

TC Operation Evaluation

Summary

**Sakha (Yakutia) Republican Municipal Services Development
Programme TC
(Russia)**

(A private sector investment operation)

June 2012

Evaluation department (EvD)



European Bank
for Reconstruction and Development

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Project data

Operation type	Technical Cooperation
Operation code	36312, 36346 and 36347
Location	Russia
Operation	Sakha (Yakutia) Republican Municipal Services Development Programme
Sector	Steam and Air Conditioning Supply
Bank unit	Municipal and Environmental Infrastructure

A. Funding

Commitment number	Donor name/fund country	Commitment name	Amount committed (EUR) [disbursed]
TC1 (OPID 36312) EMIS-2005-11-08	EMIS – EBRD-EC Municipal Investment Support Programme 1 (MISP 1)/EU	Sakha (Yakutia) Budget Expenditures Review	26,050 [23,250]
TC2 (OPID 36346) JAP-2007-11-54	JPN – Japan-Europe Cooperation Fund/Japan	Sakha (Yakutia) – Regional Municipal Services Development – PIU Training and Support	490,000 [486,611]
TC3 (OPID 36347) JAP-2007-12-62	JPN – Japan-Europe Cooperation Fund/Japan	Sakha (Yakutia) – Regional Municipal Services Development	725,932 [725,110]
Related TC (ongoing)			
TC4 (OPID 36348) JAP-2007-12-59	JPN – Japan-Europe Cooperation Fund/Japan	Sakha Yakutia – Municipal Services Development Project – Lender's Supervisor	496,460

B. Procurement

TC	Procurement mode	Consultant	Consultant's nationality
TC1	Direct selection	Centre for Fiscal Policy	Russia
TC2	Request for proposals	Cowiconsult International	Russia
TC3	Request for proposals	Ins for Urban Economics	Russia
TC4	Request for proposals	Grontmij A/S	Denmark

C. Visits

Type of visit	Location	No. of visits	Person-days
EvD/OE	Russia	1	5

Abbreviations

EBRD	European Bank for Reconstruction and Development
EU	European Union
FIDIC	Fédération Internationale Des Ingénieurs-Conseils
FOPIP	Financial and operational performance improvement programme
GUP ZhKH	State Unitary Enterprise of Communal and Housing Sector of the Republic of Sakha (Yakutia)
IFI	International financial institution
IFRS	International Financial Reporting Standard
MEI	Municipal and environmental infrastructure
MSDP	Municipal Services Development Programme
MUP Teploenergiya	Municipal Unitary Enterprise for production and distribution of heat for the city of Yakutsk
OPER	Operation Performance Evaluation Review
PIU	Project implementation unit
PP&R	EBRD's procurement policies and rules
RUB	Russian Rouble
Sakha	Republic of Sakha (Yakutia)
TC	Technical cooperation
Vodokanal	Yakutsk Vodokanal
XMR	Expanded monitoring report

Defined terms

The borrower/the beneficiary	GUP ZhKH
The Government	The government of the Republic of Sakha (Yakutia)
The Investment	A €46 million equivalent (RUB 1,654 million) multi-sector lending programme for municipal services in the Republic of Sakha (Yakutia)
The Loan	A RUB 1,000 million loan to GUP ZhKH approved in December 2005
The OPER team	Staff of the Evaluation department who carried out the post-evaluation
The Operation team	The staff in the Banking department and other respective departments within the Bank responsible for the TC operation appraisal, negotiation and monitoring, including the XMR
The Project	The investment and technical cooperation in order improve, physically and institutionally, municipal water, wastewater and district heating (supply of heat and hot water) in Sakha
The TC operation	A series of technical cooperations provided for the implementation of the Investment (listed in Basic Data)

Executive summary

The operation, objectives and expected results

The operation evaluated here is a project implementation TC, funded by an untied bilateral grant of €1.7 million to support EBRD-financed municipal infrastructure rehabilitation in Sakha (Yakutia), Russia. The main objective of the TC Operation was to help the first-time borrower (beneficiary) achieve successful project execution in a very remote region. Three separate packages of consultancy services were approved in 2005: (i) support tendering, procurement, project management, monitoring and reporting; (ii) provide training for its institutional capacity building; and (iii) monitor and report on implementation.

Implementation, results and impact

The impact of the financial crisis led to a reduced project scope, while the TC budget remained the same, which contributed to the successful completion of the construction works and capacity building. The number of the targeted beneficiaries was reduced from three to one, which freed up the budget for more comprehensive support. The consultants' activities produced the following outputs:

- Procurement of district heating systems in accordance with the EBRD's procurement policies and rules (PP&R) for two project locations
- gained procurement and project management skills
- corporate development plan for the mid/long-term institutional building being steadily implemented.

The TC Operation is considered successful, yielding improvements in institutional capacity and a follow-on investment approved in 2011.

Findings from evaluation and recommendations

Positive drivers for effective TC implementation have been: (i) an active steering committee capable of making decisions at the Republic Government level; (ii) a high level of readiness and receptivity for capacity building on the part of the beneficiary; (iii) the rigorous planning approach adopted by the consultants, which facilitated the response to needs, properly designing inputs-outputs and leading to the TC objectives; (iv) an adequate TC budget.

For any follow-on TC it is recommended that: (i) if funded by a donor, the donor should discuss with the TC operation team as to how the donor visibility would be reflected in the TC design and, if necessary, incorporate agreed requirements in the donor contribution agreement or grant agreement; (ii) the EBRD procurement staff's contribution to the training activities was appreciated and similar arrangements with the EBRD's environment staff would also be encouraged regarding the environmental action plan; (iii) institutional capacity building focused on the entire beneficiary organisation should be considered when the EBRD's assistance continues.

1. Project

This report presents the evaluation of a series of technical cooperation operations ("TC") in relation to a €46 million equivalent (1,654 million Russian roubles) multi-sector lending programme for municipal services ("the Investment") in the Republic of Sakha (Yakutia) ("Sakha"). The technical cooperation and the Investment were formulated in order to improve, physically and institutionally, municipal water, wastewater and district heating (supply of heat and hot water) in Sakha ("the Project"). Sakha has the largest administrative territory in Russia – about 3 million square kilometres, across Siberia and the Far-East of Russia.

A feasibility study was conducted in 2005, financed from the second round of the European Union ("EU")'s Joint Environmental Programme Framework.¹ The feasibility study laid down a blueprint of the Project. The Project anticipated three borrowers in the municipal utility sector as follows:

- State Unitary Enterprise of Communal and Housing Sector of the Republic of Sakha (Yakutia) ("GUP ZhKH") – a wholly Republic-owned enterprise responsible for district heating (accounting for about 90 per cent of revenues) and water supply and sewerage services (representing 10 per cent of revenues) in towns and settlements outside of the four largest cities in Sakha
- Yakutsk Vodokanal ("Vodokanal") – a wholly Republic-owned enterprise responsible for water supply and sewerage in Yakutsk
- Municipal Unitary Enterprise for production and distribution of heat for the city of Yakutsk ("MUP Teploenergiya") – a wholly municipal-owned enterprise responsible for district heating for the outerlying region of Yakutsk.²

The European Bank for Reconstruction and Development ("EBRD") approved the Project in December 2005. A small but important study, financed by the EBRD-EU Municipal Investment Support Programme, was undertaken in 2006 to review the federal budgeting methodologies and exercises and to identify critical issues that could affect the creditworthiness of the Russian local governments. The study was completed successfully and led to the Project being signed.

In December 2006, the EBRD reapproved the Project and signed a RUB 1,000 million loan to GUP ZhKH ("the Loan"), financially guaranteed by the government of the Republic of Sakha ("the Government"). The TC activities commenced with the recruitment of the consultants in 2007. The TCs provided in the Project ("the TC Operation") are shown in Table 1 below. The TC Operation was financed by a grant from the Government of Japan.

¹ This framework has financed few funding programmes, including EU TACIS.

² Electricity for the central part of Yakutsk is supplied by a private company, JSC Yakutskenergo, part of a far-eastern energy producer group.

Table 1: Technical cooperation provided in the Project

Purpose	Utilisation	Period
Procurement support to the project implementation unit and staff training	€486,611	11/07-07/09
Financial and operational performance improvement programme	€725,110	03/08-12/09
Lender's supervisor and implementation monitoring (ongoing)	€496,460*	01/08-12/12

*committed amount

Note 1: In addition to the TC Operation, about €1.7 million of proceeds were used out of the Loan for a preliminary design of the project facilities and the preparation of technical specifications for tender.

Note 2: Lender's supervisor and implementation monitoring TC is not rated in this evaluation report given that it was ongoing at the time of assessment.

A proposed RUB 354 million loan for the water supply and sewerage component in Yakutsk did not come to fruition as Vodokanal received an investment from the Federal Fund. Another RUB 300 million loan to the City of Yakutsk for district heating was not realised because a private sector energy group, Yakutskenergo, took over the supply of heat and hot water from the City's enterprise Teploenergiya, which was considered a positive move towards sector reform.

GUP ZhKH supplies 31 districts in the remote area in Sakha.³ At appraisal, the EBRD and GUP ZhKH planned the rehabilitation of district heating in seven settlements (locations). In May 2008, with the assistance of the consultants supporting the project implementation unit ("PIU"), GUP ZhKH tendered and awarded a design and installation contract for a new boiler house and equipment and pipes for the first project site. The first location was a settlement in Zhigansk (about 600km north-west of Yakutsk) with about 3,200 inhabitants. However, the financial crisis quickly spread across Siberia and the Far East of Russia. From the onset of the implementation, the contractor was troubled by a shortage of working capital. Slow mobilisation, prolonged pipe production and late delivery of goods caused significant delays and the missing of a logistical deadline that the harsh climate imposed on permafrost land.⁴

In regions with an extreme climate, where the opportunity cost is distorted, it is better to do less business than more, as the latter is riskier. The tender of a boiler house for the second location, Srednekolymsk (1,500km north-east of Yakutsk) with a population of about 3,000, struggled. The first and second tenders in 2008 and 2009 were cancelled due to a lack of bidders. Moreover, the negative impact of the financial crisis was more acute in the remoter areas of Russia, causing serious problems for the contractors.

A sharp increase in the Loan's interest rate tightened the counterpart funds. To accommodate the prolonged and increasingly slow implementation, the loan availability period was extended by one year.

³ Total length of supply pipes are: 1,700 kilometres for heating, 804km for cold water, 250km for hot water and 318km for sewerage.

⁴ A road network does not exist in Sakha, making cities, towns and settlements sporadic and isolated. Logistics are therefore complex. On permafrost land, roads are not paved due to the unsuitability of asphalt. Unpaved roads are not suitable for winter use. Rivers are used for transportation in summer, until 15 September. From then to November, rivers gradually freeze solid. During this period, vehicles are unable to pass. Once frozen, rivers can serve as roads until they start melting in late spring. Such physical conditions significantly limit land and inland waterway traffic in the region.

GUP ZhKH reformulated the tendering strategy with the PIU support consultants. Learning from the contractor's struggle in Zhigansk, they divided the component into three packages in order to diversify the contractor risk. However, the third tender in 2010 took place as the crisis impact deepened in Siberia, resulting in bid prices being doubled and fewer qualified bidders competing. GUP ZhKH could not afford any more delay and entered into the contracts after difficult negotiations.

The third location in the Arctic circle, Nishnekolymsk with 5,000 inhabitants in the East Siberian Sea front, was discarded after a tender. Bid prices far exceeded the remaining loan commitment. Therefore, the district heating investment materialised in only two locations. Nevertheless these two locations were a priority for the Government because the largest taxpayer, ALROSA, the world's second largest diamond producer, planned to extend its exploration activities to Zhigansk and Srednekolymsk.

The Zhigansk boiler house was completed in September 2011, about two years after the original schedule, and a commissioning test is under way. The Srednekolymsk component will be completed in January 2013.

The TC Operation was aligned with the Investment. The core part of the TC Operation, that is, PIU support and the Financial and Operational Performance Improvement Programme ("FOPIP"), was completed in 2009. Currently the lender's supervisor is still working on the ongoing implementation.

2. Project rationale, relevance, additionality and compliance with country strategy and sector policies

The rationale of the TC Operation was to assist the first-time borrower(s) to implement the project by strengthening their institutional capacity. The TC Operation was indispensable and highly relevant to the Investment which complied with the applicable country strategy for Russia and the sector policies. The relevance of the TC Operation is therefore considered High.⁵ Mobilising grant financing from a bilateral donor provided the EBRD with strong additionality at appraisal. The additionality of the TC Operation is fully verified.

⁵ The Investment was aligned with the Municipal and Environmental Infrastructure Operation Policy [BDS 04/68F] and the Strategy for Russia {BDS/RF/04-1F} promoting the decentralisation policy, a commercialisation concept and market-based practices.

3. Achievement of objectives

The achievement of the TC objectives is assessed according to the following criteria:

- Effectiveness (how the TC Operation was conducive to the Investment)
 - assessment of TC design, scope, the outputs of the consulting services and a donor visibility
- Efficiency
 - assessment of TC inputs (the consulting services provided and the contract value) and value for money.

Two of the three TCs in the TC Operation are rated *Good* in both aspects (one TC is unrated). This results in an overall rating of *Good*.

3.1 TC for PIU support and training (Commitment No. JAP-2007-11-54)

The effectiveness of this TC was *Good*. This positive outcome is owing to the number of borrowers being reduced from three (at appraisal) to one (GUP ZhKH). When the TC was approved and the funding committed in 2007, the EBRD was still hoping that three borrowers would sign the loan agreements. After the signing of the consultancy agreement, only one borrower appeared in the scope.

This change⁶ resulted in the consultants' resources being unstretched: (i) a sufficient budget for the activities; and (ii) a very flexible schedule to attend to a single beneficiary. In addition, the scope excluded major engineering tasks⁷ (that is, preliminary design for tendering) since such critical engineering tasks were financed from the Loan. The TC focused on the interaction, with the beneficiary providing certain technical inputs for tender as needed.

GUP ZhKH's first experience with an international financial institution ("IFI") could not have been so easy without this comprehensive assistance. The consultants applied a logframe approach for the PIU support and capacity building. This was useful for the consultants and the EBRD when readjusting various tasks, extending the assignment period, thus dedicating the resources for GUP ZhKH.

The front-loaded manning schedule helped to expedite the procurement process. Tender documents in English in accordance with the Fédération Internationale Des Ingénieurs-Conseils ("FIDIC") standard were mainly prepared by the consultants as GUP ZhKH was unfamiliar with such terms. The consultants acted as an adviser to the tender evaluation committee and assisted in negotiations, contract award and beyond. The consultants described the process as "learning by doing", which is usually the right way in a procurement support assignment. The eventual implementation gave a number of valuable lessons to PIU. The consulting services were extended in order to help PIU at a critical time for the Investment.

Training tasks were enhanced and tailored to the single beneficiary of the TC Operation. Project management skills and the IFI reporting norms had been established in GUP ZhKH by the end of the

⁶ The number of the prospect beneficiaries was reduced from three to one and the project locations for GUP ZhKH were reduced from seven to two.

⁷ The operation performance evaluation report for Vologda Municipal Water Service Project TC addressed the insufficient budget for engineering tasks [PE11-515T].

consulting assignment. Besides on-the-job training, seminars and workshops were organised for GUP ZhKH, other utility enterprises and the Republic Government officials. The following activities are noted:

- the EBRD's workshop for procurement staff "Introduction of EBRD Procurement Policies and Rules" for GUP ZhKH and other communal utility enterprises in Sakha at the onset of the implementation (January 2008)
- Borrowers' roundtable in Moscow and discussions on the implementation of EBRD projects with other borrowers (Vologda Vodokanal and Kaliningrad Vodokanal)
- seminars and workshops for effective tender design and contract management by Crown Agent in Worthing, the United Kingdom (October 2008)
- overseas study tour for decision makers and key PIU staff to visit suppliers of heating equipment and energy efficiency systems and a municipal utility company in Denmark and Sweden in November 2008
- overseas study tour for decision makers and key PIU staff to visit heating system technology suppliers and engineering companies in the Czech Republic in May 2009
- operation manuals were prepared to deal with similar investments in a systematic manner using international open competitive tenders and other market-based procurement methods and contract terms.

The efficiency of this TC is *Good*. The committed funding was fully (99 per cent) utilised. Nearly 50 per cent accounted for remuneration, the overseas training activities represented about 10 per cent of the total amount and the remainder was for other expenses, including office rent for 11 months and equipment purchases. While this level of capacity building budget would be more than sufficient for one beneficiary, various enhancements were made to conventional modules, creating better value for money. By extending the service period by nearly a year, the consultants were on hand during the most difficult period of the implementation. The consultants' team was mainly composed of Moscow-based Russian experts with experience in EBRD projects. This contributed to their good cost performance while maintaining a high standard.

The TC Operation Leader assessed the performance of the consultants as *Good* and the TC as *Highly successful*. The beneficiary stated that the consultants' performance was highly satisfactory.

The donor visibility was low. Neither the consultants nor the beneficiary were aware of the bilateral donor and their contribution.

3.2 TC for FOPIP (Commitment No. JAP-2007-12-62)

Another successful TC for the Investment was undertaken as a transition driver and is assessed as *Good* in both effectiveness and efficiency. The Terms of Reference were standard for the EBRD's FOPIP in the municipal and environmental infrastructure ("MEI") sector. However, the outputs appear to be tangible and probably sustainable; again, the performance was supported by the generous budget committed in 2007.

From the early stages of the TC in 2008, the FOPIP consultants were able to focus on GUP ZhKH and the issues related to district heating systems in northern settlements, as the other prospective borrowers were slipping away. The TC aimed at improvements in (i) tariff policies; (ii) operational efficiency (energy efficiency); and (iii) public and customer relations. These three were considered to be the priority areas for starting capacity building in the municipal utility enterprise.

Analysis of and recommendations for the current tariff policy of the Sakha Republic were addressed to the regulator, namely the Regional Energy Commission of the Republic of Sakha and the Government, rather than to GUP ZhKH. Therefore, the consultants' output was more like a policy dialogue tool with the regulators. The analysis was thorough and reflected specific conditions pertinent to Sakha.

Tremendous energy inefficiencies were identified in the existing district heating facilities and in the GUP ZhKH-operated. Various ways of improving operational efficiency were proposed, including heat metering, insulation, a monitoring mechanism and operational norms.

To drive a more effective campaign for awareness on the demand side, the public relations policy of GUP ZhKH was reviewed. Recommendations including the use of media for the remotest settlements were prepared. On-site guidance and consultations were provided to branch offices in a selection of settlements.

As a final output of the TC, probably the most valuable deliverable, the consultants prepared a detailed step-by-step time-framed action plan, which GUP ZhKH has agreed and has pursued to date.

On top of these outputs, the consultants prepared a service agreement between the Government and GUP ZhKH, incorporating contractual rights and obligations, service standards and clear accountability. After six months of long discussions and negotiations among the Government, GUP ZhKH, the consultants and the EBRD, the service agreement was finally signed in June 2010, with a delay from originally covenanted date of January 2008. One of the important transition milestones was therefore fulfilled.

The TC funds were 100 per cent utilised by GUP ZhKH and the remote district heating sector in Sakha. This assignment of nearly two years generated an exceptionally comprehensive report containing the sector-specific issues in the northern settlements. Such data and information will be used again for any follow-on investments. The Moscow-based consulting firm demonstrated a good cost performance. The funds are considered efficiently used.

The TC Operation Leader rated the TC and the consultants' performance *Successful* and *Good*, respectively. The beneficiary appreciated the outputs of the TC. The visibility of the bilateral donor, however, appears minimal at best.

3.1 TC for lender's supervisor (Commitment No. JAP-2007-12-59)

The lender's supervisor has regularly visited GUP ZhKH and the project sites, and has reported on progress, verified the use of proceeds and forecast disbursements. This raises PIU's morale in monitoring the ongoing works and maintaining a grip on the contractors. The assignment will continue until the Srednekolymsk boiler house and piping works are complete. Reportedly, the performance of the lender's supervisor has been more than satisfactory. Despite the prolonged implementation period, the TC funds must be enough given the reduced number of the project sites. A rating is not given in this report.

4 Transition impact

4.1 Transition impact of the TC operation

The transition impact of the TC Operation is 'good'. The TC Operation has generated transition, which will serve as a positive and conducive input to the Investment, the beneficiary institution and the sector in future. Sustainability is embedded in the TC outputs, while certain risks are not negligible.

The major contributory inputs as transition tools are shown in Table 2:

Table 2: Major contributory inputs as transition tools

Transition tool	Primary benefit area (*)	TC type	Benchmarked in TIMS	Covenanted in the Loan	Achievement
The service agreement	I, S, C, O	F	√	√	Achieved
Action plan (tariff policy, energy efficiency, public relations)	I, S, O	F			Being implemented
Recovery of 100% of costs from tariffs	O	F	√	√	Achievement unlikely
Minimum revenue collection to be stepped up from 80% to 90%, of which 70%-80% by cash (2008-10)	O	F	√	√	Achieved
EBRD PP&R and FIDIC contract terms	T, I	PIU	√	√	Achieved
International financial reporting standard ("IFRS") and a set of financial indicators	I, O	Not applicable	√	√	Achieved

Notes: T: transparency, I: international standard and practice, C: corporate governance, O: operational and financial efficiency and economic viability, S: sector reforms

**--- TC types: PIU: the PIU support TC, F: the FOPIP TC

√---incorporated

4.1.1 The service agreement

GUP ZhKH and the Government overcame a reluctance to draw a clear line between them and entered into a contractual framework. The most leverage on their turn-around action appears to have come from the Loan covenant and pressure from the EBRD. GUP ZhKH explained, however, that the delayed signing was mainly caused by the requirement for many administrative layers to review the draft agreement.

At this stage, GUP ZhKH is unlikely to recognise any tangible benefit from the agreement. However, a consistent framework will endure a change of government or of GUP ZhKH management. GUP ZhKH will

then realise the durability of the framework established and therefore discern the true value of the agreement.

4.1.2 Tariff reforms in the action plan and cost recovery covenants

In Sakha, there are four major “obstacles” to the full cost recovery principle that the EBRD conventionally promotes: (i) the permafrost climate and high running costs; (ii) a large subsidy from the Federal and Republic governments in order to compensate losses in operation; (iii) the Federal Government’s cap on tariff increases in consideration of affordability; and (iv) the technical limitation in the current tariff setting mechanism. These challenges are derived from the fact that the least wealthy users live in the most heat-consuming region.

In order to run and maintain old facilities that suffer huge heat losses, utility companies incur large recurring costs as they need to procure fuel (fuel oil and coal) during the summer and store it for the winter period. Incoming and outgoing transportation in Sakha is severely constrained in winter. Sewerage also needs heat to prevent wastewater from freezing in the network. For those in the northern settlements, the utility services are a matter of survival. GUP ZhKH has implemented energy efficiency measures such as a fuel switch from fuel oil to quality coal or coal to natural gas, and has shut down six old boiler houses (out of more than 1,000) since 2006. However, the FOPIP consultants found huge scope for energy efficiency improvements. For both capital and running costs, or fixed and variable costs, GUP ZhKH continues to need significant financial supports from the government.

After the Loan was signed, tariffs were increased, which reduced GUP ZhKH’s operating losses. However, the increase has been capped by the Federal government and the level of increase in Sakha has been kept to a minimum (less than five per cent), thus implying a decrease in real terms. Further tariff increases are on hold and very unlikely, at least until the end of the presidential election period in 2013.

The old-fashioned tariff setting mechanism is a serious roadblock to tariff reforms in the Russian municipal utility sector as addressed in the TC evaluation for Volzhski Water Project Technical Cooperation for Due Diligence [PE10-496], which highlighted the need for a managerial accounting system. The practice appears to be even worse in Sakha because of a myriad of Regional Energy Commission branch offices, located sporadically over Sakha, which still handle a huge amount of data and paperwork in a very labour-intensive way. Their workload consisted of collecting the proposed tariffs from GUP ZhKH branches, picking up the normative prices from outdated guidelines, sorting them out manually and estimating the applicable tariffs for the following year. The guided normative prices are decades old and most of them (for example, electricity prices) do not correspond to reality, particularly when the sector is being reformed. This causes GUP ZhKH to make losses on every Cal/h it generates.

Cross-subsidisation between user categories (household, industry and public institution) was a common issue for the utility sector in many countries. Added to this, heat production costs vary greatly between one settlement or town and another in 31 isolated locations, but this significant cost disparity was not reflected properly in previous tariff proposals, nor, therefore, in applicable tariffs.

The FOPIP consultants have made a change to this situation. They introduced a node-to-node accounting model, which could calculate actual costs for each area. This computer-based model has greatly simplified and speeded up GUP ZhKH’s tariff-related work and also demonstrated to the Regional Energy Commission how the figures and supporting data should ideally be handled and generated. It has been only two years since this new exercise started. Nevertheless the PIU has already felt a positive response from the Regional Energy Commission officials. If the latter is inspired to use a modern tool for actual-

cost-based tariff setting, their decision making would become faster and market based. And it would mark a bottom-up step toward tariff reforms.

Another positive factor, though exogenous, is the completion of the Baikal Yakutsk railway. One of the serious logistical constraints suffered by Yakutsk is that it is not connected to the railway, which causes certain goods and commodities to be highly priced. The completion of this key piece of construction means that the long-awaited connection to the mainline networks (Baikal-Amur and Siberian railways) is expected for 2013. Once completed, the economic paradigm in Sakha will change all round in a positive way. For instance, construction would be less expensive, and affordability for heat consumers is likely to increase. The viability of district heating is expected to improve, as is that of many other Yakutian industries.

Nonetheless, GUP ZhKH's full cost recovery (including capital costs) from tariff revenues is an impossible agenda for this century. It would be able to recoup direct costs in the mid- to long-term, given steady progress in human resource reallocation, efficiency improvements in energy and operation, and a fuel switch programme.

4.1.3 *Heat charge collection*

The covenanted performance indicators for revenue collection have been fulfilled. FOPIP has contributed by suggesting various modern ways to improve collection. Actions against illegal connections have also been tightened. In some settlements, barter still exists between the utility enterprises and fishermen and hunters. However, this is a minor element and an abrupt elimination of such could run counter to the community economy. Overall, GUP ZhKH has responded positively and assiduously to the financial and reporting requirements, including IFRS-based financial statements.

4.1.4 *Procurement rules and practices*

Public sector procurement and FIDIC contract terms are always in the frontline of transition. PIU, being porous, started with zero knowledge about the EBRD's PP&R and has become almost self-sufficient for routine works. As a well-formulated training programme enabled PIU to quickly capture the EBRD's PP&R, the transition frontline – originally laid between PIU and the consultants – was moved forward, between PIU and the Russian contractors in the most conventional sector. PIU experienced difficulties in persuading the large contractors of the requirement for international standard and practices.

4.2 **Transition risk and sustainability of the TC outputs**

The main risk that could halt or slow down seeded transition would be a constraint on financial resources in GUP ZhKH. It is progressively evident that the Government and GUP ZhKH are facing financial challenges. This might negatively affect the implementation of planned operational efficiency measures.

Apart from the above, there are two risk factors associated with the sustainability of transition gains from the TC Operation. The level of risk to transition potential is assessed as *Medium*.

GUP ZhKH is a gigantic organisation with about 18,000 people (nearly two per cent of the population of the Sakha Republic). The institutional reform of this organisation was not the primary agenda of the Project and intra-company transition emitted by PIU is still nascent. How to spread the thrust of transition within the organisation will obviously be a challenge in the future.

The continuity and consistency of accountability is another risk factor. The top management being a political appointee by the Government, when it changes, so do all the line managers. As an example, in

2010, GUP ZhKH's general manager was promoted to a Government minister position. Accordingly a large reshuffle occurred in GUP ZhKH. Out of seven PIU staff at the beginning of the Project, only two have remained.⁸

Follow-on support for institutional strengthening could mitigate this. However, a more elaborate and focused programme might be needed in order to advance the momentum gained from the TC Operation.

5. Bank handling – TC design, implementation and monitoring

The handling of the TC Operation team is assessed as *Excellent*. A rather ambitious pre-crisis project design for a multi-sector investment converged in the end to one borrower with two project sites. The Investment implementation has been and still is challenging. However, this change favoured the TC Operation's ability to achieve its objectives in a more effective way.

The TC Operation team used the favourable turn to implement comprehensive consultancy services that channelled benefits to the beneficiary. The benefits will extend beyond the immediate or short term in the northern settlement district heating sector. The conditions necessary for the TC Operation were thoroughly conditioned for the first disbursement and also in the affirmative covenants, which ensured adequate preparation and the beneficiary's readiness for the TC Operation.

The TC Operation team's leading role in a policy dialogue on transition agenda is also noted. Timely intervention in the discussions on the service agreement and the corporate action plan helped the consultants convince the counterpart of the advantages of changing the sector framework and operation norms.

Monitoring was good and the donor progress and completion reports were found to be in order. The donor visibility was, however, weak and might need more effort from the both sides, the EBRD and the bilateral donor.

6. Environmental impact

At appraisal, the EBRD expected the borrower(s) to comply with the Russian and EU environmental regulations by 2020, upon completion of the investment programme.⁹ The expectation appears overly optimistic. It is too ambitious to hope that small towns in the sub-arctic area, and even remoter settlements, will achieve the EU environmental, health and safety and social standards by the target year. However, the project boiler houses and associated equipment are required to satisfy such standards upon respective completions. The environmental impact of the Project and the implementation of the environmental action plan are monitored by the Investment Operation team and will be assessed after the completion of the Project.

⁸ Other trained PIU staff moved to branches or to different functions in GUP ZhKH. Therefore, capacity building, in a sense, was not totally in vain as they remain in the sector.

⁹ The appraisal document stated: "*The priority investment programme has been structured to meet Russian environmental, health and safety standards and EU environmental standards that are directly applicable to the project. However, it should be noted that the project is too limited for bringing all of the Borrowers' operations and existing facilities into compliance with EU environmental standards. The Borrowers have adopted long-term development plans and investment strategies to 2020, covering all the utilities, which will bring their operations towards compliance with EU environmental standards.*"

Although the coverage of the Project has been downsized to two locations, the environmental changes made by the Project to each location are quantitatively and qualitatively significant. This would be best illustrated in the comparison of the boiler house in Zhigansk shown below:

After the Project

Before the Project



Photos: The TC evaluation mission (Aug 2011)

The FOPIP final report

The TC Operation, especially FOPIP, has made an indirect, but important input to the Project, assisting GUP ZhKH in formulating their operational efficiency and energy rebalancing plan. Very technical, but also strategic, information and data were supplied in the consultants' reports with estimates as to how much energy efficiency could be gained by improving the physical facilities and corporate practice. For this contribution, the environmental impact of the TC Operation is considered *Good*.

7. Overall assessment, issues, lessons and recommendations

The region's wealth mainly consists of natural resources deposits and Sakha's high gross regional product per capita¹⁰ does not reflect the reality of one million people.

Investment and assistance to the municipal utility sector in Sakha, particularly in the northern settlements, was scarce compared to its huge needs to maintain a living standard and survival in the severe climate.

Building capacity in human resources is a sustainable way to maintain and utilise new and old assets from scarce investments. Grant-financed all-round assistance was much sought after by the isolated utility enterprises.

The project scope was narrowed down to one borrower out of three after appraisal, and the TC Operation was carried out for one beneficiary. The ample TC budget provided a lot of flexibility to tailor and enhance the tasks in order to deliver a policy dialogue tool, implementation support and capacity building. Overall the TC Operation is considered *Successful* and contributed to the first-time beneficiary achieving a successful experience in the IFI infrastructure investment. Had there been multiple beneficiaries, the TC supports might not have been as effective as what was delivered in this TC Operation.

Difficulties in installation works and procurement multiplied after the crisis in Siberia due to increased transportation costs and the severe working capital shortage of the contractors. The PIU support consultants effectively supported PIU in coping with unanticipated problems. FOPIP delivered a thorough analysis of the beneficiary's current situation and provided hands-on recommendations and an action

¹⁰ US\$ 12,200 in 2010 (data: S&P).

plan, to which the beneficiary can resort in the mid- to long-term. The framework introduced in the service agreement is expected to endure political climate changes.

The large absorptive capacity of the beneficiary and a supportive steering committee formed by top management and high profile officials facilitated the tripartite discussions between the beneficiary, the consultants and the EBRD on the important transition milestones.

7.1 Lessons

Investment in human resources in conjunction with infrastructure investment was more important in Sakha than in any other region of Russia for the success experience in international financing and the long-term viability of the investment.

The TC Operation indicated that it should be ensured that the TC budget is sufficient for a first-time investment project beneficiary/borrower in a difficult topography.

7.2 Findings

This TC Operation helped the beneficiary utility enterprise understand the need for a change and to establish a sustainable platform to carry out the investment. The greatest success drivers for the TC Operation are:

- (i) an active steering committee formed by decision makers of the sovereign republic government, which has more flexibility than the provincial government directly under the federal regime
- (ii) a high level of readiness and receptivity for capacity building on the part of the beneficiary in an isolated region keen about external inputs and exposure
- (iii) the logframe adopted by the consultants for the implementation support and capacity building TC, which facilitated the response to needs, properly designing inputs-outputs and leading to the TC goals
- (iv) a large TC budget to support one beneficiary, enabling enhancements to and extension of services.

8. Recommendations for any follow-on TC

- The EBRD procurement staff's contribution to the seminar was appreciated in the TC Operation. Similar arrangements with the EBRD's environment staff would also be encouraged regarding how the environmental action plan will be reported to the EBRD.¹¹
- The TC Operation focused on capacity building in PIU. Institutional reform for the entire beneficiary organisation would be worth considering when the EBRD's assistance continues.

¹¹ The Environment and Sustainability department expressed difficulties in contributing to the implementation seminars for multi-beneficiaries due to the resources constraint. Also, this department considers that the current mode of communications via telephone/conference calls and email is sufficient to provide the beneficiaries with guidance.

Annex 1: Operation performance ratings

Performance indicator	Rating
Overall transition impact (Analysis in Appendix 3)	●●●●○ Good
Environmental performance of the project and sponsor The TC Operation provided the beneficiary with a valuable output – a detailed action plan for operational efficiency and energy rebalancing measures.	●●●●○ Good
Extent of environmental change	Not applicable
Additionality A strong additionality was accorded to a grant-financed all-round support to the beneficiary borrower in implementation in the sector in need for know-how assistance and a direction for transition in the most isolated region.	■ ■ ■ ■ Fully verified
Company financial performance	Not applicable
Fulfilment of project objectives The TC Operation was effective in providing quality inputs to the beneficiary and the Investment, and the funds were efficiently utilised, yielding value for money.	●●●●○ Good
Bank handling With a concerted effort with the TC consultants, the TC Operation team conducted a result-oriented policy dialogue with the most isolated counterpart. The TC Operation was well monitored and managed.	●●●●● Excellent
EBRD's investment performance	Not applicable
Overall performance Full support of the investment implementation and a first step toward transition delivered the results and created a momentum for the next stage of cooperation.	◆◆◆◆ Successful

General

- Excellent
- Good
- Satisfactory
- Marginal
- Unsatisfactory
- Highly unsatisfactory

Overall performance

- ◆◆◆◆ Highly Successful
- ◆◆◆◆ Successful
- ◆◆◆◆ Partly successful
- ◆◆◆◆ Unsuccessful

Extent of environmental change

- **** Outstanding
- **** Substantial
- **** Some
- **** None/Negative

Additionality

- ■ ■ ■ Fully verified
- ■ ■ □ Largely verified
- ■ □ □ Partly verified
- □ □ □ Not verified

Annex 2: *Ex post* transition impact analysis

TI checklist categories		Short-term verified impact	Long-term TI potential	Risk to potential TI
	Step I: change by the project at corporate level			
3	<i>Private ownership</i>	Not applicable		
5	<i>Skill transfers</i>	Not applicable		
6	<i>Demonstration effects</i> Top management's commitment to the TC Operation increased an absorptive capacity of the organisation.	●●●●○○ Satisfactory	●●●●○○ Satisfactory	**** Low
7	<i>New standards for business conduct</i> PIU passes new business standard on to the relevant department of the large organisation.	●●●●○○ Satisfactory	●●●●○○ Satisfactory	**** Low
	Step II: transition impact at the level of the industry and the economy as a whole			
1	<i>Competition</i>	Not applicable		
2	<i>Market expansion</i>	Not applicable		
3	<i>Private ownership</i>	Not applicable		
4	<i>Frameworks for markets</i> The service agreement was signed between the utility enterprise and the Government, which set a framework and service standard for the sector.	●●●●●○ Good	●●●●●○ Good	*** Medium
5	<i>Skills transfers</i> Trained former PIU staff moved to other functions but still work in the sector.	●●●●○○ Satisfactory	●●●●○○ Satisfactory	*** Medium
6	<i>Demonstration effects</i> Through the Government, the beneficiary organisation's turn around for a modern management is expected to influence other Government-owned utility enterprises	●●●●●○ Good	●●●●●○ Good	**** Low
7	<i>New standards for business conduct</i> FIDIC contract terms and international practice were passed on to the Russian contractors, who struggled to observe them, particularly after the crisis. Actual-cost-based tariff proposal has been prepared for two years and has gradually gained a positive feeling from the local regulatory authorities.	●●●●●○ Good	●●●●●● Excellent	**** High

TC Operation Evaluation

Sakha (Yakutia) Republican Municipal Services Development Programme TC (Russia)

TI checklist categories		Short-term verified impact	Long-term TI potential	Risk to potential TI
	Summary of verified, potential and risk ratings	●●●●●○ <i>Good</i>	●●●●●○ <i>Good</i>	**** Medium
	Overall TI rating: A comprehensive support to the beneficiary created a readiness for transition and a confidence to carry out an investment with IFI.	●●●●●○ <i>Good</i>		

Short-term verified impact
Longer term TI potential
Overall TI rating

- Excellent
- Good
- Satisfactory
- Marginal
- Unsatisfactory
- Highly unsatisfactory

Risk to potential TI

- ***** Excessive
- **** High
- *** Medium
- ** Low

Annex 3: Project completion reports

Commitment Details

Commitment Number	EMIS-2005-11-08
Project Title	Sakha (Yakutia) Budget Expenditures Review
Country	RUSSIAN FEDERATION
Sector	Not Yet Assigned
Total Commitment Amount	EUR 26,050
Total Amount Disbursed	EUR 23,250
Date of Internal Approval	22-NOV-2005
Date of Funding Approval	30-NOV-2005
Related Investment(s) (EBRD Amount and DTM No.)	Operation Name: Sakha (Yakutia) Republican MSDP GUP ZhKH Operation Status: Active Operation EUR: 23,543,673 DTM Number: 35294
Related TC(s)	ID: 36312 - Sakha (Yakutia) Budget Expenditures Review - EUR 26,050
Consultant	Center for Fiscal Policy
Contract Start Date	06-DEC-2005
Original Contract End Date	30-DEC-2005
Final Contract Expiry Date	30-DEC-2005
Commitment Closure Date	20-APR-2007
Has the consultant's final report been received?	Yes

Objectives & Tasks

Main rationale for the proposed TC project	The Bank has agreed to finance a Priority Investment Programme in the municipal water and district heating sectors. The Republic of Sakha (Yakutia) is a Guarantor of this project and, therefore, has to fulfill certain financial ratios, specified in the Deed of Guarantee. However, current Federal Law "On amendments to the Budget classification of the RF and Budget Code of the RF" introduces some inconsistency to the way the current and capital budget expenditures should be calculated. This TC will help the Guarantor to meet the new normative requirements.
Why is the TC needed and why use TC funds?	The Republic of Sakha (Yakutia) is developing the Programme for upgrading and rehabilitation of municipal services in order to put the services on the financially sustainable level. The Bank will provide a loan to GUP ZHKH and GUP Vodokanal and the City of Yakutsk. These loans will be guaranteed by the Republic of Sakha. As a Guarantor, the Republic of Sakha shall fulfill certain financial ratios, incl. Debt/Operating Surplus ratio, Debt Service Coverage ratio and others. The TC funds will be used to help the Guarantor to secure itself from creating reporting problems in the light of the new RF Budget Code regulations.
Main components/tasks the consultant was asked to undertake	The main tasks to be carried out under this TC are: (1) to develop transformation methodology and guide book, (2) to provide assistance to the Ministry of Finance of the Republic of Sakha in applying this methodology.
How well were tasks completed by the consultant?	Good
Comment on the relevance of the objectives and how the tasks covered in the ToR contributed to achieving the objectives	The Bank has agreed to provide loan financing to GUP ZHKH under the guarantee of the Republic of Sakha (Yakutia). As a guarantor, the Republic of Sakha had to fulfil certain financial ratios. However, calculation of these ratios, based on the budget data, was constrained due to the undue format. Also, owing to the changes in the budget reporting format it was difficult to obtain information that was necessary for assessing creditworthiness of a region (a municipality) for credit arrangement purposes. The overall objective of this assignment is to prepare general methodology for transformation of budget expenditures recorded under current budget classification of the RF into two categories: current and capital expenditures in accordance with the definition, provided above. The assignment was completed and the objectives were achieved.
Were there any changes to objectives, tasks, timing of implementation, or budget after TC Com approval?	No
Describe and explain any changes	n/a

Assessment of Inputs

Describe identified risks (internal and external) and mitigating measures taken	There were no particular risks associated with this assignment. All the parties involved worked in close cooperation to achieve the best result.
How do you rate the Bank's performance in terms of preparation and monitoring of the assignment?	Excellent
Justify this rating. What would you change with regard to design and monitoring if you	The Team members and all the Bank departments efficiently communicated during the preparatory stage of this TC, which enabled due launch of the assignment.

were to handle a similar assignment in the future?

Level of the local client's commitment during design and implementation

Excellent

Justify your rating of the client's commitment.

The Client for the assignment is the Bank. The Republic and the Consultants cooperated collectively in terms of preparing necessary data for the Bank.

Comment on the client's involvement during TOR design, consultant selection and implementation

Quality and timeliness of consultant's deliveries

Good

Consultant's organisation and execution of task

Good

Consultant's overall compliance with the Terms of Reference

Good

Would you recommend the consultant for other, similar assignments?

Yes

How do you rate the 'value for consultant money' of this assignment?

Good

Overall rating of the consultant's performance

Good

Justify this overall rating

The Consultant has not been previously engaged by the Bank. Nonetheless, they showed a high level of commitment and expertise.

Assessment of Outputs

What will be the impact of the Bank Investment? Comment on how technical co-operation will contribute to this impact

The Bank's investment focused on the rehabilitation of water and district heating systems of Sakha (Yakutia). The project includes rehabilitation and upgrade of the boiler houses in the remote northern settlements; replacement of pipes, installation of energy efficient equipment, process automation, upgrade of water and wastewater treatment facilities, etc. The objective of the proposed TC was to assist the Republic to reduce the risk of reporting difficulties and, therefore, facilitate the repaying capacity of the Borrower.

Has this assignment identified the need for additional TC assignments or the need for any other type of follow up by the Bank?

The TC proved that the Guarantor is capable of servicing the loan, so the results of the assignment enabled the Bank to proceed with the next check of the Borrower and namely the FOPIP programme.

How was donor visibility ensured for this assignment?

The Consultants prepared Reports covering all the objectives of the assignment. Whenever possible results achieved were provided with relevant reference to the funding source.

Success Indicators

- 1) Methodology is approved by the Bank
- 2) Methodology is adopted by the Client
- 3) Methodology is transferred to other Russian clients

Expected Transition Impact

The project will have transition impact through improvement of reporting standards of the Guarantor.

Comment

Republic financial and reporting compliance with the current normative regulations will enable the Borrower to attract more investments in the future.

How do you categorise the assignment's overall outcome?

Successful

Justify this overall rating

The assignment was completed in a due and timely manner, and reports were furnished to the Bank.

Lessons Learned

What were the lessons learned for assignment preparation and design?

Professional experience of consultancy firms of the Russian origin are now sufficient enough to make Russian consultants legitimate competitors on the market of financial consultancy services and can benefit the project.

What were the lessons learned for assignment implementation and monitoring?

Motivation and cooperation from the potential Borrower is a key success indicator in the assignment. Thus, sue communication with the potential Client should be sought by the consultants before the actual commencement of the works.

Commitment Details

Commitment Number	JAP-2007-11-54
Project Title	Sakha (Yakutia) - Regional Municipal Services Development - PIU Training and Support
Country	RUSSIAN FEDERATION
Sector	Not Yet Assigned
Total Commitment Amount	EUR 490,000
Total Amount Disbursed	EUR 486,611
Date of Internal Approval	08-SEP-2005
Date of Funding Approval	06-NOV-2007
Related Investment(s) (EBRD Amount and DTM No.)	Operation Name: Sakha (Yakutia) Republican MSDP GUP ZhKH Operation Status: Active Operation EUR: 24,813,648 DTM Number: 35294
Related TC(s)	ID: 36346 - Sakha (Yakutia) - Regional Municipal Services Development - PIU Training and Support - EUR 490,000
Consultant	COWIconsult International, Moscow Branch
Contract Start Date	28-NOV-2007
Original Contract End Date	27-AUG-2008
Final Contract Expiry Date	31-JUL-2009
Commitment Closure Date	22-APR-2010
Has the consultant's final report been received?	Yes

Objectives & Tasks

Main rationale for the proposed TC project	PIU Training and Implementation Support to ensure efficient implementation of priority investment programme to rehabilitate municipal water, wastewater and heating infrastructure in the Republic of Sakha (the "Republic") financed by the Bank's loans under the Sakha (Yakutia) Regional Municipal Services Development Programme (the "Programme"). Under the Programme the EBRD provided loans in RUR to GUP ZHKH ('Company') - RUR 1,000 mln. under the guarantee from the Republic.
Why is the TC needed and why use TC funds?	To ensure efficient project implementation strategy the Client established a Project Steering Committee which includes senior officials representing all involved stakeholders. The Steering Committee will make decisions on strategic issues affecting the project performance, coordinate the activities of all parties involved and resolve problems requiring high level intervention. To handle day to day management of the project related issues and administer the contracts the Client will create Project Implementation Unit. However, the Client has no experience in managing investment projects of this size and complexity. Input from international consultants experienced in project management and implementation is required to provide assistance to the Client in establishing an adequate PIU, training its staff and setting up project administration and management systems. This submission covers PIU support team who will provide assistance to the city in setting up PIU including staffing and essential training of selected PIU staff in project management, contract administration, financial management and reporting to ensure effective and efficient implementation of the entire Project. The task will be carried out by a consultant experienced in project management and administration and familiar with the EBRD (or other IFs) procurement rules and reporting requirements, who will act as an advisor to the Republic. The TC project will accompany capital priority investment programme co-financed by the EBRD. The use of TC funds will ensure that adequate international expertise is available for support of the PIU.
Main components/ tasks the consultant was asked to undertake	To assist the Republic and GUP ZHKH (i) to establish efficient Project Implementation Unit (the "PIU") by providing advice on adequate structure and resources; (ii) to set up relevant project administration, monitoring, financial management and reporting systems; (iii) to provide essential training to PIU staff in project management and procurement.
Comment on the relevance of the objectives and how the tasks covered in the ToR contributed to achieving the objectives	Due to the delay with mobilisation of the Consultant, some of the objectives were not applicable, e.g.: Establishment of fully functional PIU and Procurement of the PIC. By the time the Consultant was in place the PIU had been operational and the PIC's procurement well under way. Nonetheless, the other Consultant's objectives, such as to ensure implementation of priority investment programme on time; assistance to PIU in quality reporting to the EBRD, are still more than relevant, because the investment operation is at its early implementation stage. The Consultant is carrying out the services and is providing the Client all possible support and advice under its scope of works. No problems have been encountered so far.
Describe and explain any changes	As in the case with all TCs under this operation, there have been two major changes since the TC Com: that in the assignment schedule and that in its composition. According to the TC Com submission materials the assignment should have started in March-April 2006, however, the contract was signed in late 2007. The reason is the long and difficult loan negotiations and subsequent changes to the TCs structure. Also, the assignment was extended up to the 31 July 2009, inclusive.

Assessment of Inputs

How do you rate the Bank's performance in terms of preparation and monitoring of the assignment?	Good
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Level of the local client's commitment during design and implementation

Good

Justify your rating of the client's commitment. Comment on the client's involvement during TOR design, consultant selection and implementation

The Client is characterised by a strong commitment to the operation in general and the assignment in particular. The Client's PIU which is working in close cooperation with the Consultant is comprises passionate professionals, appreciating relevant advise from the Consultant. The Client took active part in preparation of the TOR and procurement of the Consultant.

Overall rating of the consultant's performance

Good

Justify this overall rating

So far the Consultant has performed adequately and fully satisfied the Client's requirements.

Assessment of Outputs

What will be the impact of the Bank Investment? Comment on how technical co-operation will contribute to this impact

The loan of up to RUB 1,000 mln. is extended to GUP ZHKH under the guarantee from the Republic of Sakha (Yakutia). The proposed TC will ensure that the PIU is adequately staffed and trained to provide efficient control for project implementation. The Consultant is being active. The deliverables under the Project are submitted on time.

How was donor visibility ensured for this assignment?

The donor visibility is high and ensured through the local press coverage of the pre-proposal conference for the potential bidders, arranged by the Client.

Success Indicators

(i) Establishment of fully functional PIU; (ii) Procurement of PIC on time (as the first step in project implementation); (iii) implementation of priority investment programme on time; (iv) quality of reporting to the EBRD.

Expected Transition Impact

1. Institutional strengthening and capacity building of the Client in relation to efficient implementation of complex public sector projects including application of international procurement rules; 2. Efficient implementation of the Project financed by the Bank.

How do you categorise the assignment's overall outcome?

Highly Successful

Justify this overall rating

The Consultant is mobilised and has been actively providing services under the assignment. The Consultant has established excellent relationships with the Client.

Lessons Learned

Commitment Details

Commitment Number	JAP-2007-12-62
Project Title	Sakha (Yakutia) - Regional Municipal Services Development
Country	RUSSIAN FEDERATION
Sector	Not Yet Assigned
Total Commitment Amount	EUR 725,932
Total Amount Disbursed	EUR 725,110
Date of Internal Approval	08-SEP-2005
Date of Funding Approval	14-DEC-2007
Related Investment(s) (EBRD Amount and DTM No.)	Operation Name: Sakha (Yakutia) Republican MSDP GUP ZhKH Operation Status: Active Operation EUR: 24,813,648 DTM Number: 35294
Related TC(s)	ID: 36347 - Sakha (Yakutia) - Regional Municipal Services Development - EUR 725,932
Consultant	Ins for Urban Economics
Contract Start Date	19-MAR-2008
Original Contract End Date	27-MAR-2009
Final Contract Expiry Date	31-DEC-2009
Commitment Closure Date	22-APR-2010
Has the consultant's final report been received?	Yes

Objectives & Tasks

Main rationale for the proposed TC project	The overall objective of this assignment was to assist the Republic of Sakha (Yakutia) (the "Republic") through provision of a range of support services, system development, expertise and training to the management and staff of the Republican owned State Unitary Enterprise for Communal and Housing Services (GUP ZhKH or the "Company"). This led to improved managerial and operational efficiency and strengthen corporate position of the company. All solutions proposed by the consultants had been compatible with the federal and regional strategies for reform of municipal services as well as with prevailing legislation in the Russian Federation.
Why is the TC needed and why use TC funds?	The Republic and the Companies are lacking necessary institutional capacity to provide municipal services in the market environment. Although Yakutia is relatively wealthy by Russian regions standards, its residents are not. The cost of the loan and of the advisory services will be calculated into the tariff paid by the end consumer. Since affordability is already an issue (especially for GUP ZhKH), it is not practical to expect relatively impoverished consumers to finance the expense of hiring international advisors when it is already difficult for them to afford the basic services.
Main components/tasks the consultant was asked to undertake	Main services to be delivered were: (i) financial, legal and operational analysis of the company and analysis of potential restructuring options; (ii) preparation of the Service Contract and advice on signing; (iii) Development of the performance improvement programme for priority tasks and assistance in implementation.
Comment on the relevance of the objectives and how the tasks covered in the ToR contributed to achieving the objectives	The Consultant is required to assist the Client through a provision of a range of support services, system development, expertise and training to the management and staff of GUP ZhKH (the "Company"). This will lead to improved managerial and operational efficiency and strengthen corporate position of the Company. The assignment is in process and no problems have been encountered so far.
Describe and explain any changes	As in the case with all TCs under this operation, there have been two major changes since the TC Com: that in the assignment schedule and that in its composition. According to the TC Com submission materials the assignment should have started in March-April 2006, however, the contract is expected to be signed by April 2008. The reason is the long and difficult loan negotiations and subsequent changes to the TCs structure.

Assessment of Inputs

How do you rate the Bank's performance in terms of preparation and monitoring of the assignment?	Good
Level of the local client's commitment during design and implementation	Good
Justify your rating of the client's commitment. Comment on the client's involvement during TOR design, consultant selection and implementation	The TOR has been drafted in close cooperation with the Client. Later the Client has been very helpful in facilitating the procurement process.
Overall rating of the consultant's performance	Good
Justify this overall rating	The assignment has been implemented efficiently and properly.

Assessment of Outputs

What will be the impact of the Bank Investment? Comment on how technical co-operation will contribute to this impact	The loan of up to RUB 1,000 mln. is extended to GUP ZhKH under the guarantee from the Republic of Sakha (Yakutia). The proposed TC ensures enhancement of the operational performance of the Client and sustainability of district heating service provision for the residents of the Republic through completion of financial, legal and operational analysis and preparation of the detailed recommendations on the priorities, such as yield of high financial rates of return, reduction of energy consumption and increase in efficiency of the water and district heating services provision. The Consultant is commencing the works and submitting the Progress Reports on regular basis.
How was donor visibility ensured for this assignment?	The donor visibility is high and ensured through the local press coverage of the pre-proposal conference for the potential bidders, arranged by the Client.
Success Indicators	Signing of the Public Service Contract; Introduction of IFRS to the companies
Expected Transition Impact	The result of the assignment will be greatly improved service levels for the consumers in the Republic. Companies management will be trained in operating a customer driven modern utility and signing of a Public Service Contract, that should lead to creating incentives for the management for reduction of costs, and, as a result, tariffs.
How do you categorise the	Successful



assignment's overall outcome?

Justify this overall rating The assignment has been proving effective so far.

Lessons Learned

Commitment Details

Commitment Number	JAP-2007-12-59
Project Title	Sakha Yakutia - Municipal Services Development Project - Lender's Supervisor
Country	RUSSIAN FEDERATION
Sector	Country Team
Total Commitment Amount	EUR 496,460
Total Amount Disbursed	EUR 86,958
Date of Internal Approval	22-JAN-2007
Date of Funding Approval	11-DEC-2007
Related Investment(s) (EBRD Amount and DTM No.)	Operation Name: Sakha (Yakutia) Republican MSDP GUP ZhKH Operation Status: Active Operation EUR: 24,813,648 DTM Number: 35294
Consultant	Grontmij Carl Bro as
Contract Start Date	20-JAN-2008
Original Contract End Date	31-DEC-2012
Final Contract Expiry Date	31-DEC-2012

Objectives & Tasks

Main Rationale for the proposed TC Project	The overall objective of this assignment will be assist the Bank in supervising the implementation process of the EBRD funded project so as to ensure that the Project's construction and operation are carried out according to the implementation, investment and financing plans as well as envisaged standards and applicable laws and regulations and in accordance with the Loan Agreements and other related project documents.
Why is the TC needed, and why use TC funds?	Republic of Sakha (Yakutia) is the region in the Russian Eastern Siberia. The municipal services sector suffers from severe under investment, which causes significant deterioration of municipal water and district heating services. To rectify the situation the priority capital investment programme to rehabilitate and upgrade water and district heating services in the City of Yakutsk, and district heating services in the Republic is being considered. To make it effective, institutional capacity of the Republic and the City shall be enhanced. TC funds will be used to assist the bank to monitor performance of the Borrowers, Project Company, PIU, general contractors and local sub-contractors in this multi-sector sophisticated projects.
Main Components/tasks the consultant was asked to undertake	The key services that has to be provided will include the following: (i) monitor the performance of the Borrowers, PIU, general contractors and local sub-contractors; (ii) identify factors affecting or likely to affect the performance of the works including inter alia cost overruns and/or delays in completion; (iii) advise the Bank on measures to avoid such events and/or to mitigate the impact of such events; (iv) advise the Bank on payments to the Borrowers and to contractors; (v) advise the Bank on change orders, claims and disputes which involve additional expenditure; (vi) advise the Bank on the validity of Borrowers and/or general contractor expenditures within the itemised Project costs schedule; (vii) monitor the projects during the pre-and post construction phase and undertake bi-monthly site visits during the construction periods.
Comment on the relevance of the objectives, how well they have been covered, the progress of the assignment to date and any problems encountered	The Consultant makes sure that the Project implementation is carried out as envisaged, with all applicable standards, laws and regulations and in accordance with the loan agreement and other related project documents. The Consultant is taking initiative in duly preparation of its visits and keeping all the stakeholders informed on the progress of the assignment.
Were there any changes to objectives, tasks, timing of implementation, or budget after TC Com approval?	Yes
Describe and explain any changes	There have been two major changes since the TC Com: that in the assignment schedule and that in its composition. According to the TC Com submission materials the assignment should have started in March-April 2006, however, the contract was signed in January 2008. The reason is the long and difficult loan negotiations and subsequent changes to the TCs structure.

Assessment of Inputs

Level of the local client's commitment during design and implementation	N/A
Justify your rating of the client's commitment. Comment on the client's involvement during TOR design, consultant selection and implementation	The contracting party is the Bank, and the TC is designed for the benefit of the latter.
Overall rating of the consultant's performance to date	Good
Justify this overall rating	The Consultant is submitting deliverables on regular basis and ensures regular visits to the Project site.

Assessment of Outputs

What will be the impact of the Bank investment?	The multi-sector regional lending programme covers the senior loan denominated in RUB to the GUP ZHKH of up to RUB 1,000 million under the guarantee and project support from the Republic of Sakha (Yakutia) (the "Republic"). The lending proceeds will be used to co-finance rehabilitation and upgrade of the district heating infrastructure in the northern settlements of the Republic. By now the Loan Agreement is signed and the Client was provided with the 1st disbursement. Implementation of the proposed TC ensures sustainability of high quality district heating service provision for the Republic of Sakha and proper implementation of the Project.
How was donor visibility ensured for this assignment? For example, inclusion of donor in press events, meetings between donor and client, efforts to maximise donor recognition within beneficiary group	The donor visibility is high as the assignment is Bank-contracted.
What will be the impact of the Bank Investment? Comment on how technical co-operation will contribute to this impact	The impact of the Bank's investment operation relates to commercialisation of communal services in the Republic's municipalities, including tariff reform; increase efficiency of municipal service provision through introduction of Public Service Contracts; improvement of corporate governance of local utilities through implementation of Financial and Operational Performance Improvement Programme and introduction of IFRS. The proposed TC is contributing to the successful and smooth implementation of the above project components.
How do you categorise achievements to date?	Successful
Justify this overall rating	As above.