

No One in Charge: Kyrgyzstan's Water and Sanitation Supply Sector

Risk Assessment Report and Risk Management Plan

Final Draft

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CURRENCY EQUIVALENTS

(As of February 28, 2012)

Currency Unit	=	Kyrgyz som (KGS)
1 KGS	=	US\$0.02132
US\$1	=	46.90 KGS

ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
ARIS	Community Development and Investment Agency of the Kyrgyz Republic
CBISSP	Community Based Infrastructure Services Sector Project (ADB-financed)
CBOs	Community Based Organizations
CDD	Community Driven Development
CDS	Country Development Strategy
CDWUU	Community Drinking Water User Unions
CIS	Commonwealth of Independent States
CPI	Consumer Price Index / National Statistics Committee of the Kyrgyz Republic
CPS	Country Partnership Strategy
DFID	United Kingdom Department for International Development
DRWS	Department of Rural Water Supply
EA	Executing Agency
EAP	Economically Active Population
EARR	Emergency Assistance for Recovery and Reconstruction
EBRD	European Bank for Reconstruction and Development
GACAP	Governance and Anticorruption Action Plan
GDP	Gross domestic product
GI	Global Integrity
GoKR	Government of the Kyrgyz Republic
Gorvodokanal	Municipal water and canal enterprises (Rus)
ICR	Implementation Completion Report
IDA	International Development Association (World Bank)
ISDP	Issyk-Kul Sustainable Development Project
JCSS	Joint Country Support Strategy
JEA	Joint Economic Assessment: Reconciliation, Recovery and Reconstruction
Jorgu Kenesh	Kyrgyz Parliament
JPMU	Joint Project Management Unit
KGS	Kyrgyz soms (national currency unit)

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KR	Kyrgyz Republic
Kyrgyzhilkomunsoyuz	Kyrgyz State Enterprise for Housing and Heating (Rus)
l/p/d	Liters per person per day
MAWR&PI	Ministry of Agriculture and Water Resources and Processing Industry
MEAR	Ministry of Economy and Antimonopoly Regulation (previously Ministry of Economic Development, Industry and Trade)
NGO	Non-Governmental Organization
O&M	Operations and Maintenance
OAI	ADB's Office of Anticorruption and Integrity
OECD	Organization for Economic Cooperation and Development
PCP	Public Communications Policy
PCR	Project Completion Report
PFM	Public Financial Management
PIP	Public Investment Programme
PIU	Project Implementation Units
PMC	Project Management Consultants
PMU	Project Management Unit
PPRR	Project Procurement-Related Review
PPTA	Project Preparatory Technical Assistance
PR	Public Relations
RA	Risk Assessment
RMP	Risk Management Plan
RRP	Report and Recommendations to the President
RWSSP	Rural Water Supply and Sanitation Project (World Bank-financed)
SDC	Swiss Development Cooperation
SNIP	Construction Norms and Rules
STICBP	Small Towns Infrastructure & Capacity Building Project (World Bank-financed)
TI	Transparency International
TI/CPI	Corruption Perception Index of Transparency International
UFW	Unaccounted for water
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
US	United States of America
USD	United States Dollars
WASH	Water Sanitation Hygiene
WB	World Bank
WHO	World Health Organization
WSS	Water Supply and Sanitation

EXECUTIVE SUMMARY

Introduction and purpose

- **The report on the water supply and sanitation (WSS) sector is designed to inform the Asian Development Bank's Country Partnership Strategy (CPS) for the Kyrgyz Republic¹ for the years 2012-2016.** It builds toward a Risk Assessment of country systems and ADB project systems, focusing specifically on governance, public financial management (PFM), procurement, and corruption. The impetus for the study came from the combined challenges ADB has faced in investing in the WSS sector, primarily under the Government's Taza Suu² program.
- **The issue of responsibility runs deeply throughout the study and should be of concern to every Kyrgyz civil servant in a decision-making position.** Adequate water and sanitation is of utmost importance for a population's health and overall wellbeing. This review of the WSS sector suggests that this message does not yet resonate with the Kyrgyz government.

Context

- **The most striking finding is that Kyrgyzstan has no central coordinating agency for the sector – no ministry or agency responsible for drinking water or sanitation concerns.** There is no sustained, cabinet level advocacy for water issues or reforms, nor any policy coordination between related sectors, such as housing, or rural development. Without a central government agency taking this responsibility, donors have driven policy and implementation.
- **The Department of Rural Water Supply (DRWS) DRWS is the sole national level institution concerned with water supply, and it covers only rural areas WSS issues.** It is weak and bureaucratic and has been moved continuously between ministries and agencies over the past seven years. The frequent 'redeployment' of the department is assumed to be linked closely to its role in channeling donor funds. At best, DRWS is a lead-footed bureaucracy, at worst, it is treated as an ATM from which civil servants can extract donor funds using a range of unethical procurement schemes.
- **The President and Prime Minister's offices are presently the only two institutions with any clout which could promote WSS reforms.** However, lacking a line ministry to operationalize their statements, they cannot, as long as the current situation persists, be counted on as reliable drivers of change.

Sector Constraints

- **Because there are extremely few water meters in use, there is no correlation between what a household consumes and what it pays for water.** The result is inefficient, inequitable and wasteful use of drinking water.

¹ The country was renamed the Kyrgyz Republic in May 1993. In this report, it is generally referred to as the Kyrgyz Republic when the context is the state as actor, and as Kyrgyzstan when the context is the country and its people.

² Which translates as 'clean water' in Kyrgyz.

- **Kyrgyzstan's high overall poverty levels limit the ability of the government to raise revenue.** While affordability of water *per se* may not be a decisive factor, politicians can use difficult social circumstances as a fig leaf, an excuse for not taking the necessary measures to raise tariffs to levels which would at least cover operating costs.
- **To overhaul degraded water distribution systems in small towns, massive capital investments are necessary.** An OECD/EAP Task Force (2009) calculated a USD 370 million shortfall (between 2008 and 2027) if the goal is universal access to piped water. This is well beyond the Government's means for the foreseeable future. This is despite the fact that tariffs increased by an average 87 percent in oblast centers from 2007 to 2010. Even Bishkek, with the highest tariff rates of 53 som is reportedly unable to cover capital costs.
- **Kyrgyzstan scores very low in terms of country ownership,** the ability to "exercise effective leadership over its development policies and strategies and co-ordinate the efforts of various development actors working in the country," according to the OECD (2008). PFM and procurement system in the Kyrgyz Republic are assessed as "moderately weak".
- **There are persuasive indications that corruption has seeped through the state apparatus.** The country ranks 164 out of 182 on Transparency International's CPI (2011). This phenomenon not only diverts resources, it diverts the attention of officials and civil servants from carrying out their assigned responsibilities.

Sector assessment

- **Kyrgyzstan has articulated neither a water supply policy nor a strategy.** Without a document laying out a country's priorities (and all indicators suggest that the WSS is not a priority) without a vision of where it wants to go, and without an operational strategy for getting there, the government is virtually condemning the WSS sector to terminal decline, albeit a decline slowed down by donor support.
- **There is no evidence that officials at any level of government, are willing to propose higher tariffs, out of fear of being blamed for raising the cost of living.** As elsewhere, tariff issues in Kyrgyzstan are a highly sensitive social issue with political implications. The increase in electricity tariffs were a catalyst for the 2010 revolution.
- **Outdated standards (SNIP) impede some aspects of design and construction.** Many stakeholders believe they need to be adapted to better fit the new fiscal reality, characterized by high energy costs, severe budget constraints.
- **Virtually no budget has been allocated for the WSS sector, with the government relying almost exclusively on donor aid.** But donor willingness to invest in the sector cannot be counted on indefinitely, especially if government does not put more effort into ensuring financing is spent effectively.
- **Corruption in the WSS sector siphons off resources from subprojects, reducing the funding available or improving conditions.** This can hurt the reputation of those involved in projects, including the donors.

Donor engagement

- **Donors have either invested or committed at least USD 206 million to the WSS sector, with government co-financing usually equivalent to 5 percent of donor contributions.** Donor-driven means that i) investments are initiated by donors in response to perceived needs, as opposed to in response to a strategy or plan developed by Government; ii) donors contribute the lion's share while Government contributes a token amount in co-financing or in-kind contributions; and iii) almost no discussions around WSS reforms take place without donors at the center of the conversation.
- **Donor projects are generally susceptible to corruption because of the high levels of procurement and relatively low oversight,** with audits typically taking a narrow, formalistic view and kickbacks to oversight and investigative bodies said to be common. Inevitably, although the project goals and institutional structures are jointly agreed between donors and government, it is donors who are blamed for problems. Despite donor government rhetoric on anti-corruption, failure to enforce external supervision or to sanction procurement violations, whether true or not, many believe that donors are simply turning a blind eye when it comes to corruption.
- **Donor assistance gives rise to both positive and negative incentives.** On the positive side of the ledger, i) knowledge and technology are transferred, and ii) capacity is built. On the negative side: i) Government abnegates responsibility, ii) the enticement of rents diverts attention; iii) government tolerates enough problems to ensure that aid keeps flowing; iv) monitoring mechanisms are used to generate kickbacks.
- **There is a consensus that Government needs to 'own' the WSS problem if progress is to be made.** However, when promoting development in highly corrupt, weak governance countries an ownership paradox may arise. Instead of driving the vehicle to the desired destination, corrupt government officials siphon out the gas instead.
- **Under normal circumstances, one would expect aid coordination to be led by the central Government,** which ostensibly has a political mandate, an agenda and a set of priorities for social and economic development. Given the mixed results in Kyrgyzstan, there is a risk of donor fatigue with the water sector.

Main Findings

- **After 8 years, huge gaps between planned and achieved outputs have highlighted weak project effectiveness.** Early on, four out of six components of the ADB-financed Community Based Infrastructure Services Sector Project (CBISSP), (equivalent to 27% of the total project cost) were cancelled. Despite the project extension, CBISSP covered roughly 60% fewer villages and fewer people than planned. Only 5 percent of planned new water systems were built and only 8 percent of school latrines were rehabilitated. Meanwhile, estimated project costs ballooned from USD 28 to as high as USD 200 per beneficiary over the past decade. And this does not take into account the often poor quality of the implementation, or the (low) sustainability of Community Drinking Water User Union (CDWUU) management.

Country systems

- **The village selection process was not transparent.** While the majority of subprojects (420 out of 730, or 57.5 percent) were originally to involve implementation of new water systems, i.e. in villages which had never had them, by 2008 only 18 percent of subprojects (21 out of 118) in the scaled down project were new-builds. A prioritization of subproject implementation linked to helping villages most in need would not have given rise to a very different result.
- **A major problem was lack of project staff engagement with communities,** who were often left in the dark regarding how they had been selected, their obligations, and the level of their required contributions (for which they often didn't receive receipts).
- **CDWUUs have not worked out as expected.** In 2010 it was estimated that only 53% of CDWUUs were sustainable without further support. More recent estimates suggest the number of sustainable CDWUUs is far lower.
- **An uncooperative and marginally competent JPMU staff may have seriously compromised project effectiveness.** ADB staff reported that interactions with JPMU staff were highly frustrating. The latter demonstrated low cooperation and weak commitment to the project.
- **One of the defining characteristics of the project is inadequate supervision.** Sometimes requests for supervision were met with passive resistance, as the EA failed to respond to requests to provide third party supervision. In other cases, international consultant firms hired to provide monitoring used local staff, raising questions about the added value of paying for international experience, or were reluctant to be diligent in their monitoring of remote areas.
- **Numerous procurement violations and implementation problems with CBISSP raise red flags, suggesting corrupt practice.** They include:
 - i) Frequent non-compliance with ADB procurement and government rules
 - ii) Executive Agencies often failing to respond to ADB requests for information
 - iii) Poor and incomplete record keeping,
 - iv) Unequal treatment of bidders
 - v) Seemingly arbitrary tender decisions
 - vi) Disregard of procurement rules by JPMU staff
 - vii) Lack of transparency
 - viii) Sloppiness in subproject execution
 - ix) Huge cost escalations
 - x) Slow procedures (e.g. 6 years from community application to subproject completion)
- **Information and communication materials are not designed to be easily accessible by beneficiaries.** The overall level of water and sanitation sector projects transparency is best described as low.

ADB systems

- **Is ADB satisfied with poor performance?** During five periodic performance ratings of CBISSP both 'Development Objectives' and 'Implementation Progress' were rated satisfactory 80% of the time (the two exceptions were 'partly satisfactory'). It is unclear just how bad performance must be to be rated *unsatisfactory*. One is forced to draw the conclusion that either ADB sets itself a low bar for its achievements, or there is pressure on evaluators not to equate the poor achievements, which they may document fairly accurately, with anything that smells of failure. As a result, the major problems with the project which may be obvious to country office staff may not get the attention of headquarter staff.
- **There are several factors which may account for ADB's inability to deal with corruption,** including:
 - i) Inadequate appreciation of the real challenges faced in-country.
 - ii) Guidelines and tools are not integrated into project planning.
 - iii) Internal assessments do not reflect true problems with the project.
 - iv) ADB staff sometimes note problems but do not report them, perhaps out of an reluctance to 'rock the boat', i.e. raise alarms about the project which might cause it to be suspended or cut.
 - v) The attitude that addressing corruption is the government's responsibility, as part of its overall responsibility for project implementation, based on assumptions made about government reliability, motivation, and capacity which simply do not hold.
 - vi) The focus on outputs/outcomes is stronger than the focus on impacts, perhaps because it is easier to monitor, (or possibly a general bureaucratic mindset).
 - vii) Systemic problems with external supervision.
- **Audits may be of limited use in addressing governance and corruption issues since they often take a narrow, formalistic approach.** At best, a pro forma attitude prevails, consisting of providing an opinion on the accuracy of financial statements. At worst, auditors may actively teach a firm how to cheat, or perform a 'whitewash'.
- **There has been continual resistance to hiring outside supervision, despite the fact that ADB had insisted on it.** This resistance to external quality control is another red flag which strongly suggests the intentional misuse of funds, poor quality implementation, manipulation of tenders, and misprocurement.
- **Despite widespread procurement violations and reports of rampant corruption there is only one Kyrgyz firm on ADB's debarment list.** Are the built-in barriers to investigations too high with four strict criteria that must be met for an investigation even to be launched? ADB's tools do not seem suited to sanctioning local firms.

Conclusions

- **The main conclusion to be drawn from the study is that Government has not yet matured enough to take responsibility for the WSS sector.** Furthermore, confused responsibilities weaken accountability and lead to a blame game. There are many risks outside of ADB's control. If ADB focuses on strengthening its systems and addresses the areas which it can

control, progress can be made. It needs to delineate exactly where its responsibilities start and end. It will then become clearer whose responsibility it is when problems arise in future.

- **Several assumptions held by ADB, and on which expectations of government accountability are based, have not been borne out in practice:**
 - i) “GoKR shares ADB goals of increasing access to WSS and reducing poverty.”
 - ii) “Government ownership can be counted on.”
 - iii) “Donors are financing development of the WSS sector” (when in fact they are, more often than not, merely acting as a stopgap
 - iv) “Tariffs will increase by 10 percent per year.”

Risks

- The main risks to working in the WSS sector, assuming that the current approach to project management prevails, are:

Country Systems

- i) Ineffective/improper oversight
- ii) Inadequate community consultation/communication
- iii) Misuse of project funds
- iv) Systemic state corruption
- v) Improper selection of villages

ADB Project Systems

- i) Failure to use own guidelines to promote effective project outcomes
- ii) Government insufficiently concerned with project failure to address problems
- iii) Inadequate sanction mechanism for procurement violations
- iv) Inadequate measures to investigate red flags

Recommendations

- 1) **Promote meaningful transparency:** reduce project risks by empowering thousands of monitors and evaluators: the beneficiaries.
- 2) **Insist on strict and meaningful external supervision:** Recognize attempts to avoid external supervision, regardless of the rationale, as red flags.
- 3) **Depersonalize procurement procedures and follow up on violations:** eliminate the possibility of personal contact between bidders, tender commission and procurement department. Sanction firms found in violation of procurement rules.
- 4) **Clarify relative responsibilities between government and donors:** Inform all stakeholders about the respective responsibilities of government and donors in development projects.
- 5) **Consider a performance based project phase-in:** next phase of a project should only commence once key indicators are met.

РЕЗЮМЕ

Введение и цель

- **Отчет о секторе водоснабжения и санитарии (ВСС) оценивает управление, организационные и управленческие вопросы, а также предназначен для информации Стратегии партнерства Азиатского банка развития со страной (СПС) для Кыргызской Республики на 2012-2016 годы.** Он основан на оценке рисков системы страны и системы проектов АБР, с особым акцентом на государственное управление, управление государственными финансами (УГФ), закупки и коррупцию. Толчком для данного исследования послужили сложные проблемы, с которыми АБР столкнулся при инвестировании в сектор ВСС, в основном в рамках государственной программы «Таза Суу»³
- **Вопрос об ответственности красной нитью проходит через все исследование и должен представлять интерес для каждого кыргызского государственного служащего, принимающего решения.** Надлежащее водоснабжение и санитария имеют первостепенное значение для здоровья населения и его общего благополучия. Этот обзор ВСС позволяет предположить, что это сообщение пока не созвучно с правительством Кыргызстана.

Контекст

- **Наиболее поразительным результатом является то, что Кыргызстан не имеет центрального координационного учреждения в секторе - министерства или государственного агентства, ответственного за вопросы питьевой воды и санитарии.** Отсутствует устойчивое продвижение водных проблем и реформы на уровне Правительства, как и координация политики между соответствующими отраслями, такими, как жилищно-коммунальное хозяйство или развитие сельских районов. Без центрального государственного органа доноры оказались определяющими и осуществляющими политику отрасли.
- **Департамент сельского водоснабжения (ДСВ) является единственным учреждением национального уровня, связанным с водоснабжением, и он охватывает только сферу вопросов водоснабжения и водоотведения в селах.** Департамент имеет слабый потенциал, выполняет в основном бюрократическую работу и был постоянно перемещаем между министерствами и ведомствами в течение последних семи лет. Частые "передислокации" Департамента предполагают тесную связь с его ролью в управлении донорскими фондами. В лучшем случае, ДСВ является бюрократической инстанцией, в худшем - он рассматривается как банкомат, из которого государственные служащие могут извлекать донорские средства, используя широкий спектр неэтичных закупочных схем.
- **Только два учреждения обладают в настоящее время достаточным влиянием, которое может способствовать реформам ВСС** – это Аппарат Президента и Аппарат

³ Что в переводе с кыргызского означает «Чистая вода».

Правительства. Тем не менее, в отсутствие отраслевого министерства для осуществления их намерений, они не могут быть надежными проводниками перемены, если нынешняя ситуация сохранится.

Отраслевые ограничения

- **Отсутствие водомеров ведет к тому, что нет никакой корреляции между тем, сколько домохозяйства потребляют и сколько они платят за воду.** Использование питьевой воды в результате неэффективно, несправедливо и нерационально.
- **Высокий общий уровень бедности в Кыргызстане ограничивает возможности Правительства по повышению доходов отрасли.** В то время как доступность сама по себе не может быть решающим фактором, политики могут использовать сложные социальные условия, как “фиговый листок” для непринятия необходимых мер по повышению тарифов до уровня, который, по крайней мере, покрывал бы эксплуатационные расходы. И это несмотря на то, что тарифы выросли в среднем на 87 процентов в областных центрах с 2007 по 2010 год. Даже г. Бишкек, с высокими тарифами в 53 сома, по сведениям, не в состоянии покрыть капитальные затраты.
- **Для капитального ремонта деградировавших систем водоснабжения в малых городах необходимы массированные капитальные вложения.** Рабочая группа ОЭСР / ЭАН (2009), рассчитала, что требуется 370 миллионов долларов США (в 2008-2027 гг.), если целью является обеспечение всеобщего доступа к водопроводной воде. Это намного больше, чем располагает правительство в обозримом будущем.
- **Кыргызстан получает очень низкие оценки с точки зрения руководящей роли страны,** определяемой как способность "осуществлять эффективное руководство политикой и стратегией развития и координировать усилия различных участников процесса развития, работающих в стране" (ОСЭР, 2008 г.). УГФ и система закупок Кыргызстана оцениваются как «умеренно слабые».
- **Существуют убедительные свидетельства того, что коррупция охватила государственный аппарат.** Страна занимает 164 место из 182 по Индексу восприятия коррупции, определяемого Транспэрэнси Интернэшнл (2011). Это явление не только отвлекает ресурсы, оно отвлекает внимание должностных лиц и государственных служащих от выполнения возложенных на них обязанностей.

Оценка отрасли

- **У Кыргызстана не существует ни сформулированной политики водоснабжения, ни стратегии.** Без документа с изложением приоритетов страны (и все индикаторы свидетельствуют, что водоснабжение и водоотведение не являются приоритетами) без видения того, куда страна хочет идти, и без оперативной стратегии как туда попасть, правительство фактически обрекает ВСС на окончательный упадок, хотя спад замедляется донорской поддержкой.

- **Нет никаких свидетельств того, что чиновники на каком-то уровне власти готовы предложить более высокие тарифы.** Потому что они не хотят быть обвиненными в повышении стоимости жизни. Вопрос тарифов в Кыргызстане, как и в любой стране, является высокочувствительной социальной проблемой с политическими последствиями. Именно повышение тарифов на электроэнергию послужило катализатором революции 2010 года.
- **Устаревшие стандарты (СНиП) затрудняют некоторые аспекты проектирования и строительства.** Многие заинтересованные стороны считают, что они должны быть адаптированы, чтобы лучше соответствовать новой финансовой реальности, характеризующейся высокими затратами на энергоносители, жесткими ограничениями бюджета.
- **Практически никаких бюджетных средств не было выделено для ВСС правительством, которое опирается почти исключительно на донорскую помощь.** Но готовности доноров инвестировать в этот сектор не может быть бесконечной, особенно если правительство не прилагает больших усилий для обеспечения эффективного расходования выделенного финансирования.
- **Коррупция в секторе водоснабжения и водоотведения выкачала ресурсы из под-проектов, сократив возможности финансирования или улучшения условий.** Она может ударить по репутации тех, кто участвует в проектах, в том числе и доноров.

Участие доноров

- **Доноры уже инвестировали либо взяли обязательство вложить 206 миллионов долларов США в ВСС, с дополнительным со-финансированием правительства, как правило, эквивалентным 5 процентам от вклада доноров.** Управление донорами означает, что а) инвестиции инициированы донорами в ответ на насущные потребности, а не в ответ на стратегии или планы, разработанные правительством, б), доноры вносят львиную долю, в то время как правительство вносит символическую сумму в рамках совместного финансирования или взносы в натуральной форме, и в) почти нет обсуждений реформы ВСС без лидерства доноров.
- **Донорские проекты, как правило, подвержены коррупции из-за высокой стоимости закупок и относительно слабого надзора,** с узко-формальным аудитом и “откатами” надзорным и следственным органам, что, говорят, является обычным делом. Несмотря на риторику правительства и доноров о борьбе с коррупцией, непринятие мер по обеспечению внешнего контроля или санкций за нарушения в закупках могут создать мнение, что доноры просто закрывают глаза, когда дело касается коррупции.
- **Донорская помощь вызывает как положительные, так и отрицательные стимулы.** На одной чаше весов: а) знания и технологии переданы и б) потенциал создан. На другой чаше: i) правительство отказывается от ответственности, ii) получение “ренты” отвлекает внимание; iii) правительство терпит столько проблем, сколько необходимо для получения помощи на их решение; iv) механизмы надзора используются для получения «откатов».

- **Существует консенсус, что правительству необходимо «владеть» проблемой ВСС, что бы достичь прогресса.** Однако при поощрении развития в очень коррумпированной стране со слабым управлением может возникнуть «парадокс владения». Вместо того, чтобы вести автомобиль к месту назначения, коррумпированные чиновники откачивают из него топливо.
- **В нормальных условиях можно было бы ожидать, что координацию внешней помощи возглавит Правительство страны,** которое предположительно имеет политический мандат, повестку дня и набор приоритетов социально-экономического развития. Учитывая неоднозначные результаты в Кыргызстане, есть риск «усталости» доноров в водном секторе.

Основные выводы

- **Спустя 8 лет с момента старта, огромный разрыв между запланированными и достигнутыми результатами подчеркнул слабую эффективность проекта.** Ранее были отменены четыре компонента из шести, финансируемого АБР проекта Инфраструктурных услуг на уровне поселений (что эквивалентно 27% от общей стоимости проекта). Несмотря на расширение проекта, ИУНП охвачено примерно на 60% меньше сел и людей, чем планировалось. Только 5 процентов от запланированных новых систем водоснабжения были построены и лишь 8 процентов школьных туалетов были реабилитированы. Между тем, планируемые проектные расходы выросли с 28 долларов США до более чем 200 долларов США на одного получателя в течение последнего десятилетия. И это не учитывая зачастую низкое качество реализации или слабую устойчивость управления со стороны СООППВ.

Системы страны

- **Нет сомнений в том, что процесс отбора был непрозрачным.** В то время как большинство под-проектов (420 из 730, или 57,5 процента) были первоначально связаны с внедрением новых систем водоснабжения, т.е. должны были реализоваться в селах, в которых никогда их не было, к 2008 году только 18 процентов под-проектов (21 из 118) в сокращенном проекте были новыми системами. Приоритетность реализации под-проектов, связанных с помощью наиболее нуждающимся селам, не привела к существенным изменениям результатов.
- **Одной из основных проблем было отсутствие взаимодействия сотрудников проекта с сообществами,** которые часто оставались в неведении относительно того, как они были отобраны, каковы их обязанности, какие от них требуются собственные вклады (за которые они часто не получали квитанции).
- **СООППВ не заработали, как ожидалось.** В 2010 году было подсчитано, что только 53% СООППВ были устойчивыми без дополнительной поддержки. По последним данным, количество устойчивых СООППВ может быть даже меньшим.

- **Эффективность проекта могла быть подорвана не склонными к сотрудничеству и недостаточно компетентными сотрудниками Объединенного ОРП.** Как информировал АБР, взаимодействие с сотрудниками ООРП было обескураживающим. Последние продемонстрировали низкий уровень сотрудничества и слабую заинтересованность в проекте.
- **Одна из отличительных особенностей проекта это недостаточный контроль.** Иногда запросы по надзору встречали пассивное сопротивление, так как исполнительное агентство не реагировало на просьбы обеспечить контроль третьей стороны. В других случаях, международные консалтинговые фирмы, нанятые для обеспечения мониторинга, использовали местный персонал, что вызывало вопросы о смысле их привлечения, если они не используют международный опыт, или же они не хотели проводить качественный мониторинг в отдаленных районах.
- **Многочисленные нарушения в части закупок и реализации проекта ИУНП поднимали “красные флажки”, сигнализирующие о коррупционной практике,** в том числе:
 - i. Частые нестыковки с правилами закупок АБР и КР
 - ii. Исполнительное агентство часто не предоставляло информацию АБР
 - iii. Неправильное и неполное ведение протоколов
 - iv. Неравное отношение к участникам торгов
 - v. По-видимому, произвольные решения на тендерах
 - vi. Неуважение к правилам закупок со стороны ООРП
 - vii. Отсутствие прозрачности
 - viii. Небрежное выполнение под-проектов
 - ix. Высокий рост расходов
 - x. Медленное рассмотрение проектов (от подачи заявки сообществом до реализации проходило до 6 лет)
- **Информационные и коммуникационные материалы не были составлены так, чтобы они были легкодоступны бенефициарам.** Общий уровень прозрачности проектов в секторе водоснабжения и санитарии лучше всего охарактеризовать как низкий.

Системы АБР

- **Удовлетворен ли АБР низкой производительностью?** В течение пяти периодических оценок выполнения ИУНП, как цели развития, так и ход осуществления были оценены в 80% случаев как удовлетворительные (с двумя исключениями с формулировкой «частично удовлетворительные»). Остается непонятным насколько плохо должна быть выполнена работа, чтобы получить неудовлетворительную оценку. Приходится сделать вывод, что либо АБР ставит перед собой низкую планку для своих достижений, либо есть давление на оценщиков, чтобы не ставить знак равенства между слабыми достижениями, которые они могут документировать довольно точно, со всем, что похоже на неудачу. В результате, основные проблемы проекта, которые, может быть, очевидны для сотрудников офиса АБР в стране, могли остаться без внимания сотрудников штаб-квартиры.

- **Есть несколько факторов, которые могут объяснить неспособность АБР по борьбе с коррупцией**, в том числе:
 - i. Недостаточная оценка реальных проблемах в стране;
 - ii. Руководства и инструменты не интегрированы в планирование проекта.
 - iii. Внутренние оценки не отражают истинных проблем, связанных с проектом.
 - iv. Существует всегда риск того, что акцент делается на средства (например, на процессы и результаты), а не на цели (то есть на оказываемый эффект).
 - v. Сотрудники АБР иногда замечают проблемы, но не докладывают о них, может быть из-за нежелания "раскачивать лодку", то есть поднимать тревогу о проекте, что может привести к его приостановке или урезанию.
 - vi. Отношение, что борьба с коррупцией является обязанностью правительства, в рамках его общей ответственности за реализацию проектов, основано на предположениях о надежности, мотивации и потенциале правительства, которые просто не оправдываются.
 - vii. Акцент на результаты/итоги сильнее, чем внимание к последствиям, возможно, потому что первые гораздо проще контролировать, (или, возможно, это общий бюрократический менталитет).
 - viii. Системные проблемы с внешним надзором.
- **Аудиты могут иметь ограниченное применение в решении проблем управления и коррупции. Они часто принимают узконаправленный, ограниченный подход.** В лучшем случае, преобладает отношение "pro forma", состоящая в предоставлении заключения о достоверности финансовой отчетности. В худшем случае, аудиторы могут активно «учить» фирмы, как обмануть или "отмыться".
- **Имело место постоянное сопротивление найму внешнего надзора, несмотря на то, что АБР настаивал на нем.** Это сопротивление внешнему контролю качества является еще одним "красным флажком", что явно указывает на преднамеренное неправильное использование средств, плохое качество реализации, манипуляции в тендерах, и некачественные закупки.
- **Несмотря на широко распространенные нарушения в закупках и сообщения о коррупции, только одна кыргызская фирма попала в "черный список" АБР.** Возможно, имеющиеся барьеры для расследования слишком высоки? Четыре строгих требования должны быть выполнены только для того, чтобы расследование было инициировано? По-видимому, инструменты АБР, не подходит для применения санкций к местным фирмам.

Выводы

- **Основной вывод, который можно сделать из исследования, в том, что правительство еще не созрело для того, чтобы взять на себя ответственность за ВСС.** Более того, смешение зон ответственности ослабило подотчетность и привело к постоянному поиску виновных. Есть много рисков вне контроля АБР. Однако, если АБР ориентирован на укрепление своих систем и решает проблемы в сферах, которые под его контролем, это может иметь положительные последствия. АБР необходимо определить, где именно его обязанности начинаются и заканчиваются. Затем, когда возникнут проблемы в будущем, станет ясно, в чьи обязанности входит их решение.

- **Несколько предположений АБР, на которых основывались ожидания о подотчетности Правительства, не были подтверждены на практике:**
 - i. "Правительство КР разделяет цели АБР в расширении доступа к ВСС и сокращении бедности".
 - ii. "Можно полагаться на руководящую роль правительства".
 - iii. "Доноры финансируют развитие сектора ВСС" (на самом деле они, чаще всего, просто занимаются реабилитацией)
 - iv. "Тарифы будут увеличиваться на 10 процентов в год."

Риски

- Основными рисками работы в отрасли ВСС, при условии, что нынешний подход к управлению проектами преобладает, являются:

Страновые системы

- i. Неэффективный / некачественный надзор
- ii. Недостаточные консультации с общественностью / коммуникации
- iii. Злоупотребление средствами проекта
- iv. Системная коррупция в государстве
- v. Неправильный отбор сел.

Система проектов АБР

- i. Отказ от использования собственных руководящих принципов для содействия эффективному результату проекта
- ii. Правительство недостаточно заинтересовано в том, чтобы проект не провалил решение проблем
- iii. Недостаточный механизм санкций за нарушение правил закупок
- iv. Неадекватные меры для расследования "красных флажков."

Рекомендации

- 1) **Содействовать конструктивной прозрачности:** снизить риски проекта путем привлечения тысяч «естественных» мониторов и оценщиков – бенефициаров проекта.
- 2) **Настаивать на строгом и значимом внешнем контроле:** определять попытки избежать внешнего контроля, независимо от того, чем это обосновано, как "красные флажки" – сигналы коррупции.
- 3) **Обезличить процедуры закупок и следить за нарушениями:** исключить возможность личных контактов между участниками торгов, тендерной комиссии и отдела закупок; налагать санкции на фирмы, нарушившие правила закупок.
- 4) **Уточнить соответствующие полномочия между правительством и донорами:** информировать всех заинтересованных лиц о соответствующих полномочиях правительства и доноров в проектах развития.
- 5) **Рассматривать эффективность проекта на поэтапной основе:** следующая фаза проекта должна начинаться только тогда, когда ключевые показатели будут выполнены.

No single measure would do more to reduce disease and save lives in the developing world than bringing safe water and adequate sanitation to all.

- United Nations Millennium Report 2000

1. INTRODUCTION

1.1 Purpose and objectives

This report on the water supply and sanitation (WSS) sector assesses governance, institutional and management issues and informs the Asian Development Bank's Country Partnership Strategy (CPS) for the Kyrgyz Republic for the years 2012-2016. It builds toward a Risk Assessment of country systems and ADB project systems, focusing specifically on governance, project financial management (PFM) issues, procurement, and corruption. The strategic thrust of ADB's Country Operations Business Plan for 2011-12 was support for infrastructure and institutional reforms.⁴

The impetus for the study came from the combined challenges ADB has faced in investing in the WSS sector over the past decade, primarily through financing the Community-Based Infrastructure Investment Project (CBISSP) and its extension (CBISSP-S) under the Government's Taza Suu program (See Annex 2 for detailed description). It has been described as the most difficult and problematic project in ADB's Kyrgyz Republic portfolio, and "plagued with controversy since its inception" (Eralieva). ADB is in the process of assessing how best to plan and finance future WSS projects, at what level to engage, and how to address institutional issues. The goal is to ensure that ADB funds are spent effectively and achieve the desired results, which has hardly been the case until now.

The issue of responsibility runs deeply throughout this study and should be of concern to every Kyrgyz civil servant in a decision-making position. Adequate water and sanitation is of utmost importance for a population's health and overall wellbeing. This review of the WSS sector suggests that this message does not yet resonate with the Kyrgyz government.

While grounded in a broader understanding of the WSS sector and governance issues, the report seeks to be as practical and specific as possible. The intention of this report is not to cast blame but rather to help ADB, donors and GoKR approach the various sector challenges from a constructive perspective, and suggest specific ways of reducing risks in the future.

Readers are cautioned that, while the authors have sought to be as fair as possible to all parties, they have not attempted to sugarcoat the findings. Consultants do not face the usual internal institutional constraints of 'speaking truth to power'. It is hoped that, by laying out the sometimes troubling facts of the case or posing difficult questions, a constructive dialogue on the future of donor engagement in the WSS sector will be promoted, to the ultimate benefit of the people of Kyrgyzstan.

Methodology

The study is based on a literature review, stakeholder interviews, site visits, and limited data analysis. Reviewed documents include ADB policies, ADB and other donor project documents, studies on governance in Kyrgyzstan and WSS studies on governance and corruption (see References). Primary

⁴ The specific sectors of ADB support are: (i) transport, (ii) water supply and other municipal infrastructure and services, (iii) energy, and (iv) public sector management.

research consisted of interviews with ministries and agencies, local administrations, donors, utility companies, projects management units, public institutions and NGOs. Site visits were made to four municipal centers (Bishkek, Kant, Tokmok and Karabalta) to meet with water department officials. Several ayl okmotu and CDWUU representatives were met with. (Annex 1 lists individuals and institutions interviewed). Three stakeholder roundtables were held to obtain feedback on preliminary findings. The accompanying meeting minutes are found in Annexes 4 through 6.

By necessity, the study relied heavily on qualitative research as resources were not available for collecting primary quantitative data. Some readers may find this unsatisfying, since numbers allow us to (seemingly) pin down facts more firmly and the authors themselves would have preferred to stabilize the qualitative research with more quantifiable (and, more importantly, *verifiable*) data. Kyrgyz institutions have been notoriously weak at maintaining records on the WSS sector and it was necessary to make judicious use of whatever information could be obtained.

Report structure

This report follows the structure of a 'Risk Assessment Report and Risk Management Plan', as laid out in ADB's Governance and Anticorruption Action Plan (GACAP) II Guidelines (2008). Section 2 provides information on country context relevant to the WSS sector and the following sections funnel down to the sector, project, and (in the form of case studies) subproject level. Section 3 provides a more detailed description of the sector, outlining policies and strategies, incentives, financing, transparency, etc. Stepping to one side, Section 4 reviews donor engagement in the sector and with the Government. The findings in Section 5 are based on an examination of Taza Suu projects financed by ADB over the past decade. Conclusions follow in Section 6. The level of analysis thus narrows, funnel-like, from national to sector to project level, before finally concluding with the Risk Assessment (Section 7) and Risk Management Plan (RMP) summaries (Section 8), comprising practical actions ADB, as well as other donors, can take to address the major risks.

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The three roundtables held to discuss preliminary findings and recommendations proved very useful to the authors, who would like to thank all participants who attended (listed in Annexes 4-6) for their constructive and valuable comments. Finally, many thanks to Jyldyz Tologon kyzy (Assistant to DFID Office in the Kyrgyz Republic) for helping organize the consultant missions and the roundtables held at DFID's office, and to Baktygul Omurzakova (Project Analyst, ADB Kyrgyz Resident Mission) for organizing meetings and the roundtable held at ADB's office. Any errors in this report are the sole responsibility of the authors.

2. CONTEXT

National institutions

National institutions are critical to understanding the constraints in the WSS sector. Perhaps the most important observation is that Kyrgyzstan has none: there is no ministry or agency responsible for drinking water or sanitation concerns. Without a central government agency with the mandate to promote and coordinate WSS sector issues, donors have ended up driving policy and implementation. They have almost become surrogate policymakers, an unhealthy situation. Metaphorically speaking, conditions are such that donor attempts to drive change are stymied since the government keeps siphoning the gas out of the vehicle. Donor goodwill is not a bottomless cup, and they cannot be counted on to finance the sector indefinitely. DFID, for example, has pulled out of a GBP 5 million commitment, and ADB has serious reservations about future WSS financing.

The Department of Rural Water Supply (DRWS) is weak and bureaucratic. DRWS is the sole national level institution concerned with water supply, but it covers only rural WSS issues. It was created specifically to manage Taza Suu projects, but is known to be a low level, weak institution mainly concerned with overseeing donor projects and collecting data. While during the Akaev regime it was reportedly stable, it has since been shunted between ministries and agencies five times or more (almost annually), with no clear policy basis or rationale.⁵ There was a general sense that governance problems worsened after the 2005 revolution (World Bank 2007). The frequent 'redeployment' of the department may be linked closely to its role in channeling donor funds. Whatever ministry or agency that happens to be more powerful and can make a plausible case for folding DRWS into its mandate, is able to temporarily 'capture' it.

Kyrgyzstan's water and sanitation problems are acknowledged at the highest levels. In the recent past, both the President and Prime Minister have spoken out about the situation in the water sector. For example, President Atambaev has stated that, in his visits to villages during the election campaign, over half of all complaints he heard concerned water issues. However, while the President and Prime Minister's offices are presently the only two institutions with the potential clout to promote WSS reforms, lacking a line ministry to operationalize their statements they cannot be counted on as reliable drivers of change. There is no way for the rhetoric to be matched by action. With respect to WSS, the highest offices in the country are like a head without hands.

Constraints

The constraints outlined here are not specific to the WSS sector, but they cannot be ignored when considering sector performance, projects, or reforms.

In the absence of meters, there is no correlation between consumption and payment. Because there are extremely few water meters in use (in 2010 3-4% of households had a meter according to Regallet, 2011) there is no correlation between what a household consumes and what it pays for

⁵ Including the Ministry of Agriculture and Water Resources, National Agency on Local Self Government (twice), Ministry of Natural Resources, State Committee on Water and Irrigation, and in 2012, a newly created entity, the State Agency on Construction and Regional Development. The latter combines the National Agency on Local Self Government with the State Agency on Construction. The new agency has a technical mandate, and carries no significant political weight and the outlook for a stronger WSS agenda is not encouraging.

water. Without this important incentive, the result is the inefficient, inequitable and wasteful use of drinking water. Customers are charged according to the reported number of household members (which are often underreported), collection rates are often well below 100 percent, and the water company cannot turn off the taps to non-paying households.

High poverty levels deter investment. Kyrgyzstan's high overall poverty levels (33.7 percent in 2010) limit the ability of the government to raise revenue. While low welfare can certainly limit willingness to pay among consumers (although circumstantial evidence suggests it is often the wealthiest consumers who refuse to pay), it also limits the willingness of the government to set tariffs at appropriate levels. While affordability *per se* may not be a decisive factor, in rural areas and some towns politicians seem to be using difficult social circumstances as an excuse, a fig leaf for not taking necessary measures to raise tariffs to levels which would at least cover operating costs. Average tariffs did increase, by 87 percent between 2007 and 2010 (Regallet 2011) but even Bishkek Gorvodokanal, reportedly cannot cover capital investment costs, even with the highest tariffs in the country (42 soms per person).

There is no domestic financing available for recapitalization. Massive capital investments are needed to overhaul degraded water distribution systems. An OECD/EAP Task Force (2009) calculated that to achieve universal access to piped water by 2027 in urban (100 percent via house connections) and rural (50 percent house, 50 percent street connections) areas, a USD 370 million shortfall would need to be met. More recently, the Ministry of Finance estimated WSS financing needs at KGS 20.8 billion (USD 450 million) for 2012-13.⁶ Given Kyrgyzstan's low level of development and welfare levels, it may be decades before water companies are able to cover capital costs through tariffs. Many municipal distribution networks have over 100 km of water lines which are fast reaching the end of their productive lifespan and therefore in need of replacement as corrosion eats through metal pipes. This results in high levels of water loss through leakage, and a constant need for repair crews to dig up and replace tubes. At present, the Government is intensely focused on cost-cutting measures and there seems to be no leeway in the state budget for WSS financing.

Decentralization reforms, ongoing since the mid-1990's, have not generally led to the hoped for benefits and are still being worked out. Delegated functions to local self-governments (stipulated in the Law on Local Self-Governments and Local State Administration) include administrative procedures such as social protection, registration, tax collection. The last Decentralization Strategy (2005-10) stated that responsibility for WSS lies with local governments. This has resulted in an unfunded mandate. Local governments, unable to raise significant taxes, face chronic budget shortages, limiting their ability to manage issues of local concern, including WSS systems. Local governments have not tried to address the problem by becoming more efficient. For example, they tend to be administratively top-heavy, with a preponderance of managers and a lack of qualified specialists. The Government is currently working out a new strategy for next five years (the most recent Decentralization Strategy covered 2005-10). However, analysis has not been completed.

Indicators of ownership are not encouraging, underlining weak governance. Country ownership, as defined by the Paris Declaration on Aid Effectiveness, is "a country's ability to carry out two, interlinked activities: exercise effective leadership over its development policies and strategies; and co-ordinate the efforts of various development actors working in the country." Kyrgyzstan scores fairly low on the Paris Declaration ownership indicators, (see table in Annex 3). The World Bank

⁶ <http://www.minfin.kg>

Institute's aggregate indicator of Government Effectiveness (averaging nine different indicators) placed Kyrgyzstan in the bottom 20% of all surveyed countries, demonstrating a continuous fall from 1996 when it was ranked in the lowest 40% percentile (World Bank Institute 2010) Global integrity gave Kyrgyzstan an overall rating of 'weak', based on a 'huge' implementation gap between its legal framework (rated 87 out of 100) and actual implementation (45 out of 100). In the last two OECD evaluations (2006 and 2008), Kyrgyzstan rated poorly, receiving a C grade.

PFM and procurement systems are weak. The Kyrgyz Republic's PFM and procurement system were assessed as "moderately weak" (Indicator 2a of the Paris Declaration on Aid Effectiveness). The country received a score of 3.0 in both 2005 and in 2007, while the average score for all International Development Association (IDA) countries was 3.2. That is, Kyrgyz Republic was below average and no progress was achieved since the baseline survey. The findings from this study bear this out.

Corruption in government appears to be systemic. There are credible indicators that corruption has seeped through the state apparatus. The country ranks 164 out of 182 on Transparency International's CPI (2011). The World Bank Institute ranked Kyrgyzstan in the lowest 10% percentile for the Aggregate Indicator 'Control of Corruption' (averaging 11 indicators). Interlocutors referred to a 'tradition of corruption.' Stålgren points out that "corruption can be so widespread in society that it is seen as a natural part of life. It is the norm, rather than the exception." (2006, p. 11) It is seen as the best way of getting somewhere or something.

Corruption tends to reduce public investments and 'certainly redirects public investment toward unproductive and more easily embezzled sectors' (Andvig et al 2000, p. 60). ADB's own Office of Anticorruption and Integrity (2010) itself estimates that just one type of corruption, bribes received by public officials from developing and transition countries, is equivalent to 20 to 40 percent of official development assistance. But this is just a small part of the story: "indirect costs of corruption (political, social, and environmental) often dwarf its direct costs." (ADB 2010a, p. 1). Corruption tends to disproportionately affect the poor, while also decreasing trust in government (Moktan & Nicoll 2008). Rampant state corruption was a catalyst of the 2010 revolution, suggesting either lower tolerance among the population, or weaker control over the levers of power with which control the citizenry than in neighboring countries. If government officials are now more aware of this risk, it may cause them to think twice in the future, and prod them a little more in the right direction.

Drivers of recruitment and promotion in the bureaucracy may be impeding reforms and weakening outcomes. In a recent study, Engvall (2011) makes a persuasive case that the state has become an investment market for civil servants, who literally purchase their positions as well as promotions, and then seek a return on their investment through the diversion of state funds.⁷ He describes the Kyrgyz state as a "formal shell of modern bureaucracy" (41). It is easy to see how the absence of a merit-based system of recruitment leads to low competence, a disincentive to become qualified, poor results, and a sharp shift of motivation from working for the public good to working for private gain.

⁷ This is not to accuse every Kyrgyz state employee with being corrupt. There are, assuredly, many civil servants and government officials who find corruption odious and would prefer to work in a much cleaner bureaucracy. It would be highly desirable if donors, at the very least, engaged with the Government in such a way that makes it easier for those individuals to escape the corruption around them, or at least lessen their incentive to participate. The intense pressure on individuals working in the public sector to join in corrupt practices is conveyed in the 1973 film *Serpico*, based on a true story and starring Al Pacino. He portrays an incorruptible policeman in the New York Police department who puts his life and job at risk. Unfortunately, for many working in corrupt bureaucracies, the only real choice may lie between a clean conscience and a steady job.

Project Management Units (PMUs), responsible for donor-project funded procurement, are notorious for engaging in corrupt practice.⁸

Reforms affecting the sector

The withdrawal of Soviet management systems in urban areas following independence has left them weakened. In urban areas water supply and sanitation in the Soviet era were under the Ministry of Utilities. However, construction of water supply systems mainly was carried out by the state bodies responsible for districts and sub-districts, usually factories or other state entities. As a consequence, municipalities have no unified water production and distribution systems. In the early 1990's the ministry was abolished and a state owned enterprise, "Kyrgyzhilkomunsoyuz"⁹ took responsibility over public utilities in urban areas. At present, however, it only manages centralized heating in cities and towns. Water supply and sanitation systems were transferred are now owned by local self-governments and maintained by the municipal water and canal enterprises (Gorvodokanal).

Land reforms of the 1990's have contributed to lack of planning and a collapse of order in rural areas. Under the Soviet system, maintenance and operation of rural water systems were the responsibility of collective and state farms. These were abolished after land reforms in the 1990s and no institution has taken over their management since then. However, in both rural and urban areas, even under during the Soviet Union, infrastructure maintenance was not prioritized and rarely given adequate attention or resources.

The effects of the recent move from a presidential to a parliamentary system remain to be seen. In response to the 2010 Revolution, a new Constitution was adopted on 27 June 2010 which converted the government system from a Presidential to a Parliamentary Republic. While there has been no apparent impact on the sector to date, the new government system has both positive and negative implications. On the positive side, a more empowered Parliament leads to more political competition and more of a 'watchdog' mentality, of members on each other. This decrease in vertical pressure to feed the center could lead to a dip in corrupt practice. On the negative side, a weakened President's office may reduce his ability to push through a water reform agenda.

⁸ Rumors circulate that in some PMUs the staff receive only half the salaries declared to the donor agency (and stated on the official payroll documents) with the rest getting 'kicked up the ladder.' Without a paper trail, audits will not uncover such incidents. Aid skeptics might conclude that not only is Government milking donor funds, but higher level officials are also milking lower level staff. The existence of such schemes may, at least in part, account for the negative assessments of their own Government voiced by civil servants themselves.

⁹ Kyrgyz Communal Services Union (Russian).

3. DESCRIPTION OF THE SECTOR

Before assessing governance, PFM, procurement and corruption issues some context is necessary. This description is an assessment of WSS issues most relevant to these issues. For greater detail and information on sector issues, see Annex 3.

An empty seat at the table. Kyrgyzstan has no national coordinating institution for drinking water issues. As a result, there is no sustained, cabinet level advocacy for water issues or reforms. Nor is there any policy coordination between related sectors, such as housing, or rural development. The newly established State Agency on Construction and Regional development under the GoKR has no clear mandate yet. Since the head of the agency is not a Cabinet Member (i.e. not a minister), this empty seat at the central level, where policies are promoted and decisions are made, has several consequences for the WSS sector:

- i) No 'voice' at the center means no one takes responsibility or can be held accountable for the country's dire drinking water problems;
- ii) No one is in charge of formulating strategy, coordinating donor aid, or negotiating for WSS allocations during budget negotiations. The failure of the first draft of the Medium-term Country Development Program¹⁰ to make any mention of WSS issues is a clear indicator;
- iii) There is no platform for a WSS 'champion' to promote and lobby for WSS issues; and
- iv) Verbal commitments made by the President or Prime Minister on water issues do not trigger an institutional response, and go unrealized.

In the absence of direction and coordination from above there is, unfortunately, no evidence that municipalities or ayl okmotus have the capacity, will or resources to manage their own systems. It therefore behooves those who argue that a national WSS institution is unnecessary to offer a plausible alternative of how WSS issues can be addressed.

Kyrgyzstan has no national WSS policy or strategy. There is no articulated water supply strategy or policy. Without a document laying out a country's priorities – and apparently the WSS is not a priority – without a vision of where it wants to go, and without an operational strategy for getting there, the government may be condemning the WSS sector to terminal decline. (The current priority is clearly the energy sector. There have been many special Cabinet sessions on energy issues, while almost none devoted to water.) Likewise, no rural development strategy exists, which would include water under a comprehensive plan to provide interconnected services extending to sanitation, electricity, social infrastructure (schools, hospitals) and roads.¹¹ Key documents relating to water issues are the Water Code (mainly about irrigation water), the Law on Drinking water, the technical regulation of drinking water, the Law on Local Self-Governments and Local State Administration. These laws do not reflect any WSS strategy, but simply state technical requirements for drinking water quality.

Unwillingness to pay. It is said that many users (even those who are educated) believe that water should be cheap or free, because 'water comes from God'. This belief holds in many developing countries, but was likely reinforced in Kyrgyzstan during the Soviet era when water and energy were heavily subsidized and cost effectiveness was not taken into account. Furthermore, as long as service

¹⁰ Which has replaced the Country Development Strategy (CDS), drafted under former President Bakiev.

¹¹ The lack of a holistic approach can severely weaken the impact of a project. For example, the World Bank earmarked funds for the construction of rural medical clinics (FAPs). However, no funds were made available to install water in the FAP, and the ayl okmotu was left to find additional funding (which it does not have).

remains poor, people will be reluctant to pay higher tariffs. Even with the current relatively low tariffs, collection rates remain low. The issue does not seem to be affordability – in fact the share of household expenditures on housing and utilities was 23.1 percent, decrease compared to 2005 by 3.6 percentage points. At the same time, the share of households spending on telecommunications services has increased from 8.1 percent in 2005 to 14.4 percent in 2009.

A strong political dimension. Tariff issues in the WSS sector are a highly sensitive social issue with political implications. Government officials and deputies are generally unwilling to agree to higher tariffs, fearing blame for raising the cost of living. Indeed, the immediate cause of the last unrest and eventual revolution of April 7, 2010 was the draconian increase in electricity and heating tariffs. The reason for raising tariffs in 2010 was precisely to pay for capital investments in the energy sectors. However, suspicion on the part of the population that the extra revenue would not be properly invested and instead pocketed by corrupt politicians was a central cause of dissatisfaction.¹² A further example of weak Government commitment is the fact that although the Jorgu Kenesh made recommendations to the Government on addressing WSS issues in a special session devoted to Taza Suu in 2005. In 2007, they instructed the Cabinet to pass a draft law on CDWUUs and to complete all criminal cases against DRWS officials. Almost five years later the Cabinet has yet to do so. But while the short-term gains of not raising tariffs may seem attractive, and “politicians who foresee political risks from tariff increases may try to hold down tariffs...[i]n the long term, however, the financial viability and efficiency of the water utility will likely be eroded” (ADB 2009a)

Data and document management appears to be generally poor. Records (accounting, project documents, designs) are often not properly filed or archived. This limits the ability to monitor and assess operations, in addition to making evaluation challenging. Many water companies have gone bankrupt due to poor planning and budgeting. The absence of a national information database hinders decision making processes (Nippon Koei 2009). The frequent relocation of DRWS has resulted in misplacement and loss of records (with some wondering whether this is an intentional strategy enabling the Department to hide its tracks). At best, DRWS is a lead-footed bureaucracy, at worst, it is treated as an ATM from which civil servants can extract donor funds through a range of unethical procurement schemes. Put another way, instead of focusing on pumping up water for the rural population, DRWS is used to pump out donor funds for government officials.

Outdated standards hamper design and construction. The SNiP (Construction Rules and Regulations)¹³ which regulate external networks and facilities in the water sector, date back to the Soviet period (SNiP 2.04.02-84), and have not been updated. Many stakeholders believe they need to be adapted to better fit the new fiscal reality, characterized by high energy costs, severe budget constraints and constrained donor willingness to invest. This view holds that the current standards are set at unrealistically ambitious levels, and restrict cost effective design (Nippon Koei 2009) especially with regard to the requirement that every village have a fire hydrant (and therefore significantly larger water lines than necessary if only household consumption is being provided for)

¹² In 2007, the Government sold off 1 billion kWh to foreign buyers in excess of contracts, reportedly at a price of 1.3 cent/kWh, far below the market price of 4.5 cent/kWh. However, knowledgeable persons believed that the sale was in fact at market price. The difference, which would come to around US 32 million, was then pocketed by powerful people in government. Injury was added to insult when in the winter of 2008-09 electricity had to be rationed, since the Toktogul reservoir had run extremely low (ICG 2010). Any rage and distrust expressed by the population becomes understandable in light of this scheme.

¹³ Строительные нормы и правила (СНиП) (Russian).

so that capital investments at SNiP levels would become far more costly. (For example, to rehabilitate a village strictly according to SNiP might easily require over 1 million USD). There is a reluctance to lower standards, apparently stemming from the high expectations of the Soviet period. A waiver for systems serving fewer than 5,000 persons is now possible, with less stringent requirements, but this does not solve the problem.

Government willingness to invest is low, as reflected in the budget. Virtually no budget has been allocated for the WSS sector, with the government relying almost exclusively on donor aid. If the WSS sector were a priority, the budget would reflect this. In the 2011 republican budget for capital investments, out of KGS 1.5 billion only KGS 3.5 million, or 0.23%, were allocated for the drinking water supply and sanitation sector (for the municipalities of Kyzylkia and Naryn). The government does provide in-kind contributions as part of projects, but these can be described as symbolic, since they do not involve any actual financial outlays that would not have occurred without the projects. While the Government may frequently talk about the importance to the country of improving the WSS sector, yet this has not translated into policy decisions. One reaches the conclusion that WSS Investments are a low priority for government.

Corruption, prevalent in the WSS sector as elsewhere, leads to numerous negative consequences. It siphons off resources from subprojects, reducing the funding available or improving conditions. It tends to hurt the poor most, since they have the weakest voice (TI 2008). It hurts the reputations of those involved in projects, including the donors. (Although in a society where corruption has become a tradition, the reputational risk among peers will not matter as much). Corruption weakens trust among beneficiaries, and reduces their willingness to contribute funds toward a project or pay for services. A more detailed discussion of corruption issues is found in Section 5.

4. DONOR ENGAGEMENT

Kyrgyzstan depends heavily on foreign aid. The Public Investment Programme (PIP) includes 54 projects with USD 1.06 billion total budget, while total external public debt in 2012 was USD 2.93 billion (IMF 2011). This high dependence will affect inevitably the donor-government relationship.¹⁴

The Ministry of Finance (MoF) is responsible for attracting and utilizing foreign investment under state guarantees, grants and technical assistance ; responsibility for attracting direct investments lies with the Ministry of Economy and Antimonopoly Regulation (MEAR). In practice, MEAR collects information from line ministries on what assistance needed to implement sector development programmes, and MoF proposes a decision on financing sources and forms. MoF then negotiates with donors on possible funding. The line ministry or state agency responsible for lobbying and promoting sector policy play a key role. Kyrgyzstan has only developed a limited number of sector strategy or policy documents so far, for education, energy, exports, transport, and agriculture. These complement the Country Development Strategy (CDS) and sector-level Medium Term Budget Framework for the relevant ministries. The lack of a WSS sector strategy is clear, despite the stated importance of improved access to drinking water as a poverty reduction pillar, an ultimate goal of the CDS.

Virtually all WSS infrastructure investments in Kyrgyzstan are donor-driven. At present, donors have either invested or committed at least USD 206 million to the WSS sector (Table 1), with government co-financing usually at an additional 5 percent of this. Donor-driven means that i) investments are initiated by donors in response to perceived needs, as opposed to in response to a strategy or plan developed by Government; ii) donors contribute the lion's share while Government contributes a token amount through co-financing or in-kind contributions, and iii) almost no discussions around WSS reforms take place without donors at the center of the conversation.

Table 1. Major donor-financed water projects (completed, ongoing, and committed)

Donor	Project/region	Amount (USD mill)
ADB	Issyk-Kul / ISDP	20
ADB	CBISSP (Taza Suu)	36
ADB	CBISSP-Supplementary (Taza Suu)	30
ADB	EARR III comp	28
EBRD/SECO	Bishkek	13
EBRD/SECO	Osh / Jalalabad	18
SECO	Bishkek and Karakol	7
UNICEF (multiple donors)	Water Sanitation Hygiene (WASH)	5
WB	Small Towns	15
WB	Bishkek Osh	14
WB / DFID	RWSS1 and 2 (under Taza Suu)	20
Total		206

Source: Author review of donor reports.

¹⁴ The "Joint Economic Assessment: Reconciliation, Recovery and Reconstruction" jointly drafted by ADB, IMF and the WB (July 2010) with support of other donors, found that total external financing needs amount to \$1 billion over a 30-month period.

Pragmatic vs. strategic approach. Donors have by and large taken a pragmatic, as opposed to strategic, approach in addressing water problems. Donor funding is earmarked for the sector and agreed with the government, after which a specific need, and a region or group of municipalities are targeted for assistance. The approach often seems to be driven by technical/engineering priorities, constrained by political realities, perhaps one reasons donor financing of WSS has been less effective than it could be.

The OECD Survey on Monitoring the Paris Declaration 2008 revealed mixed progress toward achieving aid effectiveness. Unfortunately the 2010 events had a negative impact on donor aid continuity. The Osh events in June 2010 dealt a shock to prospects for economic growth. Instead of support to development the international assistance was rechanneled toward emergency relief funding.

The 'parallel PIU' problem. Parallel Project Implementation/ Management Units (PIUs or PMUs) are generally created at the behest of donors, are believed to undermine national capacity (OECD 2008). The Paris Declaration encouraged donors to reduce the number of parallel PIUs. Instead, the number increased from 85 to 88 between 2005 and 2007. This suggests that donors remain concerned about the limited experience and capacity in the civil service. However, it is conventional wisdom that PIUs are very attractive to government for reasons having little to do with economic development. They are generally staffed by former civil servants or officials and salaries are higher. More pertinently, PIUs can be a rich source of graft, as procurement processes create innumerable opportunities for siphoning off funds designated for equipment and project implementation. While donors privately admit they are aware of the problem, they may see PIUs as the lesser of two evils, since giving aid directly to ministries is seen as an even less effective approach and even more prone to misuse.

Donors may be paying insufficient attention to corruption. Indeed, some stakeholders – civil society which sees its role as holding donors accountable; beneficiaries, who see shoddy implementation and unexplained delays; and civil servants and ministry officials who embezzle for years with impunity – a perception may exist that donors are simply turning a blind eye on corruption issues. Despite donor government rhetoric on anti-corruption, failure to enforce external supervision or to sanction procurement violations may lead local actors to their own conclusions. There are reputational risks associated with a complacent attitude toward corruption, and the 'message' to the government and private sector that procurement violations will be tolerated. It must be emphasized that this critique of donors does not, of course, apply to all donor staff, many of whom are diligent and honest, and working within a model of donor-government engagement which they may feel unable to change. Alternatively, local staff may not be receiving the support from their headquarters necessary to take a firmer stand on corruption. High level political economy issues may play a role.

The source of reputational damage. Donor financed water projects have sometimes led to ambiguous results and affected donor reputations accordingly, among civil society, ordinary citizens and government officials, although in different ways. While there have been some successes, donors have been held responsible for:

- i) Not ensuring adequate supervision, so that corruption and patronage has crept into donor projects;
- ii) Not sufficiently taking into account needs of beneficiaries, by not consulting either with end users or specialists/engineers in municipal water departments with the result that aid is not targeted at priority areas and may even contribute to worsening conditions; and

Believing that donors are unable or unwilling to introduce sufficient anti-corruption safeguards in their financing can lead to complacency among government officials. There are very few examples of donors shutting down a project or sanctioning officials or implementers for misuse of funds, etc. The World Bank (2009a, p. 150) notes that “[f]ailure to follow up on issues raised in previous supervisions—whether the issue is inadequate documentation, poor project quality, or actual allegations of fraud and corruption—sends absolutely the wrong signal to the PMU,” i.e. that there are minimal consequences to fraudulent practice. Using CBISSP as an example, ADB’s Joint Country Support Strategy (ADB 2007, p. 47)¹⁵ reported that at times the institution “had been too soft with project conditionality and too accommodating during implementation where commentators felt that, if ADB staff had drawn the line, execution problems could have been avoided.”

The ownership paradox of development. There is a strong belief that a key factor in sustainable economic development is government ownership. “Aid is most effective when it supports a country owned approach to development; aid is less effective when countries feel that aid policies and approaches are driven by donors that provide assistance.” (OECD 2008, p. 27-2). Yet in countries like Kyrgyzstan, an ownership paradox may result.

The ownership paradox of development can be defined as the recognition that *only when government takes ownership of reforms is aid truly effective, but ownership by weak and corrupt governments results in aid being diverted from public to private interests.*¹⁶

Government officials may interpret ‘ownership’ in a different sense from that intended, i.e. aid as an opportunity for investment in personal gain. An underlying sentiment heard among donors, expressed with some frustration, is “We are providing most of the assistance, the government needs to take responsibility for how it is spent!” Some might argue that donors who fail to recognize the ownership paradox and act complacently (even while saying all the right things) about governance and corruption are advised to spend additional time and resources considering governance questions, specifically regarding incentives. DFID notes that the “focus is now about how power is used, and on whose behalf. Governance work has moved away from asking ‘What is wrong and how we can fix it?’ to asking ‘What are the incentives to which political elites respond and how can they be changed?’ ” (2007, p. 68)

Sources of corruption. Donor projects are generally susceptible to corruption because of the high levels of procurement and relatively low oversight, with audits typically taking a narrow, formalistic view and kickbacks to oversight and investigative bodies said to be common. Donor projects lead to a large influx of funds through weak national institutions. Institutions and institutional frameworks have a significant influence on how effectively aid is utilized. If the institutions are weak, in terms of management, oversight, political will, etc. aid is easily dissipated through mismanagement, fraud, corruption and patronage. Thus, foreign aid becomes a source of corruption, with benefits flowing to elites while beneficiaries experience cuts to their projects, and welfare gains go unrealized.

¹⁵ ADB and the World Bank, together with Swiss Cooperation, United Kingdom DFID, and the United Nations Agencies, produced a JCSS report in 2007. The respective ADB and World Bank versions of the report are cited separately, however. While Part I (Kyrgyz Republic Joint Country Support Strategy) is identical in both versions, Part II (covering the respective donor Assistance Programs) is different.

¹⁶ For a similar conceptualization of the ownership paradox, see Gupta, J. & N. van der Grijp, eds. (2010). *Mainstreaming Climate Change in Development Cooperation: Theory, Practice and Implications for the European Union*, p. 333.

Donors information on projects tends to be highly technical and hardly accessible to beneficiaries.

ADB's JCSS noted that "Most of the questions and concerns of NGOs about ADB projects stem from lack of information or misinformation, and the outreach effort built in into the project design could go a long way to get the reliable information out." (2007 p. 49) Although ADB has heavily financed the WSS sector, neither the country webpage (<http://beta.adb.org/countries/kyrgyz-republic/main>) nor the joint donor Kyrgyzstan webpage (www.donors.kg) list WSS projects. While project information can indeed be found on ADB's general website, it is in a very dense form, with no breakdown per subproject (See Annex 2 for a close facsimile, including font size). Civil society complains that posted information tends to be of a general nature, with no budget breakdowns which could allow the average citizen to inform him or herself regarding the amount of funding earmarked or spent in their community. As a result, it is difficult to hold anyone accountable. Some donor representatives respond that it is not their responsibility to implement and monitor projects. At the same time, they have few illusions regarding government capacity or motivation to meet its assurances of proper implementation and oversight.

Responsibility for project implementation and outcomes. Inevitably, although the project goals and institutional structures are jointly agreed between donors and government, it is donors who are blamed for problems. Such was the case with the Taza Suu project when NGO activists protested about project shortcomings outside ADB offices when it was contemplating ending its support of the project. (It is also possible that certain interested parties who stood to gain from the continued flow of project funds through procurement were quite happy with this development.) Technically, responsibility for implementation of donor-financed projects does lie with the borrower, but the donor also has obligations.

The responsibility for the implementation of the project, and therefore for the award and administration of contracts under the project, rests with the borrower. ADB, for its part, has the obligation to ensure that the proceeds of its financing are used with due attention to considerations of economy and efficiency. (ADB Procurement Guidelines, para 1.2)

The World Bank takes the same approach, placing responsibility on the borrower, while noting that it is up to the Bank to ensure the proper use of funds. The World Bank also warns that "[w]here governance is poor and corruption risks are high, therefore, both the government and the Bank need to reduce and mitigate those risks" (World Bank 2009, p. 13). Still, the question remains, what would induce a government plagued by high levels of corruption to take any action to reduce such risks?

Donor assistance gives rise to both positive and negative incentives.

Positive incentives:

- *Knowledge and technology transfer.* Despite various problems, donor projects are introducing new approaches to design (meters and other water efficiency technologies), management. Gradual introduction of meters will incentive customers to use water more efficiently.
- *Capacity building.* After many years of projects there now exist a certain number of local project managers and technical specialists now able to do work once performed only by international specialists. This is a major positive change since the 1990s. It suggests there is a higher chance that funds spent in Kyrgyzstan will continue to increase local capacity.

Negative incentives:

- *Government abnegates responsibility.* Because there is an extremely limited national budget for the water sector, there is a tendency for government to give up responsibility for the

sector, and rely entirely on donor support. This reduces accountability toward the population, whose complaints about water issues are then redirected toward donors.

- *The enticement of rents.* Projects create incentives for corruption, as noted above (under Reputation) by increasing the amount of cash flowing through the system. Procurement can easily be used for diverting public goods for personal gain, even when the letter of the law is being applied. Financial audits are generally unable to detect corruption in procurement practices.
- *Enough problems to keep aid flowing.* As problems with projects arise, and donors are held accountable, they may see no choice but allocate more funds. Thus, government officials may have an incentive to *create* problems, or at least not try too hard to address them.
- *Monitoring for kickbacks.* Investigative/audit/monitoring structures (such as private auditing firms, the Chamber of Accounts, etc.) may be incentivized to investigate projects as a way of seeking kickbacks for closing down investigations and not reporting violations. In fact, merely adding layers of supervision as a strategy for improving quality or reducing corruption, may make ‘cure worse than the disease.’

Have donor coordination efforts run out of steam? Under normal circumstances, one would expect aid coordination to be led by the borrower, which ostensibly has a political mandate, an agenda and a set of priorities for social and economic development. However, the Kyrgyz Government, whether it lacks the vision, will or capacity, has not taken on this role. Instead, international organizations have made efforts to set up aid coordination and harmonization mechanisms. At the High-Level Forum on Harmonization in Rome in February 2003, the Kyrgyz Republic was identified as a pilot country on aid harmonization. In 2008 OECD noted that progress in coordinating technical co-operation was “impressive” (p 27-3). Donors have a Donor Coordination Council. A stakeholder committee on aid coordination did meet several times, but the 2010 Revolution put these endeavors on hold. In the WSS sector, there is in fact considerable cooperation among donors. Under Taza Suu, ADB and the World Bank and DFID in the past focused on different areas of the country (North and South). However, examples of poor coordination also exist. In the case of Karakol, a city in the Northern Kyrgyzstan (63400 inhabitants) SDC financed rehabilitation of a modern filtration system. But because of delays, the Issyk Kul project failed to rehabilitate the upstream treatment facility in a timely manner, which means that the newly built filtration system could be damaged.

Donor fatigue. Given the mixed results, there is a risk of donor fatigue with the water sector. DFID is pulling out altogether; ADB has had second thoughts following the first phase of its Taza Suu project, CBISSP, which saw huge gaps between planned and achieved results, massive cost escalations, numerous examples of failed implementation, and heavy criticism. The entire approach to funding, and the value that is thereby generated, is being questioned (one of the reasons for the present study).

5. FINDINGS – PROJECT LEVEL

Having outlined national institutions, sector issues, and donor engagement in previous sections we are now ready to penetrate to the project level. It is at this level that specific lessons relevant to governance and PFM can be examined. Much of the discussion is centered around ADB's CBISS project under Taza Suu, as this project has proven controversial and its challenges have given rise to severe doubts about the wisdom of continuing to fund the WSS sector.

It must be born in mind that, while the following assessment is quite critical of the way rural water projects were handled, as many as a million persons living in rural areas very likely have better water access today than they did before the project, and this would not have happened without the financial assistance of the donors engaged. The criticisms highlight how much more could have been done if the projects were better managed.

Project overview

Donor engagement in water supply and sanitation development. CBISSP, in the form of a subsidized loan of USD 36 million, was ADB's first WSS project in Kyrgyzstan. Its objectives were to provide safe, adequate, and easily accessible water supply and sanitation to selected rural communities and urban towns using a community participation approach. It included a physical infrastructure and a capacity building component, as well as a hygiene and sanitation education program. It aimed to include 240 rural subprojects, covering 730 villages and serving 1.5 million persons, some 70 percent below the poverty line.¹⁷ Areas covered by the project were Batken, Chui, Jalalabad and Osh oblasts. The goal was to increase access to safe, adequate water supplies from 40% of the population in the target areas in 2000 to 80% in 2006. Because of severe implementation delays, the project was extended from December 2006 to December 2008.

Rationale: The project objectives were to improve “general living and health conditions in selected rural and urban communities,” covering six areas: a) rural water supply, b) rural sanitation, c) rural flood control and drainage, d) rural roads, e) urban water supply, and f) urban sewerage. There are excellent reasons to finance improvement of WSS services in rural areas. Building and upgrading systems would provide ‘urgently needed basic services’ with significant poverty reduction impacts. It would also reduce the burden on women, who are mainly responsible for collecting water and nursing of the sick affected by unsanitary conditions (ADB 2000 RRP).

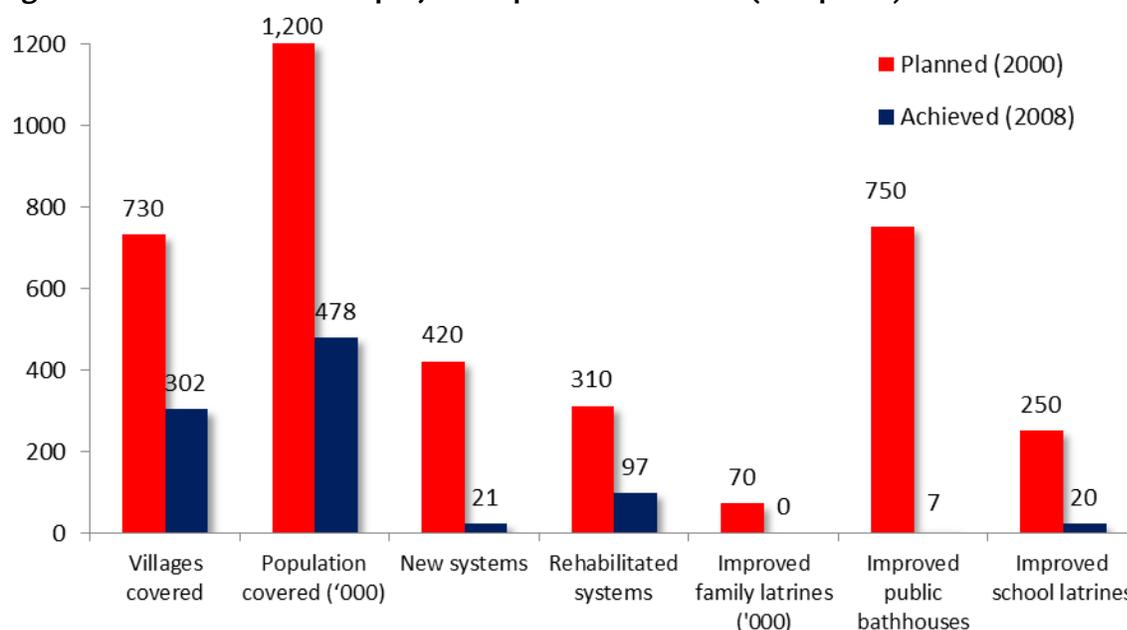
Implementation arrangements. For WSS, as for other donor projects, project implementation is the responsibility of the government. Under the original project agreement, the Ministry of Agriculture and Water Resources and Processing Industry (MAWR&PI) was designated the Executive Agency, with the Department of Rural Water Supply specifically charged with oversight, and a central project management unit (PMU) established ‘within the ministry’. A National Water Supply and Sanitation Committee, made up of Government representatives, was tasked with providing policy guidance and monitoring and supervising overall project implementation. ADB, for its part, provided 80 percent of the funding at a subsidized rate (1 percent during an 8 year grace period, 1.5 percent thereafter) while the National Government was responsible for 12 percent of project financing, provincial and district governments 0.5 percent and communities (through member contributions) 3 percent.

¹⁷ ADB. (2000). Report

Paper commitments have not extended to practical application. As the borrower, GoKR committed to procure goods and services in accordance with ADB's *Guidelines for Procurement* and accepted the principle that "investments will reflect local needs and priorities, and incentives for cost recovery will be in place. For its part, ADB committed to i) review during implementation a selected number of the subprojects, and ii) monitor the socioeconomic implications of the Project through all the processing phases, implementation, and the first year of O&M. Both government and ADB affirmed their priorities were to improve "basic services and living conditions particularly in poverty affected areas," commitments laid out in the 2000 RRP (the loan agreement). In short, ADB was responsible for providing financing and took upon itself to periodically check that it was spent as intended, while the Government took on responsibility for implementation in accordance with agreed upon standards. Our assessment, detailed under the Country Systems and ADB Systems sections below, strongly indicate that the Government largely failed to follow its commitments in spirit, while ADB appears to have focused on outputs while (perhaps naively) trusting in Government assurances.

Major gaps between planned and achieved outputs highlight weak project effectiveness. ADB's Project Completion Report (PCR) conducted 10 years after project launch quantified a huge gap between planned and achieved outputs. First, four components of six components, for which USD 12.3 million (equivalent to 27% of the total project cost) had originally been earmarked, were cancelled: i) urban water supply, ii) urban sewerage, iii) rural flood control, and iv) rural roads. Second, as illustrated in Figure 1, the rural water and sanitation components were severely downsized. Despite the project extension, CBISSP covered roughly 60% fewer villages and fewer people than planned. Perhaps most strikingly, only 5 percent of planned new water systems were built and only 8 percent of school latrines were rehabilitated. The lack of school bathroom facilities is described as 'scandalous' by stakeholders. The implications for pupils, especially girls, is In light of the fact that in other areas 40 percent of targets were met, this clearly point to resource allocation issues, not just financing issues. The review attributed this to a financing gap, resulting from significant increases in construction costs during implementation.

Figure 1. Planned vs. achieved project outputs under CBISSP (first phase)



Source: ADB. (2010). PCR

Outcomes may be even more modest than shown by output figures. While Figure 1 examines project outputs, outcomes are another story. Close examination reveals that the achievement gap was even larger than indicated by the above comparators, because these indicators do not account for implementation quality, problems with water quality, or targeting. According to ADB's PCR (2009), in 2006, fully 28.3 percent (23 out of 80) completed projects had serious institutional and technical problems, which resulted in the hiring of additional project consultants (at considerable cost). Project ineffectiveness is not the worst outcome. Sometimes conditions became worse afterwards.

Failure upon failure? Following agitation by local NGOs over poor water quality, ADB agreed to provide a further USD 4 million to rectify the implementation problems. In addition, it agreed with the Government on supplementary financing in the form of a grant totaling USD 30 million, with no requirement for co-financing. The supplementary project has already run into trouble. By August 2011 it was estimated that only 22% (instead of 60 percent) of project implementation was achieved. The World Bank likewise extended RWSS (as RWSS2) with an additional USD 10 million. This extension of additional aid at even better terms should in no way be seen as a 'reward for failure' on the part of government officials.

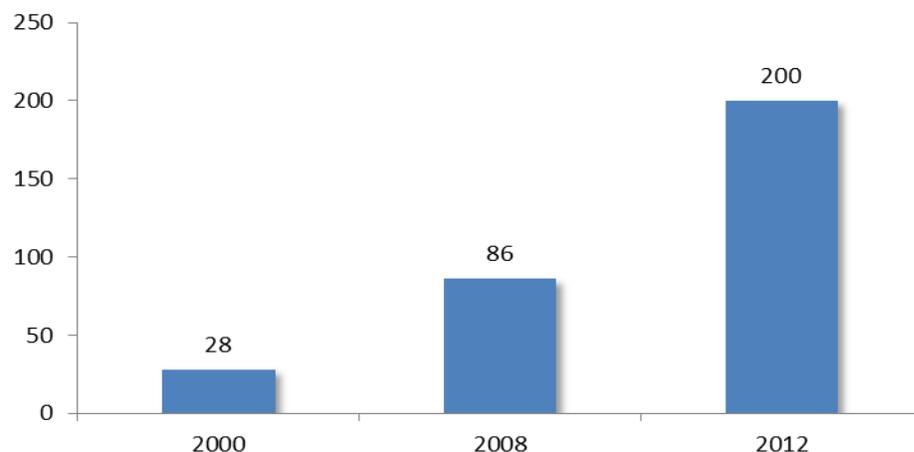
Environmental neglect? The PCR Status of Compliance with Loan Covenants (Appendix 8) states that "30 Environmental Concerns were complied with. Initial environmental examinations were prepared for all subprojects and legal requirements were met". But this contradicts with the statement in the same document that "In the early stages of implementation designs were inadequate" (item 3), because initial environmental examinations have to be conducted at the pre-project stage. Environmental Impact Assessment conducted after implementation of the Small Towns Infrastructure and Capacity Building Project (STICBP) showed that ecology specialists sometimes signed examinations without site visits (e.g. Batken oblasts), and a full set of sub-project documents, including environmental examinations was not available (e.g. Cholpon-Ata town water supply system rehabilitated by Taza Suu and STICBP). (ARIS2011).

Out of control cost escalation. Furthermore, more recent estimates place the cost per beneficiary at closer to USD 200, which represents a more than 700 percent increase. If ADB documents describe the cost escalation from \$20 to over \$80 as 'dramatic',¹⁸ these latest estimates are best described as disturbing. While construction costs have indeed increased over the past decade, a 700 percent increase in subproject costs should be setting off alarm bells.¹⁹ From 2005 to 2010 cement prices rose by 124.7 percent, the cost of bricks by 57.2 percent (National Statistics Committee. CPI). There are good reasons to believe that other factors contributed significantly to the achievement gap. These are discussed below. The PCR attributed cost escalation to inflation, but ADB's Validation Report casts doubt on this, noting that the implicit gross domestic product deflator averaged just 6 percent annually (ADB 2011a, p 4).

¹⁸ ADB. (2008). Proposed Supplementary Asian Development Fund Grant: Kyrgyz Republic: Community-Based Infrastructure Services Sector Project

¹⁹ Lack of transparency is a core problem related to very high construction costs in Kyrgyzstan. The 2007 National Programme on Housing Construction in Kyrgyzstan in 2008–2010 mentions problems with monopolies and malpractice in the construction industry. United Nations Economic Commission for Europe. (2010). Country profile on the housing sector of Kyrgyzstan.

Figure 2. Estimated cost per beneficiary (USD)



Source: ADB PCR (2010) and donor representatives.

Poor design of systems. While construction materials did increase over the period 2000 to 2009, many WSS projects were initially poorly designed, with inadequate field surveys and investigations. The design quality was so poor that many had to be redesigned, at an additional cost of USD 2.17 million in consultant fees.

Box 1. Case study – Rehabilitation of rural water systems in Koshoi

The village of Koshoi, formerly Kalinovka, is located in Chui oblast approximately one hour east of Bishkek. It has 468 households, of which approximately 30 percent have house or yard water access. The remaining households are served by 36 standpipes, located every 200 meters apart. Only 10 percent of the standpipes were functioning when it was selected as a CBISSP village and the project involved rehabilitating the non-functioning standpipes. Thus, now everyone has decent access to a standpipe. However, the new installed new standpipes have only one valve, which means that they freeze in the winter. In freezing weather, people now have to first pour hot water over the standpipe to unfreeze the pipes. The ayl okmotu representative were not sure whether the reason for the single-valve standpipes lay in a design flaw or whether implementation was not done to specifications. The contractor informed them he would come to check on the situation, but he had failed to come at the time of the field visit.

Unusually, the CDWUU has levied a water tariff on a per household basis - 80 soms for households with house/yard access and 60 soms for households using standpipes. This means that households with many family members pay a much smaller per capita tariff than households with just one or two members, which presumably are also using much less water. However, for unexplained reasons, this was considered to be an equitable arrangement. The collection rate ranges from 75-80 percent.

Ayl okmotu members interviewed by the authors described another water supply project, known as 'Sultan' covering seven villages, which been in the planning stages for the same rayon since 2003-04. This is when the application for the project was made and the first community contributions were collected, in the amount of 36 soms per person. Since then, the project costs have skyrocketed and people have been asked to 'top up' their initial contribution accordingly, to the point where it is now 500 soms. As a result of the lengthy delays and demand for higher and higher contributions, people have become unwilling to contribute. The ayl okmotu members said it had "no idea what was going on," and felt it was 'people at the top' who were responsible. They believe more transparency and more control are essential.

The quest for better project management arrangements. In 2009, ADB and the World Bank, which had a similar rural WSS program in oblasts, the Rural Water and Sanitation Supply project (RWSS) combined project management under a Joint Project Management Unit (JPMU), in an attempt to strengthen administrative efficiency. (The World Bank's disappointment with the JPMU's performance was the primary reason behind the transfer of project management to ARIS). During the transfer from the JPMU to ARIS, the World Bank reported to the GoKR that it had found serious financial problems, including: record-keeping problems, including missing primary documents, un-reconciled balances, deleted records from accounting software, mixed payments from different sources of funds, etc. (World Bank 2011b).

Box 2. Case study – Krasnaya Rechka CDWUU

The village of Krasnaya Rechka is located in Chui oblast on the main highway just east of Bishkek. It has approximately 1,200 households and a population of 4,650. The tariff is 25 soms per person per month and collection rates hover at 85-90 percent. There is a KGS 1,000 penalty for not paying, but it is impossible to enforce.

The CDWUU has 10 staff, consisting of 1 chair, 1 accountant, 2 plumbers, 3 operators, 2 controllers and 1 guard. They earn an average salary of 450 soms gross, 350 soms after taxes. The accountant reported that the CDWUU lost contact with DRWS, and assumed that it had closed down. She reported that it used to provide support to the CDWUU, hosting seminars and training sessions.

Krasnaya Rechka is known to be a relatively well off village and the CDWUU, established in in 2006, appears to function well. It received a KGS 10 million (USD 214,600) credit to put in 3 km of water lines. As the village another 21 km of water lines in need of replacement, the estimated cost to replace them is approximately KGS 100 million (over USD 2 million). It has debts totaling KGS 592,000 to the government and says it does not know how it will pay them off. For a household to connect to the water line they must pay the CDWUU KGS 500 in addition to covering the cost of the labor and materials. The main problems are leaks, and expensive equipment. The village does not have its own back-hoe to repair lines, and so must rent one at a cost of KGS 700 per hour.

Are rural water projects more susceptible to poor management? Without a comparative analysis of projects in other sectors it is difficult to judge. There are, however, three arguments for why the problems may be more *obvious*: i) The project consisted of many small civil works projects (over 100) which means a lot of tenders had to be conducted, for a lot of relatively small procurement packages; each of which carried corruption risks; ii) the project covered many remote and difficult to access areas, which created a disincentive for inspectors and supervisors, both local and international, to travel because of distance, weather conditions; and iii) the building and rehabilitation of small water supply systems has a direct (potential) impact on communities in a way that other projects don't, and when community participation is an integral element, community awareness is that much higher. The combination of these factors may have exacerbated the normal problems faced by any project in Kyrgyzstan.

The following two sections separately examine country systems and ADB systems in order to examine the factors behind the disappointing performance and draw lessons for the future.

Country systems

Opaque selection of communities signals favoritism. Under CBISSP, and to a lesser extent under RWSS, political influence was evident in the community selection process. (Choitonbaeva and Korner (2007) report that political influence was less pronounced on the World Bank project because a committee had been created to manage the selection process.) Whatever criteria were initially set down for village selection, they were not followed. No database of water conditions in villages exists

or was commissioned before the Taza Suu project began. Baseline surveys were not conducted, virtually guaranteeing that the selection process would be nontransparent, and making estimations of impact and effectiveness difficult. Referring again to Figure 1 (planned vs. achieved outputs), while the majority of subprojects (420 out of 730, or 57.5 percent) were originally to involve implementation of new water systems, i.e. in villages which had never had them, by 2008 only 18 percent of subprojects (21 out of 118) in the scaled down project were new-builds. The vast majority were thus rehabilitation projects. This is fairly unmistakable evidence that the neediest villages were not prioritized. An employee of a technical design consulting firm, contracted by the project, reported that, over the course of a year he received phone calls changing the villages on the project list on five separate occasions. Political interference was clearly at play, as deputies used their influence to have the project include their home village, for example. Aside from being inequitable, it resulted in villages being selected where there was fairly little demand for WSS improvements, and consequently lower willingness to contribute funds.

Weak consultation. A major problem was lack of project staff engagement with communities, who were often left in the dark with regard to how they had been selected, their obligations, the level of their contributions (for which they often didn't receive receipts). Combined with a murky village selection process, it is understandable why government officials wanted to keep information given to communities to a minimum. Of course, the drawback is that communities were unable to fight for their rights, or their budget allocation.

Civil society engagement seen as formalistic. Although the RRP includes a 'specific assurance' by Government that CBOs and NGOs representatives "will be involved in subproject planning, design, construction, and O&M, as well as actively help with the capacity-building, health, and hygiene components of the Project," the general feeling is that such involvement has been inadequate and formalistic. NGOs did win the right to sit on tender commissions at the second phase of Taza Suu. However, collectively they have only one vote, thus heavily favoring government, reducing accountability. Conversely, some stakeholders argue that civil society is partly to blame. Some NGOs have a reputation for being attention getters, being more focused on attacking donors instead of holding the government accountable and ii) working with communities to ensure their interests are protected.

Local institutional sustainability is weak. In 2010 it was estimated that only 53% of CDWUUs were sustainable without further support (Wardle). Stakeholders have disputed this figure, claiming that sustainability is in fact far lower, perhaps a mere 30-40 CDWUUs out of the remaining 518 are functioning. CDWUUs are said to lack the financial support and technical specialists necessary to perform as intended. Many reportedly received training too late, i.e. after subproject implementation, reducing their ability to be effective monitors.²⁰

An uncooperative and marginally competent JPMU staff may have compromised project effectiveness. Although no longer in existence, it is worth briefly reviewing ADB's experience with the JPMU since

²⁰ Although community driven development (CDD) has shown promise, it sometimes works better in theory than in practice, for several reasons. One is that in the context of donor projects, it is still imposed from the top down, as part of project design. That is, the project is not responding to a demonstrated community initiative. While some communities may be ready to embrace the approach and take on the added responsibility, others are not inclined. Another reason is that communities aren't given the tools, in terms of information, participatory mechanisms, or essential information to truly take ownership over their projects.

it holds lessons for other projects. Together with its regional offices, it was a large entity, with 87 personnel. Most of them were transferred from the PMU (which had implemented phase one of CBISSP). ADB staff reported that interactions with JPMU staff were highly frustrating, who demonstrated low cooperation and weak commitment to the project. The following partial list summarizes some lessons why:

- i) Documents were filled with errors. When returned with request for corrections, the same errors would be repeated, and new errors might appear.
- ii) Staff would not comply with requests.
- iii) Constant excuses were made why tender preparations couldn't be completed in time. The format of tender documents would be repeatedly revised, with the result that the validity of the tender would expire, requiring a rebid. This ultimately led to fewer bidders participating.
- iv) The JPMU would argue that external international supervision could not be afforded when ADB advocated for it (EAs may resist external monitoring if they believe it reduces their amount of discretion they have. It presents an additional cost to them in the sense that they can spend the funds they save elsewhere, and in that it reduces opportunities for graft.)
- v) At some point, ADB local office staff resorted to correcting the JPMU's mistakes itself. However, when confronted with their failures and mistakes, the staff would complain that ADB was not helping them.

In corrupt environments, 'delaying' is usually a tactic, not a sign of low capacity. In the World Bank's experience in dealing with governance and corruption risks, "[t]he most common tactic of governments wishing to avoid dealing with difficult issues is to delay, and delay, and delay, and hope the Bank just gives up" (World Bank 2009a, p. 16)

Eventually, the JPMU developed such a bad reputation for corruption and incompetence that few even wanted to apply for staff positions. This naturally only further reduced its overall competence levels. When the World Bank, itself dissatisfied with its own implementation arrangements for RWSS decided to use ARIS, ADB agreed, and the JPMU was shut down.

An unhealthy EA-JPMU relationship. One apparent reason for poor cooperation from JPMU staff was that many refused to take orders from the JPMU director, claiming that the EA head (Director of DRWS) had hired them, and therefore they would only take orders from him. This is a curious attitude, since their contracts were obviously not with any particular individual but with an institution, and generally employees do not justify non-compliance with their supervisor's requests by resorting to the argument that the supervisor didn't personally sign their contract. The JPMU director complained that he couldn't even fire his own staff. The phenomenon supports Engvall's (2011) hypothesis that in Kyrgyzstan official posts are doled out on the basis of connections plus bribes. It highlights the peculiar personalization of the state, where allegiance is to persons, not the institution. The fact that this allegiance is used as an excuse for not doing one's assigned job is the strange fruit born of the present system.

External supervision has proven one of the most difficult aspects of the Taza Suu project. In the 2010 qualified audit report of the CBISS project, it was noted that the Executive Agency (DWRS) had failed to provide third party technical supervision of projects. Weak supervision means less data to monitor, and makes holding management and implementers (including contractors) difficult. The paradox is that the various types of control (technical inspections, author inspections, audits, supervision, monitoring) all represent opportunities for kickbacks. In effect, it is not quantity that counts, i.e. the number of supervision mechanisms in place, but quality.

There has been continual resistance to hiring outside supervision, even though ADB had insisted on it. In fact ADB found numerous procurement violations in the sample of subprojects it reviewed. Sometimes requests for supervision were met with passive resistance, as the EA failed to respond to requests to provide third party supervision. In other cases, international consultant firms hired to provide monitoring used local staff or were reluctant to be diligent in their monitoring of remote areas, which led ADB to question the added value of international experience.²¹ This resistance to external quality control is a red flag which strongly suggests that there was probably intentional misuse of funds, poor quality implementation and misprocurement. However, it is unlikely that adding further layers of supervision, control, and monitoring are not the solution, insofar as they may simply present further opportunities for seeking bribes and kickbacks.

Tender advertisements are said to be inadequate. It was pointed out that tender advertisements don't appear where they can attract the attention of sufficient and appropriate contractors. There is too much discretion. For example, expensive announcements are made in newspapers for special bidding. No ads are placed on websites or in local papers. This may change. Minister of Finance Dzhabarov recently promised that, as of April 1, 2012, "government procurement will be made through electronic trading," which is considered a key anti-corruption measure. As a result anyone with internet access will be able to see what (24KG news site).

Numerous procurement violations raise red flags. Unsurprisingly, given that discretion is considered one of the key factors behind corruption²², one of the most opaque aspects of project implementation is the procurement process. Commonly, a contractor was selected through a flawed tender process, and without beneficiary participation. The PCR noted that "Most design and construction contracts were awarded without proper prequalification or adequate community involvement." (p 3) While the situation did improve slightly after inclusion of NGO members on project tender commissions, they are unable to affect final decisions, since collectively they are allowed to fill in only one evaluation form, substantially reducing their voice in the decision making process. ADB's review of the project, which sampled 9-10 subprojects for review²³ found numerous procurement violations and implementation problems with CBISSP, which raise red flags. They include:

- i) Frequent non-compliance with ADB procurement and government rules
- ii) Executive Agencies often failing to respond to ADB requests for information
- iii) Poor and incomplete record keeping,
- iv) Unequal treatment of bidders
- v) Seemingly arbitrary tender decisions
- vi) Disregard of procurement rules by JPMU staff
- vii) Lack of transparency
- viii) Sloppiness in subproject execution
- ix) Huge cost escalations

²¹ A cynical view is that most EAs will resist external monitoring since it reduces the amount of discretion they have. It presents an additional cost to them in the sense that they can spend the funds they save elsewhere, and in that it reduces opportunities for graft.

²² Klitgaard (1998) suggests a corruption 'equation' that captures this institutional perspective:

Corruption = Monopoly + Discretion – Transparency

²³ ADB. (draft). Project Procurement-Related Review Preliminary Draft Report. Grant 0122-KGZ: Community-Based Infrastructure Services Sector Project (Supplementary). Office of Anticorruption and Integrity.

- x) Slow procedures (e.g. 6 years from community application to subproject completion)

While some violations may be related to poor management, poor understanding of procurement guidelines, and low capacity, it is highly likely, given the indirect indications related above, that in many if not most cases they point to corrupt practice.

The 'Lowest evaluated bid' rule in ADB's Procurement Guidelines can create problems. Although ADB Procurement guidelines suggest that factors other than cost may be taken into consideration when evaluating bids²⁴ PMU staff reported that when bids come in below standard control prices, problems often arise. They say it is inconceivable that contractors can fulfill terms while giving steep discounts, as much as 45%, on materials. During project implementation, problems inevitably arise, as quality is unacceptably low, or the contractor seeks to amend the contract. Technical experts argue that in this respect tender criteria are too simplistic.

Information and communication materials have not been designed with beneficiaries in mind. Transparency is one of the few areas where project implementation could be affected without depending on the (hitherto scarce) goodwill of implementing partners. Consumers typically "have no knowledge of recurrent and capital costs, making it possible for public officials to deliberately misallocate resources or tap into limited budgets without detection" (Plummer & Cross 2007, p. 239) Giving more information to beneficiaries, rather than trying to explain to government counterparts why corruption is a bad thing, could empower them to hold government accountable. This is the essence of demand-side governance. "Information in the public domain is the currency of transparency" (World Bank 2009a, p. 7). ADB itself notes that "Transparency in government decision making and public policy implementation reduces uncertainty and helps inhibit corruption among public officials" (ADB 2010b, p. 3)

Kyrgyzstan's overall level of transparency in water and sanitation sector projects is best described as low. The unclear selection process of project villages has already been discussed. There are no project web-sites. Only some official project documents, mostly written in legalistic, technical language are available on donors' home pages on the Internet. Project documents are usually internal technical documents and generally not very useful or accessible to project beneficiaries. There were no information campaigns on the promotion of project outcomes.

A preponderance of indirect indicators suggests corruption is embedded in WSS projects. Corruption is difficult to prove since hard evidence rarely can be found. It can become institutionalized (UNDP 2011). There is no real reason to believe that the WSS sector is immune to corruption which is so deeply embedded in the daily functioning of the Kyrgyz state. Almost always both parties involved in a corrupt transaction benefit, and have no incentive to report it. There are, however, at least five reasons that strongly suggest corruption is common in the WSS sector:

- i) *Consensus view:* All interlocutors, including those within the WSS sector and the government readily stated that corruption was widespread; none denied that it existed nor that it posed a problem;
- ii) *Low transparency* relating to project budgets, selection processes, and money flows;
- iii) *Rampant procurement violations*, which are indirect indicators (red flags) that corruption is taking place; and resistance to complying with ADB requests for;
- iv) *Poor quality of physical implementation* in many instances; and

²⁴ See ADB's Procurement Guidelines, para 2.52.

- v) *A large number of tenders.* The fact that the project involved a large amount of tenders for construction, a sector notorious worldwide for corruption opportunities.

Reflecting on pervasive corruption, rampant tender violations, and weak cooperation in project implementation raises the question of what was going through the minds of government officials when ADB duly educated them about anti-corruption (as described in the RRP, p 21):

“During project processing ADB’s anti-corruption policy was explained to central and local government officials. Attention was drawn to the section on fraud and corruption that was added to ADB’s Guidelines on Procurement, particularly the need for bidders, suppliers, and contractors to observe the highest standards of ethics in the procurement and execution of ADB financed contracts, and the sanctions if fraud and corruption are discovered. Similarly, the anticorruption provisions added to ADB’s Guidelines on the Use of Consultants were discussed.”

The idea of helping government fight corruption when most government officials are net beneficiaries of corrupt practice may be utopian. Based on a review of donor aid, Kolstad et al (2008) concluded that it is nearly impossible for donors to significantly reduce corruption in government systems. It largely depends on the political will of the government in question. Regardless of whether it is ADB or the Government that is responsible for project outcomes, there have been few sanctions for poor performance, violations, or misbehavior.

Consultants, whether international or local, share some responsibility for outcomes. Consultant performance, whether national or international, does not always meet expectations. It was reported that Carl Bro, the Danish firm advising Taza Suu, did not send out its most qualified consultants, spent little time supervising and relied mostly on local staff. This raised the question of what an international firm charges a premium for. There was a general feeling that the value-added was less than expected. Discussions also revolved around the new Grundfos (also a Danish firm) water pumps. Gorvodokanal technical specialists complained that the new pumps i) did not address their priority needs, which were rehabilitating the distribution system; ii) were more expensive to operate, and not more energy efficient as promised, not to mention iii) required more expensive spare parts.

ARIS, the agency which took over project management from the JPMU in late 2011, is not without its critics. ARIS, a type of hybrid government/NGO agency, has a strong reputation for effectiveness, yet stakeholders have expressed some doubts regarding its efficiency, which are not assuaged by significant subproject cost escalations already appearing. ARIS’s repeated rejection of external supervision also raises concerns.

Like much else in a corrupt system, every solution is liable to become a new source of abuse. Thus, the complaint system was twisted by some innovative contractors who would intentionally submit bids of poor quality but with the lowest amount, and then turn around and lodge an official complaint that they were unfairly excluded.

The question arises whether subprojects are doomed because no budget for O&M is allocated. Asset management, including maintenance and capital investment, is essential for ensuring water systems continue to function. The issue is mentioned frequently in project documents. For example, two Specific Assurances in the RRP refer to covering O&M costs: (vii) the local governments concerned will ensure that a) revenues from water tariffs cover capital and operation and O&M costs, including depreciation; and (b) full cost recovery of subprojects is achieved in a staged manner over a five-year

period after the completion of such facilities (RRP 2000, para 111). The World Bank noted an 'evident lack of maintenance (leaking gaskets, absence of rust-proof painting, non-operating meters) on a recent supervision mission of its small towns project (2011a), noting that "While relatively cheap, such minimal maintenance is essential towards avoiding fast deterioration of the expensive equipment financed by the project, thus ensuring satisfactory functioning." However, without specific budget lines for O&M, and with tariff levels insufficient to cover maintenance and capital repairs, the sustainability of projects becomes a serious concern. The situation is further exacerbated in the case of below ground water sources which rely on pumps, since equipment can be adversely affected by power interruptions and voltage fluctuations (Nippon Koei 2009).

ADB systems

Satisfaction with poor performance? Interestingly enough, the glum results outlined under the Project Overview did not, result in unsatisfactory project ratings. During five periodic performance ratings of CBISSP between September 2004 and April 2009, both Development Objectives and Implementation Progress were rated satisfactory 80% of the time (the two exceptions were 'partly satisfactory'). It is unclear just how bad performance must be to be rated unsatisfactory. Fried et al (2003, p. 8) conclude that "ADB's "partly successful" project category appears to be a euphemism for "largely unsuccessful" or "troubled." While such positive ratings may be based on objective criteria laid out by ADB, such as a very restricted understanding of subproject completion or disbursement, to an outside observer they appear excessively rosy. Either ADB sets itself a very low bar for its achievements, or there is pressure on evaluators not to equate the poor achievements (which may be documented in the report), with anything that smells of failure.

Table 2. ADB Project ratings

Implementation Period	Ratings	
	Development objectives	Implementation Progress
31 December 2000 to 30 September 2004	Satisfactory	Satisfactory
1 October 2004 to 31 January 2005	Satisfactory	Partly Satisfactory
1 February 2005 to 31 August 2006	Satisfactory	Satisfactory
1 September 2006 to 31 October 2006	Partly Satisfactory	Satisfactory
1 November 2006 to 30 April 2009	Satisfactory	Satisfactory

Source: ADB PCR (2009)

Why is project performance sugarcoated? Is there culture of complacency within ADB which shies away from holding managers accountable? Do political considerations come into play? Whatever the cause, it suggests that warning signals to headquarters may not be getting through. (It should be noted that other development agencies, such as the World Bank, likewise demonstrate a tendency to be too easily pleased with their projects, again, tending to overemphasize disbursement).

Problems are not limited to CBISSP. The NGO Forum on ADB, a watchdog organization, referring to the ADB's work in general, has noted that "not only are the projects unsuccessful, but local communities are left to face new challenges from harm caused by projects and citizens face an

increased debt burden.”²⁵ ADB did not commission a project impact assessment - no evaluation of outcomes at the household level was conducted, which would answer the question to what degree “general living and health conditions in selected rural communities” have actually improved as a result of the project. Such an assessment could also have been useful in determining where the specific problems are and why they are occurring.

Why have ADB systems not successfully dealt with poor management and corruption? The question arises, why ADB's anti-corruption guidelines for project design²⁶ apparently failed to achieve better results? The guidelines, in the form of a manual, provide extensive recommendations on a wide range of issues, including ‘practical options’ for implementing project design: hiring project directors and staff, financial management and accounting capacity; financial controls; procurement; and implementation arrangements (Table 4.1 in the *Guidelines*). However, the practical options are quite generic and nowhere does the document provide guidance on what to do in the face of resistance by project staff or stakeholders. There are several possible factors at play:

- i) Inadequate appreciation of the governance challenges faced in-country;
- ii) Guidelines and tools which are not integrated into project planning (because of low awareness, because they are not delivered in a useful format, or because they are not felt by local staff to be relevant);
- iii) Rosy internal assessments do not reflect true problems with the project;
- iv) ADB staff may notice problems but not report them, perhaps out of an unwillingness to ‘rock the boat’ and raise alarms about the project which might lead to its suspension;
- v) An attitude that addressing corruption is the government's problem, along with its overall responsibility for project implementation, based on assumptions made about government reliability, motivation, and capacity which simply do not hold;
- vi) The focus on outputs/outcomes is stronger than the focus on impacts, perhaps because it is easier to monitor, (or possibly a general bureaucratic mindset); and
- vii) Systemic problems with external supervision, perhaps because of a dearth of non-corruptible and diligent external supervision individuals.

Development projects often create incentives for corruption by increasing the amount of cash flowing through the government system (Brautigam 2000) and opportunities for graft rise exponentially. Civil servants earning a few hundred dollars a month are charged with handling tenders worth tens or hundreds of thousands of dollars. Procurement can easily be used for diverting public goods for personal gain, even when the letter of the law is being applied.

Audit reports cannot necessarily be relied upon to monitor compliance or address corruption issues. In Kyrgyzstan, audits of projects are conducted both by international and local companies. Internal auditing does not take place or is pro-forma. Audits may be of limited use in addressing governance and corruption issues. Such an audit is generally not designed, and is often not required, to ‘look behind the scenes’ to determine whether the procurement process was properly conducted, i.e. whether prices were fair, there was collusion among bidders, or qualified companies were excluded or unqualified companies were included. PMU staff are adept at accumulating documentation that appears to be in order, i.e. stationary, stamps, receipt forms, etc. to support alleged expenditures (World Bank 2009a).

²⁵ NGO Forum and Bank Information Center. 2006. Unpacking the ADB. Available: <http://www.forum-adb.org/BACKUP/pdf/toolkits/1-35%20ADB%20Toolkit.pdf>

²⁶ ADB. (2010). Governance and Anti-Corruption in Project Design: Office of the General Counsel Guide.

For many years, CBISSP was audited by two local Kyrgyz firms who delivered only unqualified opinions, never uncovering problems, despite the fact that project management was deeply troubled and generating a stream of procurement errors, as revealed by the PPRR. When a new, international auditing firm was contracted, many suddenly problematic issues were revealed. In fact, in Kyrgyzstan as elsewhere, unscrupulous auditors are known for advising clients on how to ‘cook’ their books. More generally, kickbacks to oversight and investigative bodies are reportedly common. Investigative, audit, and monitoring structures (e.g. Chamber of Accounts) have incentives to investigate projects to obtain kickbacks for closing down investigations or not reporting violations.

Adequate and timely information is important for holding officials and project implementation staff and partners accountable, obtaining feedback from beneficiaries. With the non-transparent approaches taken by government institutions involved in WSS, there is little information available that would be useful to Kyrgyz citizens. ADB's Operations Manual on Bank Policies (2010) defines transparency as “the availability of information to the general public and clarity about government rules, regulations, and decisions and how these affect both public and private sector functioning” (para 12). If the goal is to have an impact through making information available, this guideline may be insufficient in the context of weak governance conditions. It is not just the availability of information, but the form in which it is delivered which matters. A concerted effort to make transparency useful would ensure the information made available has an effect. ADB has been criticized (in an ADB report) for “failing to respond effectively to systemic governance and corruption issues” and failing to sufficiently “mainstream” governance work within the core sectors it operates.” (Moktan and Nicoll 2008, p. 9).

How does the sanctions process work and why is there only one Kyrgyz firm on the ‘blacklist’? In order to launch an investigation, the OAI must first receive a complaint. The complaint is then screened against four criteria, following which OAI then considers whether or not the complaints are:

- i) *Within OAI's mandate* - relate to activities that OAI is authorized to investigate;
- ii) *Credible* - there is a reasonable possibility that a violation has occurred;
- iii) *Verifiable* - practicable options exist to obtain sufficient evidence to determine the truth of the allegations on the balance of probabilities; and
- iv) *Material* - the matter is of sufficient importance to justify the projected requirements of the investigation and any remedial action.²⁷

Only complaints that meet all four criteria are converted into investigations. The third criteria may provide a clue to its ineffectiveness. Since often there is no paper trail – parties to a corrupt transaction generally do not make use of contracts or invoices – verification of any allegations is likely to be difficult. Of course, even if the approach were less cautious, the blacklist would probably be of limited use. Nothing stops a firm from reregistering under a different name, changing its address, and replacing the manager's name with that of family members or friends. All of this helps explain why almost no Kyrgyz firms find themselves on the blacklist.

ADB's current instruments may not be suited to sanctioning local firms. ADB's Office of Anticorruption and Integrity (OAI) states that it imposes sanctions “on parties that have engaged in fraudulent, corrupt, coercive, collusive, obstructive practices” or any number of other integrity violations (<http://beta.adb.org/site/integrity/main>). However, this instrument is not automatic, or even commonly used. The PPRR for the CBISSP notes that “Under the Project, there have been

²⁷ See ADB Sanctions website, at <http://beta.adb.org/site/integrity/sanctions>.

allegations of possible fraud by contractors in 10 subprojects” (p 14). Despite this evident concern, and many years of widely acknowledged and internally reported procurement violations in the project, only a single Kyrgyz individual/firm has been publicly blacklisted by ADB. In addition, according to the online newspaper *DeloNo*, 31 criminal cases were opened against Taza Suu contractors. Corruption under Taza Suu became so bad, and obvious, that at a Parliamentary Inquiry was opened. How is it that ADB has not sanctioned more than one company? It is possible that most of these cases were thrown out on technical grounds or on their merits. Some may have been resolved through out of court settlements. More likely, however, ADB's systems are not up to the challenge of addressing corruption. Just the threat of sanctions should be enough to reduce violations and fraud. However, since this has happened only once, the threat does not seem credible.

Are the built-in barriers to investigations too high? Investigations are carried out or commissioned by ADB's headquarters in Manila and do not involve local staff. While there may be good reasons for this, the drawback is that local knowledge is not drawn upon. The outsiders (foreign staff or consultants) who fly into the country to conduct the investigation are at a distinct disadvantage vis a vis local actors, who know their own system much better than the investigators. Furthermore, investigations are potentially costly, both in financial and in political economy terms. If complaints are submitted several times a year, the travel costs and staff-time or consultant fees will quickly mount. A more cynical view is that donor organizations are not always keen on digging up dirt on government officials, lest the trail lead to the very top. It is no secret that under both former Presidents Akaev and Bakiyev corrupt practices were indeed directed by them and their families. Since the head of state is the official representative of an ADB member country, fingering him or her as the source could be very embarrassing.

ADB's sanctions system appears to be too meticulous to be effective. One reason the sanctions system may be ineffective is that generally corruption is not provable from outside, and the parties to corruption are satisfied with the outcome, or at least fear losing their position if they blow the whistle. Still, it is possible that ADB is taking an approach that, because of the strict requirements on evidence it becomes formalistic, and may inadvertently signal that corruption is unacceptable.²⁸

Cross-debarring does not appear to function. The one Kyrgyz firm/individual listed is not cross debarred by the World Bank, whose blacklist contains not a single Kyrgyz firm.²⁹ This raises questions about how well agreement between the two institutions on cross-debarring is working. The Government of Kyrgyzstan also compiles a list of debarred companies, yet this does not seem to be actively shared with the donors, and firms continue to bid for contracts. In the past the State Agency on State Procurement posted a list of debarred companies on its web-site. However, in 2011 the Agency was abolished – it had begun engaging in corrupt practices on an unacceptably large scale – and the Ministry of Finance took over its functions.³⁰

²⁸ ADB country office staff reported that on at least one occasion an ADB investigator looking into corruption allegations in CBISSP did not pursue a case because the company under investigation failed to return his phone call.

²⁹ The World Bank's list of Debarred & Cross-Debarred Firms & Individuals is available here: <http://web.worldbank.org/external/default/main?theSitePK=84266&contentMDK=64069844&menuPK=116730&pagePK=64148989&piPK=64148984>. ADB's published sanctions list is available here: <http://lnadbg4.adb.org/oga0009p.nsf/sancALLPublic?OpenView&count=999>

³⁰ Provisions for the formation of a Database of unreliable (unfair) suppliers (contractors) and procedures for its application were approved by the Government of the Kyrgyz Republic on 31 May 2011, Regulation № 267. Since then just one company has been included in the list, for a one year period. <http://goszakupki.gov.kg>

ADB staff believes that one problem is that it may have been too quick to launch second phase of CBISSP without first making a proper assessment of the first phase, which would have allowed design modification. Until now, donors may not have not exerted sufficient efforts in evaluating the results of their projects and how their funds are spent. The second phase, for example, was planned without assessing the capacity and quality of the PMU staff from CBISSP, who were intimately tied to poor project performance. Instead, most PMU staff were transferred to the JPMU for CBISSP-S, thereby also transferring many of the original problems. The poor performance of CBISSP-S to date then led ADB to seriously consider the wisdom of continuing its funding.

Policies and guidelines that do not address the local reality. At first glance, it would appear that ADB has all the guidelines, instruments, and rules in place to address corruption and public finance risks in countries like Kyrgyzstan, both from a theoretical and practical standpoint. They include:

- i) Guidelines for Implementing ADB's Second Governance and Anticorruption Action Plan
- ii) Project Administration Instructions.
- iii) Risk Assessment Guidance Note: Urban Water Supply Sector Risk Assessment
- iv) Public Communications Policy (PCP)
- v) Disclosure and Exchange of Information.
- vi) Project Procurement-Related Reviews (PPRR)
- vii) ADB's Office of Anticorruption and Integrity (OAI)
- viii) List of debarred companies and individuals (the "blacklist")
- ix) Assessment of risks and proposed mitigation measures contained in project documents

ADB's guidelines may be too broad to be useful in addressing corruption. ADB has developed guidelines on Public Communications Policy (PCP) (2005), Project Administration (2008), and Procurement (2010). The breadth may provide flexibility to adjust to multiple country contexts, but it is not specific enough to respond to individual country conditions (Moktan & Nicoll 2008, p. 8). Thus, the PCP does not focus on transparency, nor on whether information is *accessible*. There is proposed strategy to ensure that the relevant persons/beneficiaries are informed in a way that would reduce corruption risks. Guttal (2005, p. 8) reports that the "draft PCP was...uniformly criticized by civil society groups as inadequate, for limiting public participation to what the ADB made available on the public domain, and for failing to demonstrate how the views of various stakeholders would actually change the manner in which the ADB conducts its business." The PCP authors may argue that the document is not intended to provide this level of advice, and that individual country circumstances will dictate how the policy is implemented. In that case, specific detailed instructions should be laid out, for example in an operation manual accompanying each project.

The PPRR is a good reporting mechanism and should be used more often. The PPRR conducted for CBISSP unveiled useful information on procurement issues. However, recommendations could have been more constructive: "Adhere to the provisions of the ADB's Loan Disbursement Handbook for all matters related to the management of project funds" is a recommendation that does not quite get to the root of the problem. It does not explore why provisions were not adhered to in the first place. Nonetheless, more reports like the PPR would be useful.

ADB country office staff point out that it is the Government responsibility, not ADB's, to make information on projects available to the public. Donors do not feel they should replace the government when it comes to communication, doing so seems to absolve Government of its responsibility. But NGOs call the belief that responsibility for compliance with ADB policies is the

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responsibility of the borrowing government “misguided” (NGO Forum and Bank Information Center, 2006, p. 18). The fact remains that GoKR has not, to date, shown much interest in ensuring its institutions are more transparent, with consequently reduced project effectiveness.

6. CONCLUSIONS

Responsibilities which have not been taken

All signs suggest that the Government has not taken responsibility for the WSS sector. It is possible that this is in part due to donors being too proactive, letting the government off the hook. This point has been made both by donor representative and government officials. The question arises, do Government and municipalities count on getting 'bailed out' before systems collapse? Does donor assistance give rise to moral hazard? And to what degree does development aid lead government officials to become excessively enthusiastic with diverting project resources to private ends? Regardless of the benefits which have accrued (including around a million rural residents who have better access to clean drinking water) donors have received little thanks. It is perhaps too convenient, for government as well as civil society, to blame donors when things go off track. This is not to say donors bear no responsibility. Their trust in government is largely unwarranted. And ADB, for example, appears to have focused too narrowly on outputs (instead of impacts), letting a series of quite satisfactory project ratings suggest all was well when in fact the project was in deep trouble.

Confused responsibilities weaken accountability and lead to a blame game. There is considerable confusion on all sides regarding who is responsible for project implementation, and therefore its failures. Government officials, as much as NGOs and beneficiaries are prone to referring to 'ADB projects' or 'World Bank projects' instead of, for instance, "the Ministry of Agriculture project" or "the Ministry of Transport project", underlining the lack of a sense of ownership abnegation of responsibility. Again, however, donors, are partly to blame. They are too quick to deny responsibility for project problems when they arise. Pointing to formalistic guidelines which government should follow is not convincing when general knowledge and experience all indicate the government will not take the lead. Without donors taking a forceful stand on where their obligations end, it is likely that the government will continue to act complacently.

To address its commitments to its citizenry, Government must develop a strategy for the WSS sector, based on a clear understanding of current conditions and embodying a clear conceptualization of i) where, ii) at what level, iii) in what sequence, iv) when, and v) with what resources water and sanitation systems will be provided to the population. The strategy development should not be outsourced to international consultants, which would reduce ownership, although consultants can guide the process. Government should also launch a national dialogue on the question of why, despite the huge water supply problems Kyrgyzstan faces, projects are implemented so poorly. The limitations of what outsiders (donors, int'l consultants) can and are willing, and the clarification of the government's own responsibilities should be topics included in such discussions.

Assumptions which have not held up

A clear-eyed assessment of the sector means rethinking several commonly held assumptions about Kyrgyzstan and its WSS sector. Basing future projects on these assumptions, outlined below, risks condemning them to failure.

"Government ownership can be counted on." Apparently, ensuring that rural areas had better water systems did not provide sufficient motivation for government officials, whether the central government, deputies or local municipalities. There is little evidence that the Specific Assurances made by Government for the original CBISSP (or its follow-up phase launched in 2008) were taken

seriously. Neither, apparently, were discussions with Government on the importance of anti-corruption taken seriously by officials in charge. Minimal efforts were made by government to promote good outcomes. Virtually all countries that have made leaps in their development – the Asian Tigers, Botswana, China, Brazil – have done so as a result of powerful internal, government-led initiatives. From these cases it seems clear that, when the government is firmly in driver's seat, progress follows, and the progress can be tremendous. However, problems arise when the government in question has not demonstrated any ability or interest in taking ownership. This is the ownership paradox. Passing ownership to such a government is akin to giving the car keys to a teenager who has not learned to drive, with the most likely outcome a car wreck.

“Donors are financing development of the WSS sector.” In light of failing systems, and patchwork, ad hoc interventions, and negligible O&M budget allocations for completed projects, one could argue that ‘development’ is in fact a euphemism for ‘collapse prevention.’ The OECD/EAP Task Force study (2009) concluded that “current levels of revenue are not sufficient to even maintain WSS infrastructure at its current level. Infrastructure will continue to deteriorate unless revenue can be increased” (p. iv). It is therefore almost disingenuous to use the term development in the context of the Kyrgyz WSS sector. At a broader level, the assumption that GoKR is an embryonic version of, and will evolve into, a modern state (like Japan, or the US) is perhaps untenable. Treating the façade of real government, the formal institutions and organizations (as opposed to the shadow state) as the real thing, contributes to project failure, because it assumes that the Government is slowly improving its management systems, when in fact there are strong reasons to believe the opposite is happening.

“Tariffs will increase by 10 percent per year.” ADB initially estimated that tariffs would increase by 10 percent per year on average, in order to eventually reach cost recovery, including amortization, levels. This assumption did not hold. The reluctance to raise tariffs is easily explained by a political interest in keeping tariffs low for the population. Local mayors and deputies see raising tariffs as an unpopular measure, regardless of the fact that the sustainability of the water systems depend on raising enough money to cover O&M costs.

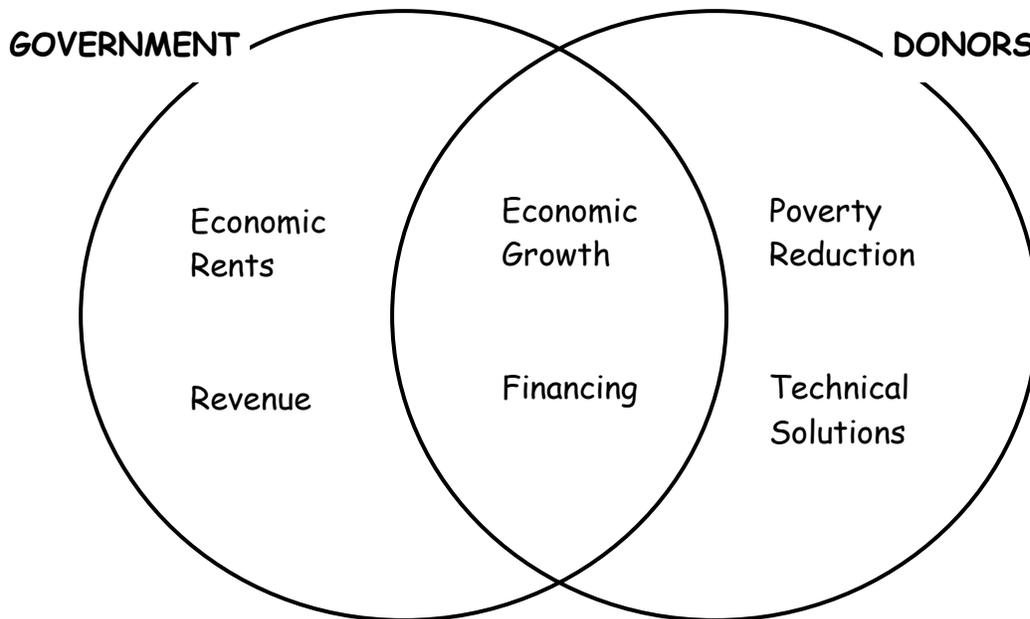
“GoKR shares ADB goals of increasing access to WSS and reducing poverty.” Project experience has clearly revealed that the Government, as represented by its officials and staff in the EA and PMU, has little interest in actually improving the WSS sector or reducing poverty. Up until now, ADB and GoKR interests have overlapped to keep aid flowing. ADB continues to fund because it has an institutional mandate and political imperative (otherwise known as a “disbursement imperative”) to provide loans and grants to member countries, and WSS is a priority sector. At the same time, it must be kept in mind that stopping funding to the WSS sector would very likely harm a large number of people whose wellbeing depends very much on getting access to clean water. The GoKR welcomes aid because the incoming funds help the government stay afloat, relieve it of its responsibility to improve the WSS sector, and offer a rich vein for graft.

A mix of overlapping and divergent interests keeps the government-donor arrangement going while simultaneously ensuring less than effective outcomes. As illustrated by the diagram below (Figure 3) Government relies on revenue to keep operating, and donor aid, whether in the form of budget support or financing investment projects (and thus providing budget relief) fills the gap. At the same time, government officials can manipulate project procurement systems to extract economic rents (financial returns made possible through manipulation or control of markets and resources) for personal gain. To quote the World Bank's JCSS for the Kyrgyz Republic (2007, p. 2):

“The Government... was readily accepting all partner-suggested reforms—even those that it was neither able nor committed to implement—so as to maintain external financial flows. The result was that, while some real economic reforms were carried out, many reforms remained on paper either as policy statements or as legislation, and were not implemented, were unfinished, or would be undermined by ad hoc policy interventions, given the weak ownership of the reforms.”

On the right side of the diagram, donors justify their assistance through their poverty reduction mandate, and focus on technical solutions (through technical assistance) to problems, while often disregarding political economy dimensions. Government certainly may say all the right things regarding its interest in poverty reduction and technical assistance, but may demonstrate indifference in practice.

Figure 3. A cooperative/non-cooperative relationship



Why do donors then persist in financing projects in the face of government intransigence? First, donors are interested in disbursing grants and loans because that is their mandate and *raison d’être*. Second, managing (ever larger) projects is often part of what development agency staff base their career paths on. The NGO Forum points out “a tendency of ADB staff rewards and promotions to be based on the quantity of loans they are able to push through rather than on the quality of projects.” (2006, p. 18)³¹ ICG faults institutions like the World Bank and ADB for becoming “mere vehicles for disbursing large loans with insufficient concern about accountability or long-term impact” (2011, p. 19). Donor country populations also feel an ethical obligation to assist countries where large parts of the population are deprived, and there are strategic reasons for not wanting countries to descend into social unrest. On the other hand, for obvious reasons counterpart governments are interested in

³¹ One reason why bilateral development agencies like DFID have an easier time pulling out. As a branch of their respective governments, and without the need to represent and lend to all member states, they can more easily refocus lending to other countries.

economic growth and continued financing (which is good for reducing social unrest, and also means more opportunities to extract rents).

What can ADB do? How can it better engage with a government that doesn't actively support the same goals? How can development agencies be both diplomatic and yet push for effective results? There are many risks outside of ADB's control. However, if ADB focuses on strengthening its systems and address areas under its control, this can have positive consequences. ADB needs to delineate exactly where its responsibilities start and end. It will then become clearer who is responsible, and accountable, when problems arise in the future. A visibility policy should be devised where it should be made clear (on website, in documents and on boards) in large letters that it is a government initiative, and ADB (or donor) sponsorship should be mentioned in small letters underneath. The government will have a much more difficult time blaming ADB.

What can government do? This object of the study was not to make recommendations to the Government on the many areas where improvements are needed. However, we feel it is worthwhile to reproduce the recommendations made by the OECD/EAP Task Force study on governance in the WSS sector. Our own research unequivocally confirms their value and we wholeheartedly endorse them.

Box 3. Recommendations for Government on reforms to WSS Governance

All scenarios imply radical changes in the way WSS is governed and managed. The following reform agenda should be considered:

- Create a permanent national structure for oversight of WSS including policy direction, accountability, monitoring and regulation • Set performance targets for *vodokanals*, including financial autonomy, and incentives to achieving their targets
- Consolidation (“defragmentation”) of smaller rural settlements to create water authorities with critical mass, economies of scale, and ability to cross-subsidize.
- Linking WSS Financing Strategy to national budget structures and procedures (MTEF); tracking government spending on WSS; linking WSS targets with CDSs.
- Creation of a proper management information system and data base to measure progress and performance of WSS; including metering to identify and reduce UFW.
- Developing Water Demand Management Plans
- Mounting public information and awareness campaigns concerning WSS.

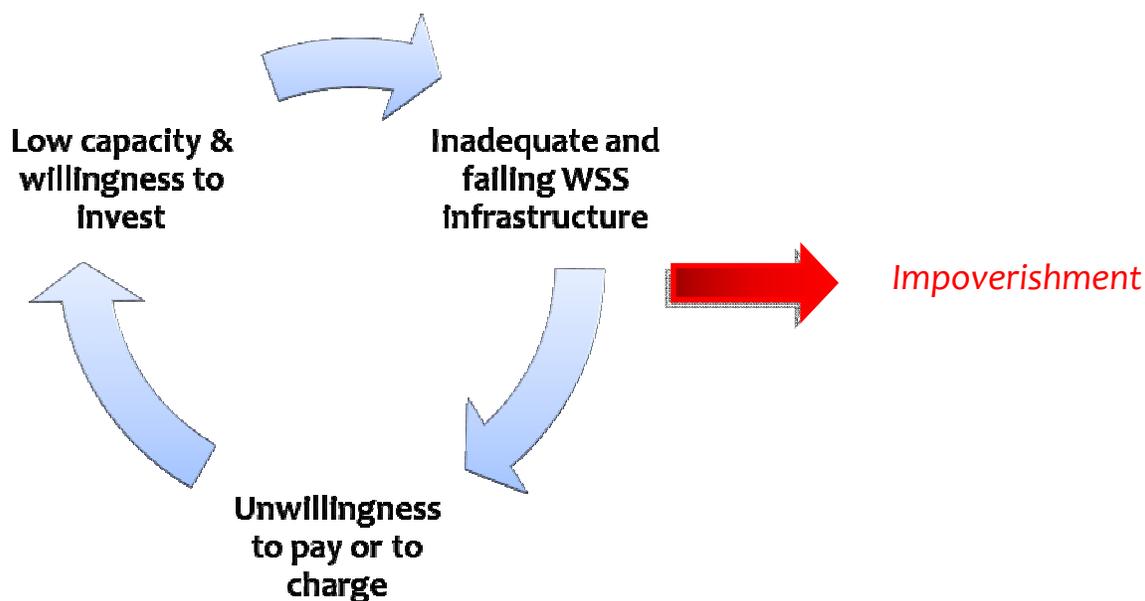
Source: OECD/EAP Task Force. (2009). *National Policy Dialogue on Financing for Urban and Rural WSS in the Kyrgyz Republic*. (Direct citation).

7. RISK ASSESSMENT - SUMMARY MATRIX

The following matrix identifies the key risks which water projects funded by ADB will face, *assuming that the current approach to project management prevails*.

There are, of course, risks of a different nature if no further WSS projects are implemented, such as failing water systems, reduced welfare, and worsening health outcomes, etc. A vicious circle will eventually erode welfare, leading to impoverishment, as illustrated below. At present, only the donors are keeping

Figure 4. A vicious circle



Source: Authors

The analysis is based on findings in the report. It briefly describes the risk, the underlying causes, and rates its probability (likelihood) and relatively seriousness, as per GACAP II Guidelines.

Following the matrix, the risks are ranked relative to each other and a diagram shows how they are interlinked. Note that all are considered major risks. Minor risks are not covered here.

Consequences. The main consequences of failing to address the risks described below are expected to be:

- i) Higher project costs and lower 'returns' on investments, i.e. weak implementation effectiveness;
- ii) Unrealized social benefits as only a fraction of the planned number of targeted beneficiaries are helped; and
- iii) Unsustainability of project outputs arising from inadequate planning and post-implementation budgeting.

Table 3. Summary Risk Matrix

	Risks Identified	Likely (tick)	Relatively serious (tick)	Not mitigated over CPS period (tick)	Major Risk (Three columns ticked)
a) Country Systems					
i) Public Financial Management	<p>Ineffective/improper oversight</p> <ul style="list-style-type: none"> • Bribe-taking in exchange for • Collusion • Weak implementation plan • Weak control (incl. spot checks) • Non-responsiveness to requests for data/information • Inadequate number of site visits <p>Inadequate community consultation/communication</p> <ul style="list-style-type: none"> • Beneficiaries not informed on selection criteria or which communities selected • Communities not consulted on WSS needs • Participation is pro-forma • Inadequate communication of subproject budgets 	√	√	√	√
ii) Procurement	<p>Misuse of project funds</p> <ul style="list-style-type: none"> • Procurement violations • Faulty implementation (e.g. use of lower quality materials than specified) • Abuse of tender processes (dumping) 	√	√	√	√
iii) Corruption	<p>Systemic state corruption</p> <ul style="list-style-type: none"> • State officials as rent extractors • Motivation of project implementers diametrically opposed to sector and project goals <p>Improper selection of villages</p> <ul style="list-style-type: none"> • No transparency • Unexplained changes to lists • Unclear criteria 	√	√	√	√

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	Risks Identified	Likely (tick)	Relatively serious (tick)	Not mitigated over CPS period (tick)	Major Risk (Three columns ticked)
b) ADB Project Systems					
i) Financial Management	<p>Failure to use own guidelines to promote effective project outcomes</p> <ul style="list-style-type: none"> • Formalistic • Responsibility for sanctioning placed with Government • Questionable assumptions that government will abide by Assurances <p>Government not sufficiently concerned with project failure to address problems</p> <ul style="list-style-type: none"> • Disbursement imperative keeps aid flowing • Reluctance/inability to unilaterally suspend projects takes away ADB leverage • Financing even increases following discovery of problems (to address them) 	√	√	√	√
		√	√	-	-
ii) Procurement	<p>Inadequate sanction mechanism for procurement violations</p> <ul style="list-style-type: none"> • ADB investigation and sanctioning systems are too strict/careful to catch most violators • Audits and monitoring processes fail to identify violations 	√	√	√	√
iii) Corruption	<p>Inadequate measures to investigate red flags</p> <ul style="list-style-type: none"> • ADB continues to disburse funds even while problems persist • ADB gives 'no objection' to questionable Government candidates. • Companies who violate procurement procedures or are convicted of fraud not blacklisted 	√	√	√	√

8. RISK MITIGATION MEASURES

This section includes recommendations to address the project and sector risks identified in the previous section in a general form and in a Risk Management Plan matrix following GACAP Guidelines. According to the Guidelines, they must be discussed and agreed with the Country Team Leader. Many of these recommendations are relevant to the government as well.

It is suggested that ADB focuses on a few key entry points for addressing sector challenges, as opposed to trying to address a large number of issues, which would risk diffusion of reform efforts. Note that for the recommendations to be effective, they must be followed in spirit, not just by the letter. This will likely depend on the individuals in decision-making positions. ADB's Urban Water Supply Sector Risk Assessment Guidance Note (2009, p. 8) states that "Recruitment of human resources based on merit and competence is vital for efficient sector operations. Weak technical and managerial capacity hampers translation of decisions into effective management actions and delivery of envisaged development outcomes."

The focus on more technical issues is deliberate. Where officials have a vested stake in the status quo, attempts to promoting anticorruption initiatives (or even talking about corruption) are likely to fail, since doing so would undermine their powerbase (Stalgren, 2006).

Promote meaningful transparency. This can reduce project risks by empowering thousands of monitors and evaluators: the beneficiaries. We emphasize the term 'meaningful' in discussing transparency because the focus should be on the beneficiary (end-user, consumer), not the information producer (whether government or donor). Transparency should not be an afterthought, tacked on to project documents. It should be an integral component of every project.

- Ensure that beneficiaries receive project information in an easily accessible form and a timely manner. Provide a level information detail (not too much too little) that is necessary for them to make informed decisions and monitor outcomes;
- Develop a Transparency and Communications Plan or Manual, or Outreach Component, as recommended by the ADB JCSS to "better explain the project objectives, expected outcomes" for each project. Periodically assess it to test whether it is having an effect.
- Use multiple channels, including websites, newspapers, radio, tv, and community meetings to disseminate information.
- Ensure a 'transparency promotion agency is hired as part of new projects
- Improve ADB's country website, by providing Kyrgyz and Russian versions, listing all projects it funds by giving details on disbursements, expenditures, etc.³²
- Disaggregate budget information at a level appropriate for beneficiaries (i.e. village level for village sub-projects)
- Set minimum information requirements.
- Establish a national database on rural water supply where information on WSS access, infrastructure conditions, management, etc. is available for every community in the country.
- Anticipate resistance to greater transparency from vested interests, and design strategies to address this resistance.
- Promote a culture of transparency, emphasizing its role in promoting results.

³² Some project information is available through the advanced project search: <http://www.adb.org/Projects/summaries.asp> but not via the Kyrgyz portal.

Insist on strict and meaningful external third-party supervision. External, third-party supervision is a key element for accountability and transparency. It incentivizes implementers to perform and informs project managers on the status of work.

- Recognize attempts to avoid external supervision, regardless of the rationale, as red flags. The cost of project failure will be far higher than the additional costs external supervision.
- Do not authorize payments to contractors without an external supervision report.
- Establish a clear reporting mechanism, including a database, evidence of site visits, a checklist for site visits which is monitored over time and where problems are easily seen and can be followed up on, spot checks of supervision experts.

Depersonalize procurement procedures and follow up on violations. Tender processes should eliminate the possibility of personal contact between bidders, the tender commission and the procurement department. Procurement should be depersonalized through the use of electronic online systems.

- Proposed estimates on material should not be allowed to deviate beyond a certain percentage of estimates made by the design company.
- Firms that are found in violation (above a certain number of) times should be sanctioned immediately, by both the Government and all donors in the country.
- Firms that win should have to attend a short training session where the importance of their reputation, vs. short-term gains from rigging the system, is stressed.
- Consider hiring a staff person or consultant whose sole purpose it is to focus on anti-corruption, by monitoring 'red flags', and ensuring that implementation agencies are doing their jobs. The additional cost of this hire would be more than offset by the millions of dollars potentially saved (by limiting corruption) and increased project effectiveness.

Clarify relative responsibilities between government and donors.

- Develop an Action Plan outlining relative responsibilities and disseminate it. Produce and disseminate annual reports which are clear, easy to understand.
- Publicly declare the Government's obligations.
- Inform all stakeholders regarding the respective responsibilities of the government and the donors in development projects.

Consider a performance based project phase-in

- Phase in projects gradually, with periodic planned progress assessments.
- Use clear indicators to assess performance and allow enough flexibility in the project to adjust it depending on what problems are revealed or suspend it until the problems are addressed.
- The next phase of a project should only commence once key indicators are met.

Recommended follow-up work/studies

- i) Action Plan clearly outlining responsibilities between donors and central government, and central government and municipalities/communities
- ii) Transparency and Communications plan for each project
- iii) Stand-alone Sanitation sector studies, on governance, pro-poor access, investment needs.

Table 4. Risk management plan

Major Risks (carried forward from section 7)	ADB Actions	Indicators (that actions are practical and evaluable)
Ineffective/improper oversight	<ul style="list-style-type: none"> - Hire an external supervision company and include clauses that specify exactly the quantity of supervision, the qualifications of the monitors. ADB staff should monitor and hold the staff contractually accountable. - Do not authorize payments to contractors without an external supervision report - In future project agreements, include a clause that a company responsible for creating and updating a website with relevant, useful, beneficiary-friendly information <i>must be hired</i>. 	<ul style="list-style-type: none"> - External supervision company is hired, with specific monitoring requirements specifying number of visits, number of villages, geographic location. The firm is monitored and its results verified quarterly. - No payments to contractors are authorized without an external supervision report. - Company hired. - Website set up contains all relevant information on implementation at subproject level, updated monthly
Inadequate community consultation/communication	<ul style="list-style-type: none"> - Make this a key element of PPTA. Consultations should begin during PPTA and continue throughout project cycle. - Pilot test a variety of different communication/consultation measures in communities to see which work best. 	<ul style="list-style-type: none"> - Clause in RPP specifying meaningful transparency measures to be fulfilled by outside company. - Project implementation agency creates website where all relevant community information is listed, including WSS access, subproject rationale, budget, contractor hired, etc. ADB monitors to ensure website it kept up to date.
Misuse of project funds	<ul style="list-style-type: none"> - Lowest and highest bids are excluded. - Companies/individuals which have violated procurement guidelines are not permitted to bid further. 	<ul style="list-style-type: none"> - Procurement guidelines revised to reflect this change so that lowest and highest bids are excluded - All contracts include requirement, as per <i>ADB Procurement Guidelines</i> 1.14 e) provision requiring bidders, suppliers and contractors to permit ADB or its representative to inspect their accounts, etc. and to have them audited by auditors appointed by ADB and ADB must exercise that right on a regular basis. - Tighten procurement rules to allow only certified and experienced companies were

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Major Risks (carried forward from section 7)	ADB Actions	Indicators (that actions are practical and evaluable)
		allowed to bid for tenders
Systemic state corruption	<ul style="list-style-type: none"> - ADB signals it will taking corruption allegations seriously. - While acknowledging that Government is responsible for project implementation, ADB focuses on demand for good governance, using meaningful transparency as a benchmark. 	<ul style="list-style-type: none"> - ADB publicly describes the specific supervision and monitoring mechanisms it will use to reduce procurement violations. Improved understanding among beneficiaries of project
Failure to use own guidelines to promote effective project outcomes	<ul style="list-style-type: none"> - Develop operational manuals for projects which specify how ADB's policies and guidelines will be applied in the Kyrgyz context. - Expand focus to include project outcomes, not just outputs 	<ul style="list-style-type: none"> - Operation manuals for transparency, communication, - ADB staff person hired to monitor performance of PMUs and who is responsible for outcomes, not just outputs.
Government not sufficiently concerned with project failure to address problems.	<ul style="list-style-type: none"> - Withhold further funding until government has demonstrated goodwill. - Phase in projects, specifying reductions in tranches if specific, measurable criteria are not met. 	<ul style="list-style-type: none"> - Quantifiable, steady reduction in project delays (e.g. 6 months) - Quantifiable, steady reduction in number of errors in tender documents over specified time period (e.g. 6 months)
Inadequate sanction mechanism for procurement violations	<ul style="list-style-type: none"> - Firms are sanctioned for violating procurement guidelines, after receiving [2] warnings. 	<ul style="list-style-type: none"> - Firms found in violation of procurement guidelines [3] times are declared ineligible to bid (regardless of whether allegations of corruption are proven)
<p>Inadequate measures to investigate procurement violations</p> <p>ADB gives 'no objection' to questionable Government candidates.</p>	<ul style="list-style-type: none"> - Staff or consultant or contracts a staff person or consultant whose sole purpose it is to focus on anti-corruption, by monitoring 'red flags', and ensuring that implementation agencies are doing their jobs - ADB needs to consider minimum requirements and become strict with the approval process. 	<ul style="list-style-type: none"> Steady reduction in procurement violations.

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ANNEX 1. INDIVIDUALS AND ORGANIZATIONS CONTACTED

Government

Sabyr Moldokulov, Chairmen/Chamber of Accounts
Bachtiyardjan Fattakhov, Director of the State Agency on Local Self-Government
Mirlan Baigonchokov, Deputy Minister of Finance
Askar Satybekov, Director/ARIS (Community and Development Investment Agency)
Nina Vashneva, Chief Specialist/State Sanitary and Epidemiology Department
Askarbek Toktoshev, Director/Department for Rural Water Supply
Akjigit uulu Melis, Head of Procurement Methodology Unit/the Ministry of Finance
Kubanychbek Mamaev, PIU director/ADB transport projects
Matraim Jusupov, Former Taza Suu JPMU director
Anarbek Edilbekov PIU Director/ADB Second Education Project
Nurdin Temirbekov, PIU director/ ADB Issyk-Kul Sustainable Development Project
Oleg Tepluhovsky (Former JPMU staff)
Nurlan Kenenbaev (Former JPMU staff)
Omurbek Isykeev (Former JPMU staff)

Local Self-Governments/WSS Enterprises

Salman Aliev, Deputy Mayor/City of Tokmok
Myrzabek Jamanbaev, Chairman of City Council/City of Tokmok
Asylbek Isaev, Head/Bishkek Water & Canal Enterprise
Andrey Putilov, Chief Project Engineer/KyrgyzGiprostroy
Turusbek Elebesov, Head/City of Karabalta, Municipal Property Department
Joldoshbek Jokaev, Director/ Tokmok Water & Canal Enterprise
Viktor Polyakov, Chief Engineer/City of Karabalta, Water&Canal Enterprise
Beishenbek Saralaev, Deputy Head/Aleksandrovka Ayil Okmotu
Aleksandr Shehovtstov, Director/Kant Private Water & Canal Enterprise
Izatbek Orozov, Deputy Head/Koshoi (former Kalinovka) Ayil Okmotu

Non-Governmental Organizations

Aigul Akhmetjanova, Director/Transparency International Kyrgyzstan

Adylbek Sharshenbaev, Chairmen of the Board/Transparency International Kyrgyzstan

Djamila Aitmatova, Director/Amazona NGO

Bolot Asanakunov, Head/Association of Municipalities

Anara Choitonbaeva, Chairperson, Kyrgyz Alliance for Water NGO

Anara Dautalieva, Director/Taza Tabigat NGO

Zulfia Marat, Project Coordinator/Bureau on Human Rights and Rule of Law

Kuban Omuraliev, Director/Kyrgyz Parliamentarians against Corruption (GOPAC National Charter)

Rosa Gaibullina, Director/Alliance for Budget Transparency

Salih Abylov, Chairman/Syn-Tash CDWUU

Natalia Semina, Chief Accountant/Krasnaya Rechka CDWUU

Donors

Rie Hiraoka, Country Director/ADB Kyrgyz Resident Mission

Aida Tashirova, Deputy Head of Office/DFID in Kyrgyzstan

Anna Cestari, Water Resources Specialist / World Bank Country Mission

Cholpon Mambetova, Senior Project Officer/ADB Kyrgyz Resident Mission

Esen Turusbekov, Programme Officer/DFID in Kyrgyzstan

Talay Asylbekov, Associate Banker/EBRD

Tunzhurbek Kudabaev, National Program Officer/Swiss Cooperation Office in the Kyrgyz Republic

Leila Talipova, WSS Consultant / World Bank

Cesar Llorens, WSS Specialist/ADB

Talaibek Koichumanov, Head of Secretariat/Investment Council

ANNEX 2. ADB DESCRIPTION OF CBISSP-S (FACSIMILE FROM WEBSITE)

➤ [Go to Project Summary](#)

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

[Timetable](#) | [Project Outcome](#) | [Implementation Progress](#) | [Status of Covenants](#)

Grant Name	Community-Based Infrastructure Services Sector Project (Supplementary Grant)
Country	Kyrgyz Republic
Grant Number	0122
Project Number	31197- 03
Fund Source/Amount[Approved]	Asian Development Fund US\$30.00 million
Thematic Classification	Social Development Private Sector Development Gender Equity
Description	<p>The Community Based Infrastructure Services Sector Project (the initial Project) follows a sector lending approach and supports the main objective of the Government of Kyrgyz Republic (Government) of human development by providing: (i) improved community-based infrastructure services; and (ii) training programs to develop institutional capacity. The Project area covers four oblasts (provinces) - Chui, Jalal-Abad, Osh, and Batken. The Project was designed to provide basic infrastructure services in 730 villages and seven small towns to about 1.5 million persons, of whom approximately 70% were living below the poverty line.</p> <p>The proposed supplementary grant is required to meet the financing gap that has emerged due to significant increases in construction costs during the implementation period. As a result, the water supply systems in 118 subprojects were prioritized out of the originally planned 240 subproject. The proposed supplementary grant will implement the remaining 122 subprojects by providing much-needed water supply and sanitation services for the rural population as prioritized by the Government. Based on the lessons learned from the initial Project, proposed changes include: (i) simplification of the subproject selection criteria to ensure the selection of community-owned demand-driven and cost effective subprojects; (ii) improvement of technical design criteria for implementing simple, technically sound and cost effective subprojects; and (iii) improvement of implementation arrangements to achieve efficiency and quality during project implementation.</p>
Project Rationale	<p>The main reasons for increase in construction cost are attributed to (i) an unexpected surge in the price of the following commodities □ steel, cement, pipes, and petroleum products. Consequently, the average per capita cost of construction of water supply infrastructure increased from \$20 to \$80, between the period of the initial Project design and contract awards; and (ii) climatic changes and droughts limited the use of springs and groundwater sources located close to villages and thus, the networks had to be connected to distant water sources. Consequently, the overall scale and cost of subprojects increased manifold.</p> <p>Despite cash and in kind contributions solicited from many communities, total funding provided under the initial Project was inadequate to meet the original target. Unless additional funding is provided, many communities which had high expectations of benefiting from the Project will remain without safe water supply and sanitation.</p> <p>The proposed project will implement the remaining 122 subprojects and address the critical water supply and sanitation problems of about 300,000 people, who could not be covered under the initial Project. The project will also cover all the identified rectification works and include the procurement of much needed operation and maintenance tools for sustainable operations. The World Bank/DFID-assisted Rural Water Supply and Sanitation Project (RWSSP) for the remaining three provinces of the Kyrgyz Republic is scheduled for completion by end-2008. The RWSSP also experienced similar price escalations and the World Bank and DFID are jointly considering additional financing for meeting the planned benefits and impacts.</p> <p>The initial Project was scheduled to close in December 2006 but due to start-up delays of about two years, the loan closing date was extended to 31 December 2008. Overall progress of the initial Project until 2005 had been slow and the quality of works in some subprojects needed improvements, which was due to weak performance of the project management unit and the consultants. The Government rectified the situation by replacing the entire Project team. The new team streamlined the Project implementation by working on the rectification of previous subprojects, which is currently ongoing, and also completing the remaining new subprojects. To</p>

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	<p>further ensure the quality of all the subprojects in line with the communities' requirement, ADB, in 2008, conducted an extensive field survey of a large number of completed and ongoing subprojects and provided specific solutions to the Government for rectifying all major or minor problems. The initial Project will be completed by end-2008.</p> <p>Based on the lessons learned, both from ADB and the World Bank/DFID assisted projects, subproject selection criteria and engineering design criteria have been improved, which will ensure selection of strictly demand-driven subprojects, and use of simple, technically sound, and cost effective approaches. The improved implementation arrangements include mandatory steps to ensure communities involvement at all stages, including identification, selection, planning, design, and implementation of subprojects. A new team of the technical supervision consultants will finalize the detailed engineering design of the subprojects in the light of modified selection and design criteria and provide Project management and implementation support. Besides safe drinking water supply, the Project will focus on rural sanitation, expand the hygiene education program, and ensure intensive training of community organizations on sound financial management, and operation and maintenance practices.</p>
Impact	Improved public health and environment in project villages
Project Outcome	
Outcome	Progress Toward Outcome
The supplementary grant will result in safe, adequate, and efficient water supply and sanitation services.	36 subprojects that required rectification works have been completed in 2010. 13 new subprojects will be completed in 2011 and in about 10 subprojects rehabilitation will start in 2011. Sanitation and Hygiene Education is being provided to project communities. Communities are trained to operate and maintain the water supply systems.
Implementation Progress	
Outputs	Status of Implementation Progress (Outputs, Activities and Issues)
<p>Rehabilitated and newly constructed water supply and sanitation systems in project villages</p> <p>Communities managing water supply systems and collecting tariffs to address cost recovery</p> <p>Government issues a sector development policy, and legal and regulatory framework for rural water asset creation and service delivery</p> <p>None</p>	<p>(1) 36 problem subprojects have been completed in 2009. 13 new subprojects have been completed in 2011. Rehabilitation works in four new subprojects in Osh and Batken oblasts grouped in one package will be commenced by August 2011.</p> <p>(2) Capacity building and training to maintenance of the water supply systems, tariff calculation and CDWUUs strengthening is provided to communities. The level of tariffs collection for 2010 is about 60%.</p> <p>(3) Government has drafted a rural water supply strategy in 2008. New updated strategy is required. Legal and regulatory frameworks need improvement.</p>
Geographical Location	Chui, Osh, Jalal-Abad, Batken oblasts of the Kyrgyz Republic
Summary of Environmental and Social Issues	
Environmental Aspects	The project is expected to have a significant positive impact on the improvement of environment. Required environment permissions for subprojects rehabilitation are obtained.
Involuntary Resettlement	There no involuntary resettlement issues in project covered areas.
Indigenous People	N/A
Stakeholder Participation and Consultation	
During Project Design	The project design has been extensively discussed with the communities, civil society and local administration.
During Project Implementation	Representatives of the project communities and NGOs are participating in subprojects approval, implementation and commissioning. They are also members or observers in bid evaluation committees and project steering committee.
Responsible ADB Officer	Ms. _____
Responsible ADB Department	Central and West Asia Department
Responsible ADB Division	Kyrgyz Resident Mission
Executing Agencies	<p>Ministry of Natural Resources Mr. _____ Minister Bishkek, Kyrgyz Republic cbissp@infotel.kg</p> <p>State Committee on Water and Melioration CBISSP@INFOTEL.KG (MR. _____)</p>

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Timetable						
Concept Clearance		28 Jul 2008				
Fact-finding		02 Aug 2008 to 08 Aug 2008				
Board Approval		03 Nov 2008				
				CLOSING		
Grant No.	Approval	Signing	Effectivity	Original	Revised	Actual
Financing Plan			Grant Utilization			
	TOTAL (Amount in US\$ million)		Date	ADB	OTHERS	Net Percentage
Project Cost	30.00					
ADB	30.00					
Counterpart	0.00		26 Feb 2012	9.918		33%
Cofinancing	0.00					
			26 Feb 2012	8.415		28%
Status of Covenants						
Category	Sector	Social	Financial	Economic	Others	Safe
Rating	Satisfactory	Satisfactory	Satisfactory		Less Than Satisfactory	Satisfactory

Source: <http://pid.adb.org/pid/LoanView.htm?projNo=31197&seqNo=03&typeCd=2&projType=GRNT>

ANNEX 3. COUNTRY AND WSS CONTEXT

Country context

Government system

The Kyrgyz Republic is Kyrgyzstan's system of government has been under more or less continuous reform over the past two decades, from a semi-presidential republic based on the first Constitution of May 5th, 1993 to a parliamentary republic of the Constitution as of June 27th, 2010.

After civic unrest of April 7th, 2010 and the ousting of Kyrgyz President Kurmanbek Bakiyev the powers and responsibilities of the president's office were substantially re-distributed. The presidential-style republic system was blamed as one of the key factors promoting corruption, or at least its inequitable distribution, since President Bakiyev had consolidated under his control many sectors. Previously various economic sectors had been preyed on by different groups and factions. Through his close family members Bakiyev consolidated them into a vertical power structure.

The revolution led to constitutional reform in 2010 which replaced the old system with a parliamentary-style government. Under the new Constitution of the Kyrgyz Republic the President remains as a head of state and commander in-chief, but he/she cannot define internal and foreign policy of the republic as was possible in the past. Now the political party which holds a majority in the single-chamber Parliament or coalition of parties selected the Prime Minister and the Cabinet of Ministers (the Government) holds far greater powers. Government is accountable only to the Parliament and the President cannot initiate draft laws. Nonetheless, the official opposition is relatively weak and compliant and is best described as a loyal Opposition, led by the leader of the party or parties with the second largest number of seats in the parliament. Some ministries and parliament committees have to be led by the Opposition according to mutual agreement of the parties.

The rights and privileges of opposition are described in the Constitution. The opposition is the fraction or group of fractions that are not a part of the majority fraction or a coalition and defined itself as the one (Constitution, Article 70). The opposition has the right to have one Deputy Parliament Chairmen (article 74), to elect one third of the Central Election Commission, one third of the Chamber of Accounts (article 74) and head two parliamentary permanent committees - Budget and Law and Order (article 76). The opposition thus cannot be considered representative of deprived groups or different ideological movements. Rather, it forms a part of establishment, and is not so lucky yet. Just recently the former coalition dissolved itself and a new one was created, where the Ata-Jurt party, a former government leading coalition partner, is now is an opposition.

Despite the move to a Parliamentary system, the President continues to play a powerful role. He appoints judges of local courts, nominates the Prosecutor General, the Chairman of the Chamber of Accounts, the Head of Central Election Commission and other high officials. But he has to rely more on his moral authority rather than government's oppressive powers as was often the case in the past. Since President Atambaev has only been in power since December 2011, it remains to be seen how the new regime will manage under the new parliamentary system.

Central government

The Government consists of the Prime Minister, Vice Prime Ministers, Ministers and the chairmen of state committees. Decisions are made after a majority of its members vote their approval, after which a decision becomes a Government Regulation.

The Executive branch consists of the Government, state agencies and local state administrations. The country is divided into 25 self-governing cities, including Bishkek and Osh with their own regulations, 7 oblasts, made up of 49 raions. Both self-governing municipalities and oblasts are considered as regions. Bishkek and Osh cities are headed by mayors and the oblasts by the governors. The lowest level of the Executive branch is the raion state administration, which coordinates raion territorial branches of the ministries and state agencies.

The Parliament (Jogorku Kenesh) is a most powerful player in the national governance system. It has the power to adopt laws and control their implementation. The members of Parliament are elected at a general election according to party voting lists.

The ability of Parliament to develop and implement state policy is undermined by the fact that the Cabinet members are selected by the Prime Minister voluntarily and many ministers have no connection with the parties elected to Parliament. The situation is worsened by the existing coalition agreement which distributed ministers' portfolios between its members without any mechanisms for maintaining a unified Government policy.

Judicial system and law enforcement

The judicial system in Kyrgyzstan consists of local courts, appointed by the president and the Supreme Court appointed by the head of state and the parliament.

Law enforcement agencies in Kyrgyz Republic include the Prosecutor General's Office responsible for both prosecution and oversight of criminal investigations, the Ministry of Internal Affairs responsible for law and order, the State Financial Police Service responsible for investigation of economy crimes and the State Committee on National Security (SCNS) responsible for intelligence and state security. Recently the SCNS was entrusted with functions to investigate grand corruption. Most agencies have territorial branches in every oblast and raion.

Local government

There are a total of 1792 ayils (villages) and 472 ayil okmotus in Kyrgyzstan. The local self-government consists of representative bodies and executive bodies. The representative bodies consist of local councils at ayl and raion/municipal levels. Executive bodies consist of the ayil okmotu in villages and mayor's office and towns. Executive bodies have their own staff. In municipalities, subordinated public bodies include the water and sanitation utility companies (vodokanals).

Decentralization

In general, government in the Kyrgyz Republic is fairly centralised. Despite many declarations on decentralization and the National Decentralisation and Improving Local Self-Government Strategy (2005-2010) the central government retains most powers and decision-making authority. The

Strategy was assumed to transfer most responsibilities for local issues to local self-governments together with financial resources to support them. Delegated functions include administrative procedures like social protection, registration, tax collection and so forth. Effectively, the resulting situation is the classic unfunded mandate. But a recent law on local self-government as of July 15, 2011 #101 on limited local self-governments' powers to 22 issues of local significance, including drinking water supply and assigned them so-called delegated state functions, while permitting only two types of local taxes – land tax and property tax. Neither of these taxes raise significant revenue, since the land tax is limited with the share of lands at local-self governments disposal and property tax is relevant only to city municipalities because most houses in countryside are old, small, and made of cheap local materials (e.g. adobe) which minimize the tax base or make them not liable to tax at all.

All public incomes collected at the local level are transferred to the Ministry of Finance and then re-distributed to local self-governments through so called category grants to cover their budget deficits. Since incomes from the local taxes are insufficient, i.e. lower than assumed, 80% of local self-governments cannot cover their expenditures (Source: National Human Development Report for 2010-2012).

Poverty

Poverty levels in 2010 were 33.7 percent, an increase of two percentage points from the previous year. Poverty levels in urban settlements increased by 1.7 percent and in rural areas by 2.4 percent. The poverty line for 2010 based on household expenditures was KGS 20,937 per capita, and extreme poverty at KGS 12,608 (Source: National Statistic Committee, Poverty level in Kyrgyz Republic in 2010) . The population of Kyrgyzstan stood at 5,418,000 as of 2010. Approximately two-thirds (65 percent) live in rural areas.

In 2010, 1,846,200 people, of which 74.4 percent lived in rural settlements, were under the poverty line. Changes in poverty rates by region are uneven. Positive changes in were observed in Issyk-Kul oblast, where poverty levels decreased by 8.1 percent and in Bishkek city, where they decreased by 5.4 percent compared with the previous year. In other regions poverty increased by: by 9.4 percent in Naryn, 9.3 percent in Talas, and 7.8 percent in Jalalabad.

Target benchmarks for some of the indicators for MDG 1, MDG 7, and MDG 8 have been reached. (The Millennium Development Goals (MDGs) has eight objectives that respond to the world's main development challenges, which are to be achieved by 2015.) The Kyrgyz Republic has demonstrated a serious commitment to achieving the MDGs. This commitment is manifested in the decision made in 2009 to establish the Coordinating Committee for the Achievement of the Millennium Development Goals in the Kyrgyz Republic. The Committee adopted a 2009-2010 action plan for achieving the MDGs in the republic, which includes measures for achieving current objectives.

It seems that the MDGs are the only clear targets which the Kyrgyz Republic has set for the WSS sector, namely: Target 7.C: Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation. The target indicator for 2015 was 90 percent.

Governance and country ownership

As shown below, Kyrgyzstan scores fairly low on the Paris Declaration ownership indicators

Table 5. Governance and Country Ownership

DIMENSIONS	2007	CHALLENGES	PRIORITY ACTIONS
Ownership	Moderate	Budget execution does not fully reflect development priorities	Government to exercise stronger leadership
Alignment	Moderate	Aid disbursements not recorded on budget	Donors to provide government with better information about technical assistance
Harmonisation	Moderate	Donor reluctance to use common arrangements	Donors to reduce number of missions
Managing for results	Moderate	Lack of statistical capacity	Establish an effective system for monitoring and evaluation
Mutual accountability	Low	Lack of a system for mutual assessment	Establish a system for mutual assessment

Source: OECD. (2008). *Survey on Monitoring the Paris Declaration*:

In all governance assessments of Kyrgyzstan, the country receives very low marks on governance (based on Global Integrity, Doing Business, CPI assessments). It is perhaps best conceptualized as a sequencing problem. A case can be made that donors should only start speaking about ‘government ownership’ once the government has demonstrated a genuine, tangible commitment in this area, and governance indicators have shown an unambiguous upward trend. At that point, government ownership should become so obvious that the government has begun directing the donors on how it wants their aid allocated.

How donor assistance is allocated

At the beginning of economic reforms in 1990s in Kyrgyz Republic established Goskominvest (State Commission of the Kyrgyz Republic on Foreign Investments and Economic Assistance) was established by the Decree of the President of Kyrgyzstan on July 27, 1992. A special state organ aimed at “a unified state policy of attracting foreign investment, technical assistance and grants, their effective use, providing centralized coordination with international organizations, financial institutions and donor countries” (from the Regulation of Goskominvest).

The Goskominvest Commission was subordinated to the President and chaired by the Prime Minister. Deputy Prime Ministers, Chairman of the National Bank, several Ministers were appointed as Commission members. In fact all decisions were made by the General Directorate which was an executive body of the Commission. Since Goskominvest was not a Cabinet of Minister’s body and it was accountable to the President only, its activities was far from transparency and was criticized many times in Parliament. Thus, while it was formally responsible for coordinating aid, the fact that it was accountable only to the President, meant that it functioned more as an instrument for

extracting aid from donors, rather than allocating aid according to country priorities. The focus may thus have been more on aid volume than on effectiveness.

While the name Goskominvest has remained the same its executive body has been changed many times. In November 1997, the newly established Agency for Foreign Investment became an executive body of Goskominvest. In September 1, 1998 by Presidential Decree the Agency was reorganized into the State Committee on Foreign Investment and Economic Development. In December 28, 2000 the task of attracting direct investments has been assigned to the State Committee on State Property Management and Attracting Foreign Direct Investment. In 2004, the functions to attract direct investment have been assigned the Ministry of Economic Development, Industry and Trade of the Kyrgyz Republic. Then, in August 2006 the function was assigned to the Ministry of Economy and of Finance. In April 2007 this function is re-assigned to the Ministry of Economic Development and Trade. The Commission eventually was abolished in February 28, 2008 by the President's Decree #96. Since then allocation of external aid is divided between the Ministry of Finance and the Ministry of Economy and its successors.

Official external accountability

Technically, external accountability system is based in the Chamber of Accounts. The Chamber is responsible for auditing all state budget expenditures, including local self-government budgets, since they receive subsidies from the republican (central) budget. The Ministry of Finance provides budget limitations for local budgets and controls public expenditures through its Central Treasury which controls financial operations of all public bodies including local self-governments.

Local Councils are elected bodies at the local level which approve the local self-government budgets and control their implementation. The permanent commissions of local councils oversee the executive body of local self-government – city halls in urban area and ayil okmotu in villages. The State Agency on Public Procurements was recently abolished and its functions were transferred to the unit in the Ministry of Finance. According to the law on public procurement, this agency was responsible for control and oversight of all bidding over a certain threshold.

Corruption

The non-transparent centralised system of decision making and financing is one cause of widespread corruption in Kyrgyzstan. While the legal framework has been overhauled to support political and economic reforms since independence in 1991, the implementation gap remains very large according to Global Integrity Index, which has been calculated for the Kyrgyz Republic since 2006. According to the latest available GI Index (2008) the overall rating of the Kyrgyzstan is weak (87 of 100) and implementation gap is huge: 45 (comparing the level of legal framework with its implementation in practice).

Corrupt practices by law enforcement agencies and the courts have worked against efforts to combat corruption. This is reflected in the Corruption Perception Index of the Transparency International which has exhibited no positive trend over the period 2003-2011. The latest Kyrgyz Republic's rank is 164 out of 182 countries with the score 2.1 (TI Corruption Perception Index, 2011).

Unwillingness by the country's leadership to end corrupt practices aggravated with its efforts to establish one party system provoked two successive civil protests which exploded into revolutions in

March, 2005 and April 2010, resulting in the ouster of President Askar Akaev and President Kurmanbek Bakiev, respectively.

The special commission investigating accusations of A. Akaev and his family members in corruption identified many facts of malfeasance, embezzlement and extortion. Ex-President Akaev received immunity from prosecution, but his son and son-in-law are still sought by the police. Ex-president Bakiev, his brother, son and their minions are also wanted, but his brother Akhmat Bakiev was imprisoned after accusations of him were proved in a court. It was the first time when grand corruption was proven in court and it made a long-lasting effect on the country. No one, inside or out of government, denies that corruption in Kyrgyzstan is widespread. It is an open secret which even high level officials readily name as a problem. At the same time, punishment for corruption seems to be limited to (some) ex-presidents, while day-to-day bribery and malfeasance are considered virtually a lifestyle.

WSS Context

Key sector stakeholders in the WSS sector are:

- i) The Department of Rural Water Supply under the State Committee on Water and Melioration (there is a proposal to abolish the Committee);
- ii) Municipalities (owners of decentralized water supply system);
- iii) Community Organizations of Drinking Water Users (CDWUU) (water supply managing bodies in each municipality);
- iv) The State Agency on Antimonopoly Regulation under the Government (oversights on water tariffs);
- v) The State Sanitary and Epidemiology Department (controls water safety);
- vi) Agency for Community Development and Investments (ARIS) – the implementing agency of Taza Suu Project;
- vii) Civil society NGOs, especially those active in water sector issues;
- viii) Donors financing water projects; and
- ix) JPMU (no longer in existence) – former implementing agency of Taza Suu projects.

Sixty five per cent of the Kyrgyz Republic's population live in rural areas, where WSS supply and conditions are considerably worse than in urban areas. Many villages have no water supply systems at all. And when they do they tend to be more basic, i.e. lacking house/yard connections (water is supplied via standpipes³³) and sanitation systems. As noted above, urban water services areas are managed by public companies, “Gorvodokanals” which are subordinated to the municipality. (Kant municipality is an exception in that the water company it is privately managed.) Access to drinking water varies between 60-90 percent in cities, with less than 40 percent having access to sanitation systems (Regallet, 2011).

³³ Kolonkas (Russian)

Box 4. Kant Private Water and Sanitation Enterprise

The only private WSS enterprise in Kyrgyzstan is located in Kant, a small town near Bishkek with 22,200 inhabitants and a well developed industry. During the Soviet Union Kant was a township with urban infrastructure and its WSS system was part of the Tokmok regional WSS system. It was separated from Tokmok WSS and leased from the state in 1991 by Aleksandr Shechovtsov who has been running it since then. Since 2005 the enterprise has been registered as a limited liability company. There are 3,395 apartments and 9,400 houses connected to Kant's water supply. The annual turnover of the company is 15 mln soms. The basis of its operations is a 15-year contract with Kant Municipality.

The Kant private WSS enterprise faces many of the same problems that state owned municipal gorvodokanal face. Tariffs are low and cover only operational costs, even while the municipal budget has up to KGS 30 million unspent in the end of fiscal year. The city council never invites the enterprise owner and CEO to participate in budget hearings. Capital investments are not planned in the municipal budget although WSS infrastructure in Kant is in as bad shape as in the rest of the country. There is a need for meters to help ensure fair distribution, payment and rational use of water consumed.

At the same time this enterprise is a good example of the WSS sector potential as a normal market based business that could be successfully managed by qualified and devoted professionals. The Kant enterprise has been doing business in the WSS sector for almost 20 years. Since in Kyrgyzstan the sector is widely considered a social issue demanding subsidies, non-market tariffs and other elements of the old Soviet system, the fact that a water system can be run on a commercially viable basis, shows it is possible to maintain and develop WSS in Kyrgyzstan without municipality ownership or subsidies, which all too often is a source of corruption and excessive administrative costs

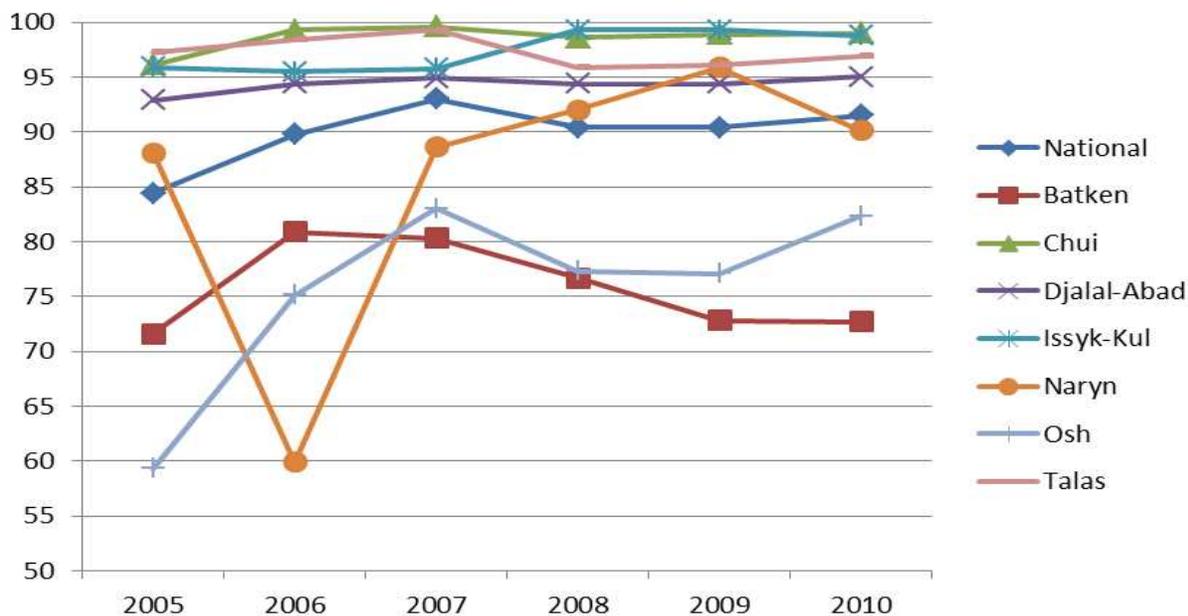
The Kyrgyz Republic once had a developed and relatively advanced water supply and sanitation system, a legacy which is now at risk of being lost through decapitalization. If 70 percent of villages at one time had a clean, healthy piped water supply, by 2000, only 40 percent had working systems (OECD/EAP Task Force 2009). If political will were stronger and population awareness higher, we might be witnessing a race against time to rehabilitate WSS systems before they collapse completely, and leave most of the population with water access at the level of those villages which never had water systems to begin with. Instead, Kyrgyzstan is probably lucky to have a 'patching up' effort sponsored by donors. This may, however, merely be delaying eventual collapse. This bleak assessment is based on the findings and conclusions in the sections which follow.

WSS systems are generally in poor operating condition--infrastructure is deteriorating as pipes corrode, largely due to poor maintenance and ad hoc repairs. Neglect of infrastructure maintenance is a phenomenon going back to the Soviet period, which already had a weak 'culture of maintenance'. It was simply a low priority at a time when the focus was on construction as the path to rapid development. This attitude seems to have persisted, and coupled with inadequate financing it has led to a focus on getting by in the short term and hoping the best for tomorrow. However, the longer repairs are delayed, the more expensive they tend to become, and the higher the social costs. In this light, pushing utilities to make capital investments can seem almost utopian.

According to household survey data between 2003 and 2008 the share of population with access to drinking water grew an average of 2.8 percent per year. The definition for 'access improved drinking water source' is, however, a fairly low bar and not always clearly defined. Regallet (2011) estimates that 50-60 of the rural population have access, an improvement over 2004. Since there have been no other initiatives, the positive trend can be attributed to the donor funded Taza Suu programs (CBISSP and RWSS). Figure 5 tracks the access to drinking water by oblast, based on annual household surveys. Leaving aside the huge dip for Naryn oblast, which appears to be a clerical error,

the chart suggests an improving trend in most oblasts up to 2007, after which declines are evident. Over the period 2007-2010, the OECD/EAP Task Force (2009) noted that the volume of water collected and distributed fell by 8 percent, and in per capita terms by 12 percent.

Figure 5. Population with access to drinking water (percentage)



Source: State Committee on Statistics, households

Official statistics on access to water may overstate the case. In Kyrgyzstan most WSS systems were constructed between 1965-1975. Formally, about 70 percent of villages and other settlements were equipped with standpipes and, rarely with household connections before 1991 (according to DWS). Since the lifespan of water supply lines and pipes is up to a maximum of 25 years, it means that by the 2000's almost 100 percent required replacement. Indeed, by that time many people in villages had no clean drinking water at all, although old tubes were still in place or they access for just a few hours a day (e.g. in the case of Krasnaya Rechka). But according to the official statistics, these cases were still counted as villages with access to water. The World Bank has reason to believe that survey respondents tend to say they have access, even when they do not. Respondents may want to avoid complaining when they lack formal access to their land, which could jeopardize their position.

Only 524 villages, or 29 percent, have functioning water supply systems. These are the villages which had their systems built or rehabilitated under Taza Suu, leaving 1,268 in need of rehabilitation or construction (see Table 6). Since the emphasis of Taza Suu projects has been on rehabilitation, not construction, the majority of the 681 villages which did not have water systems before 1991 still do not have them. However, not all villages with new systems can count on them to function properly either. Within weeks of their construction, some subprojects had stopped functioning, or were found to be defective from the start. There has also been a trend of moving to more basic types of access, as the Taza Suu programs factor in rising capital investment costs. More and more households who had house/yard access during the Soviet era must now make due with standpipe access.

Table 6. Water supply systems in villages

Oblast	Total (1 Jan 2011)		Have water supply systems since 1991			System built or rehabilitated between 2001 and 1 Dec. 2011 (under Taza Suu)			Requiring rehabilitation or construction		
	Villages	Pop.	Villages	Pop.	Access (%)	Villages	Pop.	Covered (%)	Villages	Pop.	Villages (%)
Batken	183	280,023	82	193,631	44.8	61	147,071	33.3	122	132,952	66.7
Jalalabad	417	782,849	188	531,466	45.1	63	154,398	15.1	354	628,451	84.9
Osh	477	947,242	259	668,803	54.3	123	280,188	25.8	354	667,054	74.2
Chui	324	516,526	274	490,244	84.6	73	95,776	22.5	251	420,750	77.5
Issyk-Kul	175	258,712	152	217,306	86.9	68	115,071	38.9	107	143,641	61.1
Naryn	129	178,779	92	149,308	71.3	82	137,189	63.6	47	41,590	36.4
Talas	87	164,173	64	132,815	73.6	54	96,753	62.1	33	67,420	37.9
National	1,792	3,128,304	1,111	2,383,573	62.0	524	1,026,446	29.2	1,268	2,101,858	70.8

Source: DRWS

Reliable and relevant data on access to water may partly be related to definitions and designations.

The problem is related to two issues: 1) calculation and classification of settlements; and 2) lack of a unified definition for 'water access'. There are six types of settlements in the country:

- i) cities with a special status (Bishkek and Osh);
- ii) towns of oblast level (e.g. Karakol, Sulukta);
- iii) towns of raion (district) level (e.g. Kant, Kara-Balta);
- iv) townships;
- v) villages; and
- vi) hamlets.

Officially, there are 25 cities, including Bishkek, 1792 villages, and 55 other settlements. The settlements vary from raion centers, e.g. Chayek in Naryn oblast with 9,500 inhabitants, to townships like Dostuk (750) and Min-Kush (3,353) in the same oblast. Moreover, there are villages with only 10 to 100 inhabitants (for instance, four villages in Naryn oblast), and villages with more than 10 000 inhabitants, e.g. Anadarak in Batken oblast. National Statistics Committee calculations for rural population cover only villages and hamlets, while inhabitants of cities and townships are considered urban. Therefore, despite the statistical definition, urban populations living in townships are not necessarily privileged in terms of infrastructure.

Estimates of water access depend on definition and measurement. According to the WHO / UNICEF Joint Measurement Programme (JMP) for Water Supply and Sanitation website, the share of population with access to an improved water source refers the percentage with "reasonable access to an adequate amount of water from an improved source", such as a household connection, public standpipe, borehole, protected well or spring, and rainwater collection. Reasonable access is defined as the availability of at least 20 liters per person per day (l/p/d) from a source within one kilometer of the dwelling. Unimproved sources include vendors, tanker trucks, and unprotected wells and springs. From this perspective 85% of the Kyrgyz Republic's population had access to an improved water source in 2011.³⁴

³⁴ ARIS is currently collecting data on water access to be ready for May 2012.

Community Drinking Water Users Union (CDWUU) were established with donor support, taking over responsibility for rural water supply management. CDWUUs were created in 2000's. They often are comprised of every household in the community, and are managed by a committee. CDWUUs report on their performance at annual meetings with the participation of all community members. However, sanctions against CDWUUs for poor performance are not possible, since not all drinking water users are CDWUU members. Some CDWUUs are legal entities in the form of nonprofit public associations, while others are not. Recently, some CDWUU's have given over property rights over water supply systems to ayl okmotus (38 percent of have been transferred to date). But this process is not going smoothly, because CDWUUs are legally independent from the state and the municipalities, so they can simply refuse to permit reject the transfer of assets.

Tariffs are set according to consumption norms. Tariffs are set according to consumption norms for billing purpose based on registered occupants. In municipalities gorvodokanals have a three-part tariff regime: for households, state budget organizations and private entities (which cross subsidize households). Theoretically, the norm is set at 170 l/p/d by gorvodokanals (Regallet 2011), however with the high and unknown UFW and lack of meters, it is difficult to determine average household consumption. Providers have no right to raise tariffs without approval of city councils (local councils) and a "no objection" from the State Agency on Antimonopoly Regulation under the Government. There is no regulation linking levels of customer service with water charges (Issyk-Kul. Institutional Report). In cities, water and canal enterprises draft calculations and submit justification of the tariffs to the city councils.

Tariff levels. In many cases, even at relatively successful gorvodokanals, tariffs are quite low and do not fully cover operating costs (Regallet 2011), with no possibility of meeting capital investment requirements.³⁵ In villages, tariffs must be agreed to by the ayl okmotu and collected by CDWUUs, at least in theory. Here also they can be remarkably low, such as in the case of Syn-Tash, which has set them at 8 KGS per household member. Cheating, by listing fewer household members than actually live in the home, is widespread, further reducing revenue for the water companies.³⁶

Collection rates vary widely but are far from 100 percent. ARIS estimates of collection rates range from just 17 percent (Talas) to 100 percent (Kant), although spot checks of Kant and Bishkek (at 93%) have shown these rates to be overstated. In general, unwillingness to pay is widespread. ADB tracks collection rates in villages where subprojects were completed, and they are approximately 50%, with the average payment equivalent to 15 soms/person.

Expenditures for water are low, but this may not be linked to affordability. According to Regallet (2011) nationwide WSS expenditures by the poorest and wealthiest households ranged from 0.3 percent to 0.4 percent, respectively. World Bank rough guidelines on affordability range up 2.5 percent, and suggest there is room for increasing tariffs. This is not a universal issue. In one village it

³⁵ This is not unusual. Krause (2009) found estimated that in 39% of developing countries, average tariffs were set too low to cover basic operating costs.

³⁶ The Social Research Center at the American University of Central Asia (2009) estimates that the scope of internal migration exceeds external migration by several times: from 1991 to 2005 the number of total movements between oblasts was 889,921 people. There are an estimated 1 million internal migrants in Kyrgyzstan. The great majority, in part due to complicated bureaucratic rules, do not comply with the procedure of residence registration/deregistration.

is reported that residents to pay 100 soms per person per month, apparently because their water is very difficult to reach and they recognize that they have no other choice.

Consumption levels are impossible to determine. Because there are no meters, consumption and billing are not linked and actual household consumption levels cannot be measured (although OECD has estimated levels at 71.1 l/p/d according to Regallet, 2011). Some vodokanals report huge volumes of unaccounted for water (UFW) through the leaky distribution system and estimate that as much as 80% of water never reaches consumers. Coupled with reports of consumers leaving water running, or using it for gardening, there is clearly huge amount of water being wasted. Corollary consequence is that electricity costs, and purification costs are driven up and unnecessary wear and tear on water pumps.

Lack of equipment and skilled technicians. In rural areas, aside from plumbers, there is a lack of engineers and other skilled technical specialists for repairing major water production and distribution problems. Lack of equipment also limits the ability to service WSS networks. It has been proposed that rayon centers be equipped with essential equipment facilities, which would have back-hoes, etc. to meet the needs of the surrounding communities.

Sanitation – a neglected issue. In Kyrgyzstan, improving access to sewerage has proved more challenging than improving access to drinking water. As in many countries, sanitation infrastructure and attention to sanitation issues lag behind water supply.³⁷ In 2008 only 23.5 percent of the population had access to sewerage networks. From 2003 to 2008, the share of the population with access to this communal service actually fell by an average of 0.9 percent per year (though it rose in some of those years). The CBISSP drastically reduced sanitation subprojects within its first few years as this component was downsized to virtually exclude all physical sanitation infrastructure (70,000 households with improved latrines, 250 school latrines and 750 public bathhouses) and restricted to a hygiene and sanitation education program.

³⁷ This may be because, while clearly important, sanitation infrastructure follows drinking water (and electricity) in the hierarchy of most basic needs. Given limited resources, water will be addressed first.

ANNEX 4. MEETING MINUTES – NGO AND WSS SPECIALISTS

KYRGYZSTAN: GOVERNANCE AND ANTICORRUPTION IN THE WATER SUPPLY AND SANITATION SECTOR

February 2, 2012

NGO Representatives and WSS Specialists

Attended by:

1. Anara Choitonbaeva, Kyrgyz Water and Sanitation Alliance
2. Aleksandr Chromov, Emcom Ltd
3. Anara Dautalieva, Taza Tabigat
4. Djoldoshbek Djokaev, TokmokVodoKanal
5. Rosa Gaibullina, Alliance for Budget Transparency
6. Ayilchi Kudaibergenov, Local Self-Governments' Assosiation
7. Elena Kutmanova, Amazona NGO
8. Zulfia Marat, Bureau of Human Rights and Rule of Law
9. Andrei Putilov, KyrgyzGipostroy
10. Muradin Sulaimanov, BishkekVodoKanal
11. Adylbek Sharshenbaev, TI Kyrgyzstan
12. Esen Turusbekov, DFID

Consultant report

- Request was made to share the draft report with the participants in order to provide more detailed feedback. Consultants agreed this would be useful and will share the draft for comment by mid-February.

Sanitation

- Question on whether sanitation is being covered. The focus is on water supply, while sanitation is in much worse shape and is not the key priority for the moment.
- Question arose on how reliable the household data on WSS is and whether this is being investigated. The consultants agree that the statistics raise some questions, given the unexplained trends.

Corruption

- Participants requested a greater emphasis on corruption than is reflected in the presentation. This includes looking at corruption within the donor systems. Consultants noted that the issue of corruption was raised by nearly all stakeholders with whom they met, and that it will be covered more extensively in the report. Development banks are simply not doing enough to combat corruption.
- Examples of corrupt practice were given for Batken, described as one of the most ineffective projects. The contractor hired there had no experience in WSS infrastructure at all.

- It was stated that the World Bank had conducted a study describing many instances of corruption in its rural water project, in 2007, but this study was not translated or circulated. On the one hand, the World Bank is seen to be very responsive and positive in its dealings with high officials, including the President and Prime Minister, and then we see that in fact it knows all about the corruption problems which are going on at the project level.

Role of donors

- The presentation did not adequately address the shortcomings of donor activities.
- Many issues were raised as to how donors interact with government. Government should become less dependent on donors in terms of deciding and setting priorities. Usually sector investments are driven by donor priorities (i.e. funding) as opposed to the Government setting priorities and allocating aid accordingly. Also, donors do not do enough to harmonize their development assistance.
- Donors often come to government with ready-made projects, without asking us what we really need. They should not simply tell the government what to do. They should not tell us what standards we should apply. This is one problem linked to the lack of a national strategy.
- Donors should maintain high procurement standards, including procurement of consultation services. There were complaints that hiring international consultants was not always effective, especially given their high costs. A portion of those fees, it was argued, could easily fund rehabilitation of water systems in more villages.
- Projects should not simply be handed to Kyrgyzstan on a silver platter. The government should have to obtain a project as a result serious efforts on its part. A project should be based on the real needs of the country, which have been identified by government through an in-depth process of prioritization and planning. This would lead to real ownership.

Government

- Decentralization of WSS management is inappropriate under current conditions. Because of the low capacity of municipalities (towns and village level) they are unable to manage their water systems.
- There was a strong consensus that a central WSS agency is critical for WSS policy and national strategy, and for coordination and monitoring. Many problems in the sector can be traced back to the absence of such an agency. The lack of a strategy and clear definition of roles and responsibilities has led to many problems, including lack of accountability.
- Results based management should be used by government, not only by donors. Government should be responsible for publishing data. It should be responsible how funds are spent. A mechanism needs to be introduced to monitor and report on this.

Transparency

- Donors need to do a better job of publicizing project information. This includes publishing criteria for community selection, and the list of selected communities. One participant from a design firm noted that the list of participating communities changed five times over the course of a year, and there was no clear rationale for this.
- Participants agreed that transparency should be meaningful in order to be effective.
- A request was made to hold a joint forum that includes all stakeholders to allow for exchange of information on donor projects. When World Bank or ADB missions come, they meet separately with government officials, NGOs, PMUs, and we don't know what is said or agreed upon.

Procurement

- Tenders need to be conducted more openly and transparently, with community participation.
- All donors should have an integrated database where information on blacklisted companies is shared. It was also said out that companies that have violated procurement rules are not blacklisted until there have been court proceedings, allowing violators to continue participating in tenders. Participants consider this to be bad practice, since the issue is not so much about legal/criminal issues, but about ethical misconduct and procurement violations. One participant reviewed the list of blacklisted companies (from the World Bank website) and found that for some reason only Tajik contractors were on the list, even though it is well known that many Kyrgyz firms have committed violations, and been taken to court.
- Development bank procurement processes are very slow. After submission of proposals, it can take half a year or more before implementation starts, which makes it difficult for design companies to manage their work.
- Collusion between companies is seen as big problem. If procurement rules were strictly followed and enforced, and only certified and experienced companies were allowed to bid for tenders, this would also strengthen those companies, and help real businesses be sustainable. At present, competent companies end up competing against shell companies, and often losing, which hurts not only them, but the sector as a whole.

Project implementation

- It was argued that ARIS seems to do a better job than the PMU, but there is a suspicion that they have their own arrangements with contractors, and are not entirely 'clean'.

Community level

- Participants supported the conclusion that people need to be more aware of the importance of paying for water services – production, purification, and delivery.

Responsibilities

- Kyrgyzstan has adequate WSS and constructions norms, standards and rules, comparable to international levels. The real problem is that they are not being followed.
- Every month an Operational Acceptance Certificate should be issued regularly, signed by the client (the PMU or CDWUU) if the work completed is satisfactory, instead of waiting until the end of the implementation. This will allow better monitoring of quality and results. Contractors should never be paid completely until work is of satisfactory quality.

Evaluation

- Lack of an Environmental Impact Assessment has negative effects. While there is a special procedure to assess environmental impacts, it does not correspond with international environmental standards. For this reason there is no mention of it in ADB policy. More attention is paid to the social and poverty impacts, with the result that negative environmental impacts are not neglected. For example, ADB and the World Bank have a policy on excluding materials made from asbestos. While this is not harmful for water users, the production process is known to be harmful to the health of workers. However, in Kyrgyzstan, this material is being used.
- Also, no ex-post project assessments are conducted to determine whether implementation was done correctly and what the project impacts are.

Supervision

- Participants agreed that strong supervision is extremely important.
- Three-way control/monitoring of sub-project is critical, including by donors, by government, by the contractor and by the recipient.

Technical capacity

- Technical capacity is a real problem at the village level. The WSS coordinating agency (when it is set up) should conduct bi-annual trainings for local specialists to promote good operations and maintenance of WSS systems.

ANNEX 5. MEETING MINUTES – DONOR REPRESENTATIVES

KYRGYZSTAN: GOVERNANCE AND ANTICORRUPTION IN THE WATER SUPPLY AND SANITATION SECTOR

February 6, 2012

Donor representatives

Attended by:

1. Rie Hiraoka, ADB
2. Talay Asylbekov, EBRD
3. Anna Cestari, World Bank
4. Cholpon Mambetova, ADB
5. Andrew Mills, WASH/UNICEF
6. Esen Turusbekov, DFID
7. Gulnara Yessentayeva, EBRD

Donor funding

- Donor contributions to donor sector are higher than indicated in the presentation. World Bank noted that the projects in Bishkek, totaling approximately US\$14 million, should be added. UNICEF also has a US\$5 million WASH program . OECD is financing a financial strategy and ICRC in funding WSS projects in the south. This means that donor financing, to date and committed, is over US\$200 million.

Government financing

- In the World Bank's Bishkek and Osh projects, the Bank negotiated 10% co-financing from the municipalities and 10% from the republic government, for a total of 20%. This is seen as a good step, since co-financing is a concrete demonstration of commitment. It was pointed out that government co-financing was not included in the 'Capital Investments Budget'.

Household access

- Questions were raised regarding the level of household access to clean water in Kyrgyzstan. The data seems to overstate access, and seem unreliable. It was noted that, during by the World Bank when reviewing responses to questionnaires on water access, some people apparently don't like to complain about water access, and therefore may not be answering these questions candidly. Why? Perhaps because they lack formal access to their land, and therefore do not want to raise issues that could jeopardize their position.
- It was noted that ARIS has been collecting data on water access and the consultants should obtain this.

Gap between planned and achieved

- Regarding cost overruns per person, it was noted that the final costs were almost \$200, not \$86, as stated in the slide (i.e. the gap between planned and achieved is much higher than indicated).

Affordability

- Comparing water expenditures (low) to cell phone expenditures (high) is a popular way of suggesting that water is actually quite affordable and that unwillingness to pay is more about mentality. However, it was noted that when people pay for phone calls, they get something immediately, and they trust that the phone company will deliver. With water, this is not necessarily the case. However, another participant argued that people do get water, even if it isn't 24 hours a day, and still may refuse to pay. The implication was that people don't like to pay for tariffs that will cover O&M (though many do), but they certainly will not pay for tariffs that would cover amortization costs.
- A participant noted that when talking to some university students, even they expressed a belief that water should be free, noting that access to water is a constitutional right in Kyrgyzstan. But the interpretation that it should be free is unwarranted, since the Constitution doesn't see 'access to free water'. The conclusion was that if educated young people think they shouldn't pay for water, the mentality problem is worse than expected.

Donor role

- There is even a perception that donors and international consultants are simply taking advantage of projects in order to pay themselves high salaries and fees, with little recognition that it is the donors who are virtually the only actors funding the water sector.

Passivity of government

- No one in the government seems to ever take a proactive stance regarding water issues, not even DRWS, the sole institution focused on WSS.

Institutional arrangements

- The latest 'transfer' of DRWS to the Agency on Regional Development was not seen as a positive development because it will not raise the national profile of the WSS sector. The Agency is part of Gosstroy, which is not seen as a strong, politically influential ministry.

Procurement

- The question of how design companies are paid came up. They are not paid on the basis of total capital costs for a new or rehabilitated WSS system, but their fees work out to about 5-7% of projects. It was, however, suspected that the design firms sometimes leak information to bidders. For example, there were cases where the bids came in within 1% of each other, or were even identical, clear indications that the bidders had forehand knowledge.

Willingness/unwillingness to pay for water

- A participant had heard of a case where a CDWUU collector, while trying to collect water fees in a village, was beaten up and ended up in the hospital. The participants wondered why these types of stories don't make it into the news. It seems that only when the donors are involved is a WSS story newsworthy.
- It was noted that often those who don't pay are the wealthy households in the village. They simply don't open the door to the collectors. They can get away with it because of their position. As a result, they set a bad example to the others, who justify not paying by saying that if the wealthy aren't paying, then why should I?
- ADB tracks collection rates in villages where it has completed projects, and they are about 50%, with the average payment equivalent to 15 soms/person.

Entrepreneurs

- A story was told of a participant's two brothers who live in rural areas. They have dug themselves wells, and sell water to others in the village, and make good money that way. Was this kind of private sector participation a viable approach? Probably not, as waste water is not treated or channeled, and so can seep into boreholes and contaminate drinking water. Also, a lot of people can simply dig their own boreholes, instead of buying from others.

Water meters

- A case was mentioned of a village where water meters had been installed, and virtually everyone was paying. Even someone who used 1 cubic meter per day, for gardening, was paying very high amounts. But because of the meters, they all felt it was fair.
- However, meters are not a magic bullet, it was said. Not because of their cost, which is reasonable (\$25 – 50) because they are easily tampered with or damaged, whether they are in the house or outside it.

PMU salaries, corruption and monitoring

- A participant mentioned that an acquaintance who worked in a PMU told them that they received only half the salary which the PMU declared to the donor. The rest was kept and sent 'upstairs'. The PMU staff don't complain, because they know they would lose their job. Audits aren't able to catch this violation, presumably because there is no paper trail (i.e. PMU staff pay stubs don't reflect the actual amount they receive).

NGOs

- Some donors felt that certain NGOs were monopolizing the civil society sphere, that you cannot mention the project in public without them creating a stir. This was not perceived as

helpful to communities, and it was questioned just how much time some of these NGOs spent visiting communities to understand their needs and perspective.

- In fact, donors noted that NGOs never come to them to ask them for information.
- Donors felt that they could probably do more to engage with NGOs proactively, and explain better what is going on.

Transparency

- Donors felt strongly that transparency was the responsibility of the government, not theirs. Donors should not replace the government role here and they would not support this. However, donors agreed with the consultants' proposal that in future, in project agreements, a clause requiring the government to hire a company which would be responsible for creating and updating a website with relevant, useful, beneficiary-friendly information would be a good idea. The consultants said they would include this as a recommendation.
- The Taza Suu JPMU used to have a website, but the information wasn't very comprehensive or necessarily relevant.

Payment for performance

- In theory, disbursement is linked to of payment. However, it was noted that some water system projects were handed over, and the contractors paid their final payment, even when there were problems with them, or they were incomplete. This was despite the fact that several layers of inspectors and supervisors had signed off on them. Communities don't have the technical knowledge to judge the quality of a completed project and they are likely to sign off on poorly implemented projects. Even ARIS sometimes signs off on projects that are incomplete, and asks the donor to give a 'no objection' to transferring funds.

External supervision

- Third party monitoring is considered essential and donors agreed they should insist on it. But donors get a lot of push back on this discussion from government. It seems to indicate that those arguing against it would prefer not to have another set of eyes looking at what goes on, and don't like too much transparency. Participants emphasized that resistance especially to external international supervision was incredibly strong. The government argues that it is a waste of resources, that international consultants are overpaid.

Donor funding

- In the past, donors have warned the government they would stop funding the water sector. This initially seemed to cause consternation, but in the end there was little reaction from the government side.

No One in Charge: Kyrgyzstan's Water and Sanitation Supply Sector

- Donors noted that it is difficult for them to unilaterally suspend projects. This generally needs to be by mutual agreement. Or the case has to be egregious. Which the Taza Suu project may be. The consultants will include a recommendation in the report that donors suspend funding unless the government demonstrates a real commitment to the sector.

Government priority

- No one with any influence from government seems to be lobbying for the sector. For the WSS sector to have lobby for WSS interests, it needs to have a voice at the center. Creating a high level agency and giving it real powers should be the number one recommendation to government.

ANNEX 6. MEETING MINUTES – GOVERNMENT REPRESENTATIVES

KYRGYZSTAN: GOVERNANCE AND ANTICORRUPTION IN THE WATER SUPPLY AND SANITATION SECTOR

February 6, 2012

Government Representatives

Attended by:

1. Ikramov S., National Local Self-Government Agency
2. Kerimalieva E., The Ministry of Finance
3. Satybekov A., ARIS
4. Sultankulov A., Chamber of Accounts
5. Temirbekov N., PIU/The Ministry of Finance
6. Turusbekov E., DFID
7. Usubaliev M., Ministry of Economy and Antimonopoly Policy
8. Vashneva N, Ministry of Health

Consultant report

- Participants wanted to know, where is the specific evidence of non-fulfillment of obligations by the Government? What laws have been studied?

Sanitation

- The sanitation situation with respect to schools was described as ‘catastrophic’ and ‘tragic’, with an especially negative situation in the schools, where 40% of schools lack restrooms, and restrooms that do exist are in disrepair, may not have functioning toilets, lack water, doors on the stalls, or toilet paper. Children must go outside.
- There is no budget for sanitation activities. 30% of the waste water disappears, that means septic tanks are used, or toilets are located on the flowing water and sewage goes into the ground: the danger of infection.
- School principals have neglected providing hygiene and sanitation education for pupils. A public information campaign is considered extremely important.
- Helminthes infestation is common among school children due to lack of clean water.
- The system cannot be divided into urban and rural.
- Water cannot be separated from wastewater issues.
- Experience in data collection for the World Health Organization (WHO) confirms that the data formats for access to water are heterogeneous: we need a single format.

- \$126 million was spent on the treatment of acute intestinal infections, which is money one can consider to be 'lost' since proper preventive measures (education) would mean it could be spent on other issues.

Corruption

- Problems in the sector began in 2002 when donor funds started flowing. The ayl okmotus were pushed aside and CDWUUs were given responsibility. In 2009 corruption began to bloom, when DRWS was shifted to the Ministry of Natural Resources.

Role of donors

- There is a disconnect regarding the Government-donor relationship, because of poor coordination.
- Donors need to ensure there are external evaluations.
- There is a glut of donor projects in the city of Karakol.
- Donors don't actually have the right to sanction companies or institutions for procurement violations. This is a recommendation that needs to be made to the government.
- Likewise, ensuring transparency is the responsibility of Government, not donors.
- Donors provide the government with huge assistance. However, they have capacity (in hiring consultants) which the Government lacks. Therefore, the Government has a difficult time assessing how good or relevant the work (e.g. strategy documents) carried out by donor consultants are.

Government

- Participants agreed that there is no one (e.g. a central agency) to lobby on behalf of WSS sector improvements. Neither does the Government have a clear position on who is responsible for WSS
- All project supplied equipment should be move to the balance sheets of local governments and their maintenance should be planned in budget expenditures.
- There is a problem of safety of the property transferred after the project, e.g. toilets built with project support are now without doors.
- The Ministry of Finance should coordinate external assistance, but it has a weak capacity, this function has been passed around many times and the ministry has lost the institutional memory. Sector PPTAs should be copied to the Finance Ministry, it is necessary to coordinate external missions, collecting reports, and recommendations of international experts.

No One in Charge: Kyrgyzstan's Water and Sanitation Supply Sector

- Only the Kyrgyz government has the ability punish (for violations) after donor money has been transferred to it.
- It is necessary to support the idea of an authorized agency for the WSS.
- There is no clear concept of water supply. Need a short and intelligible document.
- We cannot afford, with our current resources, the high quality standards (from the Soviet era).
- Local self-governments' budget has no money to support WSS, as the majority of local budgets is subsidized by the central budget. The Finance Ministry does not allow them such expenses.
- CDWUU's equipment should not be in their possession, as it is bought with borrowed money.
- Participants agreed that the stakeholder mainly responsible for the poor situation in the WSS sector is the Government.

Transparency

- Transparency - the function of the Government, the executing agency. Analysis should be made of government 'access to information' legislation.

Procurement

- Control of 'dumping' in the procurement process is necessary. Proposals that are 40 percent or more below the cost of the project should not be allowed to participate in tenders.

Project implementation

- Project Preparation is carried out without Sanitary Control. For example, selection of water sources does not take into account radiation. Sometimes the water disappeared from the source after the construction of water supply system. According to the rules the sources should be studied for 3 years. Not complied with sanitary protection zones.
- Projects are prepared without proper framing; foreign consultants do not know the local regulations.
- It is necessary to prepare more thoroughly the PPTA.
- Donors give money to the Government, which designates the Executive Agency, which selects the department for the project. However, the executing agency has no capacity to monitor the effectiveness of PIU, the salary in EA is much lower than in the PIU and there is no motivation.

- There is serious need for post-project support. Local budget needs to be allocated for O&M in every project.

Community level

- There are schools with no water at all, in Naryn in the two-story school internal toilets are used as a storage space (Baizakov village).
- Currently, only 30-40 CDWUUs out of 518 function well. At first there were about 900 CDWUUs, but the number decreases every year. Many have stopped functioning because of lack of financial support.
- Cost of water need to be pre-negotiated with the community.

Management

- One participant argued that village water systems should be under municipal management. They lack the capacity to manage themselves.

Standards

- A participant said that Kyrgyzstan's WSS standards are the highest in the world, but implementation of those standards is the lowest in the world. More realistic plans are needed.

Sector Strategy

- Everything starts with a strategy – that is the key to getting reforms moving.
- In the absence of policy, donors can provide technical assistance to a develop strategy. However, the sector strategy should not be carried out by external actors; it should be developed indigenously. And it should be in the form of an accessible, 2-page document which any government official can quickly read.

Supervision

- Why does government monitoring not work? It was argued that department staff whose job it is to monitor PMUs don't do so largely because PMU salaries are much higher than their own (as low as 5,000 soms/month). There are several consequences. Either, you are making so little, you are not interested in monitoring someone's work who is making much more than you. You say, 'Let them do it themselves, that's what they're getting paid for.' Furthermore, they don't necessarily have the capacity, or the time to take on the extra task. Of course, the motivation to demand a side payment would also arise in such a case. It was suggested that the salaries of civil servants charged with monitoring PMUs should be adjusted to the same level as that of the PMUs, as a way of addressing the motivation issue.