						85.00

Intended beneficiaries aware of project info. and project investments - female (Number - Sub-Type: Supplemental) - (Core)	0.00	9704.00	19408.00	29112.00	38816.00						48522.00
Intended beneficiaries aware of project info. and project investments – male (Number - Sub-Type: Supplemental) - (Core)	0.00	3175.00	12305.00	21435.00	30565.00						39699.00
Intended beneficiaries - female (number) (Number - Sub-Type: Supplemental) - (Core)	0.00	7535.00	12621.00	27442.00	41713.00						57085.00
Intended beneficiaries - male (number) (Number - Sub-Type: Supplemental) - (Core)	0.00	6165.00	10326.00	22452.00	34128.00						46705.00

Establishment of the Communal Services Development Fund (Yes/No)	No	No	No	Yes	Yes							Yes
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Annex 2: Detailed Project Description

TAJIKISTAN: Communal Services Development Fund Project

1. The PDO of the proposed project is to improve basic communal and municipal services in participating cities and towns. This will be achieved through i) assistance in establishment of a Communal Services Development Fund (CSDF); ii) financing grants aimed at developing communal services and municipal infrastructure; and iii) enhancing the institutional capacity of local governments and local utilities.

2. Consequently, the Project will assist the GoRT in establishing the Communal Services Development Fund, initially as a results based grant facility, but with the ultimate objective that it would transform into a capital debt facility in approximately 5-10 years. It would also provide 'seed' money for investment grants to utilities and local governments for basic infrastructure sub-projects. Finally, it would provide assistance to a) local governments and local utilities to allow them to achieve expected results and move them further along the spectrum towards a point where they could possibly access loan financing; and b) national government entities to assist them in undertaking required reforms.

Project Components

Component A: Support for the Establishment of the Communal Services Development Fund and for Required Reforms (IDA Financing USD 0.45 million)

Sub-Component A1: Support for Establishment of the CSDF (IDA Financing USD 0.25 million)

3. The Component will finance procurement of consultant services and goods (such as office equipment, computers etc.) to support activities required for the establishment of the Communal Services Development Fund (CSDF).

4. The CSDF would initially be set up as a results based grant facility (RBGF) focused on capital investments (1-3 years). However, it would also have an Institutional Development Window that supports local government and utilities achieve expected results outlined as part of the results based grant. Deepening of institutional reforms could allow for the evolution of CSDF over the medium term (3-5 years) into a limited liability debt facility that finances infrastructure based on integrated city level priorities. At that point, the CSDF would consist of a Capital Grant facility governed on the basis of a grant policy and guidelines and an Institutional Development facility governed by policies and procedures described in the operations manual.

5. The rationale for the phased approach is that several reforms are required in order for the Capital-Debt Facility to be viable. These include decentralization reforms, (including an inter-governmental fiscal transfer system) and building financial and technical viability capacities and revenues streams for the eligible local utilities and local government.

6. Anticipated activities to be performed by consultants firm hired for this sub-component include assistance to the Government for determining:

- a. the structure and institutional arrangements for the CSDF initially as a RBGF and then, possibly, as a capital grant facility. A draft decree on the creation of the CSDF. During the project, the GoRT will be assisted in determining and implementing the management structure for the Fund;
- b. grant financing policy. An initial decision has been taken that the Fund will be initially established as a results based fund and draft indicative performance measures and results have been developed¹⁵. During the Project, the GoRT will be assisted in finalizing the performance measures and results and formulating these into an appropriate grant financing policy;
- c. fund capitalization strategy;
- d. loans financing policy;
- e. operational policies and procedures (including appraisal, financial management, procurement, audit, environment and social, monitoring and evaluation, disbursement). Appraisal procedures have been developed in draft. The project will support the GoRT in developing additional operational procedures which would be acceptable to International Financing Institutions;
- f. human resource policies and staffing plan;
- g. finalization of the an operational manual which would incorporate all of the above.

7. The World Bank will consider the fund as ‘established’ when the following conditions are met:

- a. decree establishing CSDF is passed by the Government;
- b. CSDF Supervisory Structure as per the decree is established;
- c. the established Supervisory Structure has approved all appropriate policies and procedure as described in the preceding paragraph (apart from loan policy);
- d. required staff including for management, appraisal, procurement, audit, disbursement, safeguards etc. are in place, as per approved staffing plan;
- e. operational manual for CSDF is adopted by the Government.

8. The World Bank will conduct an assessment of the Fund, once established, to determine that the Bank is satisfied with its establishment. Only thereafter would the CSDF manage any World Bank financing.

9. *Subcomponent A2: Technical Assistance to the National Government (IDA Financing USD \$0.20 million):* This sub-component will finance assistance to the national government entities in undertaking reforms including those in strengthening the fiscal transfer system and the performance of the national utility, which are required for the sustainability of the CSDF. The functional fragmentation at the local level between local utilities companies (KMK subsidiaries)

¹⁵ CSDF Inception Report, 2014. P 20.

and local governments is not supportive of locally planned, demand-driven capital investment plans based on local government finances. LGUs have limited fiscal autonomy, with property taxes being collected at the central level, with a few non-tax revenue resources are mandated for collection by LGUs that are not adequate for meeting local expenses. In addition, fiscal transfers are not formula-based but distributed in an ad hoc basis annually resulting in unpredictable budgetary and cash flow situation. At the same time, the current institutional arrangements with respect to water supply and sanitation are vested with KMK and its utility subsidiaries. The utilities are financially autonomous and responsible for delivery of services and O&M but dependent on KMK central for management decisions, for which they pay a 5% management services fee to KMK. Revenue collection of local utilities is very low due to low tariffs, low billing and collection rates and high unaccounted for water. The financial resources in both levels of local governance and services delivery are not sufficient to carry out operations and capital investments.

Component B: Sub-grants for the benefit of Local Governments and Local Utilities for Communal Services Investments (IDA Financing USD 11.00 million)

10. The component will provide financing in the form of results based grants for investments for LGUs and utilities in participating cities and towns both prior and after the set-up of CSDF. It will also provide assistance to the participating cities and towns in developing feasibility studies and designs for investments and in improving their results, as per the terms of the grant. The component will finance procurement of goods, works and services.

11. Proposed participating cities and towns (i.e. eligible participating entities) for the World Bank financing include the 6 cities shortlisted from an original 17 defined as ‘cities’ by TajStats in their Annual demographics report for 2013, excluding Dushanbe, Khujand, Nurek and Rogun due to their size and two additional cities based on government priorities. Eight eligible cities, which include Chkalovsk, Gissar, Kanibadam, Kurgan-Tube, Sarband, Dangara, Vose, and Fakhor, have been identified based on each utilities’ financial standing and indicated Government priorities. Physical Investments will be limited to Gissar, Kanibadam, Sarband, Dangara, Vose, and Fakhor. Chkalovsk, and Kurgan-Tube will benefit from non-civil works and procurement of goods for utilities.

12. Eligible sectors would comprise communal and municipal services including water supply and sanitation, solid waste management, local roads, street lighting and storm water drainage. However, with regards to water supply, the Project will only support the rehabilitation, improvement or minor additions/expansions of the existing networks in the participating towns and cities. In addition, any new small scale water supply networks that may draw water from an ‘international waterway’ will not be eligible for the project financing.

Table 1: Short List of Selected Cities and Indicative Allocations

Cities	Population	50% allocation based on population	50% allocation based on Service levels			Total allocation based on Service levels	Total grant allocation for Sub-project investments under component B1
			WS	WW	SWM		
Dangara	23929	0.57	0.23	0.00	0.24	0.47	1.11
Gissar	26500	0.63	0.25	0.39	0.24	0.88	1.62
Kanibadam	48900	1.17	0.25	0.39	0.24	0.88	2.19
Sarband	22000	0.53	0.16	0.21	0.18	0.55	1.15
Vose	21933	0.53	0.23	0.00	0.24	0.47	1.06
Farhor	28902	0.69	0.25	0.39	0.24	0.88	1.68
		4.13	1.38	1.38	1.38	4.13	8.80
Following cities will receive only non-civil works and procurement of goods under Component B2							
Population							
Chkalovsk	28849						
Kurgan-Tube	101600						

Table 2: Assessment of Local Government & Local Utilities Financial Situation

Summary of LG / Utility Finances (26 cities) - 2011-2013 period					thousand somanis		
S.No.	Base Case Scenario	LG finances	LG Finances	Utility Finances - Vodocanals		Utility Finances - Communal Services	
	Details	TE/TR		Average annual surplus		Average annual surplus	
				Before Taking on Credit/Loan	After Taking on Credit/Loan	Before Taking on Credit/Loan	After Taking on Credit/Loan
	<i>(Colored cells are 15 out of 18 cities identified for IDA)</i>			<i>(Colored cells are cities / utilities with 'operating deficit')</i>			
1	Bjivulon	0.32	2852	0	0	0	0
2	Chkalov	0.65	1702	387	326	136	136
3	Dangara	1.04	-7	-18	-91	0	0
4	Gafurov	6.72	-827	-102	-173	3	3
5	Gissar	0.63	153	-5	-5	1	1
6	Hamadoni	0.78	31	0	0	0	0
7	Isfara	0.27	10334	-17	-86	-4	-4
8	Istaravshan	0.09	41151	3	3	29	29
9	Khujand	0.15	49680	-793	-793	835	835
10	Kairakkum	0.21	11667	-12	-59	0	0
11	Kanibadam	0.07	30350	-14	-98	2	2
12	Khorog	0.25	6751	3	-11	448	448
13	Kulyab	0.23	30652	-44	-156	-13	-13
14	Kurgan-Tyube	0.17	27446	394	304	33	33
15	Nurek	0.17	13434	-1205	-1205	-4387	-4387
16	Penjikent	0.02	92834	6	6	141	141
17	Pyandj	2.78	-280	14	14	0	0
18	Rasht	11.83	-535	3	3	0	0
19	Sarband	0.11	11926	-2	-2	1	1
20	Temurmalik	4.62	-345	0	0	2	2
21	Tursunzade	0.13	58372	1139	1139	0	0
22	Vose	0.53	392	0	0	-1	-1
23	Yavan	3.81	-632	20	20	-36	-36
24	Vakhdat	0.12	61687	-24	-24	-40	-40
25	Rogun	9.27	-3500	3	3	7	7
26	Istiklol	0.40	1967	4	4	0	0

13. The component will include three sub-components, as described below.

14. *Sub-Component B1: Sub-Grants for the benefit of Local Governments and Local Utilities (IDA Financing USD\$8.80 million)*; Grants will be financed both prior to and after the set-up of the CSDF. Prior to CSDF set up, allocation will be determined as follows¹⁶:

a. Results-Based Grant allocation for each city and town will be determined on the basis of the following proposed interim formula: Population (40%) + Water and Sanitation and Solid Waste Management Service Coverage (60%).

b. To access financing, a city/town would have to present a yearly Integrated Investment Plan (IIP) jointly agreed between the local communities and the Local Government. The IIP should be acceptable to KMK and City Administration prior to establishment of CSDF, following which all IIPs will be submitted to the CSDF and endorsed by the CSDF Supervisory Board/Committee. The criteria shall be deferred for Farkhor, Vose, Kannibadam, Gissar and Sarband, that have already identified¹⁷ priority projects for first year of project implementation, to six months after Project Effectiveness. The IIPs will identify investment priorities and sub-projects for the city/town and will also propose the sub-projects that will be financed through the grant. It is expected that the proposed sub-projects would include investments under the authority of both the local utilities and the local government. Civil works on proposed sub-projects may not start until appropriate safeguards documents (including EMPs, RPs etc.) have been prepared.

c. Based on the choice of the sub-project financed by the results based grant, a series of results will be agreed with the municipality and the utility. Once CSDF is established producing IIPs and meeting agreed results between utilities and municipalities will be the conditions¹⁸ for receiving future grant allocations. A basic menu of results is expected to include (i) integrated investments; (ii) improved financial management; (ii) optimizing the efficiency of local vodokanals; (iii) improved citizenship engagement and community participation efforts (see Sub-Component B3);

15. Subsequent to the set-up of the CSDF, its grant financing policy will be followed; provided that this is deemed satisfactory to the Bank.

¹⁶ Note that grants will be continued to be allocated in accordance with this formula and sub-projects will continue to be implemented until such time that the CSDF is set up. CSDF set up is expected to take 12-18 months.

¹⁷ Sub-project have been pre-identified in four participating cities/towns under the project – Vosse, Farkhor, Gissar and Sarband . Size of sub-projects are within the financing allocation ceiling for each town as calculated by the interim formula and are limited to WSS network rehabilitation and construction of sanitation zones in Farkhor and Vosse based on a completed feasibility studies carried out under the on-going MIDP-AF project. Sub-projects in Gissar and Sarband were selected based on a needs assessment carried out by the MIDP-AF PMU and KMK; size of financing remain within the allocated ceiling for both cities and are limited to WSS rehabilitation, solid waste collection bins, specialized equipment and street lighting.

¹⁸ Prior to establishment of the CSDF, submitting an IIP satisfactory to KMK and City Administration will be the criteria to financing grants for sub-projects.

16. *Sub-Component B2: Institutional Strengthening Support to Cities and Towns in Achieving Results as Stipulated by the Results Based Grant (under Sub-Component B1) (IDA Financing USD \$2.20 million).* Assistance will be provided to the targeted cities and town to achieve results as stipulated by the Results-Based grant. As described above, expected results under each of the grants would be tailored for each participating city/town and its local government and its local utilities based on the chosen sub-project to be financed under the grant. However, there will a basic menu of the expected results, as supported by the following types of assistance:

- a. *Integrated Investments:* Participating cities and towns will be assisted in preparing an integrated investment proposals for accessing the project financing;
- b. *Improved Financial Management:* Participating cities and towns will receive assistance aimed to reinforce their financial management through investments in accounting and billing systems¹⁹; improvements in asset inventories/management and in strengthening internal controls and auditing;
- c. *Optimizing the Efficiency of Local utility companies:* Participating cities and towns will receive assistance in optimizing the efficiency of the local vodokanals including reducing in water loses through wastage, introducing more equitable application of tariff collection based on consumption, and improving billing and collection through a metering program and improved pumping efficiency/energy audits;
- d. *Improved Citizens Engagement and Community Participation efforts:* Selected participating towns will receive support in ensuring community engagement for management and maintenance of investments in water supply and sanitation. This is expected to occur in partnership with the Water and Sanitation Program (WSP) and will involve both women and men of varying ages.
- e. *Training and Capacity Building:* Training and technical capacity building support will be provided to all utilities and municipalities to improve their capacity to implement and operate the new infrastructure that will be financed under the project.

Component C: Implementation Support, Monitoring and Evaluation (IDA Financing USD 2.05 million)

17. The Component will finance project management costs for the Project Management Unit and the Communal Services Development Fund (CSDF) once it is established. In particular, the component will finance:

¹⁹ Note that this was piloted under MIDP-AF. It included installation of billing and collection system and procurement of mobile handheld terminals in selected towns, as well as provision of access to the infrastructure of the electronic billing kiosks.

- a. *operating costs of the Project Management Unit (PMU)*, including staff salaries both of current and planned to be hired staff, in-country travel costs, relevant social tax contributions, consumables, communications, trainings, vehicle insurance and maintenance, as well as rehabilitation of office equipment, and furniture;
 - b. *audits* including annual financial audits as well as two technical audits of sub-project design and implementation standards including environmental and social safeguards;
 - c.. *hiring of qualified design and engineering experts, as needed*, to secure additional support in successful project implementation.
 - d. *Communication and public awareness campaigns* in all project participating towns. Improvements in services delivery will require behavioral changes by the benefiting population, both with respect to conserving water but also habituating consumers to pay for the services they receive. The Project will finance public information campaigns to raise awareness on water conservation, solid waste disposal issues, and advantages of a metering program.
18. Upon establishment of the CSDF to the satisfaction of the Bank the operating costs shall be transferred accordingly to support Fund's management.
19. The PMU of the on-going Bank financed MIDP-AF will be retained as the PMU for CSDFP. This will require an amendment of its existing Charter to include activities under CSDFP. There will be an overlap of implementation responsibilities between MIDP-AF and CSDFP that would increase the work burden on the PMU. To avoid implementation delays the PMU will need to hire an additional procurement specialist and an additional engineer.

Annex 3: Implementation Arrangements

TAJIKISTAN: Communal Services Development Fund Project

Project Institutional and Implementation Arrangements

1. *Implementation Arrangements Prior to CSDF Establishment:* The project will be implemented over a period of four years commencing in September 2015, the expected time of effectiveness of the IDA Grant.
2. As per Government Resolution # 357 of September 28, 2005 the project will be initially implemented under the responsibility of the SUE Khochagii Manziliu Kommunalii (KMK). To implement MIDP (Closed) and On-going MIDP-AF projects, a Project Management Unit (PMU) was established by Government Resolution # 408 of October 1, 2004, amended by Resolution # 357 of September 28, 2005 under the name “Municipal Infrastructure Development Project Management Center (Centr Upravleniya Proyektom Rasvitya Municipalnoy Infrastruktury v Respublike Tajikistan)”. The same PMU will continue to implement CSDFP. To facilitate this implementation arrangement the existing Project Implementation Agreement between PMU and KMK will be amended and signed by PMU, KMK and the Executive office of the President by Project Effectiveness by June 30, 2015. The PMU charter will be amended accordingly.
3. The PMU, will have dual reporting responsibilities to the Office of the Deputy Prime Minister and KMK. It is headed by a Director who manages staff responsible for procurement, disbursement, financial management, technical supervision and monitoring and evaluation. Additional staff (a senior water supply and sanitation engineer and a senior procurement specialist) will be hired by the PMU in order to strengthen its capacity to implement the additional activities under the CSDFP. Additional Consultants will be hired as needed to support the PMU in project implementation.
4. Subsequent to the establishment of the CSDF and with the agreement of the World Bank, implementation responsibility may be transferred to the CSDF.
5. Within 60 days of the establishment of the CSDF, the Recipient shall cause KMK to, enter into an agreement with CSDF (the Assumption Agreement) under terms and conditions acceptable to the Association, which shall include, *inter alia*: (a) the Recipient’s obligation to make the proceeds of the Financing available to CSDF for purposes of carrying out the Project; (b) the obligation of KMK to assign its rights and transfer its obligations under the Subsidiary Agreement and the Project Implementation Agreement to CSDF; and (c) the obligation of CSDF to comply with all the obligations of KMK under the Subsidiary Agreement, including compliance with the Anti-Corruption Guidelines.
6. The division of responsibilities between KMK and the PMU in CSDFP implementation will be detailed in a specific Project Implementation Agreement to be entered into by KMK and the PMU as a Condition for Effectiveness. Specific internal working arrangements and procedures

of the PMU are specified in an Operations Manual (OM) for the project and the adoption of which by KMK will be a condition for Effectiveness of the IDA Grant.

7. Under delegation of responsibilities from KMK, it is expected that the PMU will be responsible for managing day-to-day implementation of the project including (a) reporting on project progress to Deputy Prime Minister's Office & KMK, the Government and the Bank, (b) undertaking procurement of works, goods and services in a timely manner and in accordance with the procurement plan and in compliance with the relevant Bank guidelines, (c) managing project funds and accounts, (d) ensuring timely audit of project accounts, and (e) overseeing, and guaranteeing the quality of, project implementation by contractors, suppliers, and consultants. Training to be provided under the project will enable the PMU to efficiently manage project implementation.

Financial Management, Disbursements and Procurement

Financial Management

8. The financial management responsibilities for the Communal Services Development Fund Project would remain with the PMU, which currently implements the MIDP-AF. This PMU has gained required capacity in implementing donor funded projects. The PMU is adequately staffed and appropriate controls and procedures have been instituted. The financial management arrangements for the Project including accounting and reporting arrangements, internal control procedures, planning and budgeting, external audits, funds flow, organization and staffing arrangements are assessed as moderately satisfactory.

9. The PMU submits quarterly IFRs for Bank Financed Project (i.e. MIDP-AF) on time and they are satisfactory to the Bank. The MIDP-AF project audit for CY2013 was conducted on May –June 2014, and the audit report was submitted in time by June, 2014. The auditor, Ernst & Young LLP Kazakhstan, has issued unmodified (clean) opinion on the project financial statements (PFS) and the audited financial statements are assessed as acceptable to the Bank. The Entity audit report for MIDP-AF for CY 2013 was received with some delays in October 2014; the auditors rendered a disclaimer of opinion on the company's financial statements for the reason that they were unable to obtain sufficient appropriate audit evidence to provide a basis for their opinion. Accordingly, they were unable to express an opinion on the financial statements. The issues giving rise to the disclaimer of opinion of the KMK audit report will not directly affect the existing implementation arrangements for the proposed CSDFP since the PMU was established as a standalone entity.

10. ***Strengths, Weaknesses and Action Plan.*** The PMU has been implementing Municipal Infrastructure Development Project (MIDP) and Additional Financing (AF) for MIDP, and its fiduciary staff has gained good understanding of Bank procedures for financial management, disbursement and procurement. A project accounting system has been established for AF MIDP and the Chief Accountant was hired within the PMU.

The following action should be completed to further strengthen the financial management arrangements for the project by the specified dates:

Action for capacity building	Responsibility	Completion Date
1. The contract for installation and adaptation of the IC accounting software for project accounting, budgeting and reporting has been signed. The accounting system shall have inbuilt controls to ensure data security, integrity and reliability, and the functionality of automatic generation of IFRs.	PMU	By effectiveness
2. Update FM chapter of the POM to guide staff in daily project FM operations. The FM chapter will reflect the project arrangements on financial management, including internal control mechanisms, accounting and reporting procedures, disbursement procedures, funds flow and audit arrangements.	PMU	By effectiveness

11. **Planning and Budgeting:** Under the project, the PMU will be responsible for the preparation of the annual budget and consolidating annual project budgets based on procurement plans. The PMU has an acceptable budgeting and planning capacity. The PMU will follow the budget guidelines issued by the Ministry of Finance. Overall, project budgets, prepared on an annual basis, will form the basis for allocating funds to project activities. The budgets will be prepared in enough detail, by activities and account codes, and broken down by quarters. Annual budgets should be agreed with the World Bank before final approval, and approved annual budgets will then be entered into the accounting system and used for periodic comparison with actual results as part of the interim financial reporting. The annual budget will be prepared in detail, which is necessary for monitoring the existing projects and will be based on the final procurement plan approved by the World Bank.

12. **Accounting System:** The project accounting will be maintained on the cash basis. For implementation of the CSDF, the PMU will need to install and adopt the new IC accounting software to cope with the accounting and reporting requirements of the proposed operation. The project financial system has to ensure proper tracking of resources and expenditures, and generation of quarterly financial reports in formats acceptable to the Bank. All transactions will be recorded on a cash basis, with supporting documentation maintained in files for ready access by auditors and during implementation support missions of the World Bank. The chart of accounts for the project will allow tracking of project transactions and reporting by source of financing, project components, and type and category of expenditure. The system shall have the safeguards against the input of inaccurate data using appropriate security profiles. In addition, regular back up of the accounting data shall be made.

13. **Accounting Staffing:** The Chief Accountant within the PMU will be overall responsible for the project financial management arrangements under CSDF. This person will review and authorize payments before the Project Director will approve them. The chief accountant and existing accountants will be responsible for preparation of withdrawal application, reviewing of support documents, preparation of financial reports, and facilitation of the process of project audits.

14. Accounting Policies and Procedures: The PMU has developed a Project Operational Manual (POM) for MIDP-AF that can be used to deal with the project financial management arrangements under CSDFP as well. The Project Operational Manual (POM) for the project was updated in March 2012 for needs of the AF and it is still appropriate and acceptable from the financial management perspective. It was confirmed that existing POM is still generally adequate and acceptable from the financial management point of view. The PMU will need to update FM chapter of the POM to guide staff in daily project FM operations for the new project. The FM chapter will reflect the project arrangements on financial management, including internal control mechanisms, accounting and reporting procedures, disbursement procedures, funds flow and audit arrangements.

15. For purposes of monitoring of project progress and financial performance, Interim Un-audited Financial Reports (IFRs) will be prepared under the CSDFP. The PMU will produce a full set of IFRs every calendar quarter throughout the life of the Project. The format of IFRs will include: (a) Project Sources and Uses of Funds, (b) Uses of Funds by Project Activity; (iii) Statement of Designated Account; and (iv) Disbursement Summary. These financial reports will be submitted to IDA within 45 days of the end of each quarter. The first quarterly IFRs will be submitted after the end of the first full quarter following the initial disbursement. The format of IFRs has been agreed with the PMU.

16. Internal Control and Internal Audit: The PMU for MIDP-AF has documented, in the POM, the internal control mechanisms to be followed in the application and use of funds and the implementation of the project, with a specific focus on ensuring completeness of accounting transactions, reliability of accounting data, safeguarding of assets of the projects, including safe custody of cash and other assets, proper monitoring of contracts, proper authorization and documentation of all project expenditures, and full accountability for project funds. The POM reflects the typical investment project structure that describes flow of funds to support project activities, including proper management of the bank accounts, and regular reconciliation of bank statements with project records. The bank account signing mandate requires at least two signatures to withdraw cash from the bank.

17. The audit of the CSDFP will be conducted (i) by independent private sector auditors and on terms of reference acceptable to the Bank, and (ii) according to the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC). The terms of reference to be used for the Project audit was shared with the PMU during project negotiations. This is to be submitted after to be submitted to the State Committee on Investment and State Property Management before contracting the auditor, under the block audit arrangement. The annual audited project financial statements will be submitted to the Bank within six months of the end of each fiscal year and also at the closing of the Project. In accordance with the World Bank's Access to Information Policy audited project financial statements shall be made publicly available. Upon receipt of the audited financial management statements, the Bank would also make them publicly available. The cost of the audit would be financed from the proceeds of the Grant. The table below shows the audit reports that would be required to be submitted by the project implementation agency, and the due date for submission of the audit reports.

Audit Report	Due date
<p data-bbox="245 243 639 275">Project Financial Statements</p> <p data-bbox="245 279 932 455">The Project Financial Statements include Sources and Uses of Funds, Uses of Funds by Project activities, Statement of Expenditures Withdrawal Schedule, Designated Account Statement, Notes to the financial statements, and Reconciliation Statement</p>	<p data-bbox="992 243 1386 348">Within 6 months of the end of each fiscal year and also at the closing of the project</p>

Disbursements

18. The proposed CSDFP will use the same disbursement mechanism as the MIDP-AF. Disbursements for all components will follow the transaction-based method, including Advance and Replenishments to the Designated Account; Reimbursements with full documentation; Statement of Expenditure (SOE); Direct Payments and Special Commitments. The PMU would open a Designated Account in USD for administering the CSDFP in a commercial bank acceptable to the World Bank. The ceiling for the Designated Account and other disbursement details will be provided in the Disbursement Letter.

Procurement

19. Procurement of works, goods and services other than consulting services will be carried out in accordance with the World Bank’s Guidelines “Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers” dated January 2011 and revised in July 2014 (Procurement Guidelines), while consulting services will be procured in accordance with the World Bank’s Guidelines “Selection and Employment of Consultants under IBRD Loans & IDA Credits & Grants by World Bank Borrowers” dated January 2011 and revised in July 2014 (Consultants Guidelines), and the provisions stipulated in the Financing Agreement. The World Bank Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credit & Grants dated October 15, 2006 and revised in January 2011, would also apply. The general description of various items under different expenditure categories is provided below. For each contract to be financed by the Grant, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame would be agreed between the Borrower and the Bank team and will be reflected in the Procurement Plan. Procurement under the Component 2 will be handled by the PMU with gradual transfer of procurement responsibilities to local governments and utilities. Depending on procurement capacity and meeting minimum requirements that local governments and utilities should fulfill, procurement under the Component 2 following shopping procedure can be managed at local level.

20. Procurement of Works: Procurement of works will include contracts related to investments under selected sub-projects. It will include, inter alia, rehabilitation of pipelines, construction of water supply and sewage, repair of facilities, and will be procured through ICB, NCB (for contracts below USD 5M) and shopping (for contracts below USD 200,000). The first NCB packages for four participating cities will be ready between the project negotiations and effectiveness.

21. Procurement of Goods and Non-Consulting Services: Project foresees procurement of goods under sub-projects according to the needs of municipalities. Contracts will not be large, however, when necessary and appropriate, ICB will be used (for contracts below USD1 M). For very small standard items (for contracts below USD 100,000) shopping procedures can be used.
22. For Procurement of goods and works following ICB Procedures, the Bank's sample bidding documents shall be used. For Procurement of Works and Goods following NCB procedures the PMU will use sample bidding documents for ECA countries. The standard NCB provisions for Tajikistan, as included in the Financing Agreement, would be applied to all the NCB contracts.
23. Selection of Consultants: Consulting assignments under the project aimed at institutional development and capacity building of local government and utilities. Consultancies include technical assistance, feasibility and technical studies, financial, environmental and social assessments, conduct training and study tours. For selecting consulting firms depending on the nature and complexity of assignments, interest to foreign firms and need for international expertise and estimated budget of the services the following methods would be used: Quality and Cost-Based Selection (QCBS), Quality-Based Selection (QBS), Least Cost Selection (LCS), Selection Based on Consultant's Qualification (CQS), Selection under a Fixed Budget (FBS) and Single-Source Selection (SSS). Contracts estimated to cost USD 100,000 equivalent and more will be advertised internationally. Short lists of consultants for services estimated to cost less than USD 300,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.
24. Training activities which will be carried out other than through service providers' contracts, will be procured through procedures agreed with or satisfactory to the Bank, and will include travel expenses of trainees, trainers, representatives of municipalities, utilities and other relevant organizations, which are involved in project implementation. These procedures will be described in details in the Project Operational Manual.
25. Operating Costs: Operating costs of the PMU will be financed from the Grant proceeds and will include all expenses necessary to ensure proper implementation of the project.
26. Assessment of the agency's capacity to implement procurement. The assessment of the PMU capacity for implementation of procurement activities was carried out in December 2014 and documented in the P-RAMS.
27. Procurement Arrangement: Procurement activities will be carried out by existing procurement staff at the PMU. Procurement staff has several years of experience with procurement under two World Bank-financed projects in the sector. Procurement performance of these operations has consistently been rated as satisfactory. Existing procurement capacity is considered as sufficient for the project. This procurement arrangement will continue during transition period until the CSDF is established. Once CSDF is established, the Bank will conduct its procurement capacity assessment and sample capacity assessment of participating municipalities and utilities. If the assessment is satisfactory to the Bank, then procurement responsibilities will be transferred to the CSDF. Depending on procurement capacity and meeting minimum requirements by municipalities and utilities procurement under the Component 2 following shopping procedure can

be handled at local level. The PMU should ensure transfer of skills to the CSDF staff involved in procurement through on-the-job trainings.

28. The overall project risk for procurement is rated ‘High’. After mitigation measures are implemented, the residual risk would be ‘Substantial’. The risks associated with procurement and the mitigation measures were identified in the assessment of the agency’s procurement capacity and are summarized in the table below:

Description of Risk		Mitigation Measures	Residual Risk Rating
Involvement of SCISPM in bid opening and review of evaluation reports and associated potential delays	H	The Bank and SCISPM have agreed on a timeline to finalize tenders from bid document preparation to contract award; procurement plan should be based on that timeline; procurement progress should be monitored against the detailed procurement plan.	S
Contract administration procedures may not be adequate to ensure efficient and timely contract implementation; contract amendments not processed diligently	S	Establishment of contract management system; more emphasis and training on appropriate contract management; regular physical inspections by Bank supervision mission.	M
Perceived level of corruption in the country is high.	H	Enforcement of public disclosure and transparency provisions of the Bank’s Guidelines; Close Bank’s implementation supervision.	S
Scattered civil works – lack of resources for extensive supervision	H	Hiring of Third Party QA/QC Consultant	S
Overall	H	Residual Risk	S

29. Procurement Plan: The initial procurement plan shall be agreed between the Borrower and the Bank and be finalized at negotiations. The plan will cover procurement other than under Component B. Each Investment Proposal under Component B will have its respective procurement plan. After the Project is approved by the Board the plan would be published on the Borrower’s website and Bank’s external website. The Procurement Plan would be updated in agreement with the Bank team at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. The thresholds for methods of procurement and prior review limits are detailed in the Procurement Plan. The summary of the procurement plan is given below:

30. Procurement Supervision: Prior review thresholds will be established depending on the outcome of procurement assessment of the project PMU and risks identified during appraisal. Procurement supervision will be on-going through the review of procurement documents and day-to-day contacts with the PMU. Supervision missions, which will include post-reviews and contract administration reviews, will be conducted on a regular basis but at least once a year, depending on the success of the project, number of post-review contracts and other factors. At least 20% of the post review contracts conducted by the PMU shall undergo the reviews. The external audit TOR

will include verification of procurement process as per POM under Component B and asset verification.

31. **Disclosure:** The following documents shall be disclosed on the KMK website: (i) procurement plan and updates, (ii) invitation for bids for goods and works for all ICB and NCB contracts, (iii) request for expression of interest for selection/hiring of consulting services, (iv) contract awards of goods and works procured following ICB/NCB procedures, (v) list of contracts/purchase orders placed following shopping procedure on quarterly basis, (vi) short list of consultants, (vii) contract award of all consultancy services, (viii) list of contracts following DC or CQS or SSS on a quarterly basis, (ix) monthly physical and financial progress of all contracts and (x) action taken report on the complaints received on a quarterly basis. The supply and installation bidding documents shall include a clause to put up a notice board in the construction site disclosing the contract details (description, contractor name and contract amount, starting date, completion date, physical progress and financial progress).

32. The following details shall be sent to the Bank for publishing in the Bank’s external website and UNDB: (a) invitation for bids for procurement of goods and works using ICB procedures, (b) request for expression of interest for consulting services with estimated cost more than \$300,000, (c) contract award details of all procurement of goods and works using ICB procedure, (d) contract award details of all consultancy services with estimated cost more than \$300,000, and (e) list of contracts/purchase orders placed following SSS or CQS or DC procedures on a quarterly basis.

Project Procurement Plan:

(a) Goods & Works (first 18 months)

Package No.	Description/ Location	Estimated Cost (US\$)	Procurement Method	Review By Bank (Prior / Post)	Invitation Date	Contract Award Date	Completion Date
A	B	C	D	E	F	H	I
1	Sub-project investments (multiple packages)**	2.000.000	ICB/NCB /SH	By package and according to thresholds	Jul 15	Oct 15	Oct 16
2	Office equipment and furniture	20.000	SH	post	Sep 15	Oct 15	Oct 15

(b) Consulting Services (first 18 months)

Package No.	Description of Assignment	Estimated Cost (US\$)	Selection Method	Review by Bank Prior / Post	Advertisement for EOI Date	Contract Award Date	Completion Date
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A	B	C	D	E	F	H	I
1	Establishment of Fund and preparation of policies and procedures	250.000	QCBS	prior	Feb 15	Sep 15	
2	Integrated Capital Investment Plan preparation and budget planning support	300.000	QCBS	prior	Feb 15	Sep 15	
3	Citizen Engagement and Community Participation	200.000	CQS	prior	Feb 15	Sep 15	
4	Training and capacity building to utilities and municipalities	200.000	CQS	post	Feb 15	Sep 15	
5	Project audit	80.000	LCS	prior	Block	Audit	
6	Technical audit of the project	180.000	QCBS	prior	Feb 15	Sep 15	
7	Feasibility studies for future SWM project	200.000	QCBS	prior	Feb 15	Sep 15	
8	Improved Financial Management (Accounting systems, modernization of billing collection, Water Metering Program, internal controls)	1.000.000	QCBS	prior			
9	Optimizing Efficiencies of local Vks	500.000	QCBS	prior			
10	Design and engineering experts	150.000	IC	prior			
11	Communication campaign and awareness building	80.000	CQS	post			

*IIP for sub-projects will have procurement plan

** IIP for sub-projects will have procurement plan

The thresholds for methods of procurement and prior review limits are detailed below.

Expenditure Category	Contract Value (USD)	Procurement Method	Bank Prior Review
Goods (including non-consulting services)	$\geq 1,000,000$	ICB	All the ICB contracts
	$< 1,000,000$	NCB	First 2 NCB contracts and all other NCB contracts above \$500,000
	$\leq 100,000$	Shopping	The 1st Shopping contract
	NA	DC	All DC contracts
Works	$\geq 5,000,000$	ICB	All the ICB contracts
	$< 5,000,000$	NCB	First 2 NCB contracts and all other NCB contracts above \$2 million
	$\leq 200,000$	Shopping	The 1st Shopping contract
	NA	DC	All DC contracts
Consultant Services	Irrespective of Value	QCBS, QBS, FBS, LCS, CQS*	All contracts above USD 100,000 for firms plus the 1st CQS contract regardless of value; and all contracts above USD 50,000 for individuals; and all SSS contracts.
	NA	SSS	
	NA	IC	

Notes:	ICB – International Competitive Bidding
	NCB – National Competitive Bidding
	DC – Direct Contracting
	QCBS – Quality and Cost Based Selection
	QBS – Quality Based Selection
	FBS – Fixed Budget Selection
	LCS – Least Cost Selection
	*CQS – Selection Based on Consultants’ Qualification would be followed depending on type of assignments for estimated value less than USD 300,000
	SSS – Single Source Selection
	IC – Individual Consultant selection procedure
	NA – Not Applicable

Environmental and Social (including safeguards)

33. Overall EMF implementing responsibilities. The PMU will be responsible, inclusively for ensuring project implementation in compliance with the Environmental Management Framework (EMF), until such a time that Project implementation is shifted to the CSDF. For this purpose, a Safeguards Officer will be present within the PMU with the main goal of adequate implementation of EMF requirements.

34. Safeguards Officer Responsibilities. The Safeguards Officer will coordinate the day-to-day activities related to the EMF and will also be responsible to monitor and report compliance of the various CSDF sub-projects to the EMF requirements. He/she will be also responsible for environmental and social monitoring of the project interventions and its impacts providing overall coordination and reporting on the EMF, conducting inspection of environmental and social compliance at worksites, advising project participants on environmental questions, coordination the overall environmental monitoring at project level. Furthermore, she/he will identify training needs of the participating cities, ensuring that environmental and social requirements are integrated into bidding documents for physical investments, and analyzing contracts and application in terms of environmental and social management and mitigation issues. The following are the responsibilities of the safeguards officer:

- a. Maintain and keep up-to-date the EMF (screening, categorization, procedures and others) —on a day-to-day basis;
- b. Monitor the portfolio of projects financed by CSDF on safeguards, prepare status reports on a periodic basis both in the construction and operational phases, and work with the different sub-project beneficiaries in ensuring safeguard compliance;
- c. Engage in training and capacity-building initiatives to build awareness, knowledge and skills pertaining to safeguards management of the different sub-project beneficiaries, their consultants and contractors;
- d. Ensure that contractors comply with all safeguards requirements during construction, specified in the EMPs;
- e. Coordinate all environmental and EA related issues;
- f. Conduct randomly EMPs supervision and monitoring and assessing environmental impacts and efficiency of mitigation measures, as well as identifying non-compliance issues or adverse trends, and putting in place programs to correct any problems identified;

- g. Communicate when needed with an EIA competent authority (State Committee for Environmental Protection; municipalities etc.);
- h. Provide advises and consultation to contractors in EMPs implementation; and,
- i. Report to the PMU and WB, with regard to EMF implementation.

35. The major responsibilities of other involved parties are as follows: (a) the Implementing Agency/participating city holds the responsibility for ensuring that the EMP implementation is being effectively implemented and environmental safeguards compliance is ensured. The Implementing Agency will appoint a point person to co-ordinate the day-to-day activities pertaining to the EMF requirements relevant to the sub-projects under design and implementation; (b) potential sub-project beneficiaries which will approach the CSDF seeking funding for particular sub-projects. It is the responsibility of these beneficiaries to prepare necessary EA documentation for Category B sub-projects; (c) design consultants. Their roles & responsibilities are to ensure that the safeguards documents (EAs, EMPs and RAPs) are done in line with the national and the World Bank requirements; (d) construction contractors. The actual investments will be carried out by contractors selected through the public tendering process. They have to operate in full compliance with national environmental legislation and with the EMPs requirements. Further, the contractors are obliged to follow regulative requirements of the national law related to traffic safety, occupational health and safety; fire safety; environmental protection; and community health and safety. All EMPs' associated activities will be financed by the contractors. The contractors will also be requested to designate a person in charge of environmental, health and safety issues and for implementing the EMP; (e) supervision consultants (SCs) are employed by the sub-project beneficiaries to supervise the construction works on site. They will be informed about the EMP so that they can ensure that the construction contractors adhere to the same. If there are deviations in EMP implementation, these Consultants will bring it to the notice of the Implementing Agency who will inform the PMU and then the World Bank.

36. Integration of the EMPs into project documents. The EMP provisions will form part of the design documents for the sub-projects, and will be included in construction contracts for proposed activities, both into specifications and bills of quantities. Respectively the Contractors will be required to include the cost of EMP requirements in their financial bids and required to comply with them while implementing the project activities. The bidding documents for selecting the contractors will include specifications that would ensure effective implementation of environmental, health and safety performance criteria by the winning bidder and in particular: (i) preventing/limiting disturbance of soils and vegetation removal to the minimum; prevent soil compaction as well as other potential impacts; (ii) ensuring that all ground disturbing activities are conducted consistent with the construction requirements; (iii) developing a traffic management plan that include measures to ensure work zone safety for construction workers and the travelling public which should be approved by the Traffic Police prior to commencement of any construction/repair works; and (iv) conducting all civil works with due care, ensuring labor safety; etc. The contract with winning bidder will include necessary also an obligation to inform the Implementing Agencies of any significant HSE accidents and events among sub-contracted project workers.

37. Environmental supervision and monitoring. Environmental supervision and monitoring during project implementation will provide information about the project environmental impacts

and the effectiveness of applied mitigation measures. Such information enables the client and the Bank to evaluate the success of mitigation as part of project supervision, and allows corrective action to be taken when needed. Through its Safeguards Officer, the PMU will monitor all sub-projects that it finances to ensure conformity to safeguard requirements during construction, operation and maintenance. Sub-project beneficiaries submit periodic progress reports on EMPs implementation to PMU for review. PMU's Safeguards Officer will randomly visit to sub-project sites as and when necessary. Based on safeguard performance of different sub-projects, the PMU's Safeguards Officer will advise on the subsequent disbursements that should be done for the sub-project from the CSDF. If it is found that there is no EMF and/or Safeguards compliance, further disbursements will be stopped until safeguards compliance is ensured.

38. Reporting on EMF requirements implementation. PMU will submit to the WB periodical reports on the implementation of the EMF. This will be in the same frequency of the overall implementation progress report as well as the reporting requirements for Financial Monitoring Reports (FMR). These reports will necessarily address compliance with the safeguards requirements specified in the EMPs of the various sub-projects supported by the CSDF.

39. EA Institutional capacities to perform environmental safeguards. The capacity of the Government of Tajikistan agencies – PMU, associated Government agencies; potential sub-project beneficiaries currently are limited and will be enhanced through this project implementation. In particular there is need for additional capacity building activities to perform the EA-related activities and to implement the EMF provisions. In this regard, the EMF will support additional information dissemination and training activities to ensure the environmental requirements and the environmental management provisions would be fully implemented. The curricular for the training would cover the following: (a) national and World Bank requirements for environmental assessment; (b) screening and scoping procedures including checklists of potential environmental impacts of the urban investments; and (c) main provisions of environmental management plans for proposed sub-projects including mitigation and monitoring requirements. Such training will enable these target groups to recognize and assess the potential negative environmental impacts and set of measures to mitigate them. A special attention will be paid to training of sub-project beneficiaries, their consultants and contractors, as they play a major role in ensuring safeguard compliance during sub-project implementation. PMU's Safeguards Officer will be responsible for the smooth and effective conduct of safeguards training. PMU will periodically organize both general awareness and safeguards implementation training for the sub-project beneficiaries and the contractors/consultants associated with the sub-project. Through these training, the overall safeguards management capacity will be developed.

40. Prior review by the Bank. As the PMU EA capacities to implement environmental and social safeguards are limited, the EA documentation for the first three Category B subprojects will be subject to prior review and approval by the World Bank.

41. The project triggers OP 7.50 on International Waters, because some water supply subprojects are likely to be on international rivers or their catchment areas. However, the project will only support the rehabilitation, improvement or minor additions or expansions of existing schemes in participating towns and cities. In addition, any new small scale water supply schemes that may draw water from an 'international waterway' will not be eligible for financing.

Consequently, an exception to the external notification requirements of OP 7.50, set forth in paragraph 7(a) for the CSDFP has been approved by the ECA Regional Vice President on January 14, 2015 (Management memorandum is available in Project Files).

Monitoring & Evaluation

42. Prior to the establishment of the CSDF, the PMU will be in charge of continuous Monitoring and Evaluation (M&E) of CSDFP implementation. M&E will ensure that the investments in the participating towns are implemented in accordance with Bank procedures; are consistent with the development objectives of CSDFP; and enjoy the support of the local authorities and the beneficiary populations.

43. In addition, M&E will monitor progress in the development of institutional capacity of local governments and local utilities. These reviews will assist in monitoring improvements in results at the local level, as per the Results Based Grant Facility concept. The results of M&E activities will be reflected in quarterly and annual progress reports. These progress reports will cover performance and impact indicators, progress in the implementation of works and/or delivery of goods and services, and the development of institutional activities, training and studies, as well as the use of project resources under the project. The report for the fourth quarter of each year will be prepared in the form of an annual report that will summarize the entirety of the results achieved during the year and provide a work plan and budget for the following year.

44. A Mid-Term Review (MTR) of the project will be conducted no later than July of 2017, or two years after commencement of CSDFP implementation.

Role of Partners

45. The establishment of the Communal Services Development Fund (CSDF) in Tajikistan is seen as an important step towards harmonizing donor financing in municipal and communal services sector. Development partners such as EBRD, SECO and SIDA have indicated their interest in pooling resources once the Fund is established satisfactory to the World Bank and their respect institutions.

46. The on-going partnership under MIDP AF with the Water and Sanitation program (WSP) will be continued and scaled up under CSDFP. WSP support will focus on institutional strengthening of water supply utilities, scaling up community participation in both water and sanitation efforts and sector studies as needed.

Annex 4: Implementation Support Plan

TAJIKISTAN: Communal Services Development Fund Project

Strategy and Approach for Implementation Support

1. *Supervision Missions:* The project would be supervised at least twice a year by the World Bank and the recommendations of such supervisions would be presented to the Steering Committee of the CSDF, prior to its establishment, and the Supervisory Board of the CSDF subsequent to the establishment of the Fund and subsequent to the transfer of the Project implementation arrangements to the fund. The recommendations will be recorded in an Aide Memoire.

2. *Provision of Key Technical Skills:* Key technical skills required are identified below.

Implementation Support Plan

3. *Key Technical Skills* would include an Engineer/s, an Environmental Safeguards Specialist, a Social Specialist (with safeguards experience), a Monitoring and Evaluation Specialist, a Municipal Finance/Decentralization Specialist/s, an Urban Planner, an Institutional Development Specialist, Economist, and a Financial Management specialist.

- a. Municipal Finance/Decentralization Specialist/s would be responsible for (i) advising on the set up of the CSDF, and its loan and grant financing policies; (ii) supervision of the Technical Assistance packages related to improved FM systems and decentralization under Component C.
- b. Engineer/s would be responsible for ensuring the quality of the sub-project design and civil works implementation under Component B; and Technical Assistance on O & M etc. under Component C.
- c. Environmental Specialist would ensure that all environmental safeguards are adequately implemented in the project.
- d. Social Specialist/s would be responsible for ensuring that (i) social accountability mechanisms are adequately addressed in the project for all Components; (ii) monitor and address any concern that may arise on social safeguard.
- e. Urban Planner would provide supervision assistance for the implementation of the Integrated Investment Plans under Component C as well as any other physical planning issues that may affect the project.
- f. Monitoring and Evaluation Specialist would supervise the project monitoring arrangements and results;
- g. Institutional Development Specialist would supervise the institutional aspects of the establishment of the CSDF;
- h. Economist/s would ensure supervise the economic and financial analysis for the sub-projects and for the project as a whole; and will also supervise the surveys
- i. Procurement Specialist would ensure procurement compliance for the project.
- j. FM Specialist would ensure FM compliance for the project.

Focus of Support

Time	Focus	Skills Needed	Resource Estimate
First twelve months	Ensure establishment of CSDF	MF Specialist & Institutional Specialist	
	Ensuring TA packages are adequately implemented	MF Specialist, Engineer & planner	
	Ensure quality control on FM and procurement	FM Specialist Procurement Specialist	
	Ensure quality control on sub-projects	Engineer Economist	
	Design of surveys		
12-48 months	Ensure adequate supervision of all aspects of project including M & E	All skills	

Skills Mix Required

<i>Skills Needed</i>	<i>Number of Staff Weeks</i>	<i>Number of Trips</i>	<i>Comments</i>
Task Team Leader	30 weeks	6 trips	
Municipal Finance Specialist	12 weeks	6 trips	
Engineer	12 weeks	6 trips	
Environmental Specialist	12 weeks	6 trips	
Social Specialist	12 weeks	6 trips	
M & E Specialist	10 weeks	4 trips	At start & end & MTR
Urban Planner	12 weeks	6 trips	
Institutional Development	8 weeks	4 trips	
Procurement Specialist	12 weeks	6 trips	Field based staff
FM Specialist	12 weeks	6 trips	Field based staff

