



Validation Report

Reference Number: PVR-260
Project Number: 34234
Loan Number: 2006
December 2013

Kazakhstan: Rural Area Water Supply and Sanitation Sector Project

Independent Evaluation Department
Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
ADTA	–	advisory technical assistance
CPMU	–	central project management unit
CWR	–	Committee on Water Resources
EIRR	–	economic internal rate of return
IDB	–	Islamic Development Bank
MOA	–	Ministry of Agriculture
O&M	–	operations and maintenance
PCR	–	project completion report
PPMS	–	project performance monitoring system
RRP	–	report and recommendation of the President
WCG	–	water consumer group
WSS	–	water supply and sanitation

NOTE

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

Key Words

asian development bank, detailed design, islamic development bank, kazakhstan, project evaluation, project sustainability, project validation, rural areas, sanitation, water supply and sanitation.

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PROJECT BASIC DATA

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Project Number:	34234	PCR Circulation Date:	Dec 2010	
Loan Number:	2006	PCR Validation Date:	Dec 2013	
Project Name:	Rural Area Water Supply and Sanitation Sector Project			
Country:	Republic of Kazakhstan		Approved (\$ million)	Actual (\$ million)
Sector:	Water and other municipal infrastructure and services	Total Project Costs:	65.00	52.64
ADB Financing: (\$ million)	ADF: 0.00	Loan:	34.60	30.44
		Borrower:	20.90	13.70
	OCR: 34.60	Beneficiaries:		
		Others (IDB):	9.50	8.50
Cofinancier:		Total Cofinancing:		
Approval Date:	29 Sep 2003	Effectiveness Date:	9 May 2004	2 Aug 2005
Signing Date:	9 Feb 2004	Closing Date:	30 Jun 2010	29 Dec 2010
Project Officers:	P. Wallum T. Simonova A. Shaikenova S. Wermert G. Li	Location: ADB headquarters Kazakhstan Resident Mission Kazakhstan Resident Mission Kazakhstan Resident Mission Kazakhstan Resident Mission	From: Dec 2003 Sep 2005 May 2006 Jan 2007 Dec 2009	To: Aug 2005 Apr 2006 Dec 2006 Nov 2009 Dec 2010
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ADB = Asian Development Bank, ADF = Asian Development Fund, IDB = Islamic Development Bank, IED1 = Independent Evaluation Department, Division 1, IED2 = Independent Evaluation Department, Division 2, OCR = ordinary capital resources, PCR = project completion report.

I. PROJECT DESCRIPTION

A. Rationale

1. The report and recommendation of the President (RRP) noted that ageing infrastructure, institutional constraints, and fiscal difficulties in Kazakhstan were limiting the rural communities' access to basic water supply and sanitation (WSS) services.¹ Existing facilities were often poorly designed, insufficiently maintained, and did not adequately provide urgently needed basic services. It was recognized that the capacity of the sector agencies concerned would need to be developed to implement subprojects and to undertake operations and maintenance (O&M) of the constructed systems. Before the country's independence, an estimated 80% of all rural villages had piped potable water supply. Due to financial difficulties following the independence, the coverage was officially reported at 40%, although in reality, it might even be less with

¹ ADB. 2003. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to the Republic of Kazakhstan for the Rural Area Water Supply and Sanitation Sector Project*. Manila.

systems that were still working deteriorating rapidly. It was estimated that the average volume of drinking water delivered to the population had been diminishing at the rate of 3%–5% a year due to the continued decline in the condition of the existing infrastructure. In brief, the rural water supply had been particularly badly hit by budget cuts and there was insufficient government investment in the sector.

B. Expected Impact

2. The project aimed to improve the living and health conditions in selected poor, rural communities through the provision of basic WSS services. The project was to (i) assist the central and local governments in delivering WSS infrastructure services, and (ii) improve the technical and financial capacity of local governments and water consumer groups (WCGs) in the planning, implementation, and O&M of facilities. Designed as a sector loan, the project area covered the poor oblasts of Akmola, Karaghandy, North-Kazakhstan, and South-Kazakhstan, which have identified their demand for the development of WSS services.

3. The project followed government's policy to use a decentralized community management approach. The associated indicators and targets were set out to follow the Millennium Development Goal 7 (MDG 7), which aims "to halve, by 2015, the proportion of people without sustainable access to safe drinking water." This is to be done by increasing the population coverage with access to safe and reliable WSS services from the existing 40% to 55% by 2009 in the project villages on a self-sustainable basis, and thus reduce the incidence of waterborne- and sanitation-related diseases by approximately 50%.

C. Components and Outputs

4. The project consisted of two parts. Part A—Physical Infrastructure had two components: (i) rural water supply, including new water systems and rehabilitated water supply schemes; and (ii) rural sanitation, including wastewater drainage facilities, school latrines, and public bath houses. Part B—Institutional Development had three components: (i) effective structures for WSS management schemes, (ii) training centers for capacity development, and (iii) national health and sanitation education program.

5. Under Part A, new water systems were to be constructed in 350 villages, and another 150 villages were to have their water systems rehabilitated. About 500 villages were to benefit under the project through 80 subprojects. Some 60 subprojects were to utilize groundwater sources, and the remaining 20 subprojects were to use surface water. For rural sanitation, the project aimed to introduce proper wastewater drainage facilities. It also sought to undertake the rehabilitation of school latrines and public bathhouses, as required.

6. Under Part B, capacity building was to strengthen WSS management structures, and establish WCGs for each of the subprojects. Similarly, organizational units involving water providers and *akim* (head of local government) administration were to be established for effective management. The O&M of each WSS scheme and the Decree on Drinking Water was adopted in 2003. The training centers were to train about 2,000 central and local officials and community leaders. For the national health education program, the project sought to launch pilot health education program by 2005 and in all the four oblasts by 2006.

D. Provision of Inputs

7. A loan of \$34.6 million was provided from the ordinary capital resources of the Asian Development Bank (ADB). The Islamic Development Bank provided parallel financing for \$9.5 million for project components in the Karaghandy oblast.² The government agreed to finance the remaining project costs of \$20.9 million. The project was designed to require 639 person-months of consulting services (51 person-months of international and 588 person-months of domestic consulting) for the (i) review of detailed design, (ii) construction supervision, (iii) finance and accounting, (iv) community development, and (v) project management.

E. Implementation Arrangements

8. The Ministry of Agriculture (MOA) was the executing agency and the Committee on Water Resources (CWR) was the implementing agency. A central project management unit (CPMU) was to be established within CWR. Project implementation was to be carried out by the oblast project management units to be established in each of the four oblasts of Akmola, Karaghandy, North-Kazakhstan, and South-Kazakhstan. A project coordination commission was established to monitor project implementation and ensure coordination with government policies and other programs.

9. An advisory technical assistance (ADTA) for the institutional strengthening of the WSS was approved along with the loan in September 2003 (footnote 1). The MOA was the executing agency for the ADTA with \$350,000 grant financing from the Japan Special Fund. The objective of the ADTA was to help the government refine and implement appropriate management systems for rural WSS services for local governments and WCGs. The ADTA was to prepare and implement an institutional strengthening program that will enhance the capabilities of associated agencies. This was completed in April 2004. The completion report rated the ADTA *successful*.³

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

10. The project completion report (PCR) rated ADB's intervention *relevant*. It noted that the project was in line with the government's strategy of developing rural areas to promote economic growth and reduce poverty. The objectives of the project were consistent with the needs of the rural communities and the development priorities of the government. The project was consistent with ADB's country strategy and program. WSS interventions were also consistent with ADB's corporate and sector strategies, including that of the MDGs, Strategy 2020, and poverty reduction. The PCR notes that the project formulation was adequate but this validation disagrees with it.

11. The project suffered from lapses in project design (PCR, para. 41). It took an unusually long time to be processed. The appraisal itself appeared to have been stretched, beginning from August 2001 to November 2002. Loan negotiations did not take place until August 2003. The loan agreement was signed in February 2004 and the project did not become effective until after

² ADB. 2010. *Completion Report: Rural Area Water Supply and Sanitation Sector Project in Kazakhstan*. Manila. The PCR focuses only on ADB-funded subprojects and does not describe subprojects funded by the Islamic Development Bank.

³ ADB. 2005. *Technical Assistance Completion Report: Institutional Strengthening for Rural Water Supply and Sanitation in Kazakhstan*. Manila.

three extensions in August 2005. There must have been some compelling country and operations-specific reasons for the project to go through this kind of protracted passage.

12. Time slippage seems to have severely dented the project design. It is noted in the PCR that cost estimates were inaccurate (PCR, para. 11). The actual costs were higher than the anticipated (PCR, para. 14). Project scope had to undergo major changes (PCR, para. 10). In addition to the preparation and processing delays, the project faced serious start-up delays of about 12 months. The ADTA, which was meant to support project implementation, closed in April 2004 before the loan became effective in August 2005.

13. In designing the risk-mitigating measures, the RRP assured that considerable preparatory work has already been done. Hence, the project will suffer no start up delays. As noted above, it did. The RRP also ensured that potential for delays in project preparation caused by local counterpart funding has been addressed. This was not so, hence, the waste water drainage component could not be completed. Thus, the designing of mitigation measures was not effective.

14. The fact that the project might have faced some teething problems is not surprising as it was a first loan for Kazakhstan in the sector. The project design should have been more circumspect. When institutional capability is thin on the ground, sector loan modality is seldom appropriate and easy. Considering its design weaknesses, this validation downgrades the project's rating to *less than relevant*.

B. Effectiveness in Achieving Project Outcomes

15. The PCR rated the project *less effective* as the project outputs and outcomes were only partially achieved. The project covered fewer settlements than planned during appraisal. More importantly, the four core subprojects mentioned in the RRP could not be implemented. These subprojects did not comply with one or more of the technical and economic criteria (PCR, para. 15 and footnote 5). Notwithstanding, the PCR notes that the project eased the long-standing sufferings caused by severe water shortage and water-quality problems. It improved public health by providing safe potable water, promoted the long-term development of the WSS sector, and strengthened institutional capacity.

16. This validation notes that once the project scope had been reduced and resulting cost adjustments made, the project achieved many of its objectives. Leaving the Islamic Development Bank (IDB)-funded Karaghandy oblast aside, the revised project focused only on three oblasts. In these oblasts, 58 subprojects were completed (from the original target of 80 for the four provinces). Of this number, new water systems were stalled in 37 subprojects, and 21 water systems were rehabilitated. In addition, 148 septic tanks (sewage systems) for schools, kindergartens, rural polyclinics, and *banyas* were rehabilitated. Hence, the PCR noted that the objective of providing good-quality water to residents in the settlements was achieved as planned at appraisal. Local governments now have an effective management mechanism and a set of practicable policies and procedures for the operation and administration of WSS services.

17. The major shortcomings of the project are the partial completion of wastewater facilities and the inability to establish training centers (although trainings were conducted). In view of the accomplishments, the project could have been rated *effective* but for the reduction in its scope and the partial completion of waste water drainage facilities and training centers. This validation also rates the project *less than effective*.

C. Efficiency of Resource Use in Achieving Outputs and Outcomes

18. The PCR assessed the efficiency of project in two steps. In terms of financial and economic analysis, it rated the project *efficient*, but in terms of the implementation processes, it rated the project *less efficient*, with the combined assessment resulting in *less than efficient*. The PCR's reasons are given below.

19. The PCR rated the investment efficiency of the project *satisfactory*. The economic internal rate of return (EIRR) for the project as a whole was 20%, below the estimate at appraisal (23%–39%) but above ADB's threshold value of 12.0% in Kazakhstan. In general, the methodology of economic and financial reevaluation used was appropriate. However, the EIRR estimations suffered from a lack of subproject-specific data. Only 18 of the 58 subprojects had relevant data available. Of these number, the reevaluation was carried out in four stratified sample subprojects. Two of these sampled subprojects had small populations while the other two had larger population to serve. Economic and financial rates varied with the size of population and yielded better estimates in larger areas. Thus, the average numbers given above are based on extremely narrow and uneven distribution of beneficiaries. More importantly, the capital investments in the estimation included only those that were funded by ADB (Appendix 8, p. 35, para. 21). It is not clear as to why the contributions of the government or the IDB were not taken into account. In ordinary capital resources loan projects, the government's share is quite substantial, hence, it can impact the EIRR calculations. As such, the EIRR results need to be interpreted cautiously.

20. In terms of project processes, the PCR rated the project *less than efficient* because of time slippages between the project preparation and the Board approval. This validation considers the post-approval delays and time slippages as equally critical and detrimental to the efficiency of the project. The PCR's overall efficiency rating has to be considered in view of numerous project implementation inefficiencies. These include (i) implementation problems in the early stages of the project because of weak capacity of the executing and implementing agencies, (ii) lack of efficiency in recruiting consultants and other procurement, and (iii) reported unreliability of counterpart funding (with an impact on the provision of wastewater drainage facilities, for example). Although the investment efficiency of the project could justify a higher rating, implementation inefficiencies reduced the combined rating to a lower level. This validation, therefore, rates the project *less than efficient*.

D. Preliminary Assessment of Sustainability

21. The PCR considered the project *sustainable*, especially given the beneficiaries' willingness to pay and the affordability of tariffs. The improvements in water quality, the constant availability of water supply, and the convenience of household connections and new standpipes significantly improved willingness to pay. Most subprojects have achieved full recovery of O&M cost.

22. The project design provided for significant local initiatives, including the establishment of WCGs and community initiative groups, the systematic training of staff, the preparation of O&M manuals, and periodic monitoring of operations. The capacity building program included the establishment of effective procedures for the billing and collection of tariffs.

23. The three oblast governments now clearly support the improved management of the WSS system and are committed to providing enough funds to ensure the sustainability of investments. Each project oblast has created a rural water supply O&M unit to provide technical

support to the WCGs and community initiative groups and to contribute further to project sustainability. Sustainability of infrastructure is enhanced by the presence of a professional management team supported by training courses. The management team has developed effective maintenance regulations and procedures that will ensure the function and value of infrastructure assets over time. The estimated overall financial internal rate of return is 3.0%, more than the estimate of 0.7%–2.3% at appraisal. This validation also rates the project to be *likely sustainable*.

E. Impact

24. The PCR considered that the project has *partly achieved* its desired impact. Fewer villages and settlements than envisaged in the RRP benefited from the project. Although reduction in the incidence of waterborne- and sanitation-related diseases was cited as a performance indicator (but with no associated targets), there appears to be no evidence of achieving such a reduction; however, the planned health education program was undertaken in three oblasts. This validation also rates the project impact *moderate*.

III. OTHER PERFORMANCE ASSESSMENTS

A. Performance of the Borrower and Executing Agency

25. The PCR rated the performance of the Ministry of Finance, MOA, and CWR *generally satisfactory*. The MOA ensured adequate coordination among ADB, CWR, contractors, and consultants. These agencies fulfilled most of their obligations during project implementation. Major civil works for all subprojects were completed at completion date with benefits flowing to the public. The government recognizes the contribution of the project. The capacities of the MOA and CWR have been improved significantly. However, limitations during initial processing, at start-up of civil works, and availability of counterpart funds continued to put the executing and implementing agencies under stress. This validation also rates the performance of the borrower *satisfactory*.

B. Performance of the Asian Development Bank

26. The PCR assessed the performance of ADB *partly successful*. ADB worked closely with the MOA, CPMU, oblast project management units, and CWR to address implementation issues particularly those on procurement and disbursement. Delays in project preparation and lack of effective communication between ADB and the government led to the exclusion in 2005 of four core projects from the sector loan. At approval, ADB assured that the project will be intensively monitored with at least two field reviews. This did not happen. During implementation, only four ADB review and supervisory missions visited the country. In addition, a number of risk mitigation measures and related assurances turned out to be not appropriate. As a result, ADB succeeded only partially in its supervisory role of providing timely advice and guidance to the CPMU. This validation also rates ADB's performance *less than satisfactory*.

C. Others

27. **Environmental impact.** The subproject components, having used simple, appropriate, and low-cost technologies, did not incur significant adverse effects on the environment.

28. **Resettlement.** The project required no land acquisition or resettlement. The MOA, before awarding the civil works contracts, screened for involuntary resettlement to ensure that no land, income, housing, community facilities, or resources would be lost in the process.

29. **Social, economic, and other impacts.** At the end of 2009, 73,893 people in 14,210 households had water supply connections. About 1,000 jobs were created during project construction, and about 300 full-time employment opportunities in O&M were created. Of the total beneficiaries, about 30% were poor households.

30. **Covenants.** The 24 loan covenants were generally relevant. No covenants were modified, suspended, or waived and all were complied with, with no case of partial or noncompliance. Covenant specifications at appraisal and compliance during implementation were generally acceptable.

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

31. Overall, the project is rated by the PCR *partly successful*. It rated the project *relevant, less effective, less efficient*, but *sustainable*. This validation also rates accordingly except that it rates the project *less than relevant* due to the project design errors identified by the PCR. Agreeing with the PCR, this validation rates the project *less than successful* (see table).

Overall Ratings

	PCR	IED Review	Reason for Disagreement and/or Comments
Relevance	Relevant	Less than relevant	A number of project design weaknesses were noted (paras. 10–14).
Effectiveness in achieving outcome	Less effective	Less than effective	
Efficiency in achieving outcome and outputs	Less efficient	Less than efficient	
Preliminary assessment of sustainability	Sustainable	Likely sustainable	
Overall Assessment	Partly successful	Less than successful	
Borrower and executing agency	Generally satisfactory	Satisfactory	
Performance of ADB	Partly successful	Less than satisfactory	
Impact	Partly achieved	Moderate	Refer to para. 24.
Quality of PCR		Satisfactory	Refer to para. 35.

ADB = Asian Development Bank, IED = Independent Evaluation Department, PCR = project completion report.

Note: From May 2012, IED 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

32. This validation agrees with the PCR on lessons learned, especially in pointing out that (i) project targets should be achievable, (ii) measures ensuring government commitment to implement institutional development and in providing counterpart funds should be carefully reviewed and tied to the release of funds, (iii) detailed design engineers and supervision and implementation consultants should be recruited in advance of project approval to increase project readiness, (iv) the project implementation schedule should be realistic, and (iv) delayed payments to contractors adversely affect implementation.

C. Recommendations

33. This validation agrees with the PCR's recommendations on project monitoring and evaluation such that (i) local governments should regularly review and adjust tariffs as necessary to ensure financial sustainability based on affordability, (ii) local governments should make the public more aware of the need to increase water tariffs over time, (iii) WCGs should be institutionalized as soon as possible, (iv) affordability and tariff reforms should be monitored through the project performance monitoring system (PPMS), and (v) loan review missions should be conducted more often to ensure timely implementation. General recommendations were also made in the PCR and project readiness is emphasized by this validation, such that (i) ADB and the government should pay more attention to advance actions and project readiness, and (ii) the government should make funds for retroactive financing available.

V. OTHER CONSIDERATIONS AND FOLLOW-UP

A. Monitoring and Evaluation Design, Implementation, and Utilization

34. The project required the CPMU to develop comprehensive PPMS within 6 months after loan effectiveness to evaluate the delivery of the planned facilities and benefits. This requirement was not fully met. The only PPMS submission was a document with inadequate performance indicators and baseline survey data submitted in February 2006. Revised performance indicators were submitted in December 2009.

B. Comments on Project Completion Report Quality

35. This validation assesses the quality of the PCR *satisfactory*. The PCR did not elaborate on the role of IDB on the subprojects in Karaghandy oblast. It should have explained more the reasons why the four core projects could not be implemented. This knocked out the very basis of the sector project. The lessons and recommendations are considered appropriate and relate well to the PCR's analysis.

C. Data Sources for Validation

36. The sources of data for this validation were the project's RRP, PCR, back-to-office reports, aide mémoire, and related correspondence.

D. Recommendation for Independent Evaluation Department Follow-Up

37. No Independent Evaluation Department follow-up is required.