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**PROJECT PERFORMANCE ASSESSMENT REPORT**

**THE RUSSIAN FEDERATION**

**KAZAN MUNICIPAL DEVELOPMENT LOAN**

**(LOAN 4766-RU)**

**March 3, 2008**

*Sector, Thematic and Global Evaluations  
Independent Evaluation Group (World Bank)*

## Currency Equivalents (annual averages)

*Currency Unit = Russian Ruble - RUB*

2003	US\$1.00	RUB 30.69
2004	US\$1.00	RUB 28.81
2005	US\$1.00	RUB 28.28
2006	US\$1.00	RUB 27.19
2007	US\$1.00	RUB 25.73*

\* Mid year value

## Abbreviations and Acronyms

CA	Cities Alliance
CAS	Country Assistance Strategy
CPS	Country Partnership Strategy
CUE	Communal Unitary Enterprise
EBRD	European Bank for Reconstruction and Development
HOA	Homeowners Association
HCS	Housing and Communal Services
ICR	Implementation Completion Report
IEG	Independent Evaluation Group
IEGWB	Independent Evaluation Group (World Bank)
KDS-2015	Kazan Development Strategy up to the year 2015
KMDL	Kazan Municipal Development Loan (Ln4766)
LA	Loan Agreement
MOE	Ministry of Economy (of RF)
MOF	Ministry of Finance (if RF)
MORD	Ministry of Regional Development (of RF)
O&M	Operations and Maintenance
PD	Program Document
PIU	Project Implementation Unit
PPAR	Project Performance Assessment Report
PSAL	Programmatic Structural Adjustment Loan
RFTAP	(Russia) Regional Fiscal Technical Assistance Project (Ln.4528)
RF	Russian Federation
RT	Republic of Tatarstan
SIL	Specific Investment Loan
UCLG	United Cities and Local Governments

## Fiscal Year

Government: January 1 – December 31

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**IEGWB Mission: Enhancing development effectiveness through excellence and independence in evaluation.**

### **About this Report**

The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEGWB annually assesses about 25 percent of the Bank's lending operations through field work. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEGWB staff examine project files and other documents, interview operational staff, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, and interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

Each PPAR is subject to internal IEGWB peer review, Panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible Bank department. IEGWB incorporates the comments as relevant. The completed PPAR is then sent to the borrower for review; the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

### **About the IEGWB Rating System**

IEGWB's use of multiple evaluation methods offers both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. IEGWB evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (additional information is available on the IEGWB website: <http://worldbank.org/ieg>).

**Outcome:** The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. The efficiency dimension generally is not applied to adjustment operations. *Possible ratings for Outcome:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

**Risk to Development Outcome:** The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High Significant, Moderate, Negligible to Low, Not Evaluable.

**Bank Performance:** The extent to which services provided by the Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes. The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

**Borrower Performance:** The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.



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<p>This report was prepared by Roy Gilbert, who assessed the project in September 2007. Romyne Pereira provided administrative support.</p>
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## Principal Ratings

	<i>ICR*</i>	<i>ICR Review*</i>	<i>PPAR</i>
Outcome	Satisfactory	Satisfactory	Highly Satisfactory
Risk to Development Outcome	Moderate	Moderate	Low
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Highly Satisfactory

\* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEGWB product that seeks to independently verify the findings of the ICR.

\*\*As of July 1, 2006, Institutional Development Impact is assessed as part of the Outcome rating.

\*\*\*As of July 1, 2006, Sustainability has been replaced by Risk to Development Outcome. As the scales are different, the ratings are not directly comparable.

## Key Staff Responsible

<i>Project</i>	<i>Task Manager/Leader</i>	<i>Division Chief/ Sector Director</i>	<i>Country Director</i>
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## Preface

This is a Project Performance Assessment Report (PPAR) for the **Russian Federation: Kazan Municipal Development Loan (Ln.4766)**, for which the World Bank approved a loan in an amount of US\$125 million on February 24, 2005. The loan was closed on December 31, 2006 as planned, when it was fully disbursed.

Beyond informing about the performance of the operation itself, with potentially important lessons, IEG's assessment will provide inputs into IEG's ongoing special study of the Bank's support for municipal development.

The report is based on a review of project documents, including the Implementation Completion Report, the Program Document, and the Memorandum to the President, legal documents and project files, as well as discussions held with Bank staff involved in the project. An IEG mission visited Kazan, Russia in September 2007 to review project results and met with officials of the Municipality of Kazan, the Tatarstan Republic and project beneficiaries (during field visits). IEG gratefully acknowledges the courtesies and attention freely given by these interlocutors in Kazan.

Following standard IEG procedures, copies of the draft PPAR was sent to government officials and agencies for their review and comments but none were received.



## Summary

Kazan's 1005-2005 millennium was the occasion of the Bank financed Kazan Municipal Development Loan (KMDL), designed to help build up a newly created municipal administration of an ancient city, now an important industrial and educational center with 1.1 million inhabitants located some 800 kms east of Moscow. Developing the municipality of Kazan involved fiscal and administrative decentralization to the city and the normalization of the hitherto special relations between the Russian Federation (RF) and the Autonomous Republic of Tatarstan (RT, of which Kazan is capital). The start of the life of the municipality—inheriting RT debts and with RF funding drying up—was not auspicious.

KMDL's objectives supported the aims of all parties to the project and were highly relevant to priorities at all levels, including the RF/Bank 2006 Country Partnership Strategy (CPS) focus upon knowledge sharing and assistance at the subnational level particularly. Project objectives were to: (i) improve Kazan's financial management; (ii) deliver social services better; and (iii) improve the condition of housing and communal services (HCS). The design of this programmatic sector loan (PSL) was very simple, but based upon a deep understanding of Kazan's complex institutional context. KMDL disbursed US\$125 million in two tranches to RF who passed the funds on to the city through RT as grant. Tranches were released promptly as Kazan met financial planning and control conditions, and started cash payments to eligible and targeted beneficiaries of city social protection programs.

Implementation was quick and efficient. A special Project Implementation Unit (PIU) under the authority of the municipality of Kazan, and not foreseen at appraisal, oversaw progress. It complemented the embryonic municipal departments that enjoyed high level support locally and benefited from frequent and effective Bank supervision inputs. Monitoring and Evaluation (M&E) was well designed and effectively implemented at three levels: oversight of the funding of Kazan's spending programs, meeting the agreed tranche conditions, and measuring the achievement of KMDL's objectives through the 23 outcome and output indicators mapped out at appraisal.

All three KMDL objectives were achieved, two highly so and one substantially, and there were positive unanticipated results in procurement and asset management.

Efficacy in strengthening and improving Kazan's financial management was *high*. The municipality turned a current deficit into a small surplus. Outstanding payables, a major problem at the outset, were substantially reduced. Skilled local teams made municipal finances more transparent, especially through unifying city accounts. Intensive supervision by the Bank provided *de facto* technical assistance to help local authorities with these tasks.

Efficacy in delivering better and targeted social services was also *high*. KMDL helped Kazan shift to cash payments to eligible low-income individuals and families. These were more efficient and better targeted than the in-kind subsidies commonly used before. The new system also brought fiscal savings to the municipality. Two thirds of KMDL funding was used for urgent repairs to abandoned and derelict schools and health centers, bringing them back into full use.

Efficacy in improving HCS was *substantial*. With KMDL support, the municipality encouraged the formation of an additional 200 Homeowners' Associations (HOA) on top of the 80 that existed already, to address common housing issues especially in estates of privately owned apartments. Kazan also ensured that 100 percent of all housing—up from 50 percent previously—was served by private service providers, through issuing competitive tenders for this work in 60 areas covering the entire city. IEG met with representatives of eight firms, all reporting their businesses to be profitable. The arrangement also gave the municipality an annual saving of US\$15 million equivalent in direct maintenance expenses. The optimistic expectation of privatizing the municipal water utility, *Vodakanal* was deferred over concerns about the possible poor quality of bids for its undervalued assets. Instead, and with the agreement of the Bank, EBRD financed a project to strengthen the management and operation of the existing agency. As a result, KMDL's privatization tranche condition requirement was waived.

KMDL also produced some other positive results not foreseen at appraisal. The city voluntarily applied Bank procurement principles widely as it cut back its sole source procurement to only 25 percent of the total (down from 55 percent before the project). With help provided during Bank supervision, Kazan considerably improved its asset management, divesting some unnecessary inventory. Also, the federal government is proposing further study and dissemination of this experience which it increasingly recognizes to be best practice.

Among the broader findings arising out of this evaluation:

- *Higher-level recognition of outstanding local experience:* Decentralization is two-way. Local governments benefit from the transfer of power and responsibilities. Higher level governments and the Bank gain through learning from good local experiences. For bottom-up learning to succeed, the Bank and Borrowers need always to be on the lookout for nuggets of local knowledge and experience.
- *Dissemination of best city practice:* It is important that program design at the broader sectoral level incorporate instruments for sharing results and for replicating them elsewhere, as well as to scale up.

Given full achievement of all objectives with few shortcomings, and even over-achievement of some, as well as some additional positive unanticipated results, the overall outcome of the project is rated as *highly satisfactory*. Efficacy and efficiency were *high*, as was the relevance of the objectives to the fiscal and subnational development priorities among the three levels of government in Russia and within the Bank itself. The Risk to Development Outcome is rated *low*, since the now decentralized and autonomous municipality of Kazan has every incentive to continue reforms and to do so on its own, since fiscal support from higher levels is no longer forthcoming. Bank Performance was *satisfactory*, through good design work and close attention to Program implementation through intense—if underreported—supervision that became *de facto* technical assistance. Borrower performance is rated *highly satisfactory* particularly through the strong leadership of the local authorities and the outstanding work done by municipal officials, particularly of the PIU, and Kazan's Finance and Social Protection departments.

The experience of this project reinforces the following IEG lessons:

- Once-off grant funding at the subnational level can be used to compensate municipalities for the larger losses they may incur through reduced fiscal transfers. As long as the cost of the grant funding to the higher level government is below that of the transfers it made before, the net fiscal effect of the subsidy for the country or region will be positive.
- To strengthen city management in transition economies, bringing younger and innovative staff on board as well as deploying experienced and traditional staff, can help form the dynamic local teams and leadership needed.
- Intense and frequent project supervision mostly from a local Bank office can be low cost and efficient. Fully reporting these Bank supervision activities, however, apart from being a procedural requirement, is essential if others are to learn how results were achieved and how to replicate them.
- Best practice at the municipal level should be seen as an opportunity to assist higher level governments implement reforms and for cities themselves to exchange experiences among each other. A best practice city's readiness and willingness to openly share these experiences is a necessary condition for effective dissemination and learning.
- A city's single celebratory event, with the municipal pride it engenders, can be used by the Bank and Borrower as an opportunity to start reform. The special occasion can also serve as a pretext for exceptional grant financing, without undermining medium term financial reform. In Kazan the occasion was the city millennium. In other cities, it could be hosting a major trade, sporting or cultural event.

Vinod Thomas  
Director-General  
Evaluation



# 1. Background and Context

1.1 An ancient city celebrating its 1005-2005 millennium, yet a new municipality created only in September 2004 to bring it in line with other Russian cities, Kazan was poised for to assume responsibilities for service provision that had rested with higher level authorities. Located in an oil rich region some 800 kms east of Moscow, this 1.1 million population city is Russia's eighth largest, and an important industrial and educational center. With 23 percent of its inhabitants living below the poverty line, Kazan's socio-economic indicators are similar to Russia's as a whole. The city's physical layout is well planned. At its center lies a historic kremlin (fortress) recognized by UNESCO as a world heritage site. As capital of the Autonomous Republic of Tatarstan (RT) Kazan received considerable RF support marking its important anniversary, including financing for a new metro mass transit system and large housing projects. The Bank-financed Kazan Municipal Development Loan (KMDL) reviewed here, that RF passed on to Kazan through RT as a grant, was part of this package. President Putin himself indicated that KMDL was a top priority, a position shared by the Bank, as indicated by the visit of the Bank's Managing Director's to Kazan shortly after the appraisal of this operation.

1.2 The municipal emancipation of Kazan was not auspicious. With it came cuts in RF funding of the order of US\$125 million equivalent per annum, coincidentally or not the same value of KMDL itself. The new municipality also inherited large short term debts and payables, typically unpaid RT promissory notes to banks to help pay overdue local salaries when budget funds were short. Still, with RT help, Kazan's first job as municipality was to prepare a strategic plan entitled the *Kazan Development Strategy up to the Year 2015* (KDS-2015). It aimed to improve access to municipal services, mitigate the effects of poverty through targeted social assistance, increase investment and economic development, create a favorable business environment, and strengthen institutions of local government, including the budget—all aims that KMDL could and did support.

## 2. Objectives and Design

2.1 Apart from supporting Kazan city's own strategy, KMDL's objectives (Box 1) were and remain *highly relevant* to the priorities of the RF and RT governments too. For Kazan itself, KDML was crucial in helping implement KDS-2015, the main strategic instrument for launching the ancient city as a newly created autonomous municipality. The Program helped by providing support to three priority areas—finance, social protection and HCS—that had traditionally be managed by higher level authorities under significant fiscal stress. Prior to KDML, Kazan was an administrative division of RT. The city's baseline of activities in these areas was therefore stark—namely one of zero experience. KDML was thus poised as midwife, attending the birth of Kazan's first municipal services. For both RF and RT, KDML promised to lessen future fiscal dependence by one of the country's most important cities that had never been self governing until the project. Built from scratch, Kazan's financial management still needs

further strengthening today, an aim that remains relevant especially with current policy emphasis upon development at the subnational level in Russia. The inevitable social fall-out, still felt, from the transition to a market economy placed a premium upon the improved social services and made KMDL's promise in that area particularly relevant for a city where 300,000 people felt entitled to some kind of support. Kazan's dilapidated housing and worn out infrastructure would also benefit from the urgent repair and maintenance proposed, in a reformed fashion, by the Loan. For the Bank itself, KMDL's objectives were highly relevant to its efforts, expressed in both the 2002 Country Assistance Strategy (CAS) and the 2006 Country Partnership Strategy (CPS), to help reform local administration, develop effective social services and Housing and Communal Services (HCS) that typically lagged behind Russia's economic growth. With its emphasis upon institutional reform and strengthening at the local level, KMDL is particularly relevant today to the 2006 CPS's priority for knowledge sharing as an area of Bank:RF cooperation, especially in support of development at the subnational level.

<b>Box 1: Kazan Municipal Development Loan – design summary</b>	
<b>Objectives</b>	<b>Components</b>
a) To improve budgetary and financial management	(i) Budget and Financial Management Strengthening (incl. Budget planning and execution satisfactory to the Bank with no new payables from 2004 on; municipal treasury with single account concept of budget)
b) To improve the delivery of social services by strengthening social protection	(ii) Social Protection System (incl. more efficient implementation capacity for social protection programs, greater transparency and targeting through introduction of individual accounts; Social assistance targeting, with provision of adequate resources (>74 million rubles)
c) To improve the condition of housing and communal services (HCS) – defined in the Program Document as: “an array of municipal services: provision of state owned housing, building management of state and privately owned apartment dwellings, water and waste-water provision, and district heating.” (PD p. 24)	(iii) Housing and Community Services Strengthening (incl. (better) Financial conditions of the sector; and governance, involving competitive management, such as privatization of Vodakanal).
<i>Sources: Program Document and Loan Agreement</i>	

2.2 The simple design of KMDL was *highly relevant* for achieving these objectives. It had the right instruments for the job in hand. The arrangement with RF as Borrower that passed on the loan proceeds as grant to the City of Kazan via RT worked smoothly. After all, there were just two loan disbursements—of US\$50 million and US\$75 million—made against the city's fulfillment of agreed conditions (details in Annex C). First tranche conditions required Kazan to tighten the municipal treasury and debt management, while second tranche conditions added financial planning requirements. KDML's choice of focusing upon finance, social protection and HCS was appropriate to the challenges that the city faced. With an annual budget of the order of US\$400 million equivalent, the city simply could not get by without sound financial management, even if it managed to resolve the short-term debt problems that it inherited. With 300,000 people

in a city of 1.1 million feeling entitled to some social support, the new municipal administration would become a lightning rod for social protection claims and required a robust and fair system for providing social protection to the city's poor. Finally, KDML was able to capitalize upon the reform-friendly environment for HCS in Kazan, bringing the existing momentum at the RT level for privatizing O&M to the level of the new municipality. The simplicity of design was the more remarkable given the complexity of the judicial, fiscal and political status of the new municipality of Kazan. Bank staff from the Moscow office especially came to understand this well during preparation thanks to an intensive dialogue with reform-minded experts in RT. The grant funding mode was obviously attractive to Kazan. It was offered to the city to help offset (greater) losses of RF fiscal transfers foregone, serving also as a "birthday present" for Kazan, as the city celebrated its millennium. Being a programmatic structural adjustment loan (PSAL) meant that disbursements were not tied to specific expenditures as they would have been for a specific investment loan (SIL), considerably simplifying reporting requirements. In the words of the program document (PD p.46), the design of KMDL successfully mimicked, at the municipal level, ongoing RF reform programs at the national level supported by the Bank and others.

### **3. Implementation and Costs**

3.1 On-time loan effectiveness in July 2005, just four months after the Loan was approved by the Board of Directors, ensured the timely release of the first tranche of US\$50 million in August 2005. For this, Kazan prepared a 2005-07 financial plan, made budget provisions to cover payables and social assistance expenditures, and obtained city council approval of a reform-minded HCS plan. The second tranche of US\$75 million in December 2006 came some nine months late. Although Kazan had met most release conditions—no new overdue payables, tight control of the municipal treasury and cash payments to eligible recipients of social assistance—privatizing the operation of the municipal water and sanitation utility *Vodakanal* made little progress. With the European Bank for Reconstruction and Development's (EBRD) mid-2006 approval of a new project to strengthen *Vodakanal*'s management and investments, the Bank agreed to waive the privatization condition—a wise move given that bargain basement acquisition of an agency whose assets had still to be revalued might not have led to a *bona fide* acquisition. In hindsight, the privatization aim at appraisal had been unduly ambitious, something that the Bank recognized aptly and in time through this, the only waiver of the project.

3.2 Still, KMDL was fully disbursed within the original time frame, closing on 12/31/2006 as planned. Although this PSAL's conditions did not require it, Kazan city authorities meticulously reported the uses of the US\$125 million Loan (details: Table 1).

<b>TABLE 1: KAZAN MUNICIPAL DEVELOPMENT LOAN – USES OF US\$125 MILLION FUNDS DISBURSED</b>		
	(in millions of rubles)	
<i>By category of expenditure :</i>	<i>planned</i>	<i>actual</i>
1. Paying-off debts	773.2	773.6
2. Repairs	1,163.0	1,095.6
3. Equipment	353.8	352.8
4. Construction	457.2	413.9
5. Housing and communal services (HCS)	633.2	603.6
6. Social benefits	70.0	70.0
6. Other	108.3	90.6
<b>Total:</b>	<b>3,558.7</b>	<b>3,400.1</b>
<i>By sector of expenditure:</i>	<i>planned</i>	<i>actual</i>
1. Education	1,379.7	1,358.2
2. Health	1,041.0	949.4
3. Housing and communal services (HCS)	633.2	603.6
4. Social protection	222.0	213.9
5. Other	282.8	275.0
<b>Total:</b>	<b>3,558.7</b>	<b>3,400.1</b>
<b>Source: Kazan Municipality Finance Department</b>		

Actual use of funds was very close to planned use across categories and sectors. Repairs to school buildings and health centers accounted for nearly one third of all expenditures, while almost one quarter was used to pay off Kazan’s debts. Priority education, health and HCS took some 85 percent of all the proceeds of KMDL. When asked by IEG why they reported these expenditures in such detail (not a legal requirement), they said that they did not do it for the Bank, but to enhance their own financial management controls.

3.3 A Project Implementation Unit (PIU), called the *Kazan Directorate of non-Budget City Development Programs* was specially set up for KMDL, even though creating a PIU had not specified in the PD . The decision to set up a PIU was Kazan’s, and the PIU remained within the realm of municipal authority, unlike project PIUs in operations in some other countries. The municipality created one in order to have a clear project focus within the “new” city’s evolving administration. The PIU continues to monitor the Program results. Beyond its original KMDL mandate, the PIU today has an important external relations function of mobilizing ad hoc resources for the city from both the public and private sectors—thus far mostly within the RF. Two successive mayors of Kazan showed strong leadership, both giving the Program their fullest support. Enthusiastic local teams were already at work when the Loan was approved and, with some turnover, continued to implement the Program energetically. The Municipal Finance Department promptly started to tackle Kazan’s short-term debts, bringing local accounts under control and making them transparent. KDML led to the first ever single municipal

account in Kazan and the introduction of tight municipal treasury controls through general ledgers and ceilings for expenditures in cash. Kazan's newly created Municipal Department of Social Protection quickly gathered local social programs under its umbrella, identified eligible recipients and began the shift toward cash payment of benefits to them. Kazan's Municipal Economics Department identified priority investments and expenditures in education, health and HCS. KMDL enjoyed support by the highest authorities in Kazan, in particular the city mayor, who was very familiar with the Program's details. He told IEG that he always cited KDML to (frequent) business visitors to Kazan, believing that its achievements will help give these investors confidence in Kazan as a place for doing serious business.

3.4 Bank supervision was intense. Since it was conducted primarily through the Bank's Moscow Office—that Kazan officials themselves visited almost every month—reported Bank supervision costs were kept very low (Annex A.)... Local officials valued, too, visits by the Bank Country Director (five times from Moscow) and Sector Manager (three times from Washington). But *formal* supervision missions are thinly reported in Bank files that hold copies of only three mission aide mémoires, for instance. This incomplete reporting led IEG in the field to inquire more closely of local officials what was done and achieved during Bank supervision. These officials told IEG that they did indeed receive many visits by Bank staff, mostly from the Moscow. Several officials said that they learned from them a lot about municipal development experiences from other transition economies. In addition, Bank staff inputs during visits to Kazan helped local teams deal with specific technical design issues affecting all project components, from municipal finance and asset management to individual case study approaches to social protection. Finally, the frequency of Bank visits to Kazan helped ensure that tranche conditions were closely monitored and tranches promptly released when those conditions were met. While *de facto* supervision by a tightly knit Bank working group, was intense and frequent, incomplete reporting of it meant that the excellent performance of this operation is not evident from the official record. It can only be gleaned from a field visit to Kazan, as IEG itself found out.

## 4. Monitoring and Evaluation

4.1 KMDL monitoring and evaluation (M&E) was well conceived and effectively implemented. Appropriately, where many cash payments were involved, M&E also required tight controls, auditing and reporting to ensure proper use of funds. On the performance side, KMDL tranche release conditions themselves were carefully monitored and reported (Annex C). Beyond these, the appraisal mapped out 23 more performance indicators—half outcome and half output—each with realistic and explicit targets. Among good, easy to measure, connotative outcome indicators, the M&E included: a (declining) municipal budget deficit as a share of all revenues; (declining) short-term payables; (expanding) cash social assistance payments to eligible recipients; and (expanding) private sector coverage of HCS maintenance (some are shown in Table 2). All of these were thoroughly monitored on a monthly basis by local teams, as were indicators measuring outputs, such as completing an audit or publishing a report.

4.2 In Kazan itself, most monitoring was carried out by the PIU, which kept RT authorities apprised of progress. Local teams themselves made good use of M&E, accelerating social assistance payments when monitoring showed progress to be slipping in the earliest months. At the federal level, MOF conducted its usual follow up of this kind of externally funded program. A more substantive effort by RF to systematically monitor the progress and evaluate the results of KMDL initially stalled for budgetary reasons. It seems that this has now been overcome. Through the Bank financed Russia: Regional Fiscal Technical Assistance Project (RFTAP - Ln4528), RF is currently inviting expressions of interest by consultants to undertake the necessary impact evaluation, with a view to better understanding and disseminating the excellent results posted by Kazan thus far.

## 5. Project Outcomes by Objective

### STRONGER MUNICIPAL BUDGET AND FINANCIAL MANAGEMENT

5.1 Under this objective, efficacy was *high*. Thanks to the Program, there are indications that the new municipality of Kazan gained a sound financial footing (Table 2). A deficit turned into a surplus, as current revenues grew and expenditures were contained, a trend that will, according to EBRD projections, continue to 2021 (not shown here). For some indicators, ICR reports better results, for others, more recent data external to the project record greater achievements. The shrinkage of the total deficit below the KMDL target points to less fiscal dependence upon RF and RT capital funding. Outstanding payables, a major problem in the past, were substantially reduced. The municipal budget's priority for social spending has been maintained, although targeted expenditures have proved difficult to sustain at levels of the earlier (untargeted) assistance.

<b>TABLE 2: KAZAN CITY – SELECTED FINANCIAL INDICATORS 2004 – 2007</b>			
<i>General indicators:***</i>	2004 baseline	2007 target	2007 actual
1. Current revenues (RUB. m.)	6,328	-	8,275
2. Current expenditures (RUB. m.)	6,641	-	8,191
3. Current deficit/surplus (1-2: % of revenues)	-4.9%	-	+1.0%
<i>Project indicators:</i>			
4. Total deficit as share of total revenues (%)	-9.1%	less than -5.8%	-3.6%*
5. Outstanding payables and short-term debt (RUB. m.)	1,283	less than 1,000	827*
6. Education, health and social protection investment's share of total expenditures (%)	-	more than 12.0%	8.3%* 15.3%**
7. Budgeted expenditures for social protection (RUB. m.)	-	more than 650	870* 501**
8. Budgeted subsidies to heat producers (RUB. m.)	200	0	0
<i>Sources: Program Document, *Implementation Completion Report (data for 2006), **Municipality of Kazan (partial data for 2007) and ***EBRD.</i>			
<i>Note: 2007 actual figures of municipality extrapolated to the full year from those reported through August 2007.</i>			

5.2 Kazan's drive to improve its finances was not only to meet agreed KMDL conditions. An imperative was to make up for RF transfers that were cut. RF block grants to finance city investments dried up completely in 2006, for instance. But KMDL helped enable the municipality overcome these fiscal shocks—even if, the so-called

“shocks” had been predicted. KMDL helped through the provision of *de facto* technical assistance through intense Bank supervision (rather than more conventionally through consulting contracts). By helping local officials organize and unify municipal accounts, debts and other obligations became transparent and strategies to address them more realistic. City officials told the IEG mission that all short-term payables had been paid off. When informally asked by IEG at several meetings, municipal employees confirmed that their salary payments were all up to date—a rare occurrence before the project when they had worked for other government agencies.

5.3 The professionalism of the finance teams in the municipality, combining dynamic young western-educated leadership and long-time experienced staffers, has given Kazan the strong budgetary and financial management that KMDL intended. The IEG mission noted the clarity they had brought to the municipal accounts and the efficiency of their responses to IEG requests for evaluation data. MOF itself chose Kazan in 2006 as the third best city in all of Russia for transparency of local accounts.

#### **TARGETED SOCIAL PROTECTION**

5.4 Efficacy in achieving better delivery of social support was also *high*. Kazan was one of the first cities in Russia to target assistance to beneficiaries, case-by-case. Indeed, KMDL accelerated reform by helping the shift toward cash deposits to eligible low-income recipients away from old-style untargeted subsidies to service providers or given in kind (e.g. free transport) to all workers in a chosen enterprise, for instance. Instead, KMDL-inspired social protection top-up payments went directly to low-income recipients to help them pay otherwise unaffordable rents, heating, and child support expenses. Local officials told IEG that the Municipal Social Protection Department currently handles 75 percent of all such payments in the city—up from a baseline of zero before Kazan became a municipality in 2004. This effort is made possible by the city’s computerized database of 23,900 assisted families, that ensures accurate targeting, and avoids duplicate payments that had plagued the earlier systems. Better targeting brought considerable savings to the municipality, even making it difficult to sustain the agreed minimum level of overall spending on social protection.

5.5 The IEG mission visited two of the city’s twelve “one-stop shops” that attend applicants for social assistance. These facilities were well set up, properly staffed and maintained. They served the public quickly and respectfully. Computer information systems were in working order. Some of these offices are attached to health centers that were repaired and upgraded using KMDL funding. Prior conditions in them had been so bad that they had fallen into disuse until recovered under this project. IEG was assured that future maintenance had been budgeted by the municipality.

5.6 This progress would not have been possible without the Kazan Department of Social Protection, a unified department specially created under KMDL, whose head enjoys the rank of Deputy Mayor of Kazan. The success of these reforms also owes a lot to the dedicated and experienced staff of the Department. They told IEG that they valued the exposure to experiences in other transition economies that members of Bank supervision missions made possible. The enthusiasm of those (mostly female) staff who met the IEG mission was impressive, as they rose to the challenge of meeting the needs of nearly 30 percent of the population of Kazan still entitled to some kind of social

assistance—even though this was down from 98 percent before KMDL. During field visits throughout the city itself, IEG did hear some complaints from better-off residents who no longer received support. But what remains after KMDL is less costly and it is distributed more efficiently to the targeted families and individuals intended.

## **BETTER HOUSING AND COMMUNAL SERVICES**

5.7 Efficacy in improving HCS was *substantial* overall. For housing, KMDL successfully encouraged the formation of private Homeowners' Associations (HOA) especially in low income areas, and stimulated competition through open tenders with private firms for HCS maintenance in the city. KMDL also helped improve the district heating. However, privatizing the operation of the water utility did not take place as planned, but KMDL highlighted a number of weaknesses of *Vodakanal* that were addressed by a new EBRD funded project.

5.8 Altogether 200 new HOAs, most with several hundred paid-up member/owners, were established in Kazan during the implementation of KMDL. Since the 80 HOAs existing prior to the project had served wealthier parts of the city, this project initiative brought HOAs to lower income communities not previously covered. After housing had been privatized and state-owned enterprise responsibilities for maintenance ceased, the resulting vacuum is now being filled by HOAs providing operations and maintenance (O&M) services for common residential areas and facilities, such as children's' playgrounds and building elevators that are beyond the writ of individual property owners. Although voluntarily formed by interested property owners themselves, Kazan encouraged HOA formation through media campaigns and by simplifying local regulations. The IEG mission visited one HOA mid-afternoon in a lower middle income estate of high-rise apartment buildings. It was not busy at that time but appeared to be fully functional. The HOA reported that 80 percent of the local residents were paid-up members. During the site visit outside the HOA office, residents told the IEG mission that they considered the HOA to be an effective instrument to represent their interests and improve the common areas of their estate.

5.9 To improve the maintenance of housing areas and infrastructure, KMDL encouraged the city to launch more tenders for private firms to provide these services for specific areas of the city. Today, some 60 such private companies cover 100 percent of Kazan's housing stock; up from just 12 covering half the stock before KMDL. The IEG mission met with representatives of eight of these firms, invited by the municipality to the meeting. Importantly, they all reported to IEG that theirs was a profitable business, especially when it involved large scale repairs to infrastructure. Their finances were sound. Late payments (by municipal or private clients) were rare, never exceeding 10 percent of the total. For its part, the municipality reported annual savings of more than US\$15 million equivalent, thanks to the lower costs of these arrangements.

5.10 KMDL support for district heating reform came in two ways. Firstly, it helped terminate the (untargeted) municipal subsidy of its district heating utility, by introducing targeted subsidies to poor families just mentioned, enabling them to pay the (unsubsidized) tariffs. Secondly, KMDL funds were used to install modern, gas-fired, small-scale district heating plants in apartment complexes when the old system was about to fail. IEG visits showed that they were poised for operation with the onset of winter.

## UNANTICIPATED RESULTS OF KMDL

5.11 *Competitive procurement:* Municipal authorities showed IEG examples of their own procurement management for street paving, for instance, that voluntarily incorporated Bank principles of local competitive bidding. They explained that they did this in order to get lower priced contracts, which they succeeded in doing. They had reduced sole source purchasing from 55 percent to less than 25 percent of the total, below performance indicator target ceiling of 35 percent. As a typical PSAL, KMDL did not require particular procurement practices to be applied in the use of its own funds or of those of the municipality.

5.12 *Municipal asset management:* Under KMDL, Kazan built up an inventory of its assets (land, real estate property and shareholdings in state owned enterprises), valued them against market prices, and developed a plan to divest assets surplus to the needs of the city administration. Some have already been divested after competitive bidding in public auctions. Real estate assets remaining on the municipal books are now leased out at 90 percent of their market values, the intended target, versus 50 percent prior to the KMDL.

## 6. Broader Findings of this Evaluation

6.1 *Higher-level recognition of outstanding local experience:* Decentralization is two-way. Local governments benefit from the transfer of power and responsibilities. Higher level governments (and the Bank) gain through learning from good local experiences. For bottom-up learning to succeed, Borrowers and the Bank too need always to be on the lookout for nuggets of local knowledge and experience from particular cities that can be applied elsewhere. In this way, the Kazan experience can join other well-documented cases of good urban practice in other countries, such as Curitiba in Brazil, Surabaya in Indonesia, Chennai in India and Ningbo in China. RT is currently trying to replicate the Kazan experience to other municipalities within the Autonomous Republic. RF has begun this through MOF's launch of studies of the Kazan experience to be financed under the ongoing US\$26 million RFTAP (Ln 4528) for replication elsewhere in Russia. Also, RF's Ministry of Regional Development (MRD) is incorporating elements of KMDL into a proposed new Russia-wide HCS operation.

6.2 *Dissemination of good results (best city practice in this case):* It is important that program design at the broader sectoral level incorporate instruments for sharing outstanding results with other cities and countries, and to replicate them elsewhere on a larger scale. This can be done in two ways. First, through the exchange of experience across cities, something that could be encouraged through global programs such as the Cities Alliance (CA), for instance. The City of Kazan itself has a head start in international dissemination as it hosts the Eurasian Branch office of the United Cities and Local Governments (UCLG), a worldwide association of local governments headquartered in Barcelona, Spain that aims to promote their political, economic and social interests to the international community and the United Nations. For such efforts to bear fruit, it is important for cities hosting best practice operations to be ready to share

their experiences, and not take too proprietary or reticent a stance toward potential competitors.

## 7. Ratings

7.1 For their support of decentralization and municipal development priorities at all three levels of government—Federal, RT and Municipal—the relevance of the objectives of KMDL is rated *high*; so too is a design that had the right instruments for the job in hand. Efficacy is also rated *high*; all three objectives were achieved and several key targets were surpassed. There were also some additional unanticipated benefits. Since all highly relevant objectives were achieved without any shortcomings, the overall outcome of KMDL is rated *highly satisfactory*. This upgrade from the ICR's *satisfactory* rating takes full account of IEG field observations of results that were not always evident from sometimes incomplete program documentation and files.

7.2 The Risk to Development Outcome is *low*; as a decentralized municipality now fiscally on its own, Kazan will need to continue to implement KMDL reforms for its own survival and future prosperity. Resilience of these gains has already been tested, with positive results; an unexpected change of city mayor in October 2005, with some turnover in staffing key technical teams, did not derail the Program. Furthermore, as Kazan becomes known as a success story, it will keep pressure upon RT and municipal authorities to sustain excellent performance into the future to sustain its reputation.

7.3 Bank performance was *satisfactory*. KMDL design was very good; supervision, while not fully reported, was intense and became *de facto* technical assistance. While it did not undermine the performance of the operation itself, incomplete reporting meant that the results were difficult to glean without a field visit to the city. This suggests that there was a significant loss of information for Bank management.

7.4 Borrower performance, covering RF, RT and the municipality of Kazan itself, was *highly satisfactory*. Particularly outstanding was the diligence with which the city authorities and staff pursued the reforms agreed, even going beyond them at times.

## 8. Lessons

8.1 Once-off grant funding at the subnational level can be used to compensate municipalities for the larger losses they may incur through reduced fiscal transfers. As long as the cost of the grant funding to the higher level government is below that of the transfers it made before, the net fiscal effect of the subsidy for the country or region will be positive.

8.2 To strengthen city management in transition economies, bringing younger and innovative staff on board as well as deploying experienced and traditional staff, can help form the dynamic local teams and leadership needed.

8.3 Intense and frequent project supervision mostly from a local Bank office can be low cost and efficient. Fully reporting these Bank supervision activities, however, apart from being a procedural requirement, is essential if others are to learn how results were achieved and how to replicate them.

8.4 Best practice at the municipal level should be seen as an opportunity to assist higher level governments implement reforms and for cities themselves to exchange experiences among each other. A best practice city's readiness and willingness to openly share these experiences is a necessary condition for effective dissemination and learning.

8.5 A city's single celebratory event, with the municipal pride it engenders, can be used by the Bank and Borrower as an opportunity to start reform. The special occasion can also serve as a pretext for exceptional grant financing, without undermining medium term financial reform. In Kazan the occasion was the city millennium. In other cities, it could be hosting a major trade, sporting or cultural event.



## Annex A. Basic Data Sheet

### KAZAN MUNICIPAL DEVELOPMENT LOAN (LN 4766-RU)

#### Key Project Data (amounts in US\$ million)

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>	<i>Actual as % of appraisal estimate</i>
Total project costs	125	125	100
Loan amount	125	125	100
Cofinancing	-	-	-
Cancellation	-	-	-

#### Cumulative Estimated and Actual Disbursements

	<i>FY06</i>	<i>FY07</i>
Appraisal estimate (US\$M)	50	125
Actual (US\$M)	50	125
Actual as % of appraisal	100%	100%
Date of final disbursement:	12/29/2006	

#### Project Dates

	<i>Original</i>	<i>Actual</i>
Concept Review	10/29/2003	10/29/2003
Appraisal	11/09/2004	11/09/2004
Board approval	02/24/2005	02/24/2005
Signing	06/03/2005	06/03/2005
Effectiveness	07/01/2005	07/01/2005
Closing date	12/31/2006	12/31/2006

#### Staff Inputs (staff weeks)

<i>Stage of Project Cycle</i>	<i>Staff Time and Cost (Bank Budget Only)</i>	
	<i>No. of staff weeks</i>	<i>USD Thousands (including travel and consultant costs)</i>
Lending	89	529.1
Supervision/ICR	46	165.2
Total	135	694.3

**Mission Data**

<i>Date (month/year)</i>	<i>No. of persons</i>	<i>Staff days in field</i>	<i>Specializations represented</i>	<i>Performance rating</i>	<i>Rating trend</i>	<i>Types of problems</i>
Identification/ Preparation						
Appraisal				[not reported]		
Supervision						
Completion						

## Annex B. Tranche Release Conditions

### KAZAN MUNICIPAL DEVELOPMENT LOAN (LN 4766-RU)

	<b>First Tranche: US\$50 million</b> *planned release July 1, 2005; actual release August 11, 2005)	
	<b>Condition:</b>	<b>Compliance:</b>
1.	The city has developed and approved a medium-term Financial Plan for the period 2005-07, agreed with the Bank.	Yes
2.	The city has demonstrated that in the context of its 2005 budget: (i) it has funds, budgeted for 2005, to cover overdue payables of budgetary institutions, including those covered by the restructuring agreement with RF social funds on overdue payables due to such funds; (ii) the share of education, health, and social protection expenditures devoted to capital expenditures is at least 12% of total budget expenditures; (iii) it has conducted an inventory of capital expenditure arrears; (iv) the wage bill of municipal employees is capped by the rate of growth for federal employees.	Yes
3.	Within the Treasury system: (i) commitment control mechanism has been introduced, inter alia through enforcement of mandatory registration of all contracts with the Treasury; (ii) off-budget revenues of budget organizations are covered by the Treasury.	Yes
4.	The city has taken actions to improve the effectiveness of social protection programs implementation via: (i) Resolution and plan of the city Administration passed to delegate all responsibilities for social support programs under the City to the Social Protection Directorate (SPD); (ii) the social protection part of the city budget for 2005 has sufficient resources to cover (a) the monetized benefits and targeted programs, and (b) capacity development of the SPD.	Yes
5.	The Resolution of the city Administration passed defining procedures for provision of social benefits to the population to include individual accounts and social contracts.	Yes
6.	Sufficient allocation is included in 2005 city budget in the form of a subvention from Tatarstan for payment of monetized benefits.	Yes
7.	The Resolution of the city Administration introducing targeted poverty benefit is passed, and at least RUR 70 million is designated by the city for its financing.	Yes
8.	The "Program of Reform of the Housing and Communal Complex of Kazan" was approved by the City Council on September 30, 2004.	Yes
9.	In 2004, 52% of housing stock is maintained by private companies; (ii) at least 76 additional HOAs were created in 2004 and a Public Coordination Committee to facilitate establishment of HOAs has been set up. A public information campaign on HOAs has been launched in mass media.	<b>Yes</b>

<b>Second Tranche: US\$75 million</b> (planned release early March 2006; actual release December 29, 2007)		
	Condition:	Compliance:
1.	The 2006 fiscal year budget with the concept and parameters satisfactory to the Bank has been approved by the City.	Yes
2.	The City has demonstrated that there are no new overdue payables of the city budget and budgetary institutions from end-2004 to end 2005	Yes
3.	The City has demonstrated that a viable system of Treasury-execution of the municipal budget has been established based on a single account concept for budgetary funds, and funds are channeled solely through the Borrower's Central Bank.	Yes
4.	The City has demonstrated improvements, satisfactory to the Bank, in the implementation capacity for social protection programs.	Yes
5.	The city has demonstrated that payment of monetized social and housing and communal service benefits using individual accounts has been introduced and is under implementation.	Yes
6.	The city has demonstrated that sufficient resources in the form of subvention from the Republic of Tatarstan have been allocated in 2006 City budget for payment of monetized benefits.	Yes
7.	The targeted poverty benefit has been successfully implemented, and 2006 City budget allocates not less than 70 million Rubles for the City own social protection expenditures for its financing, and social contract practice is utilized.	Yes
8.	The City has demonstrated satisfactory improvements in the housing and communal sector (HCS).	Yes
9.	The City's water and wastewater facilities (Vodakanal) are managed by a competitively selected private operator.	waiver