

Document of  
The World Bank

Report No: NCO00003557

NOTE ON CANCELLED OPERATION REPORT  
(IDA-D0370)

ON A

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

October 6, 2015

*Global Practice for Social, Urban, Rural and Resilience  
Europe and Central Asia Region*

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective January 31, 2015)

Currency Unit = Tajikistan Somoni

TJS5.52 = US\$1

US\$1.41 = SDR1

FISCAL YEAR

## ABBREVIATIONS AND ACRONYMS

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
MCSD	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

Vice President: Cyril Muller

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Project Team Leader: YariSSa Sommer/Soraya Goga

NCO Team Leader : YariSSa Sommer/Soraya Goga



**REPUBLIC OF TAJIKISTAN  
COMMUNAL SERVICES DEVELOPMENT FUND PROJECT (P133449)**

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MAP IBRD 33493 R1

<b>A. Basic Information</b>			
Country:	Tajikistan	Project Name:	Communal Services Development Fund
Project ID:	P133449	L/C/TF Number(s):	IDA-D0370
NCO Date:	09/11/2015		
Lending Instrument:	IPF	Borrower:	GOVERNMENT OF REPUBLIC OF TAJIKISTAN
Original Total Commitment:	XDR 9.60M	Disbursed Amount:	XDR 0.00M
Revised Amount:	XDR 0.00M		
<b>Environmental Category: B</b>			
<b>Implementing Agencies:</b> Khochagii Manziliu Komunali			
<b>Cofinanciers and Other External Partners:</b>			

<b>B. Key Dates</b>				
Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	06/11/2013	Effectiveness:		
Appraisal:	01/26/2015	Closing:	12/31/2019	06/24/2015
Approval:	03/17/2015			

<b>C. Ratings Summary</b>	
<b>Performance Rating by NCO</b>	
Outcomes:	Not Applicable
Risk to Development Outcome:	Not Applicable
Bank Performance:	Moderately Unsatisfactory
Borrower Performance:	Satisfactory

<b>D. Sector and Theme Codes</b>		
	Original	
<b>Sector Code (as % of total Bank financing)</b>		
General public administration sector	15	
General water, sanitation and flood protection sector	38	
Solid waste management	17	
Sub-national government administration	30	

<b>Theme Code (as % of total Bank financing)</b>		
Municipal finance	48	
Other economic management	6	
Urban services and housing for the poor	46	

#### **E. Bank Staff**

<b>Positions</b>	<b>At NCO</b>	<b>At Approval</b>
Vice President:	Cyril E Muller	Laura Tuck
Country Director:	Saroj Kumar Jha	Saroj Kumar Jha
Practice Manager/Manager:	David N. Sislen	Bernice K. Van Bronkhorst
Project Team Leader:	Yarissa Lyngdoh Sommer	Soraya Goga
NCO Team Leader:	Yarissa Lyngdoh Sommer	

#### **F. Ratings of Project Performance in ISRs**

<b>No.</b>	<b>Date ISR Archived</b>	<b>DO</b>	<b>IP</b>	<b>Actual Disbursements (USD millions)</b>
1	06/15/2015	Satisfactory	Satisfactory	0.00



# 1. CONTEXT, PROJECT DEVELOPMENT OBJECTIVES, AND DESIGN

## Country and Sector Context

1. With a current population of more than 8 million people and a population growth rate 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 thereafter, 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.<sup>1</sup> 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 prospects for growth are constrained in part due to economic challenges in Russia.

2. Although Tajikistan has been 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 sewerage, heating and education are the main contributors to non-monetary poverty. 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.<sup>2</sup> In addition, Life in Transition Survey (LiTS) in 2010 found that access to tap water in Tajikistan was the lowest among CIS countries.<sup>3</sup>

3. Addressing the needs of the urban sector in Tajikistan remains as a critical element for economic growth and addressing the non-monetary dimension of poverty. Communal services infrastructure in urban areas inherited from the Soviet times has significantly deteriorated since the fall of the Soviet Union and it is estimated that approximately 80 percent of such infrastructure is in need of rehabilitation<sup>4</sup>. Estimates indicate that small and medium sized cities have suffered greater deterioration of civic infrastructure than larger cities with communal services coverage as low as 36% in some cities<sup>5</sup>. Weak institutional management capacity at the central and local levels coupled with vast unmet investment needs exacerbates the continued deterioration of infrastructure. To address deficiencies in the sector, the Government of the Republic of Tajikistan, with the assistance of the World Bank, prepared a Municipal and Communal Service Development Strategy (MCSDS). 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 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 reforms highlighted

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<sup>1</sup> 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)

<sup>2</sup> *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”

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

<sup>4</sup> Estimates from SUE KMK.

<sup>5</sup> Diagnostic Assessment of Tajikistan’s Municipal & Communal Services Sector (26 Urban Centers), ICMA 2015



in the Strategy. The Government is committed to donor co-ordination through establishing a single rules based framework for sector financing and expressed their support for harmonized investments. Grants and loans from Municipal Funds have been effective at providing incentives for improving municipal services at the local level.

### **Project Development Objectives**

4. The project development objective (PDO) was to *improve basic communal and municipal services in participating cities and towns.*

### **Project Description**

5. The project would have assisted the Government of Tajikistan in establishing a Communal Services Development Fund (CSDF). It was expected that the CSDF would initially operate only as a results-based grant facility and during that time it would have used a formula driven rule based mechanism to allocate grants to eligible cities and towns, thus simulating a proxy for a rule based intergovernmental transfer that could then have been adopted by the Government of Tajikistan. The results based grant would have provided an incentive to local government and municipalities to improve their ability to plan for capital investments, enhance their efficiency in operations and strengthen their financial status. It was expected that the CSDF would, in the medium term, have been transformed into a capital debt facility (5-10 years).

### **Project Design/Activities**

6. The Project would have also provided financing for the results based grants to local utilities and local governments for basic infrastructure sub-projects. The operation would have provided 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. The activities to be pursued included (i) Support for the Establishment of the Communal Services Development Fund and for Required Reforms; (ii) Sub-Grants to Local Governments and Local Utilities for Communal Services Investments in 8 eligible cities (Chkalovsk, Gissar, Kanibadam, Kurgan-Tube, Sarband, Dangara, Vose, and Fakhor) in eligible sectors - water supply and sanitation, solid waste management, local roads, street lighting and storm water drainage. Technical Assistance would have also been provided to the targeted cities and town to achieve results as stipulated by the Results-Based grant; and (iii) Implementation Support, Monitoring and Evaluation.

7. Upon establishment of the CSDF to the satisfaction of the World Bank the operating costs would have been transferred accordingly to support the Fund's management. The PMU of the on-going Bank funded Municipal Infrastructure Development Project Additional Financing which was scheduled to close on August 3, 2015 would have been retained as the PMU for CSDFP. This would have required an amendment of its existing Charter.

## Project Cost and Financing

8. The proposed financial instrument for the project was Investment Project Financing.

### 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%
<b>Total Project Costs</b>	<b>13,500,000.00</b>	<b>13,500,000.00</b>	<b>100%</b>
<b>Total Financing Required</b>	13,500,000.00	13,500,000.00	100%

## Description of Institutional and Implementation Arrangements

9. The CSDFP project would have been implemented over four years. The State Unitary Enterprise “Khojagii Manziliu Kommunalii” (KMK) would have acted as the Project Implementing Agency, and would have mandated a Project Management Unit (PMU) for the Project. Prior to the establishment of CSDF, the existing PMU that was established for the management of the on-going Municipal Infrastructure Development Project Additional Financing would have been mandated as PMU for CSDFP. It was expected that with the establishment of the CSDF (Fund) to the satisfaction of the World Bank, fiduciary functions would have been transferred to the CSDF. Fiduciary assessments of the implementing entity KMK and the PMU were found satisfactory to the World Bank at the time of Project Appraisal. 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 were assessed as moderately satisfactory.

## Description of Overall Risk Rating

10. The overall Project risk was rated as substantial, due to governance risks, looming macroeconomic strains, existing institutional capacity limitations in the sector, and some potential stakeholder risks. Macroeconomic risks were substantial and included 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). Project design risk was rated as *substantial* due to the establishment of the Fund (CSDF) and given that it was a completely new financing mechanism being piloted in the country for the urban sector. Institutional capacity for implementation and sustainability was also assessed as *substantial* for the same reasons given above.

## Quality at Entry

Quality at entry rated *satisfactory*.

11. Project preparation leading up to delivery of CSDFP to the Board is assessed as *satisfactory*. Given the dire state of communal services provision, particularly with respect to water supply, sanitation and solid waste management in Tajikistan the relevance of PDO is rated as *Satisfactory*. The preparation process drew on the on-going Municipal Infrastructure Development Project and its Additional Financing. Project preparation also benefitted from lessons learned from similar projects implemented by the World Bank internationally.

12. Project preparation encountered some initial delays, as Government Agencies (KMK, Ministry of Economy, Ministry of Finance and the Executive Office of the President) resolved the institutional arrangements of the proposed Communal Services Development Fund. This was resolved prior to appraisal. Furthermore, at appraisal, sub-projects were also pre-identified for the cities of Farkhor, Vose, Gissar and Sarband for the first 18 months of project implementation. Finally, at appraisal, the project was in compliance with World Bank Safeguard policies and requirements.

13. The Project was originally designed for an investment scope of \$30.0 million IDA grant per CPS allocations. At project appraisal the scope of investments was reduced to a \$13.5 million IDA Grant as a result of Tajikistan's IDA Allocation changing from 100% grant to 45% grant and 55% credit on July 1, 2014. However, this did not adversely affect QAE as Project Design (premised on a formula based grant) was flexible enough to absorb such changes. The relevance of project design is assessed as *satisfactory* as any further changes needed to meet 100% IDA Credit terms could have been absorbed through Project Restructuring. The project design was flexible enough to i) change the selection of cities assigned by the Government to more credit worthy municipalities and utilities that have the capacity to borrow; ii) identification of sub-projects investments in large were demand driven, allowing the target municipalities and utilities, to be in charge of their investment priorities; and iii) to effectively sustain investments, sufficient consideration was given to the activities institutional support and capacity building, especially with regards to prerequisite reforms in the areas of utility reform such as billing and collection modernization, O&M capacity etc. However, the option to restructure the project, to help balance country IDA financing parameters were not accepted by the MOF as it was un-willing to borrow and on-lend the IDA credit to KMK at that time.

## **2. POST-APPROVAL EXPERIENCE AND REASONS FOR CANCELLATION**

14. The Communal Services Development Fund Project (CSDFP) was negotiated on February 12th and approved by the Board on March 17th, 2015. The Financing agreement was signed on April 30th, 2015.

15. At the start of Project preparation, Tajikistan was a recipient of IDA grants, and Project design reflected these financing terms. However, in July, 2014 prior to Project Appraisal, Tajikistan's IDA borrowing terms changed from 100% Grant to a 45% Grant/55% Credit split. Due to the KMK's poor financial performance which undermined its capacity to service the Credit part of IDA financing, it was agreed at appraisal to reduce the Project size to US\$ 13.5 million, utilizing only the allocated grant part of the initial IDA allocation and on-granting this amount to KMK. It was agreed with the Government of Tajikistan that at least one of the subsequent Projects negotiated with the Government of Tajikistan would require a higher than 55% credit allocation in order to balance the portfolio towards the required 45% grant/55% credit ratio.

16. In late May 2015, the Bank learned that as of July 1, 2015 Tajikistan would move to 100% IDA Credit financing terms in accordance with the IMF-WB Debt Sustainability Analysis (DSA). The DSA had been subjected to careful review, given the concern that Tajikistan would move very rapidly from being a 100% IDA grant country to a 100% IDA credit country in the space of just over one year. Consequently, it became apparent that it was no longer possible to balance the IDA Tajikistan portfolio over a two years period (FY15-16) as originally planned to meet the 45% Grant/55% Credit ratio. The Bank discussed the possibility of obtaining an exception to balancing the IDA books, given the economic crisis in the country and need for an urgent intervention to support returning migrants from Russia, as well as the unusually rapid move from all grant to all credit funding. However, it was decided on June 18 that the portfolio of projects had to be balanced to reflect the 45% Grant/55% Credit allocation ratio by June 30, 2015.

17. Since the CSDFP and a very small Additional Financing for the Environmental Land Management and Rural Livelihoods Project (USD1.8 million) were the only fully grant-financed IDA operations approved in FY15 for Tajikistan, and all Projects negotiated prior and subsequent to CSDFP were negotiated at a 45% Grant/55% Credit allocation ratio, Bank Management determined that the partial cancellation of the grant component for both operations and replacement with a partial credit was the only viable option in balancing the portfolio towards the overall 45% grant/55% credit allocation ratio. However, in light of the creditworthiness concerns regarding KMK, the Government of Tajikistan was not amenable to this solution, as it did not want KMK to incur any further debt. Instead, the Minister of Finance (MoF) requested the full cancelation of the CSDFP operation on June 20, 2015. The World Bank then issued a letter to MOF on June 22, 2015 with a proposal to cancel the CSDFP. A letter confirming MoF's agreement to the proposed cancelation of CSDFP was received by the Bank on June 24th, 2015. Subsequently, a notice addressed to the borrower confirming cancellation of the CSDFP was signed and issued by the Country Director on July 3, 2015.

### **3. ASSESSMENT OF BANK PERFORMANCE**

Rating: Moderately *Unsatisfactory*

18. Despite a Satisfactory Quality of Entry rating, the overall assessment of Bank performance is rated as Moderately Unsatisfactory. This rating is a result of the unfortunate need, after Board approval to advise the Government of Tajikistan to request the cancellation of the operation in order to meet new IDA grant/credit portfolio ratios which became effective July 1, 2015. As a result, the Bank and client agreed to the cancellation of a critically needed operation in the country, the implementation of which would have been timely in ameliorating some impacts of the downturn in Russia on Tajikistan's economy, including through the provision of basic services and temporary employment through the implementation of civil works. However, it is recognized that the Bank and the IMF performed additional sensitivity analysis at the request of the CMU to determine if it was possible to maintain the existing DSA rating, especially given that Tajikistan was facing an economic crisis. The additional analysis took time, and confirmed that a change in DSA status was warranted. However, once the final determination was made in May 2015, the cancellation of the operation was the only option available in the time remaining to balance the IDA books by June 30, 2015.

### **4. ASSESSMENT OF BORROWER PERFORMANCE**

Rating: *Satisfactory*

19. The Government was strongly committed to the project, its envisioned objectives, and provided the institutional support as needed. It began project preparations in a timely manner, although encountering delays during preparation which were eventually overcome. In addition, after project approval by the Bank's Executive Directors, relevant government agencies promptly worked towards meeting Project Effectiveness Conditions stipulated during project negotiations. To demonstrate its commitment the Government was undertaking relevant regulatory and reform measures that would have supported the establishment of the Communal Services Development Fund.

### **5. LESSONS LEARNED**

20. Due to the premature cancellation of the operation there are no lessons learned for the sector. However, the experience highlights that during a dynamic DSA period, there should be greater vigilance on IDA portfolio management issues. More specific lessons highlight the need for (i) better planning of the IMF Article 4 Board Date in relation to the World Bank FY when it involves a DSA with a change in status, which would allow the Bank more time to balance the IDA books; (ii) greater flexibility on small overruns on IDA grants in exceptional circumstances, such as when a country moves rapidly from 100% grant to 100% credit in the space of just over a year; and (iii) better internal communication within the World Bank on the consequences of changing IDA terms.

## Annex 1. Bank Lending and Implementation Support/Supervision Processes

### (a) Task Team members

Names	Title	Unit	Responsibility/ Specialty
<b>Lending</b>			
Soraya Goga	Team Leader	GSURR	Lead Urban Specialist
Yarissa Lyngdoh Sommer	Team Leader (ADM Responsible)	GSURR	Urban Specialist
Dilshod Karimova	Procurement Specialist	GGODR	Procurement Specialist
Niso Bazidova	Financial Management Specialist	GGODR	Financial Management Specialist
Angela Nyawira Khaminwa	Senior Social Development Specialist	GSURR	Team Member
Arcadii Capcelea	Environmental Specialist	GENDR	Team Member
Faridun Sanginov	Operations Officer	GSURR	Team Member
Jasna Mestnik	Finance Officer	WFALA	Team Member
Leyla Talipova	Consultant	GWADR	Team Member
Natalia Robalino	Senior Counsel	LEGIA	Team Member
Svetlana Sharipova	Social Development Consultant	GSURR	Team Member
Navruza Aliqulova	Program Assistant	ECCTJ	Team Member
Lisa Fonick Haworth	Office Manager	GSURR	Team Member

<b>Supervision/NCO</b>			
Yarissa Lyngdoh Sommer	Team Leader (ADM Responsible)	GSURR	Urban Specialist
Soraya Goga	Team Leader	GSURR	Lead Urban Specialist
Faridun Sanginov	Operations Officer	GSURR	Team Member
Lisa Fonick Haworth	Office Manager	GSURR	Team Member

### (b) Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
<b>Lending</b>		
<b>Total:</b>	82.03	479.67
<b>Supervision/NCO</b>	0.00	
<b>Total:</b>		0.00

## **Annex 2. List of Supporting Documents**

- i. PAD
- ii. Signed Financing Agreement
- iii. Letter to MOF from CMU requesting MOF to consider Cancelling CSDFP dated June 22, 2105
- iv. Response Letter from MOF dated June 24, 2015
- v. CD Notice of Cancellation to the Borrower

