Evaluation Abstract

Rural and urban modernisation in Southeastern Europe

Between 2001 and 2009, the Council of Europe Development Bank (CEB) approved a series of loan programmes (LP 1, 2 & 3) for a total loan amount of € 53.87 million, to finance the upgrading of basic municipal infrastructure, notably roads but also water supply, sewerage networks, bridges, sidewalks and similar investments in mostly rural areas in a Southeastern Europe member state. The programmes were implemented by the National Development Fund (NDF), a government agency for the promotion of regional development within the country, which had been founded in 1993 based on an agreement between the government and the World Bank. Whereas all three CEB loan programmes shared the objective of improving living conditions of the population at the sub-project (SP) level, the first two programmes further aimed at strengthening decentralised administrative authorities through the involvement of local communities in the planning process. The series of loan programmes showed an interesting shift in focus from the promotion of particularly disadvantaged/poor areas towards the promotion of locations with particularly high economic development potential, and a concomitant increase in the eligibility threshold for the selection of individual sub-projects.

The first loan programme (LP 1; CEB loan of US$ 3.4 million) was essentially a parallel financing of an on-going World Bank operation to finance small public infrastructure projects in rural and urban areas that had been identified in a participatory process mediated by the local authorities. The successor loan programme (LP 2; CEB loan of € 10 million) was a stand-alone programme financed by CEB without involvement of other international financing entities. It financed sub-projects in rural areas only and comprised a capacity-building component to support local governments in the preparation of development plans. The third loan programme (LP 3; CEB loan of € 40 million) financed road infrastructure improvements only. It comprised three components: two related to the improvement of roads (secondary and/or local roads) and an institutional support component for the National Development Fund. It was an open programme in that CEB provided financing alongside a number of other international partners, within a wider road infrastructure project run by the National Development Fund.

Even though a variety of sectors were eligible for financing under the first two loan programmes, road infrastructure sub-projects strongly dominated the portfolio. The first two CEB loan programmes financed a total of 87 sub-projects to rehabilitate and upgrade road sections, 8 SPs to improve the water supply systems and 5 SPs to improve the sewerage drainage. The third loan programme focused on road infrastructure improvement only and comprised the construction of 294 km of local and secondary roads.

The objectives of the evaluation were to: (i) assess the results and impact of the sub-projects financed with CEB loan proceeds by gathering data several years after the start of operations, so as to analyse realised (rather than expected) outcomes; and (ii) generate lessons learned and recommendations that could be useful for the implementation of future loan programmes. This evaluation was carried out in cooperation with other development banks, which had financed almost identical programmes with the same borrower. The findings of the evaluation report are based on various sources: a review of the results presented in studies carried out by the implementing agency and the World Bank; a joint socio-economic impact assessment study commissioned by CEB and another development bank; and, field-based evidence collection on the social effects of a sample of sub-projects and of the technical assistance component.

The evaluation further sought to explore programme-level considerations by shifting the perspective from individual SPs to a broader review of (i) the use of trust funds for technical assistance and interest rate subsidies for these programmes, and (ii) borrower's and CEB's reporting standards and performance indicators for road projects. The present report is the first evaluation in the CEB's sector of action aimed at improving living conditions in urban and rural areas.

EVALUATION FINDINGS

RELEVANCE. The approach taken in the CEB loan programmes to support infrastructure investments as a precondition for local development was highly relevant in the socio-economic context. Decades of neglect of public infrastructure in rural, as well as many urban, areas had resulted in dire conditions of a large part of the infrastructure. The approach of promoting local infrastructure development through a demand-based, participatory process mediated through local government units (LGUs) and including complementary technical assistance activities in project design is considered highly relevant. In light of the weak local administrations inherited from the planned economy system, the approach supported national decentralisation reforms. The National Development Fund had been established by the government as a vehicle to accompany LGUs in the participatory planning process and in the design, tendering and work supervision of public infrastructure projects. Municipal representatives who were interviewed confirmed National Development Fund's reputation for neutral, criteria-based and transparent screening processes in the selection of beneficiaries of investment grants. The choice of CEB's partner implementing agency was thus also highly relevant, as was the provision of complementary technical assistance from CEB trust funds.

Overall, LP 1, as the first loan programme of the three[1], had the least developed paradigm, which was subsequently improved in the successor programmes. Most notably, the approach under LP 1 to finance only one sub-project per local governance unit, with a low budget ceiling, limited the developmental impacts that the loan programme could generate. Furthermore, the loan programme lacked a broader vision on how to support

[1]Although it should be noted that the National Development Fund was created in the context of a precursor project to LP 1.

decentralisation processes, e.g. the nature and content of the envisioned technical assistance activities were not specified in the loan documents. The successor loan programme (LP 2) – with its clear selection criteria to finance communities with particularly strong development potential and its targeted technical assistance to support the preparation of development plans within which the SPs were enshrined – constitutes a conceptual improvement on the first programme. Finally, as a (positive) novelty compared to the preceding two programmes, the project targeting secondary and local roads (LP 3) strived to introduce the private sector in the maintenance thereof. CEB however chose not to participate in the private sector involvement concept, but to finance only road infrastructure construction. From today's perspective, the underlying reasoning for this decision remains elusive.

EFFECTIVENESS. The investments in roads upgraded existing road sections; the sanitation and water investments either complemented existing systems or upgraded them. Overall, a satisfactory number of sub-projects were financed. Since the SPs were supposed to be determined based on demand from the population, the CEB loan approval documents did not specify, upfront, a breakdown of SPs by type of infrastructure. The extraordinarily high share of road sub-projects in the first two loan programmes prompted the World Bank to question whether there was a bias in the selection process in favour of roads. The EVD evaluation found no evidence to substantiate such an argument. However, the field assessment consultants obtained evidence that the low budget ceilings applied under the first loan programme had a negative influence on the selection of some sub-projects in that, in some cases, schools and water/sanitation SPs that were high on local priority lists were eliminated during the selection process because they exceeded the budget ceiling[2].

According to observations made during the evaluation fieldwork, almost all SPs were operational at the time of the evaluation. On average, for each sub-project, costs stayed within the ceiling communicated at approval. A total of 110 000 residents are estimated to have benefitted from LP 1; 49 000 from LP 2; and 290 000 from LP 3. For LP 3, the National Development Fund further analysed the development of traffic numbers: traffic increased on average by 21 % along the sub-project roads within one year of completion. The technical assistance activities of all three loan programmes contributed positively to objectives. The activities under LP 3 had a particularly strong effect – a total of five developmental plans, four tourism development plans plus several other planning documents were produced. The evidence confirms that the documents follow a clear logic and are still being used by the local authorities.

The least satisfactory results lie with regional targeting. According to the loan approval documents, LP 1 should have targeted regions with a high refugee population, and LP 2 was supposed to finance SPs in 10 communities selected among the poorest of the country. Yet the framework loan agreements for the two loan programmes did not specify any poverty focus or regional targeting, with the result that the related sub-projects were implemented countrywide.

EFFICIENCY. Efficiency of the loan programmes is rated "moderately satisfactory" to "satisfactory". The approach of the loan programmes to implement sub-projects through the decentralised structure of local governments required said SPs to be of modest size, stand-alone and of limited complexity. It was not possible to assess ex

[2] In the context of the World Bank "mother" project, doubts had arisen with regard to the effects of the low budget ceiling. Even though the World Bank decided to raise its budget ceiling prior to the start of the first CEB programme, the Bank continued to apply the low ceiling.

post whether the differences in unit costs for road works under LP 1, LP 2 and LP 3, as well as the unit costs for water and sanitation infrastructure under LP 2, were reasonable; however, the variation in unit costs appears to match the differing road designs. The loan documentation suggests that the quality of works steadily improved from the first loan programme to the successive ones. Increased experience of contractors as well as experience gained by NDF staff in managing the infrastructure sub-projects and by participating in training modules certainly contributed to this development. For all three loan programmes, there were some delays in implementation which were mostly due to design issues. In light of the demand-based approach of the sub-projects, costs per SP could only be roughly estimated, and NDF had to run several procurement/allocation rounds in order to allocate the entire budget, which consequently extended the time period before formal completion could be achieved. These process-related delays in reaching programme loan closures are explained in detail in the monitoring reports from the CEB Technical Assessment and Monitoring Directorate (TAM). The CEB Loans and Social Development Directorate (L&D) pins the overall delays in disbursement (particularly for LP 1) primarily on the loan terms offered by CEB compared to the concessional rates offered by other international financial institutions[3].

The criterion of efficiency also reflects on whether all programme resources were efficiently converted into results, which includes reflection on the application of interest rate subsidies, based on the line of argument used in the official reports. It was stated in the loan documents that grant funds would be given "*provided that the full value of the subsidy is passed on to the population benefitting from the projects*". The fact that the entirety of CEB loan proceeds were converted by the borrower into grant support – through the National Development Fund– to the LGUs leaves room for interpretation as to whether the interest rate subsidy actually complied with this clause as formulated above and, at the very least, brings into question the assumption that the subsidy affected the scale or quality of benefits for the local target population[4].

Impact. The developmental impact of the programmes was very good and – in light of the high share of road sub-projects in the portfolios – comparable in nature across the different programmes. The completion reports of the borrower (NDF), the final TAM reports as well as information collected during the evaluation process agree that the population perceived road infrastructure as an important factor for enhancing access to social services as well as economic infrastructure. For example, more than one third of respondents living in the vicinity of LP 1 sub-project roads stated that they travelled more frequently to nearby towns and that business activities had been facilitated thanks to lower transport costs. Interviews conducted along the sub-project roads of LP 2 and LP 3 confirmed this trend, shedding light on the fact that travel times along the improved road sections have been reduced by 26 % (LP 2) and 60 % (LP 3) thanks to the SPs. These observations are very much in line with the findings of large-scale

[3] The claim is that the approval of interest rate subsidies and grants for technical assistance enabled the CEB loans to comply with the International Monetary Fund requirements at the time, in terms of concessional/non-concessional borrowing by the country.

[4] Notwithstanding the argument by L&D that, without the subsidy, the programmes would not have been approved, loans and disbursements would not have been made, and therefore there would have been no positive benefits for the population. This harks back to a with-versus-without-programme debate that was not a core research question of the evaluation. However, it does highlight the fact that the official documents seeking approval for the subsidy were far less clear (especially for LP 1) in what should actually be understood by the formulation "*passing on to final beneficiaries*", and in this regard, reflection on the official formulation would be warranted.

economic studies which have established a positive relationship between road infrastructure investment and economic development. According to the documentation, all of the investments in water and sanitation infrastructure are operational and have improved the life of residents; water supply became almost continuous whereas before it was limited, in some cases to two hours a day. On a critical note, the approach followed in the first programme (LP 1) to support only one SP per location and to adhere to a very low cost ceiling limited the scope of impact at both the sub-project and programme levels. Since only parts of the road network were modernised, impacts such as reduction of transport costs were of a moderate scale.

Regarding the aim to strengthen participatory activities and local planning processes, LP 2 had a particularly positive impact. The evidence confirms that local stakeholder consultations were organised according to the developmental plans and that the tourism plans had a positive impact and were used. According to a survey, local authorities reported an increase of 37 % in tourist numbers in 2012 (the year of project closure) compared to 2009.

SUSTAINABILITY. Maintenance is a key criterion for evaluating the sustainability of the SPs covered by the programmes. Regular maintenance is particularly important for road infrastructure sub-projects, since the full benefits of the investments unfold only over the long term.

The scarce budget of LGUs for maintenance was a key concern in all programmes and a subject of discussion in reports by TAM Technical Advisors and the National Development Fund. The issue is taken into account in the programme design. The first two programmes strived to tackle the issue by demanding a local contribution of 10 % of the investments costs per SP in order to increase local ownership. LP 1 also included a modest level of training on maintenance-related activities of LGUs which, under LP 2, became an explicit component of technical assistance. According to programme records, 750 participants from 374 municipalities and communes benefitted from training activities concerning road maintenance. These approaches were a sensible means of raising awareness of maintenance issues and enhancing technical maintenance capacity at the local level. According to evaluation findings, the approach of involving the local population in maintenance activities through unpaid membership in so-called Counselling and Monitoring Groups did not prove as successful as anticipated.

The evaluation mission visited a sample of SPs financed under LP 1 and LP 2 in order to assess the condition of the sub-projects' roads. Out of the 26 SPs visited, operation of 7 SPs was rated "not satisfactory"; 12 "satisfactory"; and 7 "very satisfactory". Concerning the maintenance status, ratings were: 14 "not satisfactory"; 5 "satisfactory"; and 6 "very satisfactory". These findings (low satisfaction in maintenance) corroborate the technical assessments and completion reports that consistently rated sustainability with the lowest scores. However, there are differences across the programmes. Road sections financed under LP 1 were very short and scattered and thus had both a low likelihood of generating strong economic development or receiving sufficient funds for maintenance. The more focused selection of LGUs in LP 2, along with the clearer upfront commitment to tackle maintenance issues (e.g. through technical assistance) and the application of economic development potential as an explicit selection criterion, are likely to increase the sustainability of the road sections. The sustainability rating of LP 3 investments was further enhanced by private sector engagement in maintenance activities and the fact that secondary roads were also financed (and which are maintained through regional government budgets).

Over the last fifteen years, the National Development Fund has established itself as a credible entity for the implementation of public projects with the capacity to design, identify, monitor and support implementation of municipal investment projects. Alongside the role of fund administrator and implementing partner for infrastructure throughout the project cycle, NDF staff has also developed increasingly complex complementary skills. The combination of strengthened institutional capacity of NDF and its status as implementing agency for various programmes with other donors make it very likely that NDF will continue its work over the next years.

The overall ratings of the programmes are based on a calculation of a simple arithmetic mean across the five standard evaluation criteria. On account of the above mentioned considerations, the programme LP 1 is rated, overall, as "moderately satisfactory" and the programmes LP 2 and LP 3 as "satisfactory".

PROJECT-LEVEL CONSIDERATIONS

As mentioned above, the evaluation of these three programme loans provided an opportunity for reflection on some programme-level challenges associated with the use of trust fund resources for technical assistance and interest rate subsidies, as well as on borrower's and CEB's reporting standards and performance indicators for road projects.

USE OF TRUST FUND RESOURCES TO THE BENEFIT OF THE TARGET GROUP. All three programmes received interest rate subsidies as well as technical assistance contributions. At CEB, these funds draw on the same account – the Social Dividend Account (SDA) – so that, in practice, there should be an arbitrage between the different windows corresponding to each of the four specified purposes of the SDA. On the one hand, documentation on the discussions surrounding the approval of interest rate subsidies and technical assistance activities suggest that there was little reflection on the justification for use of the different trust fund windows. For example, the interest rate subsidy for LP 1 was granted based on the argument that the programme targeted CEB's statutory priority – refugees – even though the implementation mechanism foresaw that the SPs would be geographically evenly spread throughout the country. On the other hand, the largest share, in volume, of the grant element was through interest rate subsidies which, as mentioned above (see section on "efficiency"), go unnoticed at municipal level (LGUs) given the implementation modalities of the programmes (both technical assistance and investment costs of municipalities were funded by the borrower, via NDF, as grant contributions). In this respect, it would have been useful for CEB to reflect more closely on aforementioned arbitrage processes between trust fund windows.

Based on recent experience with other programmes, there is often little time for non-operational units of CEB to introduce considerations on the reasoning for, and focus of, trust fund use within internal committees, before projects and programmes are submitted for approval to the Administrative Council. A more active trust fund and SDA management role in shaping complementary activities (rather than just fund administration) might support the definition of more focused technical assistance components as well as a strategic internal dialogue on the use of the different SDA windows, all of which draw on the same financial resources of CEB.

DIFFERENCES IN CEB AND BORROWER REPORTING STANDARDS. The quality and scope of reporting on programme and sub-project results and outcomes offered by NDF provides an example of what can be obtained from borrowers. Accustomed to the reporting requirements of other international financial institutions, NDF provided a very high standard of reporting documents, reflecting serious efforts to determine the social effects of the investments and to address maintenance concerns. In comparison, CEB's own monitoring and reporting system remains relatively shallow. The statements in CEB approval documents and loan agreements concerning social effects, as well as obligations on reporting of results (beyond physical outputs), have been and remain very general. Monitoring reports focus on issues of infrastructure quality supervision, expenditure accounting and recording of estimates of numbers of resident populations as proxy-indicators of social effects. As a consequence of this discrepancy in reporting standards, the wealth of information provided by NDF was only partially transferred into CEB's own completion reporting processes. This is unfortunate, since many of the positive effects generated by the programmes escaped CEB's internal documentation.

Indicators to measure social effects of road infrastructure sub-projects. Improving the road infrastructure network is a widely accepted and long-standing approach in the development community to support rural development and combat rural exodus. Common indicators applied by other development banks to measure the impact of road infrastructure investments are traffic flows, savings in transportation times, and estimates of economic rates of return (ERR). However, CEB monitored only its standard set of performance indicators along the sub-projects' roads. For future programmes, CEB may consider monitoring more advanced levels of performance indicators for road sub-projects, such as the ERR of the investments. For very small roads such as the road sections of LP 1, estimating the ERR is barely feasible, but for larger road sections such as the ones financed under LP 3, it can provide interesting insights on the viability of the investment. The National Development Fund has established most of the requisite ingredients for an ERR calculation, and seems readily capable of carrying it out for future programmes. CEB may consider pushing for these data in future programmes.

RECOMMENDATIONS

Based on a series of conclusions and lessons presented in the full Evaluation Report, the following recommendations to CEB are issued:

Recommendation 1. While ongoing efforts at the Bank to enhance indicator systems are duly acknowledged, CEB should establish processes which ensure, to the extent possible, that the full range of expected effects of a programme/project loan is made explicit in the loan documents, particularly in the case of public sector operations where efficient use of (often scarce) public resources is an issue at stake.

Recommendation 2. CEB should increase efforts to ensure that opportunities for enhanced reporting on results of operations are used, instead of relying on excessively simplified reporting templates, in particular at completion stage. For example, where relevant and possible, CEB should take advantage of advanced levels of reporting by its implementing partners to draw deeper evidence of results that can be used to generate internal completion reports and a broader basis for CEB's corporate reporting on results.

Recommendation 3. CEB should ensure a consistent and coherent operational project/programme rating system across the board and provide sufficient evidence for the monitoring ratings assigned (by TAM) throughout the life cycle of a project/programme, so that these may be interpreted as a series that enables the tracking of the project's/programme's evolution during the implementation phase and up to completion. Furthermore, the ratings assigned at project/programme completion could be better distinguished from ratings assigned during monitoring, by placing more emphasis on higher-level effects.

RECOMMENDATION 4. CEB should review the reasons for implementation delays and try to understand where and how such delays during implementation can be mitigated at the appraisal and approval stages; e.g. by factoring into the expected implementation schedule some leeway for cases where extra timeframes may be required due to implementation realities, such as iterative local contracting or a need for extra rounds of sub-project selection and allocation of funds.

RECOMMENDATION 5. CEB should consider including sector-specific indicators in line with internationally established standards when financing road investments. For road infrastructure investment indicators such as the economic rate of return, traffic data or transport saving time reflect best the results of such projects.

RECOMMENDATION 6. When projects are being financed in parallel by several multilateral development banks, emergence of different eligibility standards between partners should be avoided. If CEB joins an on-going project as a late entrant, it should stay closer in touch with both the other partners and the implementing agency, so that arrangements are kept in tune with available lessons being learned as implementation moves forward. Attempts to do so should also be strengthened in cases where programme/project commencement is delayed after initial CEB approval.

RECOMMENDATION 7. CEB should enhance the internal reviews of draft programme/project loan documents, so that a clearer and more thorough reflection on the use of trust account windows and their contributions to programme/project outcomes becomes possible.

RECOMMENDATION 8. CEB should review how the various administrative units involved in trust account management, use and reporting, can interact to ensure optimal fund use for the achievement of higher-level results. Eligibility considerations should be complemented by a structured reflection on the efficient use of such funding for stated project objectives.

RECOMMENDATION 9. CEB should better ensure that illustration material emerging from Bank-financed operations are duly transferred to internal communication services, so that these may be used in a timely manner to serve broader corporate communication interests rather than being confined to the programme/project-level filing system.