

# **Municipal infrastructure upgrade**

## **Summary of the Operation Performance Evaluation Review**

### **March 2006**

#### **THE PROJECT**

The loan to the city municipality was approved by the Board in early 2003. The purpose of the loan was to support the expansion of the city's municipal infrastructure, specifically development of a new avenue. A bilateral aid agency had been working closely with the municipality for several years on urban development issues, out of which a major urban redevelopment plan had emerged. Another investment bank was already committed to funding major sections of the plan, but could not cover all aspects. Thus, the request to the EBRD came within a larger context of donor coordination with the city to improve urban infrastructure.

The project was originally designed as a €25 million loan, but this was reduced to €7 million. During the approval period, the municipality received preliminary indications of the availability of EU support funds (which were subsequently maximised), thus leading to the downsizing of the EBRD project.

One of the municipal government's interests in having the Bank involved in the project was to ensure that the procurement was handled in an open and fair manner. Accordingly, the works contract was procured by Open Tender per the Bank approved procurement plan.

#### **PROJECT RATIONALE**

The Bank's rationale for participation in this project was two-fold: (1) to assist the city in its urban renewal and redevelopment programme and (2) to develop a long-term working relationship with the municipal government. The Bank saw the city as a rapidly growing urban centre around which new service functions (offices, shopping etc.) and tourism would develop. In fact, the real estate sector has shown very rapid and sustained growth, with annual price increases of 10 per cent. An objective of the urban plan was to move municipal services out of the Old Town, revitalise this area and shift traffic patterns. This still on-going process has proven successful to date. The Bank continued its dialogue with the municipality, but the pool of projects that were envisioned at signing has yet to materialise.

#### **ACHIEVEMENT OF OBJECTIVES**

The project had the following objectives:

- to improve and upgrade a 1.3 km section of the avenue (*Fully Accomplished*)
- to help the city improve its capacity for financing infrastructure projects through a technical cooperation (TC) funded capital development programme (*Partly Accomplished*)
- to investigate an urban traffic management and control system through a TC-funded transport management programme (*Fully Accomplished*)
- to develop a relationship with the city, leading to the Bank's involvement in subsequent water and waste-water and urban transport projects (*Partly Accomplished*)
- to reduce the environmental impact on the historical cultural centre of the city (*Fully Accomplished*)

#### **OVERALL ASSESSMENT**

The Bank's operation overall is rated *Successful*. This rating is primarily based on the successful construction of the new avenue. This avenue is a critical part of the city's redevelopment plans,

has resulted in drawing traffic away from the Old Town and has, therefore, contributed to the economic development of the city, with significant positive environmental, social and cultural property impacts.

The Bank's Additionality is *Verified at large*. Transition impact is rated *Satisfactory*. Environmental performance under this project is rated *Good*. Environmental change is rated *Substantial*. However, the Bank has not closely monitored the environmental performance of this project and lacks environmental data to fully justify this rating. Project objectives have been only partly accomplished under this project, although the main objective has been fully accomplished. Therefore achievement of objectives is rated *Satisfactory*. The project's financial performance is *Satisfactory* based on the financial performance of the municipality. Company financial performance is not rated as this is a public sector municipal infrastructure project. Bank handling is rated *Satisfactory*, however, the Bank's investment performance is *Marginal*, which makes the overall project tend towards only Partly Successful.

## **BANK HANDLING**

The Operation Team (OT), comprising representatives from the EBRD's Resident Office and the Banking Department's Infrastructure Team, rated Bank handling as Good. The Evaluation Department (EvD) has downgraded this rating to *Satisfactory*. Although the scaled-down project was well conceived and well implemented, the Resident Office and Infrastructure Team should have involved the Property Team in their negotiations with the city. The Property Team would have been able to identify private sector projects that were/are under development as a result of urban renewal plans. Further, there have been several changes in the Bank's management of the project.

The technical cooperation component could have been better conceived and as a result the municipality has not implemented the recommendations of the technical cooperation. In addition, the OT never tried to redefine the TC to maximise its benefit to the city.

## **MAIN OPER ISSUES AND LESSONS LEARNED**

**Administrative costs for smaller municipal infrastructure projects should be closely reviewed when estimating profitability.** When developing infrastructure projects with municipal clients, the Bank should plan for the possibility of budget reductions. In particular, this should be taken into account during concept review when the Bank's potential profitability is estimated. Equally, the Bank may need to assess the country risk rating more often in countries experiencing rapid change, for example entry into the EU, so that risks are properly reflected in the profitability model.

**The quality of environmental reporting could be enhanced by providing clearer guidance to clients.** The Bank should provide greater guidance to project sponsors as to the type and frequency of environmental data it seeks. The pollution assumptions used for this project were well founded and based on common engineering practice. It would have been helpful to quantify these gains, so as to demonstrate the importance of such projects (environmental externalities) and thereby provide a demonstrative effect that could lead to additional urban redevelopment activities.

**Successful urban redevelopment projects may lead to property sector opportunities.** Senior management should be on the look out for cross-team and cross-sector opportunities and encourage cross-team sharing. When there is a multi-sector approach the Bank's additionality is potentially enhanced.

**Clients should be fully engaged in the design of TC to enhance buy-in.** Banking Teams should ensure that TC has the full backing of the prospective client and engage the client in the design of the TC. This will lead to greater acceptance by the client and, therefore, the sustainability of the resulting recommendations.