Report Number: ICRR0022575

1. Project Data

Project ID
P096481

Project Name
MUNICIPAL DEVELOPMENT

Country
North Macedonia

Practice Area(Lead)
Urban, Resilience and Land

L/C/TF Number(s)
IBRD-76990,IBRD-81580

Closing Date (Original)
30-Nov-2014

Total Project Cost (USD)
81,609,591.05

Bank Approval Date
26-Mar-2009

Closing Date (Actual)
30-Sep-2020

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	25,000,000.00	0.00
Revised Commitment	25,000,000.00	0.00
Actual	65,140,128.54	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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Project ID
P150342

Project Name
Municipal Services IPA Rural Window (P150342)

L/C/TF Number(s)

Closing Date (Original)

Total Project Cost (USD)
16469462.51

Bank Approval Date
22-Dec-2014

Closing Date (Actual)

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	0.00	17,720,607.81
Revised Commitment	0.00	17,387,414.24
Actual	0.00	16,469,462.51

2. Project Objectives and Components

a. Objectives

According to the Project Appraisal Document (p. 3) and the Financing Agreement of June 29, 2009 (p. 4), the project development objective was "to improve transparency, financial sustainability and delivery of targeted municipal services in the participating municipalities."

b. Were the project objectives/key associated outcome targets revised during implementation?

Yes

Did the Board approve the revised objectives/key associated outcome targets?

Yes

Date of Board Approval

07-Jun-2012

c. Will a split evaluation be undertaken?

No

d. Components

The project included the following components:

Component A: Municipal Investments (appraisal estimate €15.07 million, actual €46.82 million. The component received AF in the amount of €31.47 million). This component was to finance loans to municipalities eligible to borrow. Investments to be financed under this component were to be mainly for revenue-generating public services and other investment projects of high priority to municipalities and with cost saving potential. Sub-projects were to demonstrate either revenue earning or cost savings to qualify. Municipalities and Communal Service Enterprises (CSEs) were to be assisted with project preparation activities, including review of feasibility studies, preparation of detailed design and bidding documents, as well as supervision of construction activities. According to the PAD (p. 21), CSEs are legally independent from their municipal owners and operate based on an informal arrangement with municipalities. The CSE uses infrastructure owned by the municipality or the state to provide services and proposes tariffs, which are then approved by the municipality. The municipality in the current structure is owner, policy-maker, and regular. Also, the municipality is a large user of CSE services through its own institutions.

Component B: Capacity Building and Institutional Reform (appraisal estimate €1.41 million, actual €3.42 million. The component received AF in the amount of €2.43 million). This component was to finance consultancy services and technical assistance including the following:

i. Sub-project preparation support: feasibility studies and required financial, environmental, and social assessments; preparation of final designs and bidding documents; and bidding procedures for investments funded under Component A.
ii. Local capacity building: finance technical assistance, training, and consulting services for municipalities and CSEs to improve service provision performance and meet project objectives.
iii. National-level institutional strengthening: support national agencies through a study of policy issues and strategy development related to the financial sustainability of municipal services, including possibilities to establish a revolving fund.

Component C: Performance-Based Investment Grants (appraisal estimate €2.27 million, actual €3.34 million. The component received AF in the amount of €2.90 million). This component was to finance grants to municipalities as incentives and rewards for implementing reform initiatives to improve service delivery performance. Performance grants were to be awarded according to simple and objective criteria based on enforcing current Former Yugoslav Republic (FYR) Macedonia legal and regulatory requirement.

Component D: Project Management, Monitoring and Evaluation (appraisal estimate €96,200, actual €126,200. The component received AF in the amount of €300,000). This component was to finance the project management unit (PMU) operation and assist with project implementation and monitoring. The component was to finance PMU incremental operating costs incurred through its responsibility for overall project management.

Component E: European Commission (EC)-Instrument for Pre-Accession RETF-funded investment window (appraisal estimate €zero, actual €19,814,500). This component was added during the December 2014 restructuring and was to provide grants to finance infrastructure sub-projects in eligible municipalities through the implementation mechanism of the project.

The scope of these components was increased when the project received AF.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost: The project was estimated to cost €18.9 million, actual cost was €74,34 million. The project received AF of €37.20 million and €15.5 million.

Financing: The project was financed by a Bank loan in the amount of €18.9 million, of which €17.68 million was disbursed. Also, the project received AF in the amount of €37.20 million, of which €36,000 million was disbursed and AF (from the European Commission (EC)-Instrument for Pre-Accession (IPA) Trust Fund administered by the Bank) in the amount of €15.50 million of which was fully disbursed.

Borrower Contribution: The Borrower did not plan any contribution at appraisal. The actual Borrower Contribution was €.5.2 million (ICR page 13, Table 2).

Dates: The project was restructured six times:

- **On December 1, 2011** the project was restructured to: i) modestly revise the performance-based investment grant allocation mechanism under component C as well as the related intermediate results indicator; and ii) reallocate funds between project components and disbursement categories.
- **On June 7, 2012** the project received AF in the amount of €37.2 million to scale-up of project activities to enhance the impact of a well-performing project and help mitigating the adverse impacts of the unfolding economic crisis. The project was to continue i) financing investments in basic local infrastructure and municipal services; ii) providing technical assistance (TA) to municipalities and Communal Service Enterprises (CSEs); iii) supporting institutional reforms in municipalities through performance grants; and iv) supporting operation of the Project Management Unit (PMU) responsible for project implementation. The original loan closing date was extended by three years, from November 30, 2014 to November 30, 2017, to implement additional activities financed by the AF.
- **On December 24, 2014** the project received AF in the amount of €15.5 million from the European Commission (EC)-Instrument for Pre-Accession (IPA) Trust Fund administered by the Bank. The AF was to introduce a new component EC- IPA Rural Investment Window to provide grants to finance rural infrastructure sub-projects in eligible municipalities through this project's the Municipal Services Investment Project (MSIP) implementation mechanism. The trust fund mainly targeted rural municipalities, but urban municipalities with rural settlements were also eligible. The projects closing date was extended sixteen months, from November 30, 2017 to March 31, 2019, to align with the closing date of the EC-IPA Recipient Executed Trust Fund (RETF).
- **On December 14, 2018** the project was restructured to: i) modify the Results Framework to include more intermediate outcome indicators and increase of the target values related to results of the Performance Based Investment Grant component; ii) extend the loan closing date from March 31, 2019 to March 31, 2020 to allow for the implementation of activities financed by the AF; and iii) modify the implementation schedule.
- **On March 27, 2020** the project was restructured to change the closing date from March 31, 2020 to September 30, 2020. The extension of the closing date was requested to allow delivery of purchased equipment to four participating municipalities that was delayed due to COVID 19 related disruption to international trade and logistics.
- **On June 29, 2020** the project was restructured to cancel €2.42 million of the original and AF loan funds.

Split rating. The PDO remained unchanged during the project. The two AFs resulted in the scaling up of the project and outcome target values were increased. Consequently, a split rating will not be conducted.

3. Relevance of Objectives

Rationale

Country and Sector Context. According to the PAD (p. 1) in 2008, at the time of project appraisal, the Republic of North Macedonia's economic performance was strong. Gross Domestic Product (GDP) grew by 5.2 percent compared to the previous year. However, this growth was not sufficient to significantly reduce poverty and unemployment. In order to increase economic growth some structural issues such as improving the efficiency and effectiveness of public service delivery and providing higher incentives for the private sector to increase investments had to be addressed. The Republic of North Macedonia faced the dual challenge of increasing investments in municipal services while addressing shortcomings in municipal performance and local capacity. The government's 2008 Public Investment Program aimed to invest €90 million in water, wastewater, and solid waste management services. Also, the government's Program for Implementation of the Decentralization process 2008-2010 identified priorities to strengthen municipalities. However, the decentralization process gave greater responsibilities to municipalities for which they did not have sufficient capacity. Municipalities and their Communal Service Enterprises (CSEs) were responsible for providing most local public services including water and sanitation, urban transit, street cleaning etc. According to the ICR (p. 10) a 2006 sector study conducted by the Bank ("FYR Macedonia Issues in Urban and Municipal Development: A Policy Note") found that communal services were relatively well developed but local government faced high losses, low collection rates, and low tariffs to fund necessary operation and maintenance costs, rehabilitation and new investments.

Alignment with the Country Strategy. The objective of the project supported the government's work program for 2020-2024, which focuses on further fiscal decentralization and increased responsibility and transparency of municipalities' operations through; i) enhancing the delivery and quality of communal services to citizens by investing in municipal infrastructure and equipment; ii) building municipal capacity in delivering communal services and implementing investments; iii) improving fiscal sustainability of municipalities; and iv) supporting citizen engagement (ICR p. 16).

Alignment with the World Bank strategy. The objective of the project was aligned with two pillars of the Bank's most recent Country Partnership Framework (CPF) (FY19-23): i) fostering economic growth, job creation, and increasing living standards for all; and ii) improving governance and transparency of public service delivery to support the market economy. The fourth objective of the CPF pertains to the improvement of fiscal sustainability by strengthening fiscal and public financial management and is relevant to the project objectives of contributing to improved transparency, financial sustainability, and delivery of targeted municipal services in the participating municipalities.

The project was highly relevant to the government's program and the Bank's CPF for North Macedonia.

Rating

High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

To improve transparency of targeted municipal services in the participating municipalities.

Rationale

The project made the following assumptions for all objectives: i) municipalities/CSEs are interested to apply for sub-loans and have sufficient borrowing capacity; ii) performance grant is sufficiently high to motivate municipalities/CSEs to make an effort to meet grant qualification criteria; iii) municipalities are capable to supervise implementation of infrastructure projects, and absorb and retain knowledge; iv) national government is willing to consider and institutionalize new mechanisms for municipal investment borrowing; v) municipalities/CSEs have financial capacity to maintain the investments in proper conditions: vi) municipalities/CSEs continue applying transparency standards after the project financing ended.

Theory of Change: The project's theory of change envisioned that project activities such as providing technical assistance to municipalities and CSE for the **preparation of sub-projects and implementation, strengthening capacity in service provision and meeting performance-based grants' qualification criteria** were to result in outputs such as municipal and CSE staff being trained in sub-project preparation and implementation. These outputs were to result in intermediary outcomes such as capacity of participating municipalities and CSE for the preparation and implementation of sub-projects being strengthened, capacity of local authorities in employing citizen engagement mechanisms to inform municipal decisions being increased and citizens having better access to reliable and regularly updated information about the municipalities' decision and feedback mechanisms. These intermediary outcomes were to result in the objective of improving transparency of targeted municipal services in the participating municipalities.

Outputs

- All participating municipalities regularly publish benchmarks and sub-project progress information on their municipal CSE's websites, and on PMU's project portal, achieving the target of all provinces doing so.
- 59 municipalities qualified for sub-loans, surpassing the original target of 10 municipalities and the revised target of 58 municipalities.
- 89 sub-loans were signed, surpassing the original target of 35 sub-loans and the revised target of 78 sub-loans.
- 78 municipalities received a grant from the EC-IPA rural window, surpassing the target of 60 municipalities.
- Each of the 9 participating municipalities established and followed at least one stakeholder feedback mechanisms, as a prerequisite for the project financing. Based on an inventory performed by the PMU in 2019 and 2020:
    - 83 percent of municipalities were actively using municipal websites/Facebook to engage with citizens and collect their feedback.
    - 61 percent of municipalities relied more on field meetings and 56 percent municipalities were more active in using open days with the municipal executives. According to the Bank team (May 20, 2021), this approach aimed to provide citizens with an opportunity to openly and directly (and without a prior appointment) discuss with the municipal authorities (e.g. mayor and executives) any concerns/problems/issues or ask any questions about any of the specific projects or activities.

  - 56 percent of municipalities distributed leaflets after completion of a specific project/investment to inform citizens about what has been accomplished.
  - 44 percent of municipalities actively employed reporting a problem online.
  - 39 percent of municipalities used complaint boxes.
  - Six percent of municipalities used an open telephone line tool.
  - Four percent of municipalities used municipal notice boards.

Outcomes

- 56 participating municipalities implemented institutional development reforms contributing to PDO, as evidenced by the number of municipalities meeting four of the seven performance criteria (which qualify for performance grants), surpassing the original target of 10 municipalities and the revised target of 50 municipalities.

Information disclosure by municipalities/CSEs was improved in four dimensions: i) municipal-owned water and sanitation CSE participate in the International Benchmarking Network for Water and Sanitation Utilities (IBNet) - supported data benchmarking; ii) annual planned and actual budgets are being published and disclosed, and internal and/or external audit results at the municipal and CSE webpages are being published; iii) municipal and CSE websites are being regularly updated with a minimum information regarding organizational structure, personal contact details of staff responsible for key municipal services, complaint channels, information on planned investments, tariff structure of all municipal services etc.; iv) service level agreements between municipalities and CSEs are being signed. The first two dimensions were requirements for all participating municipalities to access the project's sub-loans and the third and the fourth dimensions were part of a set of performance criteria for investment grants under component C. Furthermore, the project supported the collection and reporting of data through the IBNet benchmarking program. This data is now included in the Energy Regulatory Commission's (ERC) questionnaire, which has been submitted to the ERC by every CSE since 2019.

Rating
High

OBJECTIVE 2
Objective
To improve financial sustainability in the participating municipalities.

Rationale
Theory of Change: The project's theory of change envisioned that project activities such as providing technical assistance for national level institutional strengthening and sub-loans to municipalities for **investments in revenue-generating public services and other investment projects of high priority to municipalities and cost-saving potential** were to result in outputs including analyses for and inputs to the national policy dialogue being prepared as well as local infrastructure being improved, new technologies being introduced etc. These outputs were to result in intermediary outcomes such as dialogue on potential framework for future municipal investment borrowing through an independent intermediary or any other

mechanisms being initiated. This intermediate outcome was to result in improved financial sustainability of target municipal services in the participating municipalities.

Outputs

The project's performance grants (under component C) provided incentives for participating municipalities to enhance their financial stability. These grants were conditioned on fulfilling at least four specific performance criteria out of a set of seven. Five criteria focused on financial sustainability which were: No. 1. increase in municipalities' local revenues; No. 4. CSE's approval of a tariff adjustment program; No. 5. establishing a separate cost center accounting; No. 6. implementation of a non-revenue water reduction program; and No. 7. preparation of a CSE asset inventory.

- Out of the 56 municipalities, which were qualified to obtain performance-based grants and which implemented performance grant-financed sub-projects, 84 percent met criterion No. 1, 45 percent of municipalities fulfilled criterion No. 4, 63 percent met criterion No. 5; 48 percent met criterion No. 6; and 71 percent achieved criterion No. 7.
- Technical assistance was provided to build municipal capacity to manage targeted communal services aiming to improve their sustainability. TA outputs included: i) debt management and sub-sovereign debt in North Macedonia; ii) redefining the manner and determining of criteria for designated and block grants for municipalities; iii) technological options and operation and maintenance arrangements related to wastewater treatment in rural areas.
- TA contracts were completed satisfactorily (the ICR does not specify the number of contracts completed). These TA included: i) TA to analyze technological options and O&M arrangements related to wastewater treatment in the rural areas; ii) TA to analyze block grants to municipalities; iii) TA for preparation of technical designs for streets and local roads for the North Macedonia municipalities, with 78 municipalities benefitting from getting their technical designs financed; iv) portion of TA funds is being used to finance energy efficiency specialist to help to develop pipeline of investments for the Bank financed energy efficiency project.
- Dialogue on institutional reforms as evidenced by submission of two studies such as a Strategy for Financial Intermediation for Municipal Investment was continued and sustained, achieving the target of continuing and sustaining such dialogue. The ICR notes that the approach on the next steps will be discussed with the government after the elections.
- 108 cost-saving or revenue generating sub-loans sub-projects were successfully completed, surpassing the original target of 80 sub-projects and the revised target of 90 sub-projects.

Outcomes

86 percent of participating municipalities achieved increased revenue earnings and/or cost savings in completed sub-projects, surpassing the original target of 25 percent and achieving the revised target of 86 percent. Since the borrowing capacity of most of the participating municipalities was limited, the values of sub-loans and related investments were impacted accordingly. For example, an investment into the kindergarten "Snezana" in Cair municipality reduced electricity consumption for heating purposes from about 572,000 kWh in 2011 by more than seven times to an average of about 79,000 kWh between 2014 and 2018. During the same time the number of students increased by 68 percent. The installation of 108 photovoltaic systems in 36 municipalities resulted in an decrease in energy costs for public entities (schools, kindergartens, administration buildings, and wastewater treatment plants) since the systems were able to produce electricity for all 108 facilities between April 2019 and April 2020 (92 percent of the installed

capacity). During that period energy costs also decreased for eight large energy consumers such as wastewater plants or water treatment plans with monthly electricity bills decreasing by 36 percent. 100 public buildings such as schools, kindergartens and cultural centers experienced an electricity cost decrease of 31 percent. Solid waste collection sub-projects (purchase of vehicles and waste containers and bins) contributed to increased municipal revenues (more individuals/entities billed for solid waste collection) and decreased operational costs (lower fuel and maintenance costs).

However, the sub-projects focusing on rehabilitation and upgrading of infrastructure and on cost savings did not always generate additional demand or revenues, and, thus, they did not necessarily yield high financial rates of return.

Rating
Substantial

OBJECTIVE 3
Objective
To improve delivery of targeted municipal services in the participating municipalities.

Rationale
Theory of Change: The project's theory of change envisioned that project activities such as providing **performance-based investment grants to municipalities as an incentive and reward for implementation of reform initiatives aimed at performance improvement in service delivery** was to result in outputs such as citizen feedback mechanisms at municipal level being introduced, results of benchmarks and sub-project progress being published at municipal and PIU websites and IBNET data being collected and submitted. These outputs were to result in intermediate outcomes such as capacity of local authorities in employing citizen engagement mechanisms to inform municipal decisions being increased and citizen's access to reliable and regularly updated information about the municipalities' decisions and feedback mechanisms being improved. These intermediate outcomes were to result in the PDO of improved delivery of targeted municipal services in participating municipalities.

Outputs

- 59 participating CSEs and/or municipalities implemented institutional development reforms contributing to the objective, surpassing the original target of 15 participating CSEs and the revised target of 58 participating CSEs. Generated savings presented above under objective 2 are related to this objective too.
- 24,256 piped household water connections were rehabilitation by the project, exceeding the target of 12,900.

Outcomes

The project financed investments improved delivery of targeted municipal services:

- 556,782 people in urban areas were provided with access to regular solid waste collection under the project, surpassing the target of 524,516 people.

- 86 percent of participating municipalities achieved targeted improvements in delivery of selected services in completed sub-projects, surpassing the original target of 40 percent and in line with the revised target of 86 percent.
- 529,623 people, including 241,282 women, benefited from improved local road infrastructure (219,847 meters of improved local road infrastructure). This outcome did not have a target.
- 50,373 people benefited from improved public buildings (27,807 square meters). This outcome did not have a target.
- 58,174 people benefited from improved public space (24,317 square meters). This outcome did not have a target.
- 162,750 people benefitted from more livable and safer neighborhood environment enabled by 8,998 streetlights replaced or installed. This outcome did not have a target.

Rating
Substantial

OVERALL EFFICACY

Rationale
The achievement of the first objective was High and the achievement of the second and third objective was Substantial. The project was able to improve transparency as demonstrated by participating municipalities implementing institutional development reforms and improving Information disclosure by municipalities/CSEs. Also, the project was able to improve financial sustainability as demonstrated by participating municipalities increasing revenue earnings and/or cost savings in completed sub-projects. Furthermore, the delivery of municipal services was improved as demonstrated through piped household water connects benefitting from rehabilitation works and people in urban areas being provided with access to regular solid waste collection. Overall efficacy was **Substantial**.

Overall Efficacy Rating

Substantial

5. Efficiency

Economic efficiency

The PAD (p. 13) did not include a traditional economic analysis and only stated the financial principles based on which sub-projects were to be selected. These were to include:

i. The sub-project is revenue earning or cost saving;

ii. For the revenue-earning entities (CSEs), available financial statements are appraised to highlight strengths and weaknesses, calculate critical ratios (collection ratio, operating ratio, current ratio) and to propose solutions;
iii. The investment is justified based on financial and economic net present value, or least-cost approach.
iv. The sub-project has been publicly disclosed to citizen beneficiaries and approval obtained from elected local councils to determine priority and relevance, prior to the funding decision.

The ICR (p. 23) included a traditional economic analysis based on a sample of selected sub-projects. The sample reflected the four largest sub-project categories (investments in improved urban infrastructure such as: (i) improved public spaces and municipal roads; (ii) solid waste management; (iii) water supply and sewerage; and (iv) education). Those sub-projects were responsible for 90.4 percent of the project's total sub-project budget and 87 percent of the total number of sub-projects.

The analysis applied a discount rate of 4.5 percent, which seems rather low and estimated an Economic Net Present Value (ENPV) of €47.56 million and an Economic Internal Rate of Return (EIRR) of 11.24 percent. While the selected discount rate seemed rather low, the analysis suggests that the project was a worthwhile investment.

Operational efficiency

The project's implementation period was extended four times. The first two extensions were related to the AFs, which expanded the scope of the project and increased its targets. The third extension allowed an additional number of eligible municipalities to benefit from the performance grants. The fourth extension provided additional time for the delivery of all procured goods and completion of four remaining sub-projects which were delayed due to the Covid-19 pandemic. According to the ICR (p. 27), the project experienced some implementation delays due to insufficient capacity for managing large infrastructure project.

The project administrative costs were €126,200 or less than 2 percent of the total costs. This was due to well-performing PMU developed under the project.

Taking everything together, the project's overall efficiency is rated Substantial.

Efficiency Rating

Substantial

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐ Not Applicable
ICR Estimate	✓	11.24	90.00 ☐ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

Relevance of the objective was High given its alignment with government priorities and the Bank's most recent CPS (FY19-23). Efficacy and efficiency were both Substantial. Taking everything together, the project's outcome rating is Satisfactory.

a. Outcome Rating

Satisfactory

7. Risk to Development Outcome

The project's risks to development outcome can be classified into the following categories:

Government commitment/follow on projects: The government remains committed to the objective of the project and continues to collaborate with the Bank in this area through a new potential Municipal Finance Development Project (financing amount as of May 21, 2021 about US$50.0 million), which aims to support the government to enhance municipal financing practices and sustainability in delivering the targeted municipal services in the participating municipalities. Also, the government and the Bank are currently working together on the Second Municipal Services Improvement Project (€25 million, P154464), which continues to support local governments in transparent and financially sound inclusive delivery of targeted municipal services. Continuing this partnership will have a positive impact on ensuring the sustainability of project outcomes. This risk is assessed as low.

Financing: Maintenance of infrastructure and equipment will require dedicated financial government resources. The Bank team (May 20, 2021) stated that financial resources for the proper maintenance of infrastructure and equipment are being provided by municipalities. The required amount of financial resource has been provisionally calculated for each of the subprojects at the sub-project preparation stage. According to the ICR (p. 34), the Second Municipal Services Improvement Project is working with the government on potentially establishing a more sustainable and institutionalized financing mechanism for municipal infrastructure development. This risk is assessed as low.

Capacity building: While the project was able to build capacity, the sustained capacity of municipalities and CSEs in preparing and implementing investments will depend on their ability to retain the trained staff who is experienced in the preparation of sub-project applications and supervision of investment contracts. However, according to the ICR (p. 34), staff turnover is relatively high and maintaining experienced staff and properly training new staff will be critical for ensuring sufficient capacity at the municipal level. This risk is assessed as Substantial.

8. Assessment of Bank Performance

a. Quality-at-Entry

The project's design was innovative and was the first demand-driven and municipality-based approach in North Macedonia. According to the PAD (p. 6), the design took the Bank's experience in supporting the preparation and implementation of municipal services in transition economies, especially when shifting responsibilities to municipalities into account. Also, lessons learned from the Bank' experience in newly decentralized countries on how to transfer funds and responsibilities within a framework that promotes accountability while promoting national oversight and policy developments were applied. The PAD further stated that the Bank team collaborated with other agencies supporting the municipal service sector in the country including the European Bank of Reconstruction and Development (EBRD) and KfW.

According to the ICR (p. 26), at appraisal the Bank conducted an analysis which identified specifically: i) existing municipal infrastructural needs; ii) gaps in the administrative capacity at municipalities; and iii) borrowing capacity of municipalities. The project design included innovative approach such as demand-driven approach, sub-loans conditioned by the set of the eligibility criteria, and the performance grants with additional set of prerequisites.

The Bank team identified relevant risk factors such as staffing the PMU sufficiently with the required expertise. All risks were rated moderate. However, the Bank did not identify the risk of municipalities not having sufficient institutional and human capacity to manage relatively large infrastructure projects resulted in implementation delays.

The project's Results Framework was adequate (see section 9a for more details). The initial PDO target values were set at a modest level, which reflected the risks related to the new demand-driven approach and not fully known municipal demand. However, these target values were significantly ramped up through the project restructurings when the strong municipal demand was confirmed.

Quality-at-Entry Rating

Satisfactory

b. Quality of supervision

According to the ICR (p. 33), the Bank team conducted regular supervision missions (a total of 30 missions) with experts that had the necessary technical expertise. Also, the Bank team was responsive and proactive when implementation bottlenecks arose. For example, the Bank shifted resources from components B and C to component A to allow for a stronger sub-loan absorption, incorporated AF to meet strong municipal demand, and extended the project's closing date to address Covid-19 related implementation delays. The Bank mobilized non-disbursing EC-IPA funds to finance rural investments.

When the project received AF, the Bank team restructured the Results Framework to reflect the expansion of the project's scope appropriately. Attention to safeguards compliance was adequate.

According to the ICR (p. 28), the Bank and the PMU collaborated closely with the EU delegation, which had a positive impact on the implementation of the EC IPA rural window.

Quality of Supervision Rating
Satisfactory

Overall Bank Performance Rating
Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design
The objective was clearly specified and the project's theory of change and how key activities and outputs were to lead to the intended outcomes was soundly reflected in the Results Framework. The selected indicators encompassed all outcomes of the objective and were adequate to capture the contribution of project activities and outputs towards achieving the objective. Also, all indicators had a baseline, when possible, were sufficiently specific, measurable, and relevant. Due to the demand-oriented nature of the project, no sectoral targets were embedded in the PDO indicators.

According to the PAD (p. 10), the PMU was to be responsible for monitoring project progress and outcomes. Project monitoring were to include: a) performance indicators of participating utilities according to the international benchmarking network methodology (IBNET). Participation in IBNET-based benchmarking were to be an eligibility condition for municipalities and CSEs to access Component A financing; b) the results of stakeholder workshops and surveys; and c) progress in preparing and implementing subproject investment programs.

b. M&E Implementation
The project's Results Framework was modified throughout project implementation when the project was restructured and when it received AF to reflect the increase in scope. According to the ICR (p. 30), the PMU collected project data from municipalities on a regular basis to assess implementation progress. Due to the diversity of the sub-projects and municipalities, data collection was sometimes challenging. For example, data collection for larger sub-projects related to water supply, energy efficiency of public buildings, street lighting etc. was relatively easy and granular data and financial results were generally available. However, for other sub-projects such as infrastructure rehabilitation, assessing financial gains was more challenging since, for example, road maintenance costs were expected to decrease after the rehabilitation and could not be assigned to one specific part of the road.

The CE indicator and gender dimensions were introduced in the results framework during project implementation in response to the evolution of the World Bank's corporate approach. Monitoring of gender specific values was undertaken by the PMU and was applied, e.g., through the gender disaggregation of the specific intermediate indicators on a number of people benefiting from improved local roads.

According to the ICR (p. 30), the PMU hired a M&E consultant to collect data and analyze data with municipalities in relation to PDO indicator three, improved financial performance.

c. M&E Utilization

The ICR (p. 30) stated that M&E data was used to inform decision making such as moving resources between components, increasing the capacity of the PMU, and obtaining AFs.

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

The project was classified as category B and triggered the Bank's safeguards OP/BP 4.01 (Environmental Assessment) and OP/BP 4.12 (Involuntary Resettlement). The project prepared an Environmental Assessment and Management Framework (EAMF) in 2008. The ICR (p. 31) stated that during the initial phase local contractors lacked capacity for an adequate implementation of environmental and social mitigation measures such as noise and dust pollution. In order to address these issues, the PMU conducted regular inspections to verify the project's safeguard compliance and ensure that contractors would provide regular training to their workers before the start of- and during civil works. The project also put grievance and complaints mechanisms in place such as some municipalities using complaint boxes and phone lines or phone applications.

According to the ICR (p. 31), OP/BP 4.12 was triggered only twice resulting in compensation. The ICR stated that all sub-project complied with the safeguards and the project's environment rating was Satisfactory throughout project implementation.

b. Fiduciary Compliance

Financial Management

According to the ICR (p. 31), the project complied with the Bank's financial covenants. The project put in place adequate financial management arrangements and submitted satisfactory reports in a timely manner. Also, the auditor did not identify any major weaknesses and deficiencies. Furthermore, the project did not encounter any issues regarding the disbursement of loan/grant proceeds and designated accounts were replenished in a timely manner. Finally, at project closure no ineligible expenditures or undocumented designated account balances existed.

The ICR (p. 31) stated that the project's Financial Management was continuously rated Satisfactory throughout project implementation.

Procurement

According to the ICR (p. 32), the project's procurement was rated Moderately Satisfactory during the first six months of implementation since the Procurement Specialist at the PMU was not hired yet. The project followed the agreed procurement policies and procedures and did not face any major procurement issues or delays. The municipalities participated in the different stages of the procurement process and the PMU was responsible for ensuring quality and management of the sub-project procurement process. The Procurement Specialist conducted regular workshops for relevant municipality staff and provided technical assistance to strengthen the municipalities' procurement capacity resulting in higher quality of bidding and evaluation documents, increased efficiency and timeliness of procurement processes as well as satisfactory contract management.

In addition, the Bank's Procurement Specialist conducted post reviews of randomly selected contracts procured by the municipalities. These reviews found that all municipalities published the procurement notices for tenders in two newspapers. Also, the qualification and evaluation criteria were clear and stated in the bidding documents and the contract award details were accessible on the municipality's website and sometimes, innovatively, on the municipalities' Facebook page.

The ICR (p. 32) stated that after the first six months of project implementation until the project closed, the project's procurement performance was Satisfactory.

c. Unintended impacts (Positive or Negative)

NA

d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Satisfactory	
Bank Performance	Satisfactory	Satisfactory	
Quality of M&E	Substantial	Substantial	
Quality of ICR	---	Substantial	

12. Lessons

The ICR (p. 34-36) included several lessons:

- **Identifying municipal demand at appraisal stage is critical for informing project design.** In this project, due to the limited borrowing capacity of most of the participating municipalities, the average investment size was relatively small. Therefore, being realistic about potential results and managing expectations accordingly is important.

- **Allowing participating municipals to apply for sub-loans on a rolling basis provides adequate flexibility.** This project used a flexible approach and participating municipalities were able to apply for sub-loans whenever they had sufficient borrowing capacity instead of a specified call for proposals approach, which resulted in a more balanced implementation pace and sustained disbursement as well as minimized the volume of uncommitted funds at project closure.
- **Collaboration among multiple beneficiaries with similar interests can allow for exploiting economies of scale.** In this project, the IPA rural window where the PMU, the Bank and the European Commission were able to swiftly use the saved amount for the purchase of the photovoltaic installations and back-hoe loaders for poorer municipalities.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR provided an adequate overview of project preparation and implementation. Also, the ICR was internally consistent and provided an appropriate economic analysis. Furthermore, it was sufficiently outcome driven. Especially, the ICR provided several useful lessons learned, which can be applied for future projects in this area. The quality of the ICR is rated Substantial.

a. Quality of ICR Rating

Substantial