

Sewerage and Drainage Project 2 – Environmental Loan

Ex post evaluation Abstract

The two projects covered in this report established a sewage collection system and treatment plant to improve the sanitation situation in the two municipalities of a Mediterranean Member State. In the project areas, this improvement was urgent in view of the rapid development of tourism and the resulting threats to the environment, as well as health risks, in the absence of a central sewage treatment plant. The initial preparations were carried out by the World Bank at regional level and the Council of Europe Development Bank (CEB) approved three loans in 1991 in favour of the sewerage boards (SBs) of individual municipalities. Two of these are evaluated in this report: 11.2 m€ for Sewerage Board 1 (SB1) and 6.3 m€ for Sewerage Board 2 (SB2). Due to considerable delays in setting up the Joint Venture to operate the jointly established Sewage Treatment Plant, disbursements were slow. To prevent their removal from the stock of projects awaiting financing, the projects were resubmitted and approved in 1997 based on updated cost estimates integrating plan adjustments and cost increases. The CEB approved 14.4 m€ for SB1 and 8.0 m€ for SB2. Completion was expected in 2001. The final total costs as stated in 2009 were 46.1 m€ for SB1 and 31.0 m€ for SB2, of which CEB financed 14.6 m€ and 8.2 m€, respectively (variations due to euro-equivalents of loans in local currency).

The Sewage Treatment Plant (STP) capacity was initially planned to be 26 000 m³/day based on expected future requirements. During the extended start-up period, tourism growth slowed, resulting in adjusted plans in the Addenda documents, including a reduced design capacity of the STP to 12 000 m³/day, on the one hand, and extension of the collection system on the other. When the STP started operating in 2002, the organic load was 50% higher than initially estimated. Based on the high sewage production, the STP's capacity has since been expanded twice to reach the present 21 000 m³/day. The STP is operated by the former constructor for the Joint Venture at a high technical standard. The effluent meets high environmental standards. The bathing water quality has improved and in most samples meets the higher guide values, while mandatory EU values are always reached.

Efficiency of the projects was rated marginal. Deficiencies in design combined with urban development led to plan adjustments during implementation and increased costs. This was further exacerbated by the Borrowers' slow institutional development which hampered adequate supervision of implementation and control of cost increases. During implementation, the construction seasons were often curtailed after awarding of contracts which, in the end, extended overall construction time and fuelled contractor claims.

One of the weak points of the projects is, in effect, the institutional development of the Borrowers, which continue to lack General Managers and cannot rely on professional management advice for decision making. Since the projects began, the SBs have not, by and large, implemented the expected tariff increases; in fact, they are actually losing income due to slow connection rates and the absence of updated customer databases. Most importantly, delayed property valuations of new property developments by the Lands and Survey Department impact them negatively in monetary terms. For several years, the SBs have therefore been unable to meet their debt service obligations, which were assumed in their stead by the Government.

The technical sustainability of the projects is likely, as management of the infrastructure is satisfactory and maintenance expenses were not affected by the adverse financial situation of the SBs. Moreover, this augurs favourably for environmental sustainability. The uncertainties per sustainability lie primarily at the financial and institutional levels. The SBs are presently expected to be transformed into a regional sewerage board in order to allow the extension of the network to municipalities with less than 2 000 inhabitants and contribute to the country's efforts to meet its EU obligation to provide sewer services in such municipalities. Five such municipalities could be connected to the existing STP, if negotiations are successfully completed. Overall, the projects are rated satisfactory.

The evaluation mission recommends to the CEB (i) to continue the sector dialogue with the relevant Ministries on governance of sewage collection and treatment policies; (ii) to establish a clear hierarchy of objectives and agree, upfront, with borrowers, on the relevant monitoring indicators and reporting procedures; (iii) to be involved at appraisal and carry out regular follow-up missions to the project sites, even in cases where there is a co-financier; (iv) to integrate the observations/ recommendations on institutional development when designing new projects.