OPERATION EVALUATION SUMMARY

EU/EBRD Small Municipalities Finance Facility Framework

Regional

European Bank
for Reconstruction and Development

July 2015

EBRD EVALUATION DEPARTMENT

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Summary

This summary of an EvD Operation Evaluation includes a brief description of the project, the evaluation approach, results, overall ratings and findings.

Description

The EU/EBRD Small Municipalities Finance Facility (MFF) was a credit line framework implemented in cooperation with European Commission Phare funding. The overarching theme was strengthening the capacity of the financial sector. The MFF was designed to reach smaller municipalities through local banks; with financing for infrastructure investments and to upgrade the capacity of banks to serve this market with appropriately structured long term finance. The model combined credit lines with EU grants for TC and incentive payments available to participating banks and municipalities. In 2003, the EBRD approved a €100 million framework for participating banks (plus a €15 million Phare grant), increased in 2005 to a €190 million framework and corresponding Phare grant commitment of €33 million.

The uptake of the MFF was slow. Amendments approved in 2005 by the EBRD Board did not materially improve the uptake. In 2008, the 'original' MFF was terminated and restructured as an early sustainable energy financing facility.

Evaluation approach

This evaluation only concerns MFF before 2008 and focuses on the implementation of the EBRD's component of the MFF; the interaction between the EBRD, participating banks, municipalities and consultants; and the resulting impacts from interventions under the MFF. The approach paper recognises that this evaluation principally concerns accountability given the time periods involved and the learning that has taken place. The evaluation approach combines a 'top down' assessment of the design with a 'bottom up' review of results from the five facilities that were signed. Field mission coverage represented over 65 per cent of participating banks, credit lines, participating bank financial incentives and number of municipalities supported. Reconstruction of the intervention logic and the underlying theory of change were central to the evaluation approach since there was no clarity on these in the Board or supporting documents.

Results

The MFF was rated overall as *unsuccessful* by EvD due to marginal achievement of operational and transition objectives. Based on EvD's reconstruction of the theory of change, one operational objective was not achieved (capacity building at municipalities) and the other two objectives were partly achieved to the extent they could be measured. The marginal achievement of transition impact was in large part driven by the low achievement of operational objectives – weak outputs determine there was no causal link within the theory of change to drive the desired impacts of expanding the municipal finance sector. There is evidence that lessons have been learned from the MFF experience. The same structure has not been repeated and some of the EBRD's newer operations in similar space avoided the structural issues of the MFF.

EVD overall ratings of the evaluated project

	Overall performance (Highly successful, successful, partly successful, unsuccessful)	Unsuccessful
Relevance	Additionality (Fully verified, largely verified, partly verified, not verified)	Partly verified
Effectiveness	Achievement of operation objectives*	Marginal
	Company/Project financial performance*	Marginal
Efficiency	Bank handling*	Good
	Bank investment performance*	Satisfactory
Impact and sustainability	Transition impact*	Marginal
	Environmental and social performance*	Satisfactory
	Extent of environmental and social change (Outstanding, substantial, some, none/negative)	Some

Rating scale: excellent, good, satisfactory, marginal, unsatisfactory, highly unsatisfactory

Findings

The three findings of the evaluation are:

The mechanism to channel TC to end beneficiaries via participating banks did not function

Participating banks were designed as the conduit for providing TC to municipalities for project preparation. This mechanism did not work. It was of no benefit to participating banks to engage the TC because its provision did not increase the prospects of winning a tender for finance.

The approach was unsuited to the market development objective

The MFF was underpinned by a strong rationale but the practicalities of implementation – for example tender systems, bank competition, national regulations, structural funds and national soft funding programmes - meant the approach was unsuited to the market development objective for municipal finance.

Importance of the results framework

The MFF structure was complex and required a carefully planned results framework to separate the inputs/outputs, outcomes and impacts (with a clear and plausible theory of change linking them) and their respective measures of success in a way that allows aggregation to determine whether the MFF was more than the sum of its parts. Preparation of a results framework is not an operational requirement and its absence does not affect the ratings but may have contributed to poor performance of the MFF.