Sanitation and Solid Waste Management Investments within a Programme – Environmental Loan
Ex post evaluation Abstract

The Council of Europe Development Bank (CEB) has provided five loans for multi-sector programmes to a local bank in a northern European Member State, of which three were evaluated by the Ex Post Evaluation Department (DEP), with a particular focus on their investment support to protection of the environment. CEB funding amounted to 50 m€, 75 m€ and 75 m€, respectively. The total investment volume resulting from these programmes can only be estimated to have been at least 400 m€, based on the initial cost estimates provided at approval, and taking account of the CEB loan policy to finance up to 50% of total investment costs. As the procedures of the Borrower do not require reporting of final construction costs by sub-project (SP) recipients, the final costs of the full programmes cannot be established.

The main objective of the programmes was to finance infrastructure investments made by municipalities, municipal federations and municipally-controlled companies. The expected programme impact included two dimensions, notably the improvement of social cohesion and a contribution to environmental protection. Given the multi-sector nature of the programmes, specific objectives reflecting the various eligible sectors were not defined. Operational objectives and indicators for evaluation of investments in environmental protection were defined by the technical evaluation expert, based on professional standards and environmental permits approved by the responsible authorities for each location and type of investment.

Five municipalities covering 18 SPs were visited during the evaluation, including funding contributions through 10 individual SPs to the capital area landfill site alone. The municipal field assessments were grouped into two main clusters of investment with similar environmental and infrastructure performance criteria, namely (i) water supply and sanitation and (ii) solid waste management infrastructure.

Evaluation findings. The investment needs were identified by the competent authorities in line with environmental regulations, the need for expanded geographical coverage of services and the need to upgrade technical performance. The evaluation confirmed the application of sound planning processes for the technical designs and construction supervision. Competitive arrangements for awarding contracts as well as financial services were used. Most laudable is the transparent and efficiency-oriented policy of financing municipal infrastructure requirements with a transparent service fee policy, resulting in the implementation of the “user pays principle”. This is complemented by social transfers to prevent adverse social effects which might otherwise result from high fee levels. However, social transfer mechanisms are clearly separated from user fee policies to prevent perverse incentives. Investment costs are repaid from user fees, most commonly within the CEB loan tenor period; by the time the CEB loan has been repaid, no local or borrower debt remains to be rolled over.

Technical assessments by the CEB of these programmes had been made exclusively from the perspective of educational SPs which, in two of the programmes, were estimated at approval to receive the largest share of funding. The programmes were nonetheless selected for evaluation within the Ex Post Evaluation Department’s (DEP) evaluation cycle on “protection of the environment”, because this sector was slotted, in one of the loans, to receive the largest share of funding. The evaluation confirmed, for the environmental sector, very similar positive findings to those identified by technical missions for the education sector. At the same time, the evaluation also identified cases where the CEB sub-loan covered more than the eligible limit of 50% of final construction costs. Instead of adjusting CEB funding allocations for individual SPs retroactively, as was occasionally done in the past, the DEP encourages addressing the underlying monitoring and reporting issues with an appropriate procedure and definition of SPs.

The following recommendations to the CEB are issued:

1. The new “conditional financing instrument” (Resolution 1522) is suitable in conditions such as the present case. The issue that remains to be addressed is that of defining suitable eligibility criteria, in terms of maximum funding shares and funding of multiple SPs for the same piece of infrastructure.
2. The CEB should reflect on appropriate procedures for different types of borrowers when monitoring final costs, and establish the apposite monitoring practices. Furthermore, it could be useful to reconsider under which circumstances the 50% funding ceiling should be applied not only to the overall programme but also to each single SP.
3. It would be desirable to reconsider the classifications within the CEB sectoral lines of action under the CEB Loan Policy to account for the fact that certain types of activities may actually be managed by one same technical department at the municipal or local level, using similar performance indicators. Improved clarity of classification would also favourably impact on CEB reporting of both social effects and statistics on aggregate funding per main sectors of action.
4. It could be considered by the CEB to define more realistic social impact indicators instead of systematically reporting the total number of inhabitants at the locations where the financed municipal infrastructure investments are realised.
5. The CEB should establish clear and suitable definitions of SPs for municipal infrastructure financing within programmes. SPs should be defined in relation to an operational piece of infrastructure. The funding ceilings defined within the Loan Policy should be aligned to the extent possible with operational needs.
6. The CEB should preferably rotate technical monitoring responsibilities for multi-sector programmes, particularly when a series of such programmes are implemented with the same borrower.

Ratings are on a four-point scale: poor-marginal-satisfactory-very satisfactory