Report Number : ICRR0020608

1. Project Data

Project ID	Project Name
P094055	VN-Local Development Investment (LDIFP)
Country	**Practice Area(Lead)**
Vietnam	Social, Urban, Rural and Resilience Global Practice

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IDA-46090	31-Dec-2014	280,000,000.00
Bank Approval Date	**Closing Date (Actual)**	
02-Jul-2009	30-Jun-2016	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	190,000,000.00	0.00
Revised Commitment	141,483,737.00	0.00
Actual	134,799,445.58	0.00

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2. Project Objectives and Components

a. Objectives

The two project development objectives (PDOs) for the Vietnam: Local Development Investment Funds Project (LDIFP) were "to improve the effectiveness of Qualified Local Development Investment Funds in leveraging private sector financing for municipal infrastructure, and to strengthen their financial and technical capability, and their capability for social and environmental safeguards management" (Financing Agreement, Schedule 1, page 6). This is the objective that will be used to assess the project’s achievements in Section 4 of this Review where the objective’s two parts (to “improve the effectiveness of Qualified Local Development Investment Funds in leveraging private sector financing for municipal infrastructure” and to “strengthen their financial and technical capability, and their capability for social and environmental safeguards management") will be considered separately as Objectives 1 and 2

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

No

c. Will a split evaluation be undertaken?

No

d. Components

Component 1: Investment Capital (appraisal: US$185 million, actual cost: US$125.46 million). A line of credit was provided to the Ministry of Finance (MOF) to on-lend to qualified Local Development Investment Funds (LDIFs) for investment in cost-recovery-oriented municipal infrastructure sub-projects in partnership with the private sector. Qualified LDIFs together with provincial governments identified investment needs as specified in the Provincial Development Plans and which could be funded with private sector participation.

Component 2: Project Implementation Support (appraisal: US$5 million, actual cost: US$4.76 million). This component was to strengthen MOF's institutional capacity and to provide operational support for the effective implementation of the Local Development Investment Fund Project (LDIFP). This component would also assist the PMU to develop its regulatory and institutional capacity, including:

- Establishment, capacity building and operational support for the PMU;
- Monitoring and selection of qualified LDIFs;
- Analysis of LDIF sub-project proposals;
- Monitoring of social and environmental safeguards compliance;
- Development of information systems for managing LDIFP; and
- Financial audit of LDIFs based on international auditing standards and LDIF accounting rules

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

Project Costs:
A total of US$190 million was planned for this project but the total actual cost was US$130.22 million. Because actual costs remained consistently below appraisal estimates during implementation, 31.4 percent of the IDA credit was canceled at project closing.

Financing:
The estimated financing at appraisal was a US$190 million IDA credit, but the actual financing was US$130.22 million.

Borrower Contribution:
At appraisal, it was expected that the Borrower would contribute US$20 million; this amount was fully disbursed and used upon project closure.

Dates:
The Mid-Term Review was conducted on 08/20/2012. The project underwent five restructurings on the following dates: 07/23/2013, 02/25/2014, 02/25/2015, 06/29/2016, 06/30/2016 as detailed in the ICR's Data Sheet (Table H, page 10), and in the ICR text (page 14). The restructuring of February 2015 was a Level-I restructuring as it triggered Operation Policies OP 7.50 on Projects on International Waterways. The closing date was extended by 18 months from 12/31/2014 to 06/30/2016.

3. Relevance of Objectives & Design

a. Relevance of Objectives

At appraisal, the PDOs to improve the effectiveness of qualified LDIFs in leveraging private sector financing of municipal infrastructure and strengthen their financial, technical and environmental safeguard management capacities, were substantially relevant to Vietnam's Socio-Economic Development Plan (SEDP) for 2007-2011 in which the Government had acknowledged the importance of private business as an engine for economic growth and job creation. The PDOs were also substantially relevant to the World Bank's Country Partnership Strategy (CPS) for 2007-2011 which, consistent with the priorities of the Government of Vietnam (GoV), focused under its first pillar on the importance of improving the business environment, and on the development of a vibrant capital market to support the financing of infrastructure as an essential element in the reform of the financial system. The CPS also underlined the strategic objective of "making further progress in infrastructure development required diversifying funding sources and improving transparency in resource mobilization, especially at the local level" (CPS page 29). The project's objectives were in line with the broader Bank strategy that Bank operations such as the earlier Ho Chi Minh City Development Project (HDP) financed in part by the Ho Chi Minh City Investment Fund for Urban Development (HIFU) Development Project (HDP) which was an LDIF and contributed to it becoming an effective financing vehicle for developing provincial municipal infrastructure.

At closure, the PDOs remained substantially relevant to the development priorities of the Government of Vietnam as outlined in its Socio-Economic Development Strategies (SEDS) for 2011-2020, as well as to the Bank's Vietnam CPS for 2012-2016. The SEDS prioritize structural reforms focused on environmental sustainability, social equity and macroeconomic stability to minimize short-term vulnerability and achieve sustained long-term growth. The LDIFP contributed directly to two of the three major "breakthrough areas" identified in the SEDS namely (i) improving market institutions and (ii) infrastructure development. The PDOs also remained highly relevant to the Bank's Strategy because the CPS for 2012-2016 was designed to respond to the development priorities of the Government's SEDS for 2011-2020. The CPS also emphasized the principle of leveraging systematic and wholesale approaches in the Bank's delivery of financing, specifically by using "financial intermediaries and programmatic approaches to lend to cities to meet their local infrastructure needs" (CPS 2012-2016, para 53, page 15). As is also pointed out in the ICR (page 25), the PDOs were well aligned to Pillar 1 of the CPS for 2012-2016 on strengthening competitiveness, particularly Outcome 1.2 on "Improved Quality and Efficiency of Infrastructure Services".

Despite the substantial relevance of the project's objectives to Government and Bank strategies, the objective statement was vague for this project because of the lack of any definition of the meaning of "improve the effectiveness LDIFs" and "strengthen their financial, technical, social and environmental safeguard management capacities". This vagueness created problems in assessing the project's achievements

Rating

High

b. Relevance of Design

The statement of objectives was clear and linked to intermediate and final outcomes. As pointed out in the ICR (page 25), key aspects of the design were well conceived. They were (i) scale up the retail model of Ho Chi Minh City Investment Fund for Urban Development project (HDP) through the adoption of a wholesale approach for LDIFP which was appropriate given the nationwide scope and the open-ended, demand-driven nature of the project; (ii) using the World Bank's Financial Intermediary Loan (FIL) lending instrument was appropriate because LDIFP's wholesale approach required the IDA credit to be channeled through sub-national entities endorsed by a financial intermediary; and (iii) The Ministry of Finance (MOF) was appropriately selected as the Financial Intermediary given its oversight and regulatory mandate over LDIFs. Though the MOF had no prior experience in such a role, the technical assistance (TA) financed by Component 2 was well designed to support MOF's project management and role as the financial intermediary.

A number of other aspects of the project's design were, however, not well conceived and created problems during implementation. First, as part of the operational guidelines, a limit was established on the size of investment by an LDIF in a sub-project, namely 20 percent of the LDIF's capital. In addition, the project's disbursements were planned assuming an average loan by the LDIFs of $7 million. At the same time, actual levels of participation of the large LDIFs (Ho Chi Minh City Finance and Investment State Owned Company - HFIC and the Hanoi Investment Fund - HANIF) did not meet the project's expectations (ICR, page 15) probably because the average loan size guideline was too low.

Second, as noted in the ICR, the project's design at appraisal overlooked Vietnam's economic downturn and credit crunch in 2009 "which depressed the demand for LDIFP credit among prospective private sector investors in the first two years of implementation" (page 16).

Rating
Modest

4. Achievement of Objectives (Efficacy)

Objective 1

Objective

Objective 1 was "to improve the effectiveness of Qualified Local Development Investment Funds (LDIFs) in leveraging private sector financing for municipal infrastructure" (see Section 2a)

Rationale

The PDO indicators proposed for the project to assess the extent to which the effectiveness of the LDIFs in leveraging private sector financing for municipal infrastructure were established to measure the totality of activities undertaken by qualified LDIFs, i.e. including funds that were not linked to the WB credit. On the other hand, the Intermediate Outcome Indicators (Intermediate Results Indicators as they are called in the ICR) measure the "total and amount" of investments "using the project line of credit".

This means that the PDO Indicators in the PAD and in the ICR were irrelevant to measuring achievements of the project, since they are including the measurement of funds that do not have their origin in the WB credit. Therefore, only the Intermediate Objective Indicators/ Intermediate Results Indicators are relevant for measuring the achievements of this project.

Outputs:
The number of investments by qualified LDIFs which leveraged private sector funding is shown in the following table. It indicates that in terms of numbers of operations in which qualified LDIFs successfully borrowed funds from the private sector in conjunction with the project's line of credit for LDIFs the achievement was considerably greater than the target set at appraisal. This "output" was one measure of the effectiveness of LDIFs. There were no instances in which the LDIFs were able to generate an equity participation by the private sector in municipal investments because the enabling legal environment for that option had not been established.

Indicator	Baseline	Target	Achieved
Intermediate Outcome Indicator #1 Number of new LDIF investments (debt and equity) using LDIFP Line of Credit in municipal infrastructure subprojects with private sector involvement	0	22 debt 2 equity	85 debt □

Outcomes:
An assessment of the outcome of the effectiveness of qualified LDIPs in leveraging private funds for municipal investments could be measured by the value of the funds actually generated against the targets set at appraisal. The results as measured by intermediate outcome indicators 2 and 3 are shown in the table below.

Indicator	Baseline	Target	Achieved
Intermediate Outcome Indicator #2 New LDIF investments (debt and equity) using LDIFP Line of Credit in municipal infrastructure subprojects with private sector involvement	0	$155 mill debt, US$15 mill equity	$126.9 mill debt, 0 equity
Intermediate Outcome Indicator #3 New private capital leveraged into LDIF sponsored municipal infrastructure projects (using LDIFP Line of Credit)	0	$250 mill debt	$269 mill debt

Intermediate Outcome Indicator #2 achieved approximately 82% of target for debt-financed investments, while the target amount for direct equity was not achieved for easons explained above. According to the ICR, "The average investment assumed at appraisal turned out to be significantly overestimated and unrealistic given that (i) the actual level of participation of HFIC and HANIF did not meet the project's expectations; and (ii) in the project results framework, PDO indicator #6 required that 'Total investment (debt and/or equity) in a single obligor should be less than 20% of total LDIF capital,' thus preventing LDIFs, with the exception of the LDIF in Ho Chi Minh City (HFIC) and the one in Hanoi (HANIF), from financing sub-projects in the scale of $7 million" (pp 15-16). The project's disbursement assumptions were based on having a relatively small number of qualified LDIFs (approximately seven) implementing a relatively small number of sub-projects (target of 24 sub-projects) of a relatively large scale (approximately $7 million). Each of these assumptions contrasted starkly with actual results during implementation (ICR p16). Specifically, by the end of the project in June 2016 there were 17 qualified LDIFs participating in 85 sub-projects which involved an average of $1.5 million commitment from project funds.

Intermediate Outcome Indicator #3 was achieved as indicated in the table above.

Conclusion: Objective 1 was **substantially** achieved.

Rating

Substantial

Objective 2

Objective

Objective 2 was "to strengthen the LDIFs' financial and technical capability, and their capability for social and environmental safeguards management" (see Section 2a).

Rationale

Rationale

The ICR measured the achievement of "strengthen the LDIFs' financial and technical capability, and their capability for social and environmental safeguards management" by assessing the extent to which the qualified LDIFs were in compliance with financial covenants, the project manual's project preparation and appraisal guidelines, the project manual's private sector partner guidelines, and the project manual's social and environmental safeguard guidelines. There is, however, no evidence in the ICR regarding any monitoring of the compliance of the LDIFs with the guidelines in the project's operational manual and importantly no information on the capacity of the LDIFs to maintain compliance.

Nevertheless, the ICR presents relevant data demonstrating strengthened financial and technical capability, despite the lack of relevant indicators in the project's results framework. The following is a summary of economic and financial information on 16 of the 17 qualified LDIFs (the LDIF excluded had only qualified in the middle of 2014) which are measures of their financial and technical capability based on information on page 30 of the ICR and in Annex 4:

- Qualified LDIFs (excluding HFIC) showed consistent financial performance with respect to their lending operations as loan interest income grew on average from 2.9 percent as a share of total assets at baseline to 3.4 percent in 2015, which offset similar growth in loan interest expense (Table 7, Annex 1). Net interest margin was maintained at 2.5 percent of assets, on average, in 2015, reflecting an impressive performance given the sharp decline in broader market interest rates (from an average of 11 percent in 2012 to 5.5 percent in 2015) as the credit environment improved and the GoV relaxed its monetary policies.

- Average net profits for qualified LDIFs (excluding HFIC) grew, on average, by 8.9 percent between 2015 and the baseline. In terms of return on assets, the average for qualified LDIFs (excluding HFIC) was lower in 2015 compared to baseline but the qualified LDIFs managed to generate stronger returns compared to commercial banks (Figure 2, Annex 1).

- In the case of HFIC, loan interest income as a share of total assets decreased to 2.1 percent in 2015 compared to 2.6 percent in 2005 (which was HFIC's baseline prior to its participation in HDP) while net interest margin declined to 0.7 percent as a share of total assets in 2015 from 1.4 percent in 2005. However, the decrease in profitability from lending operations did not reflect poorer financial performance, according to the ICR (page 30); rather it was a result of the diversification of its portfolio towards equity investments. The size of HFIC's equity portfolio in 2015 grew by 9.4 times compared to 2005, when equities comprised just 8.1 percent of HFIC's investment portfolio. By 2015, equities grew to 37.8 percent of the portfolio. Equity investments drove profits before tax, which increased by 6.5 times over the 10-year period, while return on assets more than doubled to 5.4 percent in 2015.

- Qualified LDIFs (excluding HFIC) generally managed to minimize non-performing loans (NPLs) even as their debt portfolios increased rapidly. NPLs as a share of total assets for qualified LDIFs (excluding HFIC) averaged 3.5 percent in 2015, which increased from the 0.4 percent baseline level but remains within the 5 percent ceiling specified in the Project Manual. In the case of HFIC, NPLs have been managed well at 1.8 percent of total assets in 2015. While there were occasional cases of LDIFs exceeding the NPL limit, these were typically short-term cases that were due to loans the provincial governments appointed the LDIFs to provide. The exception was Ninh Binh LDIF, which chronically exceeded the NPL limit and was thus suspended from accessing LDIFP credit.

- Qualified LDIFs have remained well capitalized even as their debt portfolios grew rapidly. At baseline, the average capital adequacy ratio (CAR) was exceedingly high at 185.6 percent because of low rates of LDIF debt mobilization (Table 7, Annex 1). By 2015, the average CAR for qualified LDIFs (excluding HFIC) declined to 100.4 percent, which remains a high level that far exceeds the minimum rate of 15 percent specified in the Project Manual. In the case of HFIC, the rate declined from 111.0 percent in 2005 to a still very adequate level of 87.2 percent in 2015.

Summary of LDIF Financial Performance Indicators (ICR, Annex 1, Table 7)

	LDIFs (excluding HFIC)		**HFIC**	
Item	**Baseline**	**2015**	**2005**	**2015**
Loan Interest Income / Total Assets	2.9%	3.4%	2.6%	2.1%
Loan Interest Expense / Total Assets	0.4%	0.9%	1.1%	1.4%
Net Interest Margin / Total Assets	2.5%	2.5%	1.4%	0.7%
Net Income/Total Assets (Return on Assets)	5.4%	3.2%	2.6%	5.4%
Average Net Profits Before Tax (VND million)	30,000	32,660	85,369	557,106
Non-Performing Loans as a share of Total Assets	0.4%	3.5%	0.0%	1.8%
Capital Adequacy Ratio	185.6%	100.4%	111.0%	87.2%
Average Market Interest Rate	***11.0%***	***5.5%***		

Although the preceding table shows an improvement of some of the indicators presented, targets for each element are not presented, and therefore an assessment of the degree to which the targets have been met is not possible. Also, some of the performance indicators experienced a slight decline rather than an improvement. Nevertheless, the information presented above (including the table) indicates sound performance in general by the LDIFs, despite the lack of targets.

Conclusion: The information on the economic and financial performance of the qualified LDIFs, together with the assertion in the ICR that these LDIFs have complied with the requirements of the project's operational guidelines and are consequently presumed to have strengthened their financial and technical capacity as well as their capacity for social and environmental safeguards management, this Review concludes that Objective 2 was substantially achieved.

Rating
Substantial

5. Efficiency

The efficiency analysis undertaken at appraisal and referred to in the PAD (para 45, page 17 and Annex 9), concluded that the Qualified LDIFs were in a strong financial position. This conclusion was reached through various analyses as follows: "The detailed due diligence of financial accounts of qualified LDIFs was conducted to determine the financial viability of the LDIFs as a potential Bank partner vis-a-vis a Financial Intermediary Loan. The analysis reviewed the quality of LDIF loan portfolios, including the level of non-performing loans and a detailed review of randomly selected loans to determine loan rates and repayment quality. Equity investments of LDIFs were also analyzed to determine the LDIFs' exposure vis-a-vis industry and investment instrument. Equity investments were identified and reviewed to determine asset quality. The Income Statements were analyzed vis-a-vis profitability and operational efficiency. Finally, the investments in portfolio companies (non-infrastructure investments) account for a significantly minor proportion of total fund assets and therefore present limited exposure to market fluctuations" (PAD, para 45).

According to the assessment presented in the ICR (page 29), "the IDA credit was substantially utilized in a reasonably cost/efficient manner".

The actual average investment for LDIFP sub-projects was $1.5 million, which was 21.4 percent of the average assumed in the project's disbursement targets ($7 million) and proved to be too large a shortfall for the project to overcome. Larger sub-projects could have improved the project's efficiency by reducing the overhead costs for the LIDFs and the PMU, yet there is no evidence in the ICR that the efficiency of the use of capital could have been improved. Indeed, the ICR provides evidence of the improvement of one measure of the project's efficiency namely that the "average processing time to review and approve sub-projects declined significantly from 424 days in 2011 to 127 days in 2015, accelerating disbursements from Year 4 (2013) onwards (Annex 1, Table 2)" (page 19).

On the other hand, indicators such as disbursements and capital adequacy ratios are not measures of efficiency, as suggested on page 30 and Annex 4 of the ICR. Neither are data on project/portfolio quality, procurement savings or timely construction (page 31 and Annex 4). These indicators measure either financial flows, capital requirements, project quality or the efficacy of procurement. None of them measure outcomes in terms of the resources used to achieve those outcomes – i.e. efficiency.

Average net profits before tax for qualified LDIFs (excluding HFIC) in 2015 exceeded the baseline by 8.9 percent (ICR, Annex 1, Table 7). The return on assets was lower for LDIFs (again, excluding HFIC) in 2015 compared to baseline but the LDIFs managed to generate higher or equal rates of return on equity and assets compared to commercial banks between 2012 and 2015 (see ICR, Annex 1, Figure 2). As shown in the ICR's Table 7 in Annex 1, the average LDIF loan interest income increased to 3.4 percent from the baseline value of 2.9 percent and the net interest margin as a proportion of total assets remained the same at 2.5 percent. **Conclusion:** Based on the evidence in the ICR this Review rates the project's efficiency as **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		0	0 ☐Not Applicable

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

6. Outcome

Relevance of Objectives was **substantial**, as the PDOs were strongly aligned with both national and Bank strategies and priorities both at appraisal and at closure of the project. Nevertheless, the vague definition of the objective created problems in the assessment of the project's achievements. Relevance of Design was **modest** because there were shortcomings in the constraints placed on the lending policies for the LDIFs and a lack of recognition of Vietnam's economic downturn of the Project's prospects at appraisal. In addition, the identified PDO indicators were irrelevant to the project and the causal chain between funding and outcomes in the PAD's results framework was unclear. The objective of improving the effectiveness of Qualified Local Development Investment Funds (LDIFs) in leveraging private sector financing for municipal infrastructure was **substantially** achieved. The objective to strengthen the LDIFs' financial and technical capability, and their capability for social and environmental safeguards management was also **substantially** achieved. Efficiency was rated **substantial**. Based on these results this Review concluded that the project had only moderate shortcomings and the overall outcome of the project is therefore rated moderately satisfactory

a. Outcome Rating
Moderately Satisfactory

7. Rationale for Risk to Development Outcome Rating

The ICR identified three risk categories that threaten the project's development outcome:

Financial risks: There is a risk that LDIFs may not be able to sustain a high level of financial performance. This risk is rated **Modest** because the adoption of wide-ranging reforms to strengthen the framework for LDIFs' institutional structure and operations, accounting and financial reporting will help ensure the sustainability of LDIFs' financial performance. Key financial performance ratios as well as interest rate principles of LDIFP were integrated into Decree 37 of 2013, ensuring that LDIFs will continue to be monitored and regulated based on international standards. The PMU's integration into MOF's Department of Debt Management and External Finance will enable enhanced and sustained monitoring and regulatory oversight of LDIFs.

Technical and institutional risks: There is a risk that technical assistance and capacity building programs for LDIFs will not be sustained. This risk is considered **Substantial** as several TA activities that are critical for mainstreaming institutional reforms were not part of the original project scope. These include (i) the development of an integrated management information system for LDIF reporting; and (ii) the updating of LDIF accounting software. MOF has committed to ensure the follow-up on these activities and the Bank will explore options for providing follow-up TA.

Ownership risks: There is a risk that LDIFs will no longer comply with the Project Manual after project closure. After project closing, MOF will no longer be able to condition the compliance of LDIFs with the requirements in the Project Manual to access investment finance. This risk is considered **Modest** based on the ICR's statement that "there is strong evidence to suggest that LDIFs have mainstreamed the key principles and processes of the Project Manual into their core operating procedures" (page 24).

a. Risk to Development Outcome Rating
Modest

8. Assessment of Bank Performance

a. Quality-at-Entry

a . Quality-at-Entry
Prior to the design of this project, the Bank provided extensive analytical and advisory services to support the GoV's LDIF policy framework. A comprehensive Briefing Paper was completed in 2005 and the

recommendations from that Paper supported the formulation and enactment in 2007 of Vietnam's Decree 138 on the organization and operation of LDIFs, which represented the Vietnamese Government's first comprehensive policy guidelines governing LDIFs. This project (LDIFP) represented the second phase of the Bank's operational strategy to support the LDIF sector.

According to the ICR (pp15-16), the LDIFP's design contained certain projections for the operation that were rooted in inadequate financial and economic analysis at the appraisal stage that substantially affected project implementation. For example, LDIFP's disbursement assumptions were based on having a relatively small number of qualified LDIFs (approximately 7) implementing a relatively small number of sub-projects (approximately 24) of relatively large-scale (approximately US$7 million) average investments. As already noted each of these assumptions contrasted starkly with actual results. The projections drew from the presumption that the bulk of the LDIFP line of credit for investment finance would be primarily absorbed by the two major LDIFs, Ho Chi Minh City (HFIC) and Hanoi (HANIF), and secondarily by a handful other smaller-scaled but nevertheless relatively sizeable LDIFs, such as Dong Nai and Binh Duong. However, (i) the expected level of participation of HFIC and HANIF did not materialize; and (ii) in the project results framework, PDO indicator 6 required that "Total investment (debt and/or equity) in a single obligor should be less than 20% total LDIF capital", thus preventing LDIFs, with the exception of HFIC and HANIF, from financing sub-projects in the scale of US $7 million. Furthermore, the implications of the wholesale financing design on the technical capacities of project stakeholders were underestimated, as was the magnitude of the capacity constraints and the steep learning curve of the PMU and LDIFs, which impacted and slowed down the first half of the project's implementation.

The strategy and approach at entry was relevant, but the design (technical, financial and economic aspects) of the operation were not adequately assessed and analyzed. The structural, financial and macro-economic challenges were also underestimated. Also, poverty, gender and social development aspects were not taken into account. The policy and institutional aspects were carefully considered, but the implementation arrangements (e.g. achieving authorization for provincial governments to negotiate equity financing through public-private partnerships) overlooked the capacity constraints of the Gorrower. Moreover, the risk assessment in the PAD was weak.

Finally, the identified PDO indicators were irrelevant to measuring the achievements of the project. The ICR (pages 20-21) states with respect to M&E design issues that "The LDIFP M&E framework built on the design of the HDP framework. In both cases, i) the PDO indicators (PDOIs) focused on monitoring the total and amount of investments in municipal infrastructure sub-projects with private sector involvement undertaken by the qualified LDIFs; and ii) the Intermediate Results Indicators (IRIs) focused on monitoring the total and amount of investments undertaken by the qualified LDIFs using the project's line of credit for investment finance as well as their compliance with the requirements of the Project Manual".

The ambitious nature of the project's design was already acknoeledged in the PAD: (p8, the two bullet points under paragraph 22), namely:

- "Evidence that private sector participation in financing municipal infrastructure in respective provinces is improving will be measured by the increase in total number and amount of LDIF investments (debt and equity) per year in municipal infrastructure subprojects with private sector involvement, as well as by the increase in total amount invested by the private sector in the LDIF-sponsored subprojects.

- Evidence that LDIFs improved their effectiveness in the above-mentioned dimensions would be measured by their compliance with the Financial Covenants, as well as their compliance with the Project Manual, including Guidelines on Project Preparation and Appraisal, Private Sector Partner (PSP) selection, and Safeguards."

Quality-at-Entry Rating

Moderately Unsatisfactory

b. Quality of supervision

A total of 11 supervision missions were undertaken over the 6.5-year project period. In addition, several technical missions were launched by individual task team members to LDIFs and subprojects to address urgent issues. According to the ICR (pages 34-35), the World Bank provided consistent and proactive implementation support to the PMU and the qualified LDIFs throughout project implementation. The Bank's safeguard and fiduciary specialists were engaged in providing capacity building and technical support to participating LDIFs, and a financial sector specialist was part of the core task team from the project preparation stage to ensure that the project's financial investment arrangements, including interest rates and on-lending terms, were monitored regularly and in compliance with the OP 8.30. Feedback from the PMU and LDIFs confirmed their satisfaction with the responsiveness of the Banks' project implementation support (Annex 4). MTR findings led to additional interventions to accelerate disbursements.

Despite these positive aspects, and despite the five project restructurings and the many amendments to the Project Manual to facilitate project implementation and to accelerate the use of funds, disbursement levels remained consistently below projections. Also, the Bank had many opportunities, in consultation with the Government, to revise the Results Framework to substitute the irrelevant indicators with relevant ones, but did not take the opportunity to do so, resulting in a largely irrelevant Results Framework with a number of irrelevant indicators throughout the implementation of the project.

Quality of Supervision Rating

Moderately Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

9. Assessment of Borrower Performance

a. Government Performance

The ICR reports (page 35) that during project preparation, the GoV satisfied key conditions for approval, including issuance of essential policy guidelines on LDIF organization and operation (Decree 138) and accounting (Circular 49). The GoV ensured the timely establishment of the PMU within the MOF and fully disbursed the counterpart funding requirement on a timely basis. The Government was strongly committed to building the capacities of LDIFs and supported the expansion of their investments in municipal infrastructure leveraging private sector capital. At the sub-national level, LDIFP also generated strong interest and support among provincial governments, many of which engaged MOF and the Bank (even before the approval of the project) began preparing the requirements for LDIFP qualification, which eventually led to the qualification of more LDIFs than was expected by the project.

However, the lack of an enabling policy environment for the competitive selection of private sector partners as part of the establishment of a new legal entity (Special Purpose Vehicle, SPV) prevented the implementation of direct equity investments under LDIFP. As was clarified by the project team during the preparation of this Review, at the time of LDIFP approval the legal guidelines permitting the competitive selection of private sector partners for the establishment of SPVs were not yet approved by the Government. It was assumed by the Bank that the requisite legal provisions consistent with Bank procurement guidelines and the Project Manual would be enacted by the GoV early in project implementation, which would have allowed for the processing of direct equity investments under LDIFP. The policy reforms came too late for any direct equity investments to be processed under the project. Legal provisions for the competitive selection of private sector partners in the establishment of public-private partnerships (PPPs) for project enterprises, consistent with Bank procurement guidelines and required by the Project Manual, were not formally issued until February 2015, and thus the Private Sector Participation guidelines in the Project Manual were not utilized .

Government Performance Rating

Moderately Satisfactory

b. Implementing Agency Performance

The MOF’s PMU was responsible for monitoring, regulating and supervising the LDIFs and their performance (ICR p 14). The consistent levels of LDIF compliance with the Project Manual were due to PMU monitoring and the immediate enforcement of disbursement suspensions in cases of non-compliance.

Nevertheless capacity constraints at the PMU and among LDIFs contributed to the slow build-up in disbursements. The PMU had no prior experience in managing a ODA-funded project and performing the functions as a Financial Intermediary. Capacity constraints were aggravated by a 15-month delay in contracting project implementation support activities under Component 2 as the PMU faced challenges in ensuring compliance with Government and Bank policies on procurement. Project implementation was also affected by the lengthy subproject review and approval process; however, extensive operational reforms were adopted to improve internal coordination, including the integration of technical staff from the Investment Management Department into the PMU, which ultimately led to a significant reduction in the average processing time for subproject proposals.

The inability to restructure LDIFP to directly address fundamental project design issues and disbursement assumptions was a shortcoming for which the PMU and the Bank were jointly accountable.

Implementing Agency Performance Rating

Moderately Satisfactory

Overall Borrower Performance Rating

Moderately Satisfactory

10. M&E Design, Implementation, & Utilization

a. M&E Design

The project’s objectives were clearly specified. However, based on the appraisal document the PDO indicators were mainly at output level and were therefore not satisfactory. Furthermore, as noted already in Section 8a of this Review, they were irrelevant to measuring the achievements of the project as they included the measurement of funds that did not have their origin in the WB line of credit.

The results framework included key financial performance indicators to ensure that the financial condition of qualified LDIFs could be monitored effectively. The target values in the results framework were underestimated due to the inadequate economic and financial analysis at appraisal. According to the ICR (page 21), "flaws in the M&E design resulted from the inadequate financial analysis at appraisal, namely: (i) The M&E indicators should have been more accurately calibrated to provide a more realistic and effective project evaluation framework. It was also unclear initially whether certain indicators were to be reported on an annual incremental basis or on a cumulative basis.

b. M&E Implementation

There was limited information in the ICR regarding M&E Implementation. However, the ICR did state on page 21 that there were some early challenges because the periodic progress reports had some shortcomings related to quality and comprehensiveness. Nevertheless M&E implementation improved and was maintained at a satisfactory level throughout the implementation process, according to the ICR (page 21).

c. M&E Utilization

According to the ICR (page 21), M&E data were actively used. The M&E system helped build an extensive pipeline of sub-projects while ensuring that participating LDIFs maintained the financial standards necessary to qualify for the project. LDIFP’s M&E system provided the necessary background data for the MOF to pursue broader policy reforms to strengthen the monitoring and regulation of LDIFs. Annual evaluation reports were prepared from 2013 to assess the financial and technical capacity of qualified LDIFs and the quality and achievements of subprojects. Comprehensive reporting guidelines were developed from 2014 to facilitate MOF's monitoring of LDIFs' fiscal condition, debt and equity portfolios, and subproject implementation progress.

M&E Quality Rating

Modest

11. Other Issues

a. Safeguards

Environmental Safeguards:

The project design allowed for varying levels of complexity among sub-projects; hence, Environmental Safeguards guidelines consistent with Bank policies were integrated into the Project Manual. Proposed subprojects were required to undergo initial environmental screenings to determine the appropriate level of environmental impact assessment (EIA) needed. Each of the 85 subprojects financed by LDIFP was assessed as Category B. Therefore, EIAs and corresponding environmental management plans (EMPs) were required to be prepared in correspondence to the magnitude of environmental impacts expected from each subproject. Compliance with the Environmental Safeguards requirements was assessed by the ICR to be Moderately Satisfactory during LDIFP implementation (page 22).

OP 7.50 on Projects on International Waterways was triggered in February 2015 to accommodate the construction of Thu Dau Mot Water Supply subproject. The Bank later approved an exception to the policy following an environmental assessment that determined that the sub-project did not adversely change the quality or quantity of water flows to the riparians.

The design of the project required the responsibility for environmental safeguards management to be shared across three levels: MOF, the qualified LDIFs and the private sector investors.

At the MOF level, the PMU and the Bank introduced disbursement-linked conditions for subprojects in 2013 to facilitate improved compliance with environmental safeguard requirements.

At the LDIF level, the Project Manual required independent monitoring of EMP implementation and the preparation of semi-annual environmental safeguard compliance reports. Although independent and internal monitoring continuously improved during project implementation, LDIFs did not uniformly and consistently adopt the required monitoring practices, with some not submitting the required reports on time.

At the sub-project level, most private sector investors were found to have adequately implemented mitigation measures, based on EMPs, to ensure environmental sanitation and safety during construction and operation.

Social Safeguards:

The Bank's Involuntary Resettlement policy (OP 4.12) was triggered by LDIFP and a resettlement policy framework (RPF) was prepared and the requirements were integrated into the Project Manual. Compliance with Social Safeguards was consistently assessed by the Bank as Satisfactory and it improved during implementation. No land acquisition was undertaken.

b. Fiduciary Compliance

Financial Management:

Financial Management improved consistently throughout implementation and is recorded in the ICR to be generally Satisfactory (p 23). FM issues were encountered in the first two years of implementation regarding the PMU's internal controls, monitoring of Bank Designated Accounts of LDIFs, contract and disbursement management, and upgrading of project accounting software, which resulted in the relatively low quality of audit reports and the assessment of qualified audit opinions in a number of LDIFs. These problems were flagged early on and were effectively addressed by the PMU.

Interim financial and audited reports were prepared with acceptable quality and submitted on a timely basis from January 2014 onwards.

Procurement:

Compliance with procurement requirements was Moderately Satisfactory throughout LDIFP implementation, according to the ICR (p 23). While procurement performance improved during project implementation, there were persistent issues encountered with regard to the adequacy of procurement appraisal and record keeping among the LDIFs.

At the PMU level, the key issue was the lengthy procurement process for consultant packages under Component 2. While there were early issues with the quality and consistency of the PMU's reporting on procurement performance, the overall quality improved from 2014.

At the LDIF level, common issues persisted in fulfilling their procurement oversight commitments based on the Project Manual, including:

- Deficiencies in the appraisal of subproject procurement plans, including assessments of cost reasonableness;
- Inadequate record keeping; and
- Inadequate monitoring and supervision of subproject procurement performance.

Procurement training was intensified and compliance improved.

At the subproject level, some private sector investors struggled to comply with procurement guidelines due to their lack of experience in implementing ODA subprojects and their unfamiliarity with Bank procurement requirements.

c. Unintended impacts (Positive or Negative)

The ICR does not mention any unintended impacts.

d. Other

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12. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	---

Risk to Development Outcome	Modest	Modest	---
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	.
Borrower Performance	Moderately Satisfactory	Moderately Satisfactory	---
Quality of ICR		Modest	---

Note
When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons

Most lessons presented in the ICR (pp 37-38) were either conclusions or findings rather than lessons. The following lessons were selected from the ICR with some redrafting such they became generally applicable:

- **The enabling policy necessary for a project's success needs to be part of the project's design and legally established prior to project effectiveness.** In this project the lack of a conducive Government policy and appropriate legislation allowing private sector equity participation in municipal development projects prevented the implementation of this important element in this project.
- **The choice of beneficiaries or participants in a project will be most effective and efficient if the choice is based on clear and transparent criteria.** For example, in this project an open-ended system for qualifying potential borrowers (instead of a restricted list of borrowers) was appropriate in the context of a wholesale Financial Intermediary operation where it was difficult to determine ex ante where the demand for credit would come from.

Lesson suggested by IEG:

- **The achievement of a project investment cannot be assessed unless it has a clear and measurable objective.** This is an old lesson but it was learned again in this project because the PDO was not clear and difficult to measurable. This created difficulties in the assessment of the project's efficacy and efficiency.

14. Assessment Recommended?

No

15. Comments on Quality of ICR

The ICR contained a lot of information. It provided candid, detailed and important background and contextual information. However, it was not adequately results-oriented. The ICR reported on the PDOs and IOIs as defined in the PAD and did not recognize that many of them were irrelevant to measuring the achievement of the objectives. There were some other weaknesses in the ICR such as the assessment of efficiency where much of the material discussed was not relevant to the project's efficiency. In addition the lessons from this project listed in the ICR were mainly conclusions, findings or recommendations narrowly focused on the experience of this project and not framed as generally applicable lessons. Finally, the ICR could have benefitted from being shorter and more succinct.

a. Quality of ICR Rating

Modest