PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA19288

Project Name	Communal Services Development Fund (P133449)
Region	EUROPE AND CENTRAL ASIA
Country	Tajikistan
Sector(s)	Sub-national government administration (40%), Water supply (30%), Wastewater Collection and Transportation (15%), Solid waste manage ment (15%)
Theme(s)	Urban services and housing for the poor (50%), Municipal finance (50%)
Lending Instrument	Investment Project Financing
Project ID	P133449
Borrower(s)	Government of Tajikistan
Implementing Agency	Khochagii Manziliu Komunali
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	03-Feb-2015
Date PID Approved/Disclosed	03-Feb-2015
Estimated Date of Appraisal Completion	30-Jan-2015
Estimated Date of Board Approval	17-Mar-2015
Decision	

I. Project Context

Country Context

With current population of about 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 of population in 1999 to an approximate 36 percent in 2012.

Despite the stability gains post the civil war and per capita GNI of US$980 in 2013, Tajikistan still remains the poorest country in Europe and Central Asia (ECA), and the prospects for future growth also look bleak. GDP growth for 2014 has dipped to 6.5 percent, and further projected to decrease down to 4.2% in 2015, 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.

Although Tajikistan was doing quite well in reducing monetary poverty, it did less well in reducing nonmonetary. In fact, there seems to be no progress made in terms of 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. Further, 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 Comparing deprivation in the bottom 40 and top 60 percent of the population between 2007 and 2013, data shows reduced coverage and increased inequality in access to sanitation. In addition, Life in Transition Survey (LiTS) in 2010 found that access to tap water in Tajikistan was the lowest among CIS countries.

Sectoral and institutional Context

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 MDG goals.

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 service 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 rehabilitation . Macro estimates indicate that small and medium sized cities have suffered greater deterioration of civic infrastructure than larger cities, due to the lack of maintenance and investment. A survey of 26 cities indicated that coverage for water supply in some cities is as low as 36 percent and even lower for sanitation at 25 percent. Weak institutional management capacity at the central and local (utilities and local government) levels coupled with vast unmet investment needs exacerbates the continued deterioration of infrastructure.

To address service deficiencies, during post-independence period, the Government experimented with both symmetric decentralization of communal service provision to the local self-governments (LGs) 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 Kommunali' (KMK). Although the national laws passed in 2009 and 2010 supported increased decentralization, including the gradual transferring of all urban services delivery functions back to local governments, this is still yet to come to fruition. Rather further centralization has taken place with the recent passage of government policy including rural water supply service delivery into KMK.

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 in charge of 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. This creates distorted lines of authority and accountability ; creating serious challenges for any integrated investment planning at a local level. KMK and local governments also lack the adequate capacity for sufficient management of operations and carrying out capital investments in the sector, which result from inefficient tariff policies, large losses of water, uncertain revenue streams, and most importantly, obsolete infrastructure.

The urban 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 of Republic of Tajikistan 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 being collected at the central level, with a few non-tax revenue resources are mandated for collection by LGs that are not adequate for meeting local expenses. In addition, fiscal transfers are not formula-based but distributed annually on an adhoc basis resulting in unpredictable budgetary and cash flow situation. Utility revenues cover only 70% of operational costs , due to very modest levels of tariffs, poor collections, large volumes of non-revenue water, as well as those unaccounted for sewerage. Consequently, borrowing capacity of these local entities are extremely poor . International Donors provide some of the required investments , while domestic financial institutions are not involved in any type of financing in the sector .

To address deficiencies in the sector, the Government, with the assistance of the World Bank, has prepared a Municipal and Communal Service Development Strategy 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 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.

Municipal Development Funds have had some success internationally of mobilizing both national and international financing and have also proved effective at ensuring a platform that can also co-ordinate disparate international donor investments . 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 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 own revenue streams (including the IGT), thus ensuring the sector sustainability.

The Government of Tajikistan has requested World Bank assistance in implementing some of the recommendations of the Strategy including in establishing a communal services development fund 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 World Bank 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.

II. Proposed Development Objectives

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

III. Project Description

Component Name

Component A: Support for the Establishment of the Communal Services Development Fund and for Required Reforms (IDA Grant USD 0.67million)

Comments (optional)

Sub-Component A1: Support for Establishment of the CSDF (IDA Grant 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).
Subcomponent A2: Technical Assistance to the National Government (IDA Grant USD $0.42million) : This sub-component will finance assistance to the national government entities in undertaking reforms identified in the Municipal and Communal Services Development Strategy (MCSDS), and in the Government's emphasis on enactment of decentralization reforms in the Housing and Communal Services sector .

Component Name

Component B: Grants and Loans for Municipal and Communal Services Investments (IDA Financing USD 25.58 million)

Comments (optional)

The component will provide financing in the form of results based grants and loans for investments for municipalities 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 consultants services. Proposed participating cities and towns (i.e. eligible participating entities) for the World Bank financing include all those defined as ‘cities’ by TajStats in their Annual demographics report for 2013, (17 cities). Dushanbe, Khujand, Nurek and Rogun will be excluded and Hissar, Dangara, Vose and Farkhor included.

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Component Name

Component C: Implementation Support, Monitoring and Evaluation (USD 4.03 million)

Comments (optional)

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: operating costs of the Project Management Unit (PMU), Audits, project Management Consultants, surveys and communication and awareness raising. Upon establishment of the CSDF to the satisfaction of the Bank the operating costs shall be transferred accordingly to support Fund’s management. The PMU of the on-going Bank funded Municipal Infrastructure Development Project Additional Financing scheduled to close on August 31, 2014 will be retained as the PMU for CSDFP. This will require an amendment of its existing Charter to include activities under CSDFP.

IV. Financing *(in USD Million)*

Total Project Cost:	13.50	Total Bank Financing:	13.50
Financing Gap:	0.00		

For Loans/Credits/Others	Amount
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	13.50
Total	13.50

V. Implementation

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	×	
Natural Habitats OP/BP 4.04		×
Forests OP/BP 4.36		×
Pest Management OP 4.09		×
Physical Cultural Resources OP/BP 4.11		×
Indigenous Peoples OP/BP 4.10		×
Involuntary Resettlement OP/BP 4.12	×	
Safety of Dams OP/BP 4.37		×
Projects on International Waterways OP/BP 7.50	×	
Projects in Disputed Areas OP/BP 7.60		×

Comments (optional)

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