
SUMMARY OF OPERATION EVALUATION

Water supply and wastewater treatment plant

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EBRD EVALUATION DEPARTMENT



European Bank
for Reconstruction and Development

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Summary

This summary of an EvD Operation Evaluation includes a brief description of the project, overall ratings, findings, the recommendation, assigned ratings and management comments on the evaluation.

Description

The project under evaluation was a loan and grant to a wholly municipal-owned water supply and wastewater treatment company in an EBRD country of operations to help finance investments to end the direct discharge of untreated water into a river flowing through a city. The project's initially approved scope was narrowed about a year later given crisis-related local and federal funding constraints to focus on the most immediate infrastructure needs: a tunnel collector and a wastewater treatment plant. The Bank had limited expectations for transition impact at the outset, seeing instead the project's main contribution in the form of significant and urgent regional environmental benefits. The project was identified as part of the Northern Dimension Environmental Partnership (NDEP), which justified the Bank's participation and the provisioning of Shareholder Special Fund (SSF) grant funding.

Overall ratings

EvD rates the project overall *successful*. Achievement of (revised) objectives is rated *good*. Most construction around the tunnel collector is completed; however commissioning of the pumping station is delayed by faulty equipment, and the wastewater treatment plant component may not be completed until year-end. The rate of water treatment has been raised to nearly 100 per cent. Additionality is *fully verified*; in the context of the financial crisis support from the EBRD and other IFI co-financiers was important to ensure sufficient funding.

Company financial performance has been good and slightly above revised projections thanks to higher than projected tariff increases and despite a larger than expected reduction in consumption following the introduction of metering. The company is still loss making mostly due to amortization of heavy infrastructure investments. Bank handling and investment performance are also rated *good*. The EBRD has provided repeat funding to the client over time. Three of these projects have been evaluated or reviewed by EvD and found to be *successful*. This transaction is found to be a good example of cooperation with other financiers and donors, in particular pertaining to a complex procurement process.

Transition impact is rated *satisfactory* in line with the initial appraisal. The main foreseen sources of transition impact (demonstration of financing without recourse to the company or the city and improvements in business standards) have been mostly achieved, but the potential impact of these, as noted by OCE at appraisal, was limited. Finally, the more important aspect, the environmental impact of the project, is rated *good* with environmental change rated *substantial*. Together with other investments undertaken with the support of other financiers, the project has contributed to significant improvements in environmental performance. Completion of investment and full operation is likely to yield further environmental benefits.

Findings

Major environmental challenges require multi-institutional support

Resolving major, long-standing environmental issues requires sustained support from multiple sources. Over the course of nearly two decades, three IFIs came together under the NDEP to support the city to undertake major scale works. EvD has evaluated three of these projects and rated all *successful*. Significant environmental improvements have resulted through reduced pollution into the sea, reduced emissions of untreated water and improved emission parameters, with wider benefits for the region. The

project is a good example of cooperation between different financiers and donors, including in this case at a time of financial crisis.

Effective procurement process as a factor for success

The procurement process was a good example of cooperation amongst IFIs to undertake large and complex works. A potentially overwhelming procurement process given the involvement of different IFI's and donors and different currencies would have caused serious delays. However, it was simplified by good institutional cooperation and acceptance of a leading procurement role for the EBRD. The stakeholders' agreement to use the EBRD's procurement policies and rules eased the process for public tenders. All institutions interviewed in the course of the evaluation strongly praised the EBRD procurement department's leading role. Easing the tendering process with common procurement rules and facilitating an adequate planning of work is an essential element for the success in the implementation of complex projects.

Use of non-TC SSF grant funding for environmental projects

The Bank's support included a grant from the SSF. This, together with the contributions of other financiers in the form of loans and grants, was to continue the support to the major environmental problems impacting the ocean in the region. Given that the grant allocation represented the first such use of the fund and the flexibility in the interpretation of the fund's mission (the *satisfactory* transition impact potential did not seem to fit well with the defined goals of the SSF: "a key principle for the use of investment grants is that these be targeted as important transition impact objectives would not be otherwise achieved"), the approval was the object of some debate that ultimately led to the consideration that the important environmental aspects as justified the use of SSF grant funds.

Recommendation

The contribution of environmental and social factors to transition impact when using SSF grant funding should be sharpened and clarified, consistent with broader recommendations in EvD's recent interim evaluation of the SSF.

EvD performance ratings of the evaluated project

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

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

Management Comments

Management agrees with the importance of EvD recommendation and is on course of addressing the issue. No specific Action Plan is proposed as part of the Management Comments for this evaluation given that the related issues are sufficiently covered by the past and current activities as described below.

Management believes that the issues of the incorporation of environmental aspects as part of transition impact and the use of SSF non-TC grants have been sufficiently addressed in the past and further work is on-going:

- The concept of transition in environmental and sustainability objectives has been addressed a number of times in the past. In 2008 a memo for FOPC clarified how environmental and sustainability aspects are considered in the assessment of project transition impact. This paper clarified that the approach was based on institutions and processes in line with the general concept of TI and the additional effects in taking a systematic approach to a country/sector to achieve a critical mass of transformation in terms of institutions, processes and behaviours. This approach has been applied since.
- The use of SSF non-TC grants has also been addressed with clear guidance. Staff guidelines for non-TC grants were finalised in April 2008, have been applied since and have recently been updated and presented to the Board in an Information Session in February 2015. Specifically on environmental aspects the guidelines provide guidance on when the use of grants is suitable (related to the environmental standard pursued in the project compared to a baseline requirement) and how they should be sized (in relation to affordability constraints). The process for approval is well established.
- Further work is being done in two areas related to the above EvD's recommendation: the review of the purposes for the use of SSF (following the recommendations made by EvD's SSF study) and the revision of the concept of TI.
- The SSF Reform Proposal is currently being finalised, taking into account EvD's relevant recommendations, and is planned to be submitted for BAAC/Board consideration at the end of May 2015