APPOROACH PAPER

Private sector participation in municipal operations

May 2013

EBRD EVALUATION DEPARTMENT
The Evaluation department (EvD) produces approach papers to guide the conduct of an evaluation and to inform stakeholders of the approach proposed. Although comments are welcome, EvD is the sole decision-maker about incorporation of comments. An approach paper is the first output and milestone of an evaluation. Approach papers will generally approved by the Chief Evaluator 2–4 weeks after a study has started, and be based on a preliminary document review and initial internal consultations. Complex studies may require more time before clarity emerges on the objectives, evaluation questions, conceptual basis for the study and methods to be employed.
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1 Introduction

1.1 Purpose and scope

This study, ‘Private sector participation in municipal operations’ is a thematic evaluation for the purpose of identifying useful findings and making recommendations to invigorate private sector involvement in EBRD municipal operations. It follows EvD’s 2010 study: ‘Municipal and Environmental Infrastructure (MEI) operations policy review’, with a more in depth study on the element of private sector engagement. The Bank’s work in municipal and environmental infrastructure between 2002 and 2012 consisted of 42 private (€1.027 billion) and 176 state (totalling €2.552 billion) projects.

All municipal sub-sector projects approved by the Bank between 2002 and 2012 will be considered, with particular emphasis on the main sub-sectors: water/wastewater and urban transport. The study will focus on projects which have already undergone evaluation, and a sample of four to five private projects and two state projects with private components.

Key associated technical cooperation initiatives will also be examined for their effectiveness and impact.  

The Bank’s performance will be judged against two sets of indicators:

(i) To assess the extent to which the MEI Infrastructure Operations Policy encouraged the inclusion of the private sector in the Bank’s municipal operations – How was the policy formulated and balanced (private vs public)? What incentives were there in the policy to encourage promotion of private operations? How ambitious the Bank was in the selection of municipal projects in respect of those with private sector participation as opposed to those without? How ambitious the Bank was compared with other international financial institutions?

(ii) To assess the Bank’s success in the implementation of municipal private projects and public projects with private sector participation components – To what extent have they met their operational and

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1 When project extensions, equity increases, financing of the same client (including under Dalkia’s facility) are counted as one project, this number decreases to 27.
2 TC initiatives to facilitate private sector participation in the municipal sector include TCs related to: i) particular projects (often concession tender preparation) and ii) legal and regulatory reform aimed at creating a more favourable environment for private sector participation.
transition objectives? How efficiently were they prepared, implemented and monitored?

The following issues will be addressed:

- How did the Bank’s stated approach to involving the private sector in its municipal projects evolve between 2002 and 2012, taking into account sector policy and strategy documents, country strategies, and individual operations? What can be concluded about the Bank’s stated objectives with respect to the expansion of private sector engagement in provision of municipal infrastructure and services through its operational and advisory activities?

- What trends can be discerned over the same period in the specific form and content of private sector expansion efforts in the Bank’s approved operations? For example, is there evidence of a cumulative building by the Bank from more limited to more ambitious efforts? Are there regional factors (for example countries preparing to join the European Union) or sub-sector specificities (water versus urban transport) that explain the extent of the Bank’s support for private sector participation in MEI operations?

- Do the Bank’s strategies and operational work show evidence of incorporation and building upon accumulated experience, particularly the Bank’s own, but also the accumulated experience of others in greater engagement of the private sector in municipal operations? To what extent has the Bank developed its own comparative advantage in the sector and countries of operation? In what form does such comparative advantage manifest itself?

- What factors appear to influence the Bank’s level of ambition and specific form of engagement (such as projects, TC, policy dialogue, program facilities) in expanding private sector participation?

- Based on EvD’s previous evaluations and on a sample of more recent projects, what can be concluded from the evidence as to the Bank’s success in promoting private sector involvement in municipal projects (categorised both “state” and “private”)?

- To what extent and how effectively have been TC-related activities integrated with and supportive of the Bank’s stated strategic objectives and the specific objectives of particular transactions? Are there noteworthy case examples (good and
poor) that suggest approaches going forward?

− How relevant and effective any of the Bank’s policy dialogue initiatives in the MEI sector have been (e.g. tariff regulation) to promote or facilitate private sector participation in the countries of operation?

− What conclusions may be drawn about the adequacy and effectiveness of the Bank’s monitoring and reporting with respect to the private sector related elements of municipal operations?

1.2 Other relevant evaluation work

An EvD 2010 study, ‘MEI infrastructure operations policy review’ focuses on the evaluation of the Bank’s overall performance in the municipal sector and includes some observations and comments related to the Bank’s efforts to involve the private sector in such operations.

EvD has evaluated 22 “private” and 36 “state” MEI projects, most of which were signed between 2002 and 2007.

2 Evaluation structure, methodology, sources and output

2.1 Structure

There will be two parts to this special study:

− Part One will focus on analysing the evolution of the Bank’s efforts from 2002 to 2012 to promote private sector participation in EBRD municipal projects, and those of other international financial institutions active in the region. It will explore how private sector content has changed in MEI operations over time and what drove those changes. It will also explore the suitability of existing MEI sector policies to encourage active promotion of private sector projects;

− Part Two will constitute an evaluation of these efforts, encompassing both completed evaluations, four to five selected sample private projects and two state projects with private components signed between 2002 and 2012.

The focus will be on seeking responses to the questions listed in section 2.3 and providing findings and recommendations which may lead to an
increase of private sector involvement in the Bank’s municipal projects.

2.2 Methodology

For Part One, the methodology applied will primarily rely on the background documents review (listed in section 2.4) and interviews with relevant Bank staff. The experiences of other IFIs (primarily IFC, EIB, ADB and NIB) in promoting the private sector in their municipal operations, particularly in the Bank’s region will be reviewed to the extent possible based on available documentation and telephone interviews with the relevant staff.

For Part Two, evaluation questions will be answered through examination of evidence provided by the sample projects. The evaluation team will interview Bank clients (investors/operators) and beneficiaries (local municipalities/contracting partners) to evaluate the samples. The OECD-DAC criteria of relevance, effectiveness, efficiency, transition impact and sustainability will be applied to assess the degree of success in involving the private sector in municipal projects.

2.3 Evaluation questions

2.3.1 The Bank’s approach and evolution of private sector involvement

In addition to the issues listed in 1.1, the study will look at:

− What were the forms of private sector participation under the Bank’s municipal projects?
− How effective were the Bank’s operations policies in encouraging efforts to involve private sector in municipal projects?
− Are there examples of particularly effective, or ineffective, activities by other IFIs in promoting private participation in municipal projects?

2.3.2 Private MEI operations

− Are there any examples of particularly successful or innovative approaches?
− What were the main prerequisites for private sector participation?
− What was the main motivation for municipal authorities to choose private rather than public ownership/service/operation?
− Are municipal authorities satisfied with private sector participation (any disputes/issues)?
− What would they have done differently (for example, in terms of contract design), if they could do it again?
− How have the contracts been regulated? Are they satisfied with the arrangement/performance of the regulator?
− Has competition/service quality/value improved for the public as a result of these projects? (Were any independent surveys conducted)?
− Has the private investor/operator been satisfied with the project/cooperation with the municipality? Does the municipality want to replicate the project/private sector participation in other municipal sub-sectors?

2.3.3 Public projects with some private sector participation
− Was the private sector participation option realised? If not, why (and questions below), if yes, the set of questions above;
− What were the main reasons for replacing private sector participation (previously agreed with the Bank but not realised) with the public option?
− How satisfied are the municipal authorities with the public option? Would they have been more satisfied with private sector participation?
− Would municipal authorities have gone ahead with the Bank’s financing, if the Bank had set the private sector participation option as the loan’s pre-requisite (and covenanted it)?
− What key lessons can the Bank draw from the experience of the municipalities and private partners with these projects?

2.4 Key information sources
These will include the following:
− Basic documents of the EBRD, MEI Infrastructure Policy, country strategies
− Bank approval documents including: Concept Review
Memoranda, Final Review Memoranda, Operations Committee notes, Board Summary Documents, Board Questions and Answers (for sub-projects approved by the Board), MEI operational policies, legal documents, Environmental and Social Action Plans, financial forecasts, public disclosure/project summary documents.

- Due diligence documents: consultant reports if any.
- Implementation and monitoring: Project Monitoring Reports; Credit Review Summaries; Transition Impact Monitoring System Reports; Environmental Reports; Completion Sign Offs.
- Past evaluation reports
- Web searches
- Reports from other International Financial Institutions (subject to availability) and interviews with relevant staff
- Interviews with EBRD staff
- Field missions for four to five sample project sites/private investor headquarters. Interviews of client managers who worked with the Bank
- A survey of an extended sample of private and municipal clients will also be considered.

2.5 Deliverables

The output of this exercise will be a special study. A presentation and question and answer session with the Audit Committee will be held on request.

3 Administrative arrangements

3.1 Team

The evaluation will be led by Tomasz Bartos, Senior Evaluation Manager. A consultant will assist with data collection, particularly with respect to other international financial institutions, client interviews and identification of key lessons and recommendations from the sample projects.
3.2 Peer reviewers/advisory panel

External and internal peer reviewers will be used for this study. Internal peer reviewers will be Keith Leonard (Senior Adviser, Evaluation) and Chris Olson (Senior Evaluation Manager).

An external peer reviewer will be asked to review the final draft of the report.

3.3 Timetable

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<tr>
<th>Milestone</th>
<th>(2013) Date</th>
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<tr>
<td>Background documentation review</td>
<td>April-May</td>
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<td>Approach paper circulated and approved</td>
<td>May</td>
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<td>Internal data collection and interviews</td>
<td>May-June</td>
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<td>Field visits</td>
<td>July-September</td>
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<td>Draft report circulated to internal peer reviewers</td>
<td>Early October</td>
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<td>Draft cleared by CE for circulation to external</td>
<td>End of October</td>
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<td>peer reviewers</td>
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<td>Draft circulated for Management Comments</td>
<td>Mid November</td>
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<td>Final editing and final distribution</td>
<td>By the end of November</td>
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