SUMMARY OF THE OPERATION PERFORMANCE EVALUATION REVIEW

The project

In 2001 the EBRD launched an action plan and initiated a "quick start" for key areas in need of urgent investments. The Bank undertook this project as a priority to restore municipal infrastructure that had been severely damaged and left without investment and maintenance. This report relates to the evaluation of a water supply and wastewater treatment/sewerage system investment programme.

The Bank approved project loans, for which various municipalities act as borrowers and on-lend to the respective water utility companies. The government guaranteed the Bank's loans. The involvement of a newly established national agency as a project stakeholder presented a novel approach.

Project rationale

In late 2000 several municipalities sought financing from the Bank. Urgent needs for rebuilding municipal infrastructure prompted the Bank to formulate a quick start initiative. The rationale for the Bank was not only premised on the physical reconstruction but also on promoting its continuing endeavour for sector reforms. Both pursuits aiming at transition were sufficiently supported by a series of grant-financed technical cooperation (TC) from various agencies. The project rationale invited strong commitment and dedication from the Bank as well as the national and municipal government.

Achievement of objectives

Achievement of objectives is rated "Marginal".

Overall assessment

Four of the municipalities were rated "Partly Successful". Despite the significant delay in implementation, the physical works were, or are, expected to be completed in a satisfactory manner. The implementation of the TC showed mixed results. Due to political change effected by general elections during the implementation of the investment programme, the sector reforms have stalled and caused certain difficulties to components that had been formulated during the previous government.

In one municipality some project components were not implemented and the respective commitment was cancelled. The achievement of objectives is considered "Marginal". Transition impact of the project is considered overall "Satisfactory". This rating results from good corporate-level transition and the fact that impact on the sector and economy as a whole has not yet been verified.

However, the improved water infrastructure generated significant benefits. The environmental performance is assessed as "Marginal", and the extent of changes is "Outstanding". The municipalities, the largest in the country, demonstrate a "Satisfactory" financial position, while the performance of the water utility companies is rated "Marginal" due to unreformed tariff policy and institutional framework.

Bank handling is considered "Good" as the Bank exercised good monitoring practices in a difficult environment. The Bank's additionality is "Verified in All Respects" given the Bank's capital inputs in the country's most difficult moments during economic recovery. After the fourth municipality had joined the programme, the new investment is on hold due to slow-moving sector reforms.

Transition impact and additionality

At appraisal, the Bank considered transition potential of the programme to be "Good" with "High" risks. The transition objectives, which comprised strengthening frameworks for markets and introducing new standard, were expected to be achieved mainly through a realisation of cost recovery in water tariffs and the adoption of the service contract. The OPER team assessed overall transition impact as "Satisfactory" and its associated risks as "High".

The Bank's additionality is "Verified in All Respects". Only a few bilateral agencies were operating in the country when the Bank first intervened in the municipal infrastructure sector. Domestic banks still suffered a deep economic and financial turmoil. Foreign banks had little presence and were very hesitant to invest. The programme had strong additionality in its financial as well as design function that would deliver a restoration of built infrastructure and the expected transition impact.

Bank handling

Bank handling is assessed as "Good". A few lessons have been drawn for future operations of a similar nature. First, a change of operation leader (OL) caused a disruption during the implementation. However, after accountability was transferred to the Resident Office, the quality of monitoring has considerably improved. Secondly, the water utility companies pointed out that the Bank's procurement services unit seemed understaffed and needed to increase personnel. They also advised that the Bank's procurement staff provided high standard professional services.

Key issues and lessons learned

Large municipal infrastructure projects bear political risks that could weaken the original commitment of the municipality. When the decision makers at the municipal government are replaced, the investment's rationale could weaken as a result of changes in the political climate. Priority infrastructure investments, however, should be implemented for the benefit of users, regardless of political changes. Important investment projects should require a continuity of commitment independent from changes of key political figures. From the outset, the Bank should make sure that an adequate level of commitment exists from the local authorities and that this is maintained.

Timing of the TC is important in the country during a politically sensitive period. Ideally, the implementation of the TC should be undertaken promptly after the approval while the counterpart, who was supportive of the project, is still in a position to support the TC.

Involving the third party agency in the Bank's lending conditions could result in an unexpected delay in implementation. A decision required from the third agency, if included as a condition for the Bank's disbursements, could create risks of delay in project implementations, particularly in the situation where such an agency is new and unknown in cooperation with the international financial institutions. Ensuring the cooperation from such an agency prior to signing would avoid unexpected obstacles to timely implementations of the project. **Limitation of legal framework could result in less effective TC and unrealised transition impact.** In this case the Bank was aware of limited institutional framework imposed by domestic legislation. Nonetheless, a sector study under the TC was carried out. Legal impediments prevented sufficient cooperation with the study's counterpart. The study therefore delivered minimal results. Such a limitation should have been addressed as an issue during policy dialogue at the beginning of the project.

Resuming policy dialogue during the project implementation period may be necessary after major political changes. The best timing for policy dialogue with the government is always prior to the investment. Once the physical works have started in municipal infrastructure projects, the Bank's leverage reduces over time. When the politics change at the central and local government level, it can be very difficult to pursue the original objectives for sector reforms even though a TC is provided. Periodic follow-ups of sector reforms at proper level may be needed during project implementations.

Emergency situations may not lead to the best design. The Bank responded to a crisis situation and budgeted funds without adequate due diligence but committed funds to specific line items. In such situations the Bank runs the risk of taking on "white elephant" projects rather than focusing on projects which will maximise transition while meeting the Bank's sound banking and additionality criteria. While such situations call for quick action (and the banking team is to be commended for responding quickly), the banking team would be advised to put greater emphasis on due diligence activities and continue investigations after Board approval during the implementation stage.

The Bank's OL can play an important coordinating role among project stakeholders. The OL contributed to the success of the project by acting as a "mentor" to other donor agencies and to city officials. He served as a point of "institutional memory" for the project and kept all players focused on the critical decisions.

The Bank's loan documents need to address political risks at the municipal level. Political risk factors can seriously delay projects. These need to be anticipated in project design and addressed in the covenants so as to minimise their impact on project completion.