

1. Project Data:		Date Posted : 08/14/2007	
PROJ ID : P082018		Appraisal	Actual
Project Name : Kazan Municipal Development Project	Project Costs (US\$M):	125	125
Country: Russian Federation	Loan/Credit (US\$M):	125	125
Sector Board : UD	Cofinancing (US\$M):		
Sector(s): Sub-national government administration (50%) Other social services (20%) District heating and energy efficiency services (10%) Housing construction (10%) General water sanitation and flood protection sector (10%)			
Theme(s): Social safety nets (29% - P) Municipal finance (29% - P) Regulation and competition policy (14% - S) Public expenditure financial management and procurement (14% - S) Other urban development (14% - S)			
L/C Number: L4766			
	Board Approval Date :		02/24/2005
Partners involved :	Closing Date :	12/31/2006	12/31/2006
Evaluator :	Panel Reviewer :	Group Manager :	Group :
Roy Gilbert	Peter Nigel Freeman	Alain A. Barbu	IEGSG

2. Project Objectives and Components:

a. Objectives:

- a) To enable Kazan (as a newly created municipality) to strengthen its financial position;
 b) To put in place reforms needed to improve: (i) budget and financial management; (ii) the delivery of social services; and (iii) the condition of the housing and communal services (HCS) sector.

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Components (or Key Conditions in the case of DPLs, as appropriate):

Policy areas agreed by the Bank and the Borrower were :

- (i) Strengthening budget and financial management - improved planning and financial flow management to help achieve long term fiscal and financial stability .
- (ii) Improving the social protection system - better targeting of assistance to the poor, more efficient service delivery and transparency in social welfare spending .
- (iii) Strengthening housing and communal services - supporting the sustainable development of the HCS sector in Kazan (this had included transferring Kazan's water facility (Vodokanal) to private operation, but instead in 2006, the European Bank for Reconstruction and Development (EBRD) agreed a project to fund capitalize Vodokanal to prepare for its privatization, making this project's own tranche condition of privatization redundant, something formally recognized by the Bank's Board of Directors when they approved a waiver with respect to this condition .)

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

This operation was a Development Policy Loan (DPL), released in two tranches of US\$50 million in July 2005 and US\$75 million in December 2006, after all agreed release conditions had been met . The actual timing of the releases was as planned. The Bank loan was to Government of the Russian Federation, that passed on the funds as grant to Kazan municipality .

3. Relevance of Objectives & Design:

Particularly at a time when Kazan municipality, only created in 2004, was having to establish its autonomy following the withdrawal of support by higher-level government (both the Russian Federation and the Tartarstan Republic), the project was relevant in supporting longer term priorities of Bank -Russia cooperation. Among other things, these included: better budget management at the subnational level, attracting investments for municipal development, stronger social protection systems, and better housing and communal services .

4. Achievement of Objectives (Efficacy):

a) *Strengthening Kazan's financial position - **substantially achieved*** . According to the ICR, the municipality of Kazan has fully paid off the 2.4 billion rubles of overdue payables on its books in 2004. Also the city's budget deficit fell from 16.9 percent of revenues in 2004 to only 3.6 percent of revenues in 2006. This was partly the result of the reduction of city budget expenditures from 19.5 million rubles in 2004 to 10.2 million rubles in 2006..

b.i) *Improved budgeting and financial management - **substantially achieved*** . Relevant tranche conditions--notably the city's preparation of a medium term financial plan, and control of payables --were met. The ICR mentions actions taken to consolidate revenues from the sale of municipal assets into a single account, for instance . These revenues proved to be considerable in the short-run. The municipality continues to prepare rolling three year budgets and financial plans, enabling Kazan to make more accurate forecasts of aggregate revenues and expenditures . There were significant improvements in procurement practices by the municipality, with the share of direct (noncompetitive) contracting declining from 55 percent of all municipal procurement in 2003 to 25 percent in 2006. For greater transparency, the municipality established a single city-wide registry of all its procurement. The ICR reports that all information relating to procurement is now made public .

b.ii) *Improved delivery of social services - **substantially achieved*** . Relevant tranche conditions--notably city adequate budgeting for social protection, municipality Resolution defining social benefit entitlements, use of individual accounts--were met. New practices for Kazan city, such as individual case management, the use of an integrated database for all social assistance programs, and comprehensive living standards monitoring, were introduced. Targeting of social support was improved through focusing on easily identified groups such as old -age pensioners and subsidizing children of poor families for them to attend kindergarten . The city also introduced the competitive selection of NGOs to provide services to the disabled, pensioners and families at risk .

b.iii) *Better condition of the housing and communal services (HCS) sector - **modestly achieved*** . While tranche conditions, such as having at least 52 percent of the housing stock maintained by private companies, and the vague notion of the city's "satisfactory improvements in the housing and communal service sector, evidence of better results coming from the sector is thin in the ICR . Still, it is reported that the financial performance of HCS improved significantly after budget subsidies to heating producers were eliminated from the city budget in 2005. Today, the entire housing stock of Kazan is serviced through competitive private contracts . Most tariff revenues for HCS, except for electricity and heating, were transferred to the municipality .

5. Efficiency (not applicable to DPLs):

a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the

re-estimated value at evaluation :

	Rate Available?	Point Value	Coverage/Scope*
Appraisal		%	%
ICR estimate		%	%

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:

The operation fully met objectives, that were particularly relevant for a key municipality establishing its financial and management autonomy in the fact of the reduction of support to the city from higher levels of government . The operation played a crucial and timely role in helping the transition of the city of Kazan . Apart from achieving its intended outcomes, the operation also helped harmonize the (new) municipality's legal framework with that of the Russian Federation. The project's good outcomes were helped, no doubt, by the high rates of GDP growth enjoyed by Russia during project implementation .

a. Outcome Rating : Satisfactory

7. Rationale for Risk to Development Outcome Rating:

While the project achievements were buoyed by a growing economy, they are likely to be even more valuable--especially through enhancing efficiency--at times of a weaker economy (that are not foreseen in the medium term). Municipal HCS efforts focused upon maintenance should help ensure that project benefits continue into the future. Finally, the reduction of higher level government support to the city has meant that Kazan municipality really has no choice but to consolidate its autonomy and pursue its reforms . All these factors help reduce the risk to the development outcome rating .

a. Risk to Development Outcome Rating : Moderate

8. Assessment of Bank Performance:

While the project design was driven by the Kazan Municipality itself, Bank preparation teams were skilful in providing key assistance in selecting key municipal goals and linking them to the proposed program in a way that was consistent with the priorities of both the Bank and the Municipality . Bank supervision was intense, almost on a daily basis by telephone between missions, something made possible by Bank teams composed primarily of Russian-speaking experts in Moscow . While this made for agile supervision, formal reporting typical of Bank supervision was sometimes amiss, aide-memoires not always prepared, undermining the Bank's institutional memory of the operation

a. Ensuring Quality -at-Entry:Satisfactory

b. Quality of Supervision :Moderately Satisfactory

c. Overall Bank Performance :Satisfactory

9. Assessment of Borrower Performance:

Officials of the Russian Federation Government worked efficiently and diligently in project preparation . Strong ownership was demonstrated by the Republic of Tatarstan that became one of the key regional partners of the Bank. The Tatarstan President himself fully supported the project . During implementation, follow-up by the federal authorities was frequent, although somewhat undermined by the lack of the expected funding for M&E . Kazan Municipality was effective in implementing the reforms and other changes required by the project, even regaining the momentum that had been lost a little following the 2005 change in top leadership in the city .

a. Government Performance :Satisfactory

b. Implementing Agency Performance :Satisfactory

c. Overall Borrower Performance :Satisfactory

10. M&E Design, Implementation, & Utilization:

Prior to appraisal the federal authorities and representatives of the municipality of Kazan formally agreed upon 16 performance indicators to monitor the progress of the loan . A special working group headed by the city Mayor of Kazan was set up to monitor progress . Funding expected from the Federal Government to help finance M&E was not forthcoming, however, so that very little was actually implemented .

a. M&E Quality Rating : Modest

11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):

12. Ratings :	ICR	IEG Review	Reason for Disagreement / Comments
Outcome:	Satisfactory	Satisfactory	
Risk to Development Outcome:	Moderate	Moderate	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Performance :	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTES:

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.

- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate .

13. Lessons:

A wide range of development issues, ranging from fiscal sustainability to social protection to key sectors such as housing and communal services, can be effectively addressed by the Bank at the municipal level .

- Using a DPL as the instrument allowed the Bank to focus upon the substance the project inspired reforms, rather than dealing with time and staff-consuming issues of procurement especially .
- This kind of DPL can only work with effective parallel technical assistance (TA). In the case of this project, the TA was delivered informally through frequent Bank and federal supervision . An explicit technical assistance component--typical of more recent adjustment operations--might have helped groom more local officials and stakeholders in the ways and means of the reforms being pursued .
- The successful project experience points to the effectiveness and cost efficiency of deploying mostly local teams. On the other hand, it is clear that a greater participation by international Bank experts could have accelerated the agreements for project preparation to go ahead .

14. Assessment Recommended? Yes No

Why? As an input into IEG Special Study on Municipal Development, in a country with few IEG PPARs in the urban sector .

15. Comments on Quality of ICR:

Overall, this is a satisfactory ICR that documents evidence for most of the project achievements, whilst candidly referring to a few areas of shortcomings . Where the ICR is most wanting, however, is through not providing data on municipal finances of Kazan before and after the project . This is an important oversight for a project aimed at strengthening the financial position of a newly autonomous municipality .

a.Quality of ICR Rating : Satisfactory
