



Validation Report

Reference Number: PVR-380
Project Number: 31197
Grant Number: 0122
December 2014

Kyrgyz Republic: Community-Based Infrastructure Services Sector Project (Supplementary)

Independent Evaluation Department

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
ARIS	–	Agentstvo Razvitya i Investirovaniya Soobshestv (Community Investment and Development Agency)
DMF	–	design and monitoring framework
EIRR	–	economic internal rate of return
O&M	–	operation and maintenance
PCR	–	project completion report
PMU	–	project management unit
RRP	–	report and recommendation of the President
WSS	–	water supply and sanitation

NOTE

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

Key Words

asian development bank, community-based infrastructure, economic internal rate of return, evaluation, kyrgyz republic, independent evaluation department, rural sanitation, water supply

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PROJECT BASIC DATA

Project Number:	31197	PCR Circulation Date:	Jun 2014	
Grant Number:	0122	PCR Validation Date:	Dec 2014	
Project Name:	Community-Based Infrastructure Services Sector Project (Supplementary)			
Country:	Kyrgyz Republic		Approved (\$ million)	Actual (\$ million)
Sector:	Water and Other Municipal Infrastructure and Services	Total Project Costs:	37.50	9.83
ADB Financing: (\$ million)	ADF: 30.00	Grant:	30.00	8.16
		Borrower:	6.15	1.39
	OCR: 0.00	Beneficiaries:	1.35	0.28
		Others:	0.00	0.00
Cofinancier:		Total Cofinancing:	0.00	0.00
Approval Date:	3 Nov 2008	Effectiveness Date:	23 Jan 2009	19 Dec 2008
Signing Date:	24 Nov 2008	Closing Date:	30 Jun 2013	14 Oct 2013
Project Officers:	C. Mambetova	Location Kyrgyz Republic Resident Mission Kyrgyz Republic Resident Mission	From Nov 2008	To Dec 2012
	M. Khaltarpurev		Jan 2013	Oct 2013
Validators:	I. Green, Consultant D. Manlangit, OJT, IED	Peer Reviewer:	E. Gozali, Principal Evaluation Specialist, IED1	
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ADB = Asian Development Bank; ADF = Asian Development Fund; IED1 = Independent Evaluation Department, Division 1; IED2 = Independent Evaluation Department, Division 2; OCR = ordinary capital resources; OJT = on-the-job trainee; PCR = project completion report.

I. PROJECT DESCRIPTION

A. Rationale

1. This supplementary grant¹ was needed to address the funding gap for the Community-Based Infrastructure Services Sector Project, which had stemmed from significant issues, such as price increases in critical project inputs, climate changes, and droughts, as explained in the report and recommendation of the President² (RRP). The increase in the prices of steel, cement, pipes, and petroleum products increased the overall construction cost of the water supply infrastructure. Whereas, climate-related occurrences limited the use of water sources located near the villages, resulting in the need to connect to distant water sources. Consequently, this increased the scale and cost of the subprojects, and ultimately made the total available funding insufficient to meet the original targets of the loan-funded project.

¹ The project completion report (PCR) could have commented on the Kyrgyz Republic being eligible for a 100% Asian Development Fund grant financing for 2007–2008 and tapping a grant in lieu of a loan.

² ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Grant to the Kyrgyz Republic for the Community-Based Infrastructure Services Sector Project (Supplementary)*. Manila.

B. Expected Impact

2. The RRP stated that it has as both project impact and outcome the improvement of public health and environment in project villages, namely: (i) increased coverage of safe water from 32% of the population to 100%; and (ii) reduced incidence of waterborne diseases, from 30% of the population to 5% over the project period (RRP, para. 6). These indicators are reflected in the RRP's design and monitoring framework (DMF) as an additional indicator, "public satisfaction with the availability, quality, and quantity of water is increased." Some indicators may be more appropriate at the project outcome level. The use of perception or beneficiary satisfaction rate is deemed a weak indicator and should only be a support indicator.

C. Objectives or Expected Outcomes

3. The DMFs of the RRP and the project completion report (PCR) stated the expected outcome to be "safe, adequate, and efficient water supply and sanitation services."³ The following performance indicators and targets were to be achieved by 2012: (i) environmental degradation controlled and natural resources appropriately tapped in 200 villages to meet community demand; (ii) water supply and sanitation assets strengthened and community fully involved in operating and maintaining the subprojects; and (iii) service delivery improved through adequate supply and better quality of water.

4. The identified indicators were qualitative and difficult to assess. The outcome and purpose-level indicator—strengthened water supply and sanitation assets and full community involvement in operating and maintaining the subprojects by 2012—was similar to the output 2 indicator, which was that communities would undertake preventive maintenance of systems.

D. Outputs

5. The outputs per the RRP's DMF are: (i) output 1—rehabilitated and newly constructed water supply and sanitation systems in project villages; (ii) output 2—water supply systems and tariff collection managed by communities to recover cost; and (iii) output 3—government-issued sector development policy and legal and regulatory framework for rural water asset creation and service delivery. The supplementary grant was to cover 122 subprojects (not covered under the loan project) in about 200 villages with a total population of about 300,000. Sanitation was to be an integral part of each subproject (RRP, para. 14 [i]). Other than these, the indicators were not objectively verifiable—for instance, output 1 had no breakdown in the number of subprojects to rehabilitate or construct.

E. Provision of Inputs

6. The total project cost at loan closing was \$9.8 million or 26% of the total estimated project cost of \$37.5 million. The Asian Development Bank (ADB) was to provide \$30.0 million as grant, but only \$8.16 million was disbursed while the unused grant of \$21.84 million was canceled on 3 June 2013. Of the government's estimated share of \$6.15 million, only \$1.39 million (23%) was expended while the beneficiaries' contribution amounted to \$0.28 million out of the estimated \$1.35 million. Before the cancellation, project implementation and grant disbursements were suspended in June 2012 because of the findings of ADB's Office of Anticorruption and Integrity review. The review identified project implementation weaknesses

³ ADB. 2014. *Completion Report: Community-Based Infrastructure Services Sector Project (Supplementary) in the Kyrgyz Republic*. Manila.

during 2009–2012: the executing agency was changed three times, the project had difficulties following procurement and disbursement procedures, and procurement irregularities resulted from poorly managed and supervised project activities.

F. Implementation Arrangements

7. Project implementation arrangements were modified to include (i) the changes in the executing agency from the Ministry of Agriculture, Water Resources, and Processing Industry to the Department of Rural Water Supply, with the latter involving rural water supply professionals from its oblast (province); and (ii) the mandatory involvement of the *ayil okmotu* (village council) to provide back-up support to community unions for drinking water users. Technical consultants were appointed to ensure third party quality assurance and provide overall support to the project management unit (PMU). A project steering committee was established in February 2009 to select subprojects and monitor the institutional development program, among others. A project coordination committee was established in 2009 but the committee never met due to the restructuring of the government. A joint project management unit established in 2008 managed the project at the central government level, especially to implement rural water supply and sanitation (WSS) projects. Project implementation units established at the oblasts during the loan project supervised the subprojects. During the 3.5-year implementation, the executing agency was changed four times, to the Department of Rural Water Supply, the Ministry of Natural Resources, the State Committee on Water Melioration, and the Community Investment and Development Agency (ARIS). The project director was also changed three times.

8. Of the 26 grant covenants, the government failed to comply with 12 covenants, partially complied with 7 covenants, and fully complied with 5; while 2 covenants were not applicable. Noncompliance resulted from poor project administration and financial management such as (i) frequent changes in the executing agency; (ii) the nonfunctional project coordination committee; (iii) problems associated with bid evaluation and contract awards; (iv) failure to submit initial environmental examinations, environmental management plans, and environmental clearances on time;⁴ (v) failure to comply with ADB's Anticorruption Policy (PCR, para. 18, and Appendix 8) and incorporate its relevant clauses in the contract documents; and (vi) failure to establish a project performance monitoring system. The government also failed to issue a sector development policy, and a legal and regulatory framework for creating rural water assets and delivering services.

9. Three consulting services packages were included under the project: (i) technical design, (ii) national consultant for technical supervision, and (iii) national consultant for community mobilization. The project hired consultants for technical design, community mobilization, and hygiene and sanitation education. No firm was hired for construction supervision.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

10. The PCR rated the project *less than relevant*. On alignment with ADB and government strategies, the PCR emphasized that at project completion, the grant renewed focus on water supply and sanitation. As such, both the Kyrgyz Republic's medium-term development plan 2012–2014 and ADB's country partnership strategy 2013–2017 explicitly supported WSS.

⁴ The project was classified as environmental category B.

However, the PCR stated that at project inception, there was no enabling environment such that (i) no rural WSS policy was in place; and (ii) a legal and regulatory framework for community-based WSS service provision was unsuitable and weak.

11. This validation notes conflicting circumstances against which the project is being rated *less than relevant*. In particular, the PCR stated that the project was conceived without the necessary policy environment, but the project design tried to rectify this by including as an intervention the development of a policy, and a legal and regulatory framework for rural WSS. Thus, as designed, the project would have addressed the unsupportive policy environment issue; however, no resources were allocated for the component (PCR, para. 27).

12. On relevance of design, approach (modalities), and responsiveness to identified development problem, this validation is inclined to comment that using a grant to finance infrastructure projects may not be an appropriate modality as the proponent agency will not have the incentive to ensure the efficient use of funds. However, the loan project had likewise not delivered its intended outputs, which indicates that the mode of financing had no impact on project outcomes. The main shortcoming in the design of the supplementary grant was the inadequate funds allocated to each subproject.

13. Given that the cost of the average subprojects under the loan project was already \$437,000 during implementation, it is not clear why the average cost for the grant subprojects was estimated to be \$290,000.

14. The second design issue was risk mitigation. Three sources of risk were identified at appraisal: PMU capacity, selection of contractors, and community participation. Mitigation measures were also identified to address these risks such as further strengthening of the PMU and the project implementation unit, stringent criteria for prequalification of contractors, improved guidelines for involving communities in identifying and selecting water sources and in implementing the project to ensure ownership. These risks proved to hinder project management and progress.

15. This validation agrees that project implementation arrangements were weak mainly because the project had retained the old PMU that was responsible for nondelivery of outcomes and outputs of the loan project. The supplementary nature of the grant project would also have prohibited a stringent assessment of the soundness of the implementation arrangements because of an overlap in the implementation period. The grant was made effective on 19 December 2008 while the loan was still ongoing with a completion date of 30 April 2009 and a loan closing date of 27 January 2010. The PCR noted that lessons derived from the loan project were dealt with in the design of the grant project but focus was on the subproject (local implementation). No mention was made on the thoroughness of assessing the implementation arrangement particularly on overall project management, which was tagged as the root cause of mismanagement. Quality at entry was poor and was not rectified during implementation.

16. This validation rates the project *less than relevant* because the following design failures were repeated under the loan to which the grant was supplementary: (i) use of similar implementation arrangements as the loan project with no major changes proposed, (ii) underestimation of costs, and (iii) insufficient measures to mitigate the impact of known risks.

B. Effectiveness in Achieving Project Outcome and Outputs

17. The PCR rated the project *ineffective*. This validation agrees with the PCR's rating. The project aimed to deliver nine output indicators under the three main components (Table 1). Based on the PCR's DMF, only one output was delivered—the provision of tools and maintenance equipment to communities. One output was marginally achieved—the provision of continuous potable water supply. Of the 122 target subprojects in 200 villages to benefit a population of 300,000, only 12 subprojects were rehabilitated, benefiting 55,000 people in 33 villages, roughly 10% of the target facilities and 18% of the target population. Even in these 33 villages, the water supplied was not safe, adequate, or efficient. The remaining seven subprojects—which were deemed to be interventions to ensure sustainability (communities capacitated to manage water supply and the policy environment)—were not achieved. The sanitation component, which was requested by the beneficiaries who were already having difficulty collecting contributions for the subprojects, which included sanitation—was not implemented (PCR, para. 17).

Table 1: Summary of Indicators

Outcome Level	Total Indicators	Achieved/ Substantial	Partial/ Marginal	Not Achieved
Project purpose/outcome	3		2	1
Total Output	9	1	1	7
Output 1	3	1	1	1
Output 2	3			3
Output 3	3			3

Source: ADB Independent Evaluation Department.

C. Efficiency of Resource Use in Achieving Outcomes and Outputs

18. The PCR rated the project *inefficient* based on the project's wastage of resources. The value of the achievements was less than the resources used—the project used roughly 26% of its \$37.5 million estimated cost to deliver 10% of the target facilities, and reached only 18% of the target population with a recomputed economic internal rate of return (EIRR) that was less than appraised. This validation agrees with the PCR rating.

19. **Process efficiency.** The PCR noted multiple procurement issues, including (i) the procurement of 12 civil works contracts, 7 of which were found to be consistent with collusive or corrupt procurement; and (ii) PMU noncompliance with ADB procurement process and guidelines (for example, in using national competitive bidding despite ADB advice to use international competitive bidding for contract costs estimated at more than \$1 million), resulting in misprocurement (PCR, para. 52). On implementation arrangements, the frequent change in executing agency and management resulted in changes to critical decisions made by the previous executing agency, delaying the project (PCR, para. 43). By 2011, the project faced an increasing number of implementation issues, including cost overruns, weak administration, substandard work, irregularities in procurement, poor performance of contractors, and integrity issues (PCR, para. 6).

20. **Resource-use efficiency.** The recalculated EIRR for four subprojects ranged from 1.2% to 21.2%, which the PCR noted to be significantly lower than the appraisal estimates of 26.6% to 33.9%. The PCR emphasized that the low EIRRs are for subprojects with significant cost escalation and high capital costs. The subprojects with higher EIRRs capital costs that were

deemed more reasonable. In quality, review missions and beneficiaries noted deficiencies in the construction of civil works and in the quality of materials provided. The fielding of the design consultants was ill-timed, resulting in the non-tendering and waste of already prepared documents and subprojects design. At completion, 26% of the project budget was expended but only about 10% of project outputs were completed. This validation rates project implementation *inefficient*.

D. Preliminary Assessment of Sustainability

21. The PCR assessed sustainability *less than likely*. This validation deems components and/or outputs 2 and 3 to be the interventions that would ensure sustainability, as the output of “communities capacitated to manage water supply and the policy, legal and regulatory environment” was not achieved. The PCR stated that tariff collections were not sufficient, ranging from only 40% to 60% against the target of 80%. Outputs were reported to be either partially operating or unlikely sustainable. The subprojects in Bujum and Orto Azia showed positive results. In summary, this validation notes that the project lacked the following: (i) government or executing agency commitment and capacity to provide the needed operational and recurrent funds and human resources after project completion, including operation and maintenance (O&M) costs; (ii) cost recovery through income generation, particularly for investment projects relating to nonpublic goods; (iii) clear O&M policy, capacity, and practices in implementing agencies; and (iv) commitment to carry out needed policy reforms to sustain the benefits. Based on these considerations, this validation rates the project benefits *less than likely sustainable*.

E. Impact

22. The PCR assessed the project impact *negligible* given the extent of coverage at only 10% of the rehabilitation target. This validation agrees with the PCR’s rating and notes that the PCR did not cite the source of information pertaining to the impact of the 12 completed subprojects on the living conditions of the beneficiaries (PCR, para. 61).

23. An unintended outcome mentioned in the rationale section of the PCR is the renewed focus on water supply and sanitation, following the problems or issues encountered by the project. This has resulted in both the Kyrgyz Republic’s medium-term development plan 2012–2014 and ADB’s country partnership strategy 2013–2017 explicitly supporting WSS.

III. OTHER PERFORMANCE ASSESSMENTS

A. Performance of the Borrower and Executing Agency

24. The PCR rated the performance of the borrower and executing agency *unsatisfactory*, citing issues relating to project management, integrity, procurement, delays, complying with ADB procedures, complying with covenants, and ignoring ADB advice. This validation agrees with the *unsatisfactory* rating. However, this validation finds the PCR lacking in the borrower’s point of view even if this does not improve the rating.

B. Performance of the Asian Development Bank

25. The PCR rated ADB’s performance *satisfactory*. From the review of mission reports, ADB efforts to address the problems faced were consistent, holding weekly supervision meetings, field technical reviews of subprojects, and the pivotal action to involve ADB’s Office of Anticorruption and Integrity team, following disagreements with the PMU and the executing

agency on procurement-related activities. This validation found that ADB took some time to investigate the procurement issues. In the overall analysis, ADB's efforts during implementation were not enough to overcome major design issues, which stemmed from retaining the original PMU and the grant recipient's lack of ownership of the project interventions. Consequently, the project did not succeed overall largely because the performance of the preceding loan-funded project was weak. Lessons from the preceding project were not adequately learned and mistakes were repeated. This validation rates ADB performance *less than satisfactory*.

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall assessment and Ratings

26. The project was rated *unsuccessful*. This validation agrees with the PCR's ratings of *less than relevant*, *ineffective*, *inefficient*, and *less than likely sustainable* for an overall assessment of *unsuccessful* (Table 2).

Table 2: Overall Ratings

Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
Relevance	Less than relevant	Less than relevant	Quality at entry compromised by the carry-over capacity of the PMU, the PIU, and absence of a policy environment (para. 15)
Effectiveness in achieving project outcome and outputs	Ineffective	Ineffective	One of nine output indicators were achieved, the rest were achieved either marginally or not achieved at all (para. 17).
Efficiency in achieving outcome and outputs	Inefficient	Inefficient	
Preliminary assessment of sustainability	Less than likely sustainable	Less than likely sustainable	
Overall assessment	Unsuccessful	Unsuccessful	The grant was cancelled because of project implementation weaknesses and procurement irregularities.
Borrower and executing agency	Unsatisfactory	Unsatisfactory	
Performance of ADB	Satisfactory	Less than satisfactory	Inability to overcome design issues in the selection of the PMU, and lapses in timely identification of implementation shortcomings (para. 25)
Impact	Negligible	Negligible	
Quality of PCR		Satisfactory	See para. 32.

ADB = Asian Development Bank, IED = Independent Evaluation Department, PCR = project completion report, PIU = project implementation unit, PMU = project management unit.

Note: From May 2012, the Independent Evaluation Department views the PCR's rating terminology of "partly" or "less" as equivalent to "less than" and uses this terminology for its own rating categories to improve clarity.

Source: ADB Independent Evaluation Department

27. The performance of the supplementary grant was lower in comparison with the original loan project despite both projects having the same objective of providing "safe, adequate, and efficient water supply and sanitation services." In the validation, the loan project was rated *relevant*, *less effective*, *less efficient*, and *likely sustainable* for an overall rating of *partly successful*, while this validation rates the supplementary grant *unsuccessful*. Table 3 gives a comparison of the validation ratings of the loan project and the grant project.

Table 3: Comparison of Validation Ratings

Criteria	Supplementary Grant G0122		Loan 1742-KGZ (SF)	
	IED Review	Comments	IED review	Comments
Relevance	Less than relevant	Quality at entry compromised by the carry-over capacity of the PMO, the PIU, and absence of a policy environment	Relevant	Relevance was reduced given the change in ADB priorities and the huge cost overruns incurred by the project
Effectiveness in achieving project outcome and outputs	Ineffective	Coverage was reduced following project cancellation	Less effective	Coverage was also reduced, rendering the project less effective
Efficiency in achieving outcome and outputs	Inefficient	One of nine output indicators were achieved, the rest were achieved either marginally or not achieved at all; 26% utilization against estimated project cost	Less efficient	Poor process efficiency, a low economic internal rate of return, and poor financial management
Preliminary assessment of sustainability	Less than likely sustainable	None of the necessary elements of sustainability was demonstrated: no policy, legal or regulatory framework; insufficient tariff collection to meet O&M expenses; communities lack O&M capacity	Likely sustainable	The presence of community water management organizations, a system in place for improving water collection, and provision of maintenance equipment brought hope of sustaining project gains given the importance of water supply to daily living
Overall assessment	Unsuccessful	The project/grant was canceled due to weaknesses and irregularities in project implementation	Partly successful	
Borrower and executing agency	Unsatisfactory		Partly satisfactory	
Performance of ADB	Less than satisfactory		Partly satisfactory	
Impact	Negligible		Moderate	
Quality of PCR	Satisfactory		Satisfactory	

ADB = Asian Development Bank, IED = Independent Evaluation Department, PCR = project completion report, PIU = project implementation unit, PMO = project management office.

Note: From May 2012, the Independent Evaluation Department views the PCR's rating terminology of "partly" or "less" as equivalent to "less than" and uses this terminology for its own rating categories to improve clarity.

Source: ADB Independent Evaluation Department.

B. Lessons

28. This validation agrees with the following PCR lessons: (i) the government must first demonstrate its commitment and ownership by creating an enabling environment for delivering sustainable outputs before engaging in poorly performing sectors; (ii) at appraisal, the root causes and identification of innovative solutions of past project implementation issues should be thoroughly reviewed; (iii) due diligence should not be sacrificed for the urgency of additional

financing; the government must ensure that sufficient resources cover the scope of the project; (iv) resources should be allocated for additional support to strengthen areas where implementation is weak.

29. These lessons fully acknowledge the mistakes in designing the supplementary project. As noted in the PCR, these lessons are applicable to follow-on projects of earlier interventions in the same sector that have experienced implementation difficulties.⁵

C. Recommendations

30. The PCR's recommendations focused on the actions required to sustain the subprojects within the purview of the government. In this light, ADB may devise an action plan or a matrix of follow-up actions, identifying the responsible entities and timelines. This validation agrees with the recommendations for further action or follow-up, and especially for the government to (i) provide funds to rectify the deficiencies of the subprojects, including leaking pipes, broken taps of stand pipes, and water treatment units; and (ii) reform the WSS sector by adopting a WSS policy, and revise institutional, regulatory, and legal frameworks.

V. OTHER CONSIDERATIONS AND FOLLOW-UP

A. Monitoring and Evaluation Design, Implementation, and Utilization

31. There was no monitoring and evaluation system at the onset as the RRP did not indicate any system, except for the DMF. On the other hand, the DMF did not sufficiently identify the indicators that were supposed to be monitored.

B. Comments on Project Completion Report Quality

32. This validation finds the PCR diligent in supporting its claims, and rates the quality of the PCR *satisfactory*. The PCR is clearly written and the logical flow, leading to the lessons learned and recommendations, is easy to follow. However, this validation finds the report lacking in the borrower's point of view on significant issues such as project management, non-allocation of funds for critical activities, and the lack of data source for the stated project impact.

C. Data Sources for Validation

33. Apart from the PCR, the RRP and mission reports were available and used for this validation. This validation also benefited from the PCR of the Community-Based Infrastructure Services Sector Project in the Kyrgyz Republic.

D. Recommendation for Independent Evaluation Department Follow-Up

34. As the project was canceled in June 2013 and no additional activity is envisaged, the project performance evaluation report could be conducted any time. Despite the limited achievements of the supplementary project, much can be learned about preparing a follow-on project to an unsuccessful project, such as that a follow-on project should not be avoided but will need special arrangements.

⁵ The PCR of the preceding project (ADB. 2010. *Completion Report: Community-Based Infrastructure Services Sector Project in the Kyrgyz Republic*. Manila) suggested that "... the new implementation arrangements (i.e., in the supplementary project) have proven efficient and effective..." This conclusion is misleading.