



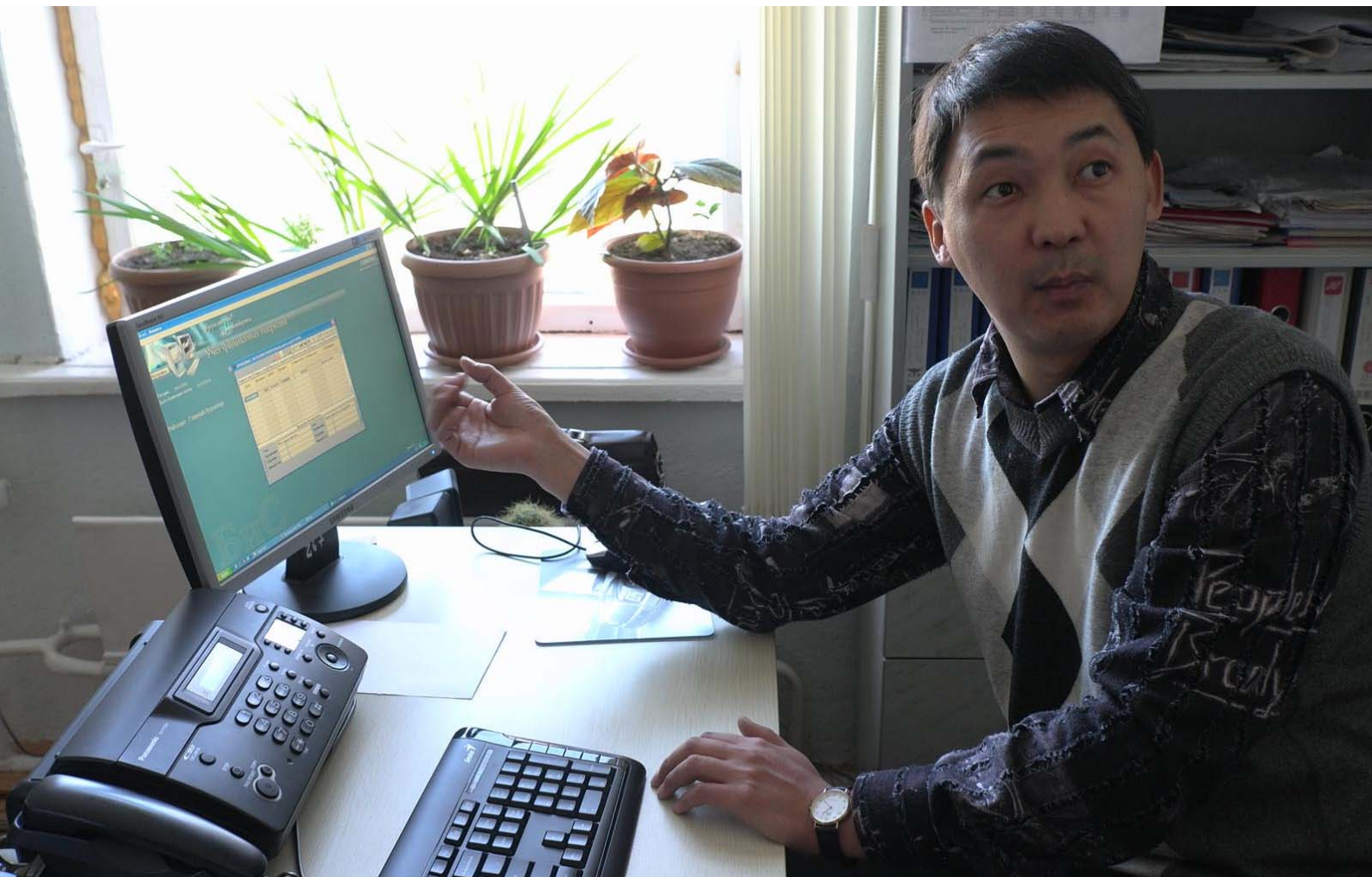
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Federal Department of Economic Affairs,  
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State Secretariat for Economic Affairs SECO

Swiss Confederation

## Independent Evaluation

# SECO's Corporate Development of Public Utilities



Quality and Resources Unit (WEQA)

February 2015



# Independent Evaluation

## SECO's Corporate Development of Public Utilities

*Commissioned by the Quality and Resources (WEQA),*

*Economic Cooperation and Development Division at the State Secretariat for Economic Affairs (SECO)*

*Bern, February 2015*

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- II. Management Response to the Evaluation Report*
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## *Foreword*

With the purpose of learning and accountability, the Economic Cooperation and Development Division at the State Secretariat for Economic Affairs (SECO) undertakes regular and systematic assessments of on-going and/or completed projects, programs or policies in order to identify and to disseminate results. The aim is to determine the relevance, the development effectiveness and the efficiency, the impact and the sustainability of its different modalities of interventions in partner countries. Based on credible and useful information, evaluations should also enable the incorporation of lessons learned into the decision-making process of both recipients and donors, in order to foster continuous improvements of development support.

The Economic Cooperation and Development Division distinguishes and undertakes three different types of evaluations, namely internal reviews, external evaluations and independent evaluations. While internal reviews and external evaluations are under the direct responsibility of the operational units, independent evaluations are commissioned and managed by the Evaluation Function – an independent unit from the operations - and are submitted for discussion to an external Committee on Evaluation, composed of 6 members external to SECO. Independent evaluations focus on assessment of sectors, programs, strategies, instruments, country assistance strategies, cross-cutting issues or themes and impact evaluations. On average, the Evaluation Function commissions one to two independent evaluations per year, which can be undertaken jointly with other donors or partner organizations, in line with our commitment to the Paris Declaration. SECO expects evaluations of its development interventions to adhere to the DAC/OECD standards and to the Swiss Evaluation Society (SEVAL) standards.

This report presents the results of the independent evaluation of WE's Corporate Development of Public Utilities program. The evaluation assessed the development effectiveness of that program along the OECD/DAC evaluation criteria and covers the period 2003 to 2013. It bases on desk reviews and semi-structured interviews with stakeholders and beneficiaries of projects commissioned by SECO's Infrastructure Financing Unit (WEIN). To underpin findings from a country program and project perspective, country case studies in Kyrgyzstan, Albania, Peru, Tajikistan and Vietnam were undertaken.

The purpose of the evaluation is twofold: On the one hand, it aims at generating lessons and recommendations on how to improve WEIN's strategic orientation and the effectiveness of its current and future interventions regarding its corporate development program. On the other hand, it aims at accounting for results achieved under the Message on Switzerland's International Cooperation 2013-2016.

The evaluation report was used as reference for the formulation of SECO's management response. The results, recommendations of the report, as well as SECO's management response were first presented to and discussed with the Evaluation Committee, who then formulated its position. The management response and the position of the Evaluation Committee are published jointly with the final evaluators' report on SECO's website and on the DAC/OECD Evaluation network.

### *Process:*

<i>Conducting of the evaluation and elaboration of the report</i>	<i>April 2014 – September 2014</i>
<i>Discussion of the report with the Evaluation Committee</i>	<i>November 2014</i>
<i>Management Response</i>	<i>January 2015</i>
<i>Position of the Evaluation Committee</i>	<i>January 2015</i>



# Management Response

## Independent Evaluation of SECO's Corporate Development of Public Utilities

By Rebel Group International (Rotterdam)

January 2015

### 1) Introduction

The Report provides a timely and useful assessment of the corporate development (CD) strategy of WEIN. WE management is pleased with the quality of the work done and the ambitious report. WE management specially welcomes the evaluators' finding that WEIN's corporate development strategy for public utilities is highly relevant, innovative and to some extent pioneering.

WEIN's CD meets clear development needs, as the service delivery of most utilities is limited and modern management practices mostly absent. It is also aligned with the recipient governments' policies (both on the national and municipal levels).

The evaluation has allowed WEIN to take stock of its strategy on CD after only four years, and it will contribute to improve the strategy thanks to the identified best practices and allows a focus of the approach, thanks to the proposed (new) implementation modalities. But WEIN should not turn its whole strategy/ approach upside down, as it proved to be successful in various cases. It should also be taken into consideration that at this point of time the evaluators could gain only a partial picture from the projects due to the long project cycles of infrastructure projects (average 6 to 8 years including preparation). Nevertheless the approach will need to be adapted following this evaluation and the Report contains several solutions/ proposals to improve both its efficiency and effectiveness.

We further note that WEIN's collaborators welcomed the analysis and findings contained in the Report. The findings will be useful as a basis for channeling further discussion and reflection on WEIN's strategic orientation of the CD program as well as on the operational implications.

### 2) Report Structure

Generally, the Report is well structured, based on a logical table of contents. It also addresses most of the questions identified in the approach paper.

The Report outlines the approach used by WEIN and the methodology applied, including the use of the OECD/DAC evaluation criteria. It also notes the limitations in data gathering, especially since the CD strategy has only been implemented for less than four years.

Furthermore, the Report discusses current aspects and approaches of other donors (mostly in the context of cofinancing) and offers interesting inputs in each chapter on how to improve the implementation modalities of WEIN.

Finally, the Report includes five country reports, in which the evaluators discuss the principal findings that they came upon during the field missions. The country reports contain information on the DAC criteria, but also specific information regarding past and current WEIN projects.

### **3) Report Findings**

The Report provides a comprehensive, informed, realistic and balanced opinion about WEIN's CD approach. The recommendations are focused, to-the-point and sometimes original, which will allow WEIN to put into question parts of its strategy and eventually improve its services to the partner utilities.

We note the Report's overall assessment of the CD approach, regarding the DAC criteria: it is highly relevant, partially effective and partially efficient. Due to the relative immature portfolio since the approval of the strategy in 2010, the sustainability criteria could not be evaluated, but some positive signs were noticed.

The discussion and analysis in the Report highlight the great complexity of offering technical assistance to public utilities, including the omnipresent link to political and regulatory framework conditions. The challenges faced in terms of methodology and modalities are huge and it seems that no donor clearly comes out of the pack. Compared to the other (larger) donors, SECO offers satisfactory services, but there is room for improvement. Also, the complementarities with other development agencies are not fully exploited (i.e. cofinancing).

The evaluators identified a number of areas for further improvement, which may have a positive impact on the efficiency, but also the effectiveness of the WEIN approach. The following recommendations were offered:

- **More performance-based and programmatic approach.** The Report recommends that the project approach and project management should be adapted and be more performance-based. Also, whenever possible, a programmatic approach thus including more than one beneficiary should be used.
- **Start early.** The Report notes that corporate development should start as soon as possible after project identification and not only after the full-fledged project preparation, including all feasibility studies and therefore should be disconnected from the technical part of the project. The support shall continue beyond project closure and the possibility for post-completion coaching shall be made available to all partner utilities, across all countries.
- **Ownership.** The Report observes that ownership is a key success factor for all WEIN projects. The ownership and commitment of the recipient utilities, but also the municipalities, are key and should be "cultivated". In order to assess and develop a stronger ownership, an in-depth dialogue with various stakeholders is important. The dialogue requires the development of a relationship and a regular exchange and thus shall be maintained between the project preparation and implementation phases. It should be taken into consideration that ownership can change, to the good as well as to the bad. The aspect of ownership may be the most important, but also most challenging issue to tackle.

- Trusted relationships between utilities and consultants. The Report recommends to employ long term, experienced corporate development and sector specialists for a program. The main difference with the policy paper is the long-term aspect. The evaluators believe that the higher the confidence, the more efficient the projects will be.
- Increased role for the Swiss Cooperation Offices (SCOs). The Report recommends that more decisional power should be delegated to SCOs in the project preparation phase. The SCOs should replace the local consultants where possible during the project preparation, as it may lead to more trust and ownership.
- Global initiative. The Report proposes to set-up a global, multi-donor initiative on corporate development of public utilities, with SECO in the lead.

The recommendations are discussed in detail in chapter 5. Some recommendations will represent a challenge for WEIN, as they target structural deficiencies (e.g. lack of incentives, reduced commitment/ ownership, political influences, the lack of specialized human resources in the countries), but also because they can only partly comply with several institutional constraints (e.g. the duration of the framework credits, the requirements for credit approval, the procurement and contracting guidelines). Nevertheless, WEIN has decided to react on two channels. First it will screen its portfolio to recognize measures / tools that work well and that are efficient in creating a stronger atmosphere of ownership and which are oriented towards a process of change. Once these tools have been identified, they must be systematized. Indeed, some recommendations have been implemented in recent bilateral projects, but not yet across the portfolio. In general, an increased focus on strengthening ownership and support to change processes will require a closer cooperation with the beneficiary. Technical assistance shall thus be directed towards coaching and stronger local presence and cover all project cycles including a post-completion period. They will be complemented by a parallel policy dialogue. Further, it is necessary to shift project design from activities towards processes and overall objectives of change. The detailed project objectives shall be regularly agreed and adapted to the local needs and conditions. Most probably, bilateral projects create a closer relationship with the recipient utilities which in turn enables a more tailored approach.

Second, WEIN will launch two pilot projects in the medium-term, to test the Report's recommendations. More concretely, a purely institutional project will be launched in a country (to be yet selected) or regionally/ globally with a strategic partner. The project will consist mainly of technical assistance and will address the needs of selected utilities. The project will embrace a programmatic approach and will include performance-based targets. A programmatic approach with a number of utilities shall stimulate peer learning, create competition and ownership. The goal will be to increase the financial and operational performance of these utilities. One could imagine that certain products will only be available if the utility performs well and can prove its commitment. For example, a technical feasibility study will only be financed if the utility reached all milestones. For successful utilities, the option of a post-completion support can be envisaged.

The second pilot project will be bilateral and will consist of several phases, with the first phase being purely institutional. The objective will be to "prepare" the utility before a larger investment is done. Such a project setup may increase the disbursement risk, as the large share (i.e. investment) will only come when the utility achieves the pre-defined targets. Such a risk could be reduced in a cofinancing setup. But simultaneously it shall increase the ownership of the beneficiaries, as the project setup implicitly encourages the utility to be in the driving seat. Also, the phasing of the project can be used as a means of incentive to reach the targets.

For the future implementation of the recommendations, WE management is conscious that in some countries there are many donors active in CD topics, and therefore SECO projects have to be well designed in order to complement the existing activities. Due to the complexity and duration of the transformation process towards sound utilities, it can be an asset to join forces with other donor-financed programs. In any case, overall coordination must be made according to the Paris Declaration and the countries must have their say.

#### **4) Report Shortcomings and other Important Considerations**

The Report is extremely rich in its findings and offers exciting recommendations. However, it would have been useful to have received some more concrete information regarding the (best) practices of other developing agencies. What are the examples that proved to be consistently successful? Although WEIN understands that there is no unique solution, concrete examples would have been appreciated/ useful. WE management also regrets that some recommendations are not adapted to SECO, being a small developing agency with limited resources, several proposals may stay on paper.

Finally, it would have been convenient to have a more general assessment of Corporate Development. How realistic are good/ sustainable results? It is really plausible to have constant ownership and commitment from the recipient utilities? How to improve the services of a utility, if the municipality itself has an opaque administration and a weak public finance management, not performance oriented. The omnipresent political risks and links are also noticeably absent in the Report. Such risks represent structural challenges for institutional projects and may lead to mixed results.



## 5) Report Recommendations

### Strategic Level

Recommendation	Management response	Responsibility	Date	Priority
<p><b>Recommendations targeting "Effectiveness"</b></p> <p>1) <b>WEIN should take up a more tailor made approach for corporate development.</b> Such an approach shall acknowledge local contexts, be flexible and address concrete and pressing challenges faced by the public utility. A recipient utility should therein be supported and coached by an <b>experienced corporate development and sector specialist.</b> And to prevent freeriding on the part of the utility, any development assistance should be provided incrementally and <b>results-based.</b></p>	<p>WE management shares the view that Corporate Development should be tailor made, for bilateral and co-financed projects.</p> <p>WE management however partially agrees with Rebel's analysis. The evaluation found out that in some cases (more specifically projects that are co-financed with other developing institutions) the terms of reference used for contracting the corporate development consultants were not tailored to the specific utility. However, when it comes to bilateral projects, SECO always produces tailor-made terms of reference for the consultants.</p> <p>In the future, WEIN will ensure that all CD-related terms of reference will be tailored to the utility. Also, the project preparation phase will be more demanding for the utility, as it should be partially based on self-assessments. WEIN also intends to divide the infrastructure projects more frequently in several phases, making a distinction between the institutional and technical parts. First, the ground shall be prepared with a corporate development project with smaller investments, over 2-3 years. In a second phase, the larger investment component will happen, if the first phase was successful.</p>	WEIN	From 2015 onward	B
<p>2) <b>WEIN shall adopt a programmatic approach per country or regionally.</b> This will allow for the selection of 'committed' utilities and the effective and efficient deployment of a long term</p>	<p>WE management welcomes this recommendation and will task WEIN to further analyse the possibility to adopt national or regional programmatic approaches.</p>	WEIN	From 2015 onward	B

Recommendation	Management response	Responsibility	Date	Priority
<p>corporate development consultant (up to 10-12 years).</p>	<p>However, WE management also recognizes the financial risk associated with programmatic approaches. Indeed, if such an approach is selected in a country, it may be difficult to launch "traditional" projects with integrated institutional and technical components in parallel. If the programmatic approach fails to develop according to schedule, the risk that the financial country commitment objectives are not achieved is higher. Financial commitment targets per country should therefore be defined as tentative.</p> <p>Regarding the deployment of (very) long term consultants, WE management notes that there might be stagnation risks (e.g. consultant fatigue, turnover within the utility, lack of refreshing opinions), as well as legal constraints. Indeed, the procurement may be sensitive when contracting a consultant for a long-term mandate, across several countries and within a program without specific activities and with only overall objectives. And taking into account "stagnation" risks (i.e. relationship is not productive anymore), WE management believes that the mandate shall be tendered for periods up to 4-5 years, with the option to retender or extend the mandates. On top of the abovementioned risks, the likelihood to have a consultant (person) available for such very long periods is very small.</p> <p>The evaluators based their recommendation basically only on one program (MIP I and II) that is considered a success case. Therefore, WE management would like to note that further analyses will be required on programmatic approaches, before a decision of principle is taken.</p>			
<p>3) The recommendations above will be a challenge for SECO to implement as it runs counter to many of the institutions guiding SECO's actions. To the extent that these institutional barriers prove too big a hurdle, we recommend <b>SECO to set-up a global, multi-donor initiative</b></p>	<p>Although WE management welcomes the idea of having such an initiative, it strongly believes that WE is not adapted to host such an initiative and therefore that such a body should be anchored in a larger multilateral bank. WE lacks the required financial and administrative structures to manage a fund/initiative. But WE is ready to finance and help structure such an initiative. First talks are ongoing with the World Bank.</p>	WEIN	From 2015 onward	B

Recommendation	Management response	Responsibility	Date	Priority
<p>on corporate development of public utilities (similar to a Clean Air Initiative Asia or an Energizing Development Program) to allow the pursuit of more innovative approaches to corporate development.</p>				
<p><b>Recommendations targeting “Sustainability”</b></p>				
<p>4) To further foster the institutionalization of the corporate development agenda and make its success less dependent on individuals, we recommend to <b>systematically include middle-management in the design and execution of the corporate development agenda.</b></p>	<p>WE management welcomes this recommendation and acknowledges the importance of middle management in the supported utilities. Often the middle management is less impacted by political decisions and may implement longer-term strategies/policies.</p> <p>Although most terms of reference do include the middle management of the supported utilities, the need to more systematically incorporate it in the projects is clear.</p> <p>WEIN may even go further and include the middle management of the municipalities (e.g. the person in charge of water services) in its programs. This may lead to an increased sustainability at the municipal and utility levels.</p>	WEIN	From 2015 onward	A
<p>5) We also recommend SECO (together with other development partners) to <b>invest in nation-wide measures, which – in the medium to long term – change public opinion about how utilities should be managed.</b> These measures include: phasing out of operational and maintenance subsidies, benchmarking of utilities' performance, and strengthening of</p>	<p>WE management recognizes the need for national measures and believes they could be partially anchored to policy dialogue measures.</p> <p>SECO's corporate development for public utilities is not a stand-alone activity. It completes a three-pronged approach to securing the sustainable provision of basic utility services in the recipient municipalities. The other two pillars are (i) grant financing of infrastructure investments and / or equipment, supported by technical advisory services on the procurement, construction, operation and maintenance of the infrastructure and / or equipment; and (ii) policy dialogue with the recipient national and local governments to improve</p>	WEIN	From 2015 onward	B

Recommendation	Management response	Responsibility	Date	Priority
<p>consumer right protection organizations.</p>	<p>the framework conditions, the enabling environment, for the public utilities.</p> <p>Such nationwide measures should also complete a potential national or regional CD initiative (see recommendations 2, 8 and 9), as corporate development programs should impact the framework conditions, for example through the improvement of access to finance and/ or credit worthiness. The links to public finance management will be additionally explored. These nationwide measures can in many countries not be implemented on a bilateral basis, but rather in cooperation or cofinancing with other donors.</p> <p>For the recommended “awareness raising” measures, WEIN already cooperates with consumers organization and encourages benchmarking, but such measures will be systematized at the portfolio level.</p>			
<p>6) Finally, we suggest to <b>keep the long-term corporate development consultant available for post-completion coaching</b> and for SECO to <b>undertake sustainability studies 3 – 5 years after project completion.</b></p>	<p>As for recommendation 2, WE management welcomes this recommendation, as post-completion coaching allows a greater sustainability. WEIN already has an ongoing (pilot) coaching program in Macedonia and Kirgizstan, which is currently under evaluation. Following the recommendations of the present Report, WEIN will extend this offer to additional countries.</p> <p>However, when it comes to the deployment of a long term consultant, there might be legal constraints. Indeed, the procurement may be sensitive when contracting a consultant for long-term mandate, across several countries and within a program.</p> <p>If the consultant were to stay 3-5 years after the project, one could imagine consulting contracts of a duration over 10 years, across three framework credits, which is difficult. Again, WEIN should work in phases of several years, relatively flexible, with the option to retender or extend the mandates.</p>	WEIN	From 2015 onward	B
<b>Recommendations targeting “Efficiency”</b>				

Recommendation	Management response	Responsibility	Date	Priority
<p>7) <b>Start the corporate development at the project outset</b> (i.e. in or just after the initial dialogue between the utility and the Swiss Cooperation Office).</p>	<p>WE management welcomes this recommendation and acknowledges the importance of early support to the utilities. The ownership of the utilities (and of the municipalities) will only increase if "cultivated" from early on. Too often the beneficiaries lose interest if the project preparation is too long and no concrete measures are being undertaken.</p> <p>However, the ideal solution does not yet exist. At the project start, there is no approved budget for financing a consultant to support the future project owners. The technical and financial approval of the project require sufficient information on the sector and the institutional and thus will need additional expert involvement when preparing the corporate development phase/ project.</p> <p>A solution in which the utility is supported first through a regional/ national programmatic approach or a backstopping mandate may be possible.</p>	WEIN	From 2015 onward	A
<p>8) <b>Change the project implementation approach in general:</b> Projects should be developed and implemented incrementally and results-based. To accommodate such an incremental development process, we suggest (i) to define a delegated decision-authority downwards from the Operations Committee to SECO / WEIN management, Swiss Cooperation Office and the long-term corporate development consultant; (ii) enter into a framework contract with an long-term corporate development consultant to support a number of utilities through the life of the program; and (iii) give the lead in the recruitment and supervision of</p>	<p>WE management recognizes the need to adapt the implementation approach in the medium-term, but does not believe that WEIN should rethink its project cycle management totally. As the evaluation has shown, WEIN has already a substantial share of successful projects in its portfolio. Decisions on yearly planning of activities within a program are already today delegated to the operational divisions. However, the responsibility for approving credit proposals for a CD program will remain with the Operations Committee of SECO and the responsible hierarchy.</p> <p>WE management also recognizes that some recommendations do represent a challenge for WEIN, as they target structural deficiencies (e.g. lack of incentives, reduced commitment/ ownership, political influences) and they run counter to several institutional constraints. But despite these challenges, WEIN will undertake various measures to improve its corporate development approach.</p>	WEIN	From 2015 onward	B

Recommendation	Management response	Responsibility	Date	Priority
<p>the technical assistance consultant to the corporate development consultant.</p>	<p>First, WEIN must make a mental shift regarding the duration of its projects and accept that these may last up to 10 years. In parallel, it will screen its portfolio to recognize "tailored" techniques/ tools that work well and that are efficient in creating an atmosphere of ownership and which produce long lasting results. Once these tools have been identified, they must be systematized throughout the whole portfolio.</p> <p>Second, WEIN will launch two pilot projects in the medium-term, to test the Report's recommendations. More concretely, a purely institutional program will be launched in a country (to be yet selected). The program will consist only of technical assistance and will address the needs of a selection of utilities. The project will embrace a programmatic approach and will include performance-based targets.</p> <p>The second pilot project will be bilateral and will consist of several phases, with the first phase being institutional with small investments. The objective will be to "prepare" the utility before a larger investment is decided upon. Such a project setup may increase the disbursement risk, as the large share (i.e. investment) will only come when the utility achieves the pre-defined targets. But simultaneously it shall increase the ownership of the beneficiaries, as the project setup implicitly encourages the utility to be in the driving seat.</p> <p>For the future implementation of the recommendations, WE management is however conscious that in some countries there are many donors active in CD topics, and therefore SECO projects have to be well designed in order to complement the existing activities. Due to the complexity and duration of the transformation process towards sound utilities, it can be an asset to join forces with other donor-financed programs. In any case, the activities must be coordinated according to the Paris Declaration and the countries must have their say. Against this framework, WEIN will conduct strategic meetings with its traditional cofinanciers (EBRD, KfW, WB)</p>			

Recommendation	Management response	Responsibility	Date	Priority
	<p>to discuss potential improvements in the common approaches used so far.</p> <p>Regarding the specific recommendations of the evaluators, WE management does not see the possibility to implement them 1:1. Regarding a downward delegation of authority, the SCOs may not have the necessary resources to handle the increased responsibility. Also, it needs to be assessed whether it is not too resource-intensive to delegate powers to the SCOs for specific domains only. But WE management recommends an increased role of the SCOs during the project preparation. A closer relationship to the utilities may result in increased ownership (see also recommendation 11). As for the framework contract with a consultant, WE management prefers to work in phases and re-tender the mandates every 4-5 years.</p>			
<p>9) <b>SECO shall take a more strategic and programmatic approach to its project management of development partner led projects (e.g. EBRD) to exert greater influence on how the (corporate) development of the public utilities is undertaken and managed.</b></p>	<p>WE management fully agrees with this recommendation. And as mentioned in recommendation 8, the activities must be coordinated according to the Paris Declaration and the countries must have their say. Ideally, in such contexts, the donors shall search for common ground and fully exploit their complementarities. Against this framework, WEIN will conduct strategic meetings with its traditional cofinanciers (EBRD, KfW, WB) to discuss potential improvements in the common approaches used so far.</p>	WEIN	From 2015 onward	A
<p><b>Recommendation targeting "Policy"</b></p>				
<p>10) <b>SECO shall view corporate development assistance much more as a process (rather than a fixed product).</b> A process in which together with the recipient all interdependent elements of development (public policy, political and economic governance regimes, corporate development and management systems, staff capacity,</p>	<p>WE management agrees with this recommendation. However, WEIN must be cautious when developing new corporate development projects, as it may be challenging to cover all institutional aspects of selected utilities in a "process". WEIN shall continue structuring its projects around the five pillars mentioned in the policy paper and enlarge the projects only if the capacities are in place both within the utility and within WEIN. For larger projects, WEIN may also work in phases and assess potential on working on the general framework</p>	WEIN	From 2015 onward	B

Recommendation	Management response	Responsibility	Date	Priority
prevailing social norms and practices, and resistance to change, etc.) are considered, in their parts and as a whole. To support such an integral or systemic approach, we recommend SECO to develop a supportive and recurrent training program.	conditions including regulation and in closer coordination with public finance management projects.			

### Operational Level

Recommendation	Management response	Responsibility	Date	Priority
<b>Recommendations targeting "Effectiveness"</b> 11) The Swiss Cooperation Offices shall engage in an in-depth dialogue with the recipient utilities. Such a dialogue will identify the concrete and pressing challenges a utility's management and staff are facing, unearth the real (rather than superficial) causes of these challenges, and allow for a mutual understanding of how best to respond within the local context	WE management partially agrees with this recommendation. It shares the view that the SCOs shall play an increased role during project preparation, as a closer relationship to the utilities may result in an increased ownership. But the SCOs do not possess the necessary resources (and qualifications) to replace thematic specialists/ consultants and therefore should not take the lead in the due diligence of the utilities. But the SCOs should play a more active role in the identification and selection of specialized local consultants. And schooling should be offered to the SCOs (and to WEIN) more regularly to sensitise them about CD challenges.	WEIN	From 2015 onward	C
<b>Recommendations targeting "Efficiency"</b> 12) WEIN shall make more work of systematic data collection and discussion and ensure that originally	WE management agrees with this recommendation. Baselines and logframes must have more weight during project preparation and implementation and be defined in a way which allows flexible	WEIN	From 2015 onward	B



agreed-upon logframes do not prevent necessary project adaptations.	development of a program. Reporting must always be made on (standard) indicators.			
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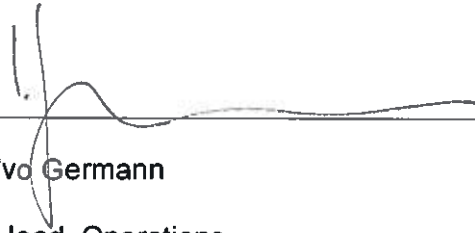
Berne, January 2015



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Beatrice Maser Mallor

Head, Economic Cooperation and  
Development Department



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Ivo Germann

Head, Operations

**Position of the External Committee on the  
Independent Evaluation of SECO's Corporate Development of Public Utilities, and  
SECO/WE Management Response**

1. Members of the External Committee on Evaluation (the Committee) discussed on November 10, 2014 the Public Report by Rebel Group International (Rotterdam) on the independent evaluation of SECO's Corporate Development of Public Utilities as well as the Response by SECO/WE's Management to its main findings and recommendations.
2. The Committee welcomed this report and praised its very good quality. The report shows the good level of understanding of this important but complex subject matter. The analysis focuses on some pertinent assumptions and an effective methodology that lead to inspiring findings and recommendations. The assessment of SECO/WE's corporate development strategy confirms that it meets significant development needs as the service delivery of most public utilities in several developing and transition countries is incomplete and modern management practices mostly lacking. Most recommendations are pertinent, useful and have been endorsed by SECO/WE's Management. Few of them go somewhat beyond the terms of reference of the evaluation mandate or are not well adapted to SECO/WE, especially when it comes to organizational matters. The Committee shares therefore SECO/WE's decision to disagree on them.
3. The analysis of strategic issues and questions is well balanced and well described. The report rightly differentiate between water and sanitation public utilities and energy public utilities. Water in general and water as well as sanitation public utilities are an especially challenging subject matter as they deal with a public good that politicians, public opinion and end user have difficulty in acknowledging that is scarce in many regions and countries and that it has an economic price.
4. To deepen to analysis of the main findings and recommendations derived from the portfolio assessment the evaluation focused additionally on five country studies. Four studies were realized in transition countries: Albania, Kyrgyz Republic, Tajikistan and Vietnam. Only one was in a developing country, Peru. This reflected the fact that SECO/WE's involvement with corporate governance of public utilities in developing countries is more recent than in transition countries. The chosen approach allowed focusing on similar governance issues and related challenges. At the same time the relevance of the evaluation findings is somewhat constrained as the political economy, enabling environment and regulatory framework conditions, which all have a large influence on public utilities, are not always comparable with and valid for developing countries with a different political economy background.
5. A critical remark deals with the rather weak involvement and consultation of end beneficiaries of public utilities activities. The Committee is aware that this is a labor-intensive task but it also believes that this would have enriched substantially the quality, relevance and effectiveness of the evaluation findings and recommendations. The Committee recommends that this aspect be strengthened in future independent evaluations of SECO/WE's activities. The modern information technology offers today new possibilities to get quickly the view of end users on the relevance, effectiveness, efficiency, sustainability and impact of the activities implemented by public utilities as well as about the quality – or lack of it -- of their services. The latter aspect is of great importance when it comes to tariff setting and tariff increases. Private enterprises and individual end users are logically very sensitive to this particular aspect. Both tend to react negatively, if

not aggressively, when tariff increases coincide with a marked deterioration of the quality of the services provided.

6. SECO/WE's corporate development of public utilities seeks to contribute to the sustainable provision of basic utility services in the recipient municipalities. SECO/WE's seeks to improve this goal by improving the operational and financial management of the targeted public utilities to convert them progressively to independent competence centers for water, sanitation and/or energy and become modern customer-oriented and self-financing service providers with transparent procedures, professional staff, appropriate tariff structures and up-to date equipment. This is a quite a challenging goal given the omnipresent high political risks. The Committee would have liked therefore a deeper risk analysis of SECO/WE's involvement in the area and possible corrective actions to reduce such risks. Moreover, it would have been meaningful to collect some evidence, through selected interviews, on whether better corporate development has – and if it has, under which conditions -- a positive impact on reducing corruption.

7. Regarding to the main Report's findings the Committee welcomed the positive overall assessment of the corporate development's approach pursued by SECO/WE as being highly relevant, partially effective and partially efficient. The Committee agreed on the great complexity of offering technical assistance to public utilities operating under very challenging political and regulatory framework conditions. All international donors seem to face the same challenges when designing and implementing their operational approach, methodology and modalities. The Committee also agrees with the identified areas for further improvement that could have a positive impact on SECO/WE effectiveness and efficiency. In particular, it coincides that corporate development should start as soon as possible after project identification and that ownership and commitment of the recipient public utilities and related municipalities are key success factors.

8. Regarding the main Report's recommendations the Committee agrees essentially with SECO/WE's Management response. Some recommendations are not implementable because they do not consider some institutional constraints of the Swiss aid administration or they target structural deficiencies linked to the political dimension of transition and developing countries. The Committee welcomes SECO/WE Management decision to follow up on the Report's recommendations through two important channels: First, by screening SECO/WE portfolio to recognize techniques and tools that work well and are effective in creating stronger ownership and which are oriented towards a process of change. Once these techniques and tools are well-known they will be mainstreamed across the portfolio. Second, SECOWE will launch two pilot projects in the medium-term to test the Report's recommendations. A purely institutional project is anticipated in a country still to be selected that will focus only on technical assistance and will address the main needs of selected public utilities. The project would embrace a programmatic approach and include performance-based targets.

9. The Committee considers that the capitalization workshop that took place at the end of the evaluation with SECO's Management and staff was a very useful initiative. It recommends mainstreaming such workshops into SECO/WE program of work.

10. In conclusion: the Committee recommends the disclosure of the Public Report by Rebel as well as the accompanying SECO/WE Management Response and the Response by the Committee on SECO internet website.



Pietro Veglio

Chairman of the External Committee on Evaluation

Members of the Committee: Gilles, Carbonnier, Felix Gutzwiller and Christoph Stückelberg

**Independent Evaluation of SECO's Corporate  
Development of Public Utilities**

**RAEBEL**

# Independent Evaluation of SECO's Corporate Development of Public Utilities

## Final Report

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## Acronyms

ADB	Asian Development Bank
CD	Corporate development
EBRD	European Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IFI	International Financial Institution
KfW	<i>Kreditanstalt für Wiederaufbau</i> (Germany)
KPI	Key Performance Indicators
PIU / PMU	Project Implementation or Management Unit
OECD/DAC	Organization for Economic Development and Cooperation / Development Assistance Committee
SCO	Swiss Cooperation Office
SDC	Swiss Agency for Development and Cooperation
SECO	Swiss State Secretariat for Economic Affairs
ToR	Terms of reference(s)
WEIN	Infrastructure financing division of SECO's Economic Cooperation and Development Division
WEQA	Evaluation Function or Quality and Resources Unit of SECO's Economic Cooperation and Development Division
WSS	Water Supply and Sanitation

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## Executive summary

### Introduction

#### *Background*

This evaluation has assessed the development effectiveness of SECO's corporate development of public utilities along the OECD/DAC evaluation criteria. The evaluation also answers a number of specific evaluation questions from SECO. The purpose of the evaluation is for SECO to hold itself accountable to the Swiss Parliament and to learn and be able to improve its development effectiveness.

#### *Methodology*

This report's findings result from a critical review of SECO's overall policy framework and its project portfolio in 5 countries: Albania, Kyrgyzstan, Peru, Tajikistan and Viet Nam. The evaluation encompassed (i) an extensive document review; (ii) data analysis; (iii) field missions; (iv) live-interviews with SECO management and staff; and (v) (telephonic) interviews with representatives of bi- and multilateral development agencies and consultants. A critical exchange between SECO and the evaluators on a Findings Report took place in Bern.

#### *Corporate development of public utilities*

SECO's corporate development of public utilities seeks to transform the recipient utilities into 'independent competence centres for water, sanitation and / or energy and become modern customer oriented and self-financing service providers'. SECO's corporate development complements the grant financing of infrastructure investments (and associated technical assistance) and the policy dialogue with the recipient national and local governments.

### OECD/DAC evaluation criteria

#### Relevance

SECO's corporate development of public utilities is highly relevant. First, it meets clear development needs: initial service delivery by the utilities is limited and modern management practices mostly absent. Second, it is aligned with the recipient governments' policies and priorities as stated in the national development (sector) plans and as evidenced by their participation (at the project-level) in the steering groups. And third, it is in line with SECO's and SDC's Joint Message to the Swiss Parliament on International Cooperation in the period 2013 - 2016.

#### Effectiveness

SECO's project portfolio is relatively immature. This prevents us from passing definitive judgements. Individual project dynamics can push the ongoing projects into a more or less successful direction. Still, we obtained the impression that SECO – in roughly equal measure – has successful and unsuccessful projects and is implementing promising and less promising projects. Although our observations represent a snapshot, we conclude – at least for now – that SECO is (only) partially successful in transforming the recipient utilities in customer oriented and self-financing service providers.

Interestingly, the envisaged outputs of the corporate development activities have always been delivered (even in the unsuccessful projects and the well-advanced, but unpromising projects). Our further analysis shows that corporate development measures are a necessary, but not a sufficient condition for operational and financial performance improvement by a utility (even when combined with physical investments).

A comparative analysis between the successful and unsuccessful, promising and less promising projects point to the importance of ownership: the adoption of the corporate development agenda by the utility's management and senior staff, the municipality and the national government and them exercising their authority and means to implement this agenda full heartedly. Securing such ownership is not easy as the advocated corporate development measures are often relatively foreign concepts, which lack a local cultural-cognitive basis or conflict with local norms, customs or practices.

*We recommend SECO to move away from a rather generic (integral) approach to corporate development to a more tailor-made approach. Such an approach explicitly acknowledges local contexts, is incremental, flexible and addresses concrete and pressing challenges faced and perceived as such by a utility's management and staff. A recipient utility should therein be supported and coached by an experienced corporate development and sector specialist. And to prevent freeriding on the part of the utility, any development assistance should be provided incrementally and results-based.*

*Additionally, we suggest SECO to adopt a programmatic approach per country or sub region. This will allow for the selection of 'committed' utilities and the effective and efficient deployment of a long term corporate development consultant. We also stress the importance for the Swiss Cooperation Offices to engage in an in-depth dialogue with the recipient utilities. Such a dialogue will identify the concrete and pressing challenges a utility's management and staff are facing, unearth the real (rather than superficial) causes of these challenges, and allow for a mutual understanding of how best to respond within the local context.*

These recommendations will be a challenge for SECO to implement as it runs counter to many of the institutions guiding SECO's actions. *To the extent that these institutional barriers prove too big a hurdle, we recommend SECO to set-up a global, multi-donor initiative on corporate development of public utilities (similar to a Clean Air Initiative Asia or an Energizing Development Program) to allow the pursuit of more innovative approaches to corporate development.*

### *Sustainability*

We could not assess the sustainability of the results in the successful projects as there has not yet been an extended time in which the successful utilities have not received development assistance. Although positive signs exist in some of the utilities, experience shows that the recipient utilities remain dependent on a general-director and a municipality, which continue to support the corporate development agenda.

Our recommendations on improving the effectiveness of SECO's corporate development assistance will also contribute to improved sustainability as these increase the ownership of the corporate development agenda by key stakeholders and therewith the likelihood of the continuation of corporate development after SECO has ceased its support. *To further foster the institutionalization of the corporate development agenda and make its success less dependent on individuals, we recommend to systematically include middle-management in the design and execution of the corporate development agenda.*

*We also recommend SECO (together with other development partners) to invest in nation-wide measures, which – in the medium to long term – change public opinion about how utilities should be managed. These measures include: phasing out of operational and maintenance subsidies, benchmarking of utilities' performance, and strengthening of consumer right protection organizations. Finally, we suggest to keep the long-term corporate development consultant available for post-completion coaching and for SECO to undertake sustainability studies 3 – 5 years after project completion.*

### *Efficiency*

We have obtained a mixed picture on the program's overall efficiency. On the one hand, SECO takes a similar approach to corporate development as other big development organizations. Increased private sector involvement only provides a viable alternative to SECO's approach in exceptional cases, where strong political support for private sector involvement exists and a minimum financial performance of the utility is present. Although all projects face(d) implementation delays, this is (was) never due to the corporate development activities.

On the other hand, the timing of SECO's corporate development within overall project implementation receives too little attention. The same holds true for the systematic monitoring of, and discussion with the utilities on, key performance indicators. We could also not establish a clear value-added of the current set-up of SECO's oversight of the KfW and EBRD led projects, nor of the detailed (business-oriented) due diligence studies being conducted. As such, we conclude that overall program implementation is (only) partially efficient.

*Given the relative low costs and clear potential for results of corporate development measures, we recommend to start the corporate development at the project outset (i.e. in or just after the initial dialogue between the utility and the Swiss Cooperation Office). In fact, we suggest to forego on the clear distinction between a project preparatory and implementation phase. Instead, projects should be developed and implemented incrementally and results-based. In this development process, (amongst others) additional and incremental capital investments can be identified, prioritized, developed, approved and implemented.*

*To accommodate such an incremental development process, we suggest (i) to define a delegated decision-authority downwards from the Operations Committee to SECO / WEIN management, Swiss Cooperation Office and the long-term corporate development consultant; (ii) enter into a framework contract with an long-term corporate development consultant to support a number of utilities through the life of the program; and (iii) give the lead in the recruitment and supervision of the technical assistance consultant to the corporate development consultant.*

*We further suggest SECO to take a more strategic and programmatic approach to its project management of development partner led projects to exert greater influence on how the (corporate) development of the public utilities is undertaken and managed. Finally, we recommend to make more work of systematic data collection and discussion and ensure that originally agreed-upon logframes do not prevent necessary project adaptations.*

## Specific evaluation topics

### *Policy paper*

SECO's corporate development policy paper has been valuable in raising awareness of, and attention to, corporate development assistance. At the same time, the policy paper has effectively reduced corporate development to five specific challenges and associated sets of actions to address these challenges. Although these challenges and sets of actions are informative, they are incomplete and for many recipients too abstract. They basically heed too little attention to the particular context a public utility operates in and the specific measures which could foster ownership and raise a utility's operational and financial performance.

*In line with our recommendations on development effectiveness, we propagate SECO to view corporate development assistance much more as a process (rather than a fixed product). A process in which together with the recipient all interdependent elements of development (public policy, political and economic governance regimes, corporate development and management systems, staff capacity, prevailing social norms and practices, and resistance to change, etc.) are considered, in their parts and as a whole. To support such an integral or systemic approach, we recommend SECO to develop a supportive and recurrent training program.*

### *South versus the East*

We observed that corporate development is equally relevant for utilities in SECO's countries of operations in the 'East' and the 'South'. This is not surprising. The relevance of the corporate development lies in part in the point of reference: the conviction that such basic services as water and energy should be provided (at least in urban areas) by customer-oriented and self-financing service providers. As this is not the case for both utilities in the 'East' and the 'South', actual access to water and energy services remains sub-par in both geographical regions, and key stakeholders stated their support for the corporate development agenda, we deduce that SECO's corporate development is equally relevant in both regions.

### *Donor coordination*

In the visited countries, we observed no overlap in activities between the different development organizations, with each development organization concentrating on specific regions, subsectors, utilities or tasks. Moreover, classical donor coordination groups are in place (both on a national and sector level) and SECO is aware of the activities of other development organizations. Complementarities between SECO's work and the (capacity building) programs of other development organizations were however not exploited. *We recommend SECO to pay greater attention to and better utilize complementarities with the (capacity building) programs of other development organizations.*

### *Corruption*

We have gathered anecdotal evidence on the extent to which corporate development measures reduce corruption within the public utilities. The consensus amongst our interviewees is that corporate development activities such as electronic billing and collection, improved monitoring of activities, and audited financial statements reduce 'the opportunities' for corruptive practices.

# Main Report

## 1 Introduction

### 1.1 This report

This document reports to the Evaluation Function of SECO's Economic Cooperation and Development Division (SECO / WEQA) on the independent evaluation of SECO's corporate development of public utilities. The evaluation has been carried out by Geert Engelsman and Michel Leushuis of RebelGroup International BV, whom are also meant whenever this document uses the pronouns 'we' or 'our' and the noun 'the evaluators'.

This introductory chapter briefly highlights (i) the purpose and recipients of the evaluation; (ii) SECO's corporate development of public utilities; (iii) the scope of this evaluation and the evaluation questions; (iv) our evaluation methodology; and (v) the report's content and overall set-up.

### 1.2 Purpose and recipients of this evaluation

#### *Purpose*

The evaluation has a dual objective: accountability and learning. First, the evaluation's findings, conclusions and recommendations feed into SECO's Accountability Report to the Swiss Parliament. This Accountability Report is prepared by SECO / WEQA. Second, the Infrastructure Finance Division of SECO's Economic Cooperation and Development Division (SECO / WEIN) wishes to learn about the strength and weaknesses of its approach to corporate development of public utilities and identify possibilities to improve its efforts.<sup>1</sup>

#### *Recipients*

SECO/WEQA and SECO/WEIN are the principal recipients of this evaluation report. The Swiss Parliament, to whom SECO's Accountability Report is directed, is an indirect recipient of this report. Additionally, SECO's development partners (and the public at large) can access the report on SECO's website (where it will be published together with the formal responses to the evaluation findings and recommendations from SECO's Management and the Independent Evaluation Committee).

### 1.3 SECO's corporate development of public utilities

SECO's<sup>2</sup> corporate development of public utilities seeks to contribute to the sustainable provision of basic utility services in the recipient municipalities. This is the goal of SECO's corporate development projects. SECO seeks to achieve this goal by improving the operational and financial management of the targeted public utilities to convert the utilities – in the medium-term – to 'independent competence

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<sup>1</sup> This willingness to learn is expressed by SECO/WEIN's support to the undertaking and execution of this evaluation. It is also aligned to SECO/WEIN's corporate development policy, which states that 'SECO wants to considerably increase its knowledge on corporate development and be regarded as a competent actor among targeted institutions, municipalities and the donor community'. Source: Corporate development of public utilities in developing and transition countries, Policy Paper, SECO/WEIN, November 2010.

<sup>2</sup> From this point forward, we use the abbreviation SECO to refer to SECO/WEIN.

centres for water, sanitation and / or energy and become modern customer oriented and self-financing service providers with transparent procedures, professional staff, appropriate tariff structures and up-to-date equipment<sup>3</sup>. This is the intended outcome of SECO's corporate development projects.

In most cases, SECO indeed supports 'public utilities'. In some cases however, the support is extended to municipalities, namely when the municipalities themselves provide the service (and no special legal entity has been commissioned with the service delivery). In this report, whenever we speak generally about the 'corporate development of public utilities', we also refer to the support provided to municipalities.

SECO's corporate development for public utilities is not a stand-alone activity. It completes a three-pronged approach to securing the sustainable provision of basic utility services in the recipient municipalities. The other two pillars are (i) grant financing of infrastructure investments and / or equipment, supported by technical advisory services on the procurement, construction, operation and maintenance of the infrastructure and / or equipment; and (ii) policy dialogue with the recipient national and local governments to improve the framework conditions, the enabling environment, for the public utilities. The overall objective of SECO's support to public utilities is to 'improve living conditions and promote sustainable economic development'<sup>4</sup> in the recipient municipalities.

The corporate development support encompasses a broad range of activities as highlighted by the illustrative list of activities in the table below. The activities are organized according to the five main pillars (or challenges) of corporate development identified in SECO's own corporate development policy.

**Table 1 Overview of corporate development activities**

Main challenges	Indicative activities
Operational	Development of water balance models Introduction of a geographical information system Preparation of operational manuals
Financial management	Implementation of new billing and accounting systems Introduction of computerized management information systems Formulation of a revenue strategy, including the introduction of metering, tariff modelling and addressing illegal connections
Organizational and human resources	Formulation of a long-term business and investment plan Organizational restructuring Formulation of department and job descriptions Capacity development of management and staff
Customer relations	Public awareness campaigns on the rational use and costs of water Creation of customer centres Establishment of water user committees
External	Formulation and adoption of a new tariff policy and tariff setting methodology

<sup>3</sup> Corporate development of public utilities in developing and transition countries, Policy Paper, SECO, November 2010.

<sup>4</sup> Corporate development of public utilities in developing and transition countries, Policy Paper, SECO, November 2010.

	Preparation of a service agreement with the municipality
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SECO utilizes two working modalities for its support to public utilities. First, it provides direct bilateral assistance. In these cases, SECO identifies, develops, manages and monitors the assistance itself. Actual project implementation is left to the recipient (which sets up a dedicated project implementation unit) with support from international technical and corporate development consultants. Second, SECO partners with development organizations (currently the EBRD and KfW) for delivering the assistance. Project identification and development can be done jointly or can be partner-led. Actual project management and the direct monitoring of the assistance is fully entrusted to the partner organization through a dedicated management agreement. SECO does however take an active interest in the projects and sits on the steering committees of such projects. In the words of SECO's program managers, 'SECO is not a silent partner' in these partner-led projects.

#### 1.4 Scope of the evaluation

##### *Evaluation questions*

The corporate development activities are measured against the OECD/DAC evaluation criteria<sup>5</sup>. As such, the evaluation investigates the relevance, effectiveness, efficiency and sustainability of SECO's corporate development in achieving the intended outcome: the sustainable operation and financial management of the recipient utilities or the basic municipal services delivery by a municipality. In addition, the evaluation answers specific evaluation questions on each of the four OECD/DAC evaluation criteria formulated by SECO/WEQA and WEIN. These questions are listed in annex A.

##### *Geographical coverage and number of projects*

The evaluation covers all of SECO's corporate development projects, encompassing 33 projects in 13 countries. SECO's projects are located in the East (9 countries) and the South (4 countries) and are situated in secondary towns of the recipient countries. As such, this is a program evaluation drawing program-level conclusions and recommendations, based on an overall assessment of the project portfolio.

While an evaluation of all projects in all countries would not be cost-effective, the evaluation has focused on five countries: Albania, Kyrgyzstan, Peru, Tajikistan, and Viet Nam. Kyrgyzstan, Peru and Tajikistan were selected by SECO/WEQA and WEIN. The evaluators added Albania (with a mature corporate development portfolio) and Peru (an additional developing country in the South with two (substantial) corporate development projects). Ultimately, the evaluation examined 15 projects.

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<sup>5</sup> Evaluating Development Co-operation: summary of key norms and standards (Second Edition). Part 2: Evaluation Criteria. OECD DAC Network on Development Evaluation.

Table 2 overview of examined projects

East			South	
Albania	Kyrgyzstan	Tajikistan	Peru	Vietnam
- Pogradec - Shkodra	- Karakol - Bishkek - Osh - Jalalabad - Kant - Coaching for public utilities	- Khujand - North Tajik 1 - North Tajik 2	- Chiclayo - Piura	- Ba Ria - Waste Water North

### 1.5 Evaluation methods

The evaluation consisted of five different work streams which were implemented in parallel.

1. **A systematic review of project documentation** to identify the objectives of the interventions, the corporate development approach taken, the individual activities, the implementation model, the management and monitoring set-up, possible project conditionalities, implementation issues, results achieved and lessons learned, amongst others. This covered the following type of documents:
  - feasibility studies and project appraisal reports;
  - decision and credit approval notes;
  - terms of references of the corporate development consultants;
  - progress and completion reports;
  - thematic deliverables of the corporate development consultant (e.g. tariff methodology studies);
  - evaluation reports;
  - (externally audited) annual financial statements.

For the EBRD implemented projects<sup>6</sup>, the following documents were also included:

- the loan agreement;
  - the guarantee agreement;
  - the on-lending conditions /agreement (if applicable) ;
  - the project support agreements with the municipality and / or ministry;
  - loan covenant compliance reports;
  - credit analysis report;
2. **A systematic review of key performance indicators** to gain insights into how the supported utilities have fared in their basic operational and financial functioning before, during and after the SECO support. For the more mature projects, we have collected and analysed data per project for the below indicators. The collected data is included in the country reports of the individual countries (see annex D – H).

<sup>6</sup> Similar documentation could not be provided by KfW based on their disclosure policy.



*Operational*

1. non-revenue water
2. availability of service (hours per day)

*Financial*

3. collection ratio
4. direct operational cost recovery ratio

*Human resources and organizational development*

5. staff per 1,000 customers
6. number of changes in the general-director position

*Customer relations*

7. complaints per 1,000 customers
8. availability and accessibility of customer complaint centre

*Framework conditions*

9. tariff development (average tariff/m<sup>3</sup> sold)
10. number and size of tariff adjustments
11. extent of cross-subsidisation between commercial and private clients

3. **Field missions to five countries: Albania, Kyrgyzstan, Peru, Tajikistan, and Viet Nam.** The purpose of these field visits was to ascertain (i) the development status, needs and priorities of the recipient countries, municipalities and public utilities; (ii) the support provided by SECO; (iii) the reception and impact of SECO's support; (iv) (alternative) implementation approaches by other development partners; and (v) verify project results.

We conducted semi-structured interviews with the following categories of key in-country stakeholders. A full list of interviewees is included in annex B. The questionnaire used for the interviews (which is based on the evaluation questions) is included in annex C.

- Swiss Cooperation Office or Embassy
  - Supported utilities
  - Non-supported utilities
  - Utility association
  - Responsible ministry
  - Regulatory authority
  - Customer association
  - Local WEIN consultants
  - EBRD / KfW / World Bank / ADB / IDB offices
  - Independent experts
4. **Review of relevant SECO policy documents** to know and understand SECO's objectives, approach and strategy to development cooperation, infrastructure financing, economic governance and corporate development of public utilities. Concretely, we reviewed the documents listed below.
    - Policy paper on corporate development of public utilities
    - Message to the Swiss Parliament "International Cooperation 2013-2016"

- 2012 Annual Report – Effectiveness of Switzerland’s Economic Cooperation and Development
  - Policy paper on infrastructure financing
  - Water sector policy paper
  - Policy paper on corporate governance
  - Fact sheet on economic governance
  - Capacity Development in SECO Projects: Manual on the inclusion of capacity development in projects and programs
5. **Program-level interviews** to gain the perspective of key stakeholders on the development effectiveness of SECO’s corporate development approach and activities, its strengths and weaknesses, and possible bottlenecks and shortcomings in the implementation, as well as alternative corporate development practices. These interviews covered the categories of experts listed below. A full list of interviewees is included in annex B.
- WEIN management and program managers (in Bern)
  - WEIN’s counterparts at headquarter-level and corporate development specialists at KfW, EBRD, World Bank, and ADB (telephonically).
  - Regular WEIN implementation consultants (in Switzerland or by phone)

## 1.6 Reading guide

This evaluation report will address the OECD/DAC criteria in the below order.

- Chapter 2: Relevance of SECO’s corporate development
- Chapter 3: Effectiveness
- Chapter 4: Sustainability
- Chapter 5: Efficiency
- Chapter 6: Relevance of SECO’s corporate development policy and approach.

Each chapter first assesses the corporate development of public utilities against the OECD/DAC criteria. The second part of each chapter address additional and specific evaluation questions from our terms of reference.

In the main report, we only make summary references to our field and literature-review observations and focus our attention on an analysis of our overall findings. Our country reports, included as annexes to this report, provide further detail on our country- and project-level observations.

## 2 Relevance of SECO's corporate development

This chapter addresses the relevance of SECO's corporate development support to public utilities first, by measuring the portfolio against the OECD/DAC definition of relevance, and second by answering additional evaluation questions.

### 2.1 Measurement against OECD/DAC definition

The OECD/DAC defines relevance as the extent to which the projects are suited to the priorities, policies and development needs of the target group, recipient and donor. The OECD/DAC also invites to ascertain to what extent the activities and outputs of the projects are consistent with the defined objectives and intended impacts.

#### *Development needs of the target group*

At the outset of SECO's support to public utilities, actual service delivery by these utilities is weak. Universal service coverage is seldom and those customers who receive services do so only to a limited extent. All evaluated projects (but one) concern the provision of water and sanitation services. Limited service delivery in these cases means the availability of potable water for only a number of hours per day and under limited pressure, households not being connected to the sewerage system, or collected waste water being directly discharged into open water. Operational and financial efficiency of the public utilities is also weak. In many cases, non-revenue water is well over 50% of total water production. Similarly, water tariffs, collection rates and direct operational cost coverage are low to very low.

Our interviewees at the utilities and municipalities noted that at the outset they mostly lacked the operational and management tools and skills to manage the production and distribution facilities in an efficient and sustainable manner. This concerned, for example, the lack of bulk water meters, equipment to detect illegal connections, proper registry of customers, or modern financial management software. By far most of the interviewees (even if not all) stated that improved operational, commercial and financial management practices are just as important as the rehabilitation or upgrade of the production and distribution systems and facilities. The joint KfW/SECO-financed Municipal Infrastructure Program in Albania showcases that significant improvements in the operational and financial management of utilities can be made through corporate development measures alone.

In conclusion, we observed profound development needs at the public utilities, pertaining to both the quality and quantity of service delivery and operational and financial management effectiveness and efficiency.

#### *Policies and priorities of the recipient*

At the national level in the recipient countries, SECO's support sits well with national policy priorities. Improvement of water supply, sanitation and (in the case of Peru) solid waste collection and disposal are deemed priorities and included as such in the national or sector development plans of all visited countries. Leading sector ministries also act as interlocutors between SECO and the recipient municipalities and utilities and are without exception members of the projects' steering committees.

At the municipal and utility level, there are generally (at least at the outset of the projects) no written policy papers or investment plans in place highlighting the development priorities. Still, improvements in the water supply, sanitation, and solid waste collection and disposal were deemed critical by all our local interviewees.

#### *Policies and priorities of the Swiss government*

SECO's corporate development to public utilities is clearly aligned to SECO and SDC's joint message to the Swiss Parliament on international cooperation in the period 2013-2016:

*'Reliable and affordable access to energy, water, and transport as well as the collection and disposal of waste water and solid waste is a condition for sustainable development and poverty reduction. SECO supports the provision of the required basic infrastructure and assists in the strengthening of recipient's operational and financial management capacity. In addition, SECO contributes to improving the framework conditions for the realization and efficient and sustainable management of the infrastructure.'*<sup>7</sup>

We also found that individual projects are aligned to SECO's country strategies.

Many projects date from before the abovementioned message to Parliament or the start of preparing individual country strategies. The fact that these projects originate from SECO's 'infrastructure financing' division and have each been approved by SECO's Operations Committee underscores their alignment with the policies and priorities of the Swiss government.

#### *Consistency of the project activities and outputs with the defined objectives and intended impacts*

Table 1 in chapter 1 lists indicative activities which are generally supported in the corporate development of public utilities. Each of these activities can contribute to improved operational and financial management of service provision and thus increase access to these services and promote improved living conditions. For example, the installation of water meters or the disconnection of illegal water taps can reduce water consumption / losses, allow a water utility to reduce water production, reduce (energy) costs, and with these savings invest in increased geographical coverage of the water supply system. In the next chapter, we will however highlight that none of the activities listed in table 1 (individually or combined) are a sufficient condition to improve the operational and financial management of the service provision.

#### *Overall conclusion*

Based on the above analysis, we conclude that SECO's corporate development of public utilities is highly relevant: it meets clear development needs, sits well with the recipients' policies and priorities, and is aligned with Swiss development cooperation objectives.

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<sup>7</sup> Botschaft über die internationale Zusammenarbeit 2013 – 2016. Schweizerischer Bundesrat. 15 Februar 2012.

## 2.2 Specific evaluation questions

### 2.2.1 To what extent are SECO's interventions (i) coordinated with the projects and programs of other development organizations and (ii) are they complementary to these activities?

In all five countries we visited, we found that the work of the different development partners is well-delineated from one another. In Tajikistan, the World Bank provides support to the capital city Dushanbe, the EBRD and SECO address all secondary towns, a number of other development agencies (such as the Aga Kahn Foundation and Oxfam) support rural water and sanitation projects, and the EU provides support at the national level on integrated water resource management. The same holds true in Albania, Peru, Kyrgyzstan and Viet Nam. In all countries donor coordination groups are established at the national and sector levels and all interviewed development agencies showed general awareness of each other's activities (although often lacked detailed knowledge).

We have encountered three specific instances where other development organizations are (indirectly) supporting the same utility as SECO: in Albania, USAid has a national program supporting amongst others utilities in their business planning and functioning of their supervisory boards. In Peru, GIZ runs a national program supporting utilities to meet their capacity development needs. In Karakol, Kyrgyzstan, ADB supports the Karakol Water Utility amongst others with the realization of a sedimentation plant, which is to provide water to the SECO-financed water treatment plant. Moreover, in the province of Vung Tau, Viet Nam, BUSADCO, the sewerage and drainage company, is implementing several projects in different parts of the province, each supported by different bilateral donors. Moreover, GIZ is providing corporate development support at the national and provincial level, which impacts the SECO supported BUSADCO.

The activities of the other development organizations are in principle complementary to SECO's work. Efficiency and effectiveness gains could be realized if these activities were better-coordinated. For example, some corporate development trainings for the management and staff of the Piura Water Utility in Peru could be executed under the GIZ capacity development program, which has identified 40 in-country training providers to deliver capacity development support. In Viet Nam, GIZ is supporting the implementation of cost recovering wastewater tariffs through a time bound roadmap, which is also one of the main corporate development objectives of SECO's bilateral support in Ba Ria/Vung Tau province. Such practical and on-the-ground coordination with GIZ programs (or in Albania with the USAid program) does not yet take place or at a limited level. In Karakol, Kyrgyzstan, coordination does take place (although we understand with some difficulty).

Generally, we conclude that for the countries studied (i) there are numerous development organizations active in the water supply, sanitation and solid waste sectors; (ii) there is no overlap between the different development organizations activities, with each development organization concentrating on specific utilities, regions or subsectors (e.g. urban vs. rural); (iii) traditional donor coordination groups are in place (both on a national and sector levels); and (iv) development organizations are aware of each other's activities.

#### *Looking forward: recommendation*

We recommend to pay greater attention to and better utilize complementarities in development assistance (as highlighted by the examples above). To that end, the Swiss Cooperation Office should have in-depth (rather than superficial) knowledge of those development assistance programs which directly impact the recipient client.

## 3 Effectiveness

This chapter addresses the effectiveness of SECO's corporate development support to public utilities first by measuring the portfolio against the OECD/DAC definition of effectiveness, and second by addressing specific evaluation questions.

### 3.1 Measurement against OECD/DAC definition

The OECD/DAC defines effectiveness as the extent to which the program attains its objectives. It also invites to identify the major factors influencing the achievement or non-achievement of the objectives.

This section contains the longest answer to any of the evaluation questions. We start by briefly recapping the objective and presenting the main outcomes. We continue by analyzing these outcomes in greater detail, which constitutes the bulk of this section. We conclude with a set of recommendations.

#### 3.1.1 Results achieved

##### *The stated outcome target*

The intended outcome of SECO's corporate development is improving the operational and financial management of the targeted public utilities with the medium to long-term goal to convert the utilities into 'independent competence centres for water, sanitation and / or energy and become modern customer oriented and self-financing service providers with transparent procedures, professional staff, appropriate tariff structures and up-to-date equipment'<sup>8</sup>.

##### *Immaturity of project portfolio*

SECO's corporate development project portfolio has more projects under implementation (24) than have been completed (9). This is also reflected in the five countries, this evaluation has focussed on. Five projects are completed (or on the verge of being completed), 4 projects are well-advanced in implementation (at least in terms of the corporate development activities), and 4 projects are in the beginning stages of implementation.<sup>9</sup>

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<sup>8</sup> Corporate development of public utilities in developing and transition countries, SECO, November 2010.

<sup>9</sup> See notes underneath table 3 on these numbers.

Table 3 the implementation stage of the evaluated projects

Completed or near completion	Advanced	Early implementation
<b>Albania</b> – Pogradec – Shkodra <b>Kyrgyzstan</b> – Bishkek – Karakol <b>Tajikistan</b> – Khujand*	<b>Kyrgyzstan</b> – Osh – Jalalabad <b>Tajikistan</b> – North Tajik** <b>Vietnam</b> – Ba Ria	<b>Kyrgyzstan</b> – Kant <b>Peru</b> – Chiclayo – Piura <b>Vietnam</b> – Waste Water North

\* Khujand has been supported by SECO through two consecutive projects. In this evaluation report, we refer to both projects whenever we speak of Khujand.

\*\* Given that North Tajik 2 is very much akin to North Tajik 1, we only refer in this evaluation report to North Tajik and implicitly imply both projects. The bulk of the 'field observations' on these two projects however stem from the North Tajik 1 project.

The relative immaturity of the (evaluated) project portfolio prevents us from passing definitive judgements on the effectiveness of the development assistance. We however have observed differences, which has framed our thinking. For the sake of clarity of writing and analysis, this has led us to categorize individual projects as either promising or less promising. Not as a definitive judgement, but as a clear stepping stone to analyse the differences between these promising and less promising projects and distil clear recommendations for the future. Of course, individual project dynamics can push each ongoing project into a more successful or less successful direction. In a way, our evaluation is based on a snapshot. We kindly ask the reader to excuse us for any shortcuts taken and appreciate the resulting clarity of analysis.

#### *Mixed outcomes and prospects*

The stated outcome target can be said to be achieved in Pogradec and Khujand. In each of these utilities significant improvements have been made in reducing the non-revenue water and increasing the tariffs, collection rates and direct operational cost coverage. In Khujand, the average tariff has increased tenfold (in nominal terms) between 2004 and 2014. In Pogradec, a doubling of the average tariff took place between 2006 and 2013. In both utilities, collection rates are over 90% and direct operational cost coverage well over 100%. Moreover, these utilities have professional staff and up-to-date financial management systems. The operational and financial management of these utilities have clearly improved and the utilities have made significant steps to becoming self-financing service providers (at least for operational and maintenance costs). In Bishkek, incremental performance improvements of an (at the outset already) reasonable and well-managed utility can be observed.

The same cannot be said for Shkodra where no improvements in key performance indicators can be measured. Non-revenue water, collection rates and direct operational cost coverage remain dismal. In Karakol, per capita water tariffs, the non-use of the installed bulk water meters, and a non-up-to-date customer database seriously hamper structural operational and financial improvement.

As said, a number of other projects reviewed have not advanced far enough in project implementation to allow us to make (definitive) statements on their effectiveness. Still, they left an impression as to their promise. In Piura (Peru), we encountered a professional and dedicated senior management team which implemented modern management practices (operational and financial management

performance monitoring) with basic software tools. Direct operational cost coverage and collection rates also appear relatively high already. This bodes well for the future.

The prospects for some other projects are less favorable. In Tajikistan in the North Tajik project (which covers seven water utilities), SECO seeks to emulate the success in Khujand by following the exact same approach to the physical investments and corporate development, whilst encountering significantly different and un-supporting circumstances. The ownership of the utilities lies not with the respective municipalities but with a national water board, which in their own words do not consider the corporate development support important or critical. Moreover, each utility is very small and financially weak which does not give them economies of scale or the opportunity to recruit professional staff. Several of these utilities have also seen a significant turnover in directors which does not provide them with the stability in leadership that was characteristic of the Khujand project. Finally, the (completed) corporate development activities do not as yet appear to have left a mark, let alone instigated a change in the management culture.

The Osh and Jalalabad project provides a very similar and bleak picture as the North Tajik project. The corporate development program was overly consultant-led with very little interaction between the consultant and Utility staff. Visibility of the corporate development was low and its structural impact questionable. Moreover, the program is on the verge of being 'formally' completed while serious implementation problems with the new billing system exist (and have persisted over the last years).

In Peru, the Chiclayo project faces significant implementation delays. These delays originate from municipal bureaucracy, erratic political support, political meddling, and weak project implementation by the consultant. The Karakol project in Kyrgyzstan has also faced multiple delays mainly as a result of the initial poor implementation/procurement capacity of the utility in combination with an underperforming consultant during the early stages of the project. This triggered the replacement of the consultants' team leader several years after project commencement.

In summary, SECO has realized both successful and unsuccessful projects and is currently implementing both promising and less promising projects. Accordingly, SECO can be said – at least for now – to be partially successful in achieving its outcome target. The next step is to better understand the differences between success and non-success, promise and non-promise. The topic of the next section.

### 3.2 Understanding the mixed outcomes

*Outputs are delivered, also in unsuccessful, unpromising projects*

In Shkodra, all envisaged corporate development activities have been conducted. A new management information system, based on new billing and accountancy software, is in place. Medium-term and annual business plans have been developed and discussed. Customer awareness campaigns have been conducted and a tariff adjustment plan developed. One could even argue that on a 'product-level' staff capacity has increased (for example the ability to prepare and analyze monthly monitoring reports). Still, these activities have not made so much as a dent in the operational and financial performance of the Utility (although some may argue that without these activities the conditions of the utility would have worsened). In Karakol, the corporate development measures have also been implemented, but are unable to leave an imprint as other, serious operational and financial management shortcomings have been left unaddressed (i.e. the previously mentioned per capita billing, non-up-to-date customer database and non-use of bulk / production water meters).



In the ongoing North Tajik project, the corporate development work has been formally completed with the consultant having submitted all deliverables (which cover the bulk of the activities listed in table 1 in the opening chapter). The reality on the ground is that the implementation of the new billing and accountancy software is still ongoing and the billing and accountancy management and staff do not feel trained nor ready to start using the new software. More investments will be needed to ready the management and staff to use this software effectively. Hence in this instance the completion of the corporate development work has not (yet) led to an improved operational and financial performance of the utilities. The same holds true in Osh and Jalalabad. The corporate development work has been almost formally completed and, amongst others, a new accounting and billing system was developed. The accounting system is operational as it builds upon software familiar to the utility (1C). However the billing software has not been put into operation yet as utilities question its functionality and value-added.

We take from the above examples that implementing the corporate development program does not per se make a difference in the operational and financial performance of a utility.

*Still, corporate development can make a difference*

That corporate development can make a difference is proven by the experiences of the KfW-implemented Municipal Infrastructure Programs 1 and 2 in Albania.<sup>10</sup> Under these programs six utilities receive corporate development support from an international consultant. In a first phase, the utilities are assisted to gain insight into how the utilities work (through the preparation of a business plan and a tariff adjustment schedule which would allow for the more sustainable financial operation of the utility). In a second phase, data are collected on key performance indicators and monitored on a monthly basis. Triggered by a clear incentive, this has led to a discussion between the utilities and the consultant on how to improve the financial operation of the utility, followed by clear actions. The incentive for the utilities is that reaching a predefined (utility-specific) target for the direct operational cost coverage qualifies them for grant-financing of the rehabilitation of their production and distribution systems. At least five out of six utilities have made marked improvements (i.e. up to 20%-points) in their direct operational cost coverage and reached the predefined targets.

The international consultant of the Municipal Infrastructure Program considered the key success factors to be: (i) steadfastness (i.e. holding on to the set targets); (ii) availability of the consultant to dialogue and build up a relationship of trust with the utility management and staff; (iii) monitoring and structurally discussing the key performance indicators; and (iv) the proverbial carrot (i.e. an improvement in the direct operational cost coverage would release much needed finance to rehabilitate the water production and distribution network).

In Bishkek, the corporate development has also probably contributed to incremental performance improvements. The picture in Bishkek is somewhat unclear however as relatively good management team was already in place and the Utility's Management has expressed reservations about the corporate development assistance that has been provided and what it will continue to use.

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<sup>10</sup> SECO has co-financed the support to one utility (in the city of Lezha) within the first Municipal infrastructure Program. As Michel Leushuis, one of the evaluators, has briefly been involved in this program and to avoid any conflict of interest, we have not reviewed the Lezha project. Geert Engelsman has informed himself about the general outline of the Municipal Infrastructure Program. His description of the Municipal Infrastructure Program is included in Annex D, the Albania country report.

*Corporate development and physical investments are necessary, albeit not sufficient conditions*

Although significant improvement have been recorded in the Municipal Infrastructure Program with corporate development measures alone, these improvements fall short of the outcome target: to create customer-oriented and self-financing service providers. This makes sense and can be illustrated by the following and straightforward example: technical water losses, due to an obsolete physical infrastructure, can only be mediated through physical investments. A resultant reduction in technical water losses allows for a reduction in water production, saves (energy) costs, and further improves the financial health of a utility.

Still, as the example of Shkodra shows corporate development combined with physical investments provides no guarantee for success either. Some of our interviewees subsequently point to the positive examples of Khujand and Pogradec where a series of subsequent interventions over a 12 year time period ultimately allowed the utilities to reach the outcome target. Whilst true, we observe that in both instances the first interventions also already showed success and proved fertile ground for the subsequent interventions. In other words, success seems to have bred success. So the question remains as to what are the critical success factors: what distinguishes success from non-success?

*Differences in project context and set-up exist*

If we compare the successful and non-successful projects, the promising and the unpromising projects, it is possible to identify (often subtle) differences in the project context and execution.

1. The successful and promising projects are characterized by a relatively stable leadership and (in most cases) the slow embrace of both the outcome target and the value-added of corporate development. Khujand, Pogradec, Bishkek, Kant and Piura all have or had the same general-director over a long time period.

The General-Director of the Khujand Water Utility bought into the corporate development work after it became clear to him that a new billing software allowed him to address some longstanding corruption issues within the Utility. In the Municipal Infrastructure Program, the repetitious discussion of the key performance indicators and the opportunities to improve on them allowed the utilities to realize what they could already do themselves to improve the service delivery and the financial health of the utility (and thus reach the predefined performance targets for the release of the physical investment funding).

In Kant, targeted corporate development (on the lease agreement, tariffs, metering and customer awareness campaigns) was embraced from the start. In Piura, years of working on keeping the utility afloat has produced ample ideas on how to further improve the operational and financial management, but they lack the financial resources and the experience to implement these ideas fully.

As one interviewee characteristically put it: SECO's approach is promoting change from within, which can only work if and when a utility's management embraces it; it basically requires a charismatic general-manager who believes in the approach.

2. The successful and promising utilities can count on stable political support. If anything the utility owners (such as the Khujand and Pogradec municipalities, or the Piura creditors committee) do not meddle in the management of the utilities and implicitly or explicitly

embrace the perspective of the utilities becoming self-financing service providers. Interestingly, the Pogradec Municipality did not extend its support and the Utility did not accept the corporate development consultant early on in the project implementation, which caused many difficulties and hampered implementation. The SECO-internal Completion Note (undated) on Pogradec states that:

*'the problems faced during the first part of the project were caused to a great deal by the negative attitude of the responsible persons at Pogradec [Utility]. Therefore, the future in-country partnerships should be more carefully analysed during project preparation and the donors should probably set qualification conditions for the main players within the executing agency and other local institutions directly involved in the project implementation.'*

The North-Tajik, Shkodra and Chiclayo projects cannot count on stable political support as political meddling is the order of the day (e.g. in the appointment of personal or extension of permits). In Bishkek, municipal council support for annual tariff adjustments has been lacking. Khujand also provides a good example, albeit in a different way. After the Khujand Utility had shown eight years of steady improvements in its operational and financial management under one general-director, the Khujand Municipality appointed a new general-director, who valued proper financial management less. All key performance indicators of the Khujand Utility worsened considerably over the subsequent two years' time (until again a new general-director quickly restored order).

3. The successful and promising utilities have a long-term intellectual counterpart or discussion partner by way of an experienced corporate development consultant. This holds true in Khujand and the Municipal Infrastructure Program. Such a consultant provides for a source of ideas, a sounding board, somebody who oversees if progress is made, and also provides an exhaust valve (especially for the pressure normally faced by the general-director). Both in Khujand and the Municipal Infrastructure Program the long-standing trusting relationship between the utilities' managements and the respective corporate development consultants was deemed a critical success factor. Such a long-standing relationship does not always have to make a difference however, as is highlighted by the Karakol and Shkodra projects.<sup>11</sup>
4. The Peru projects also pointed us to the importance of stability in the policy context, which seems missing in Peru and present in some other visited countries. In Peru in the water, sanitation and solid waste sectors discussions were ongoing at the national level about the current (municipal) ownership structure and the possibility or need to involve the private sector in the operation of water utilities and waste disposal services. We observed that these discussions created uncertainty as to the future of the utilities and the role of their current senior management. In Albania and Tajikistan, the national policy framework seemed to be more settled. In Viet Nam, GIZ provided extensive support to the Ministry of Construction in drafting new legislation in the wastewater sector, which provided clarity on institutional tasks and responsibilities and provided a legal base for the further planning and implementation of a full cost recovery road map.

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<sup>11</sup> The initial phase of the Pogradec project, the Karakol project, and the Chiclayo project additionally show that underperforming consultants negatively influence a utility's or municipality's buy-in (and of course project implementation). We do not elaborate on this point as we assume that SECO does it utmost to secure the recruitment of highly qualified consultants and expect consultants to deliver high-quality work.

5. Part of the success in the Municipal Infrastructure Program in Albania is undeniably the use of clear but simple performance targets. The utilities qualify for funding of the rehabilitation of the water production and distribution systems if they achieve certain predefined improvements in the direct operational cost coverage ratio. We have not observed similar strong performance regimes in SECO corporate development portfolio and can therefore not draw too firm conclusions from this single example. It seems a promising avenue nonetheless.

#### *The issue of ownership of the corporate development agenda*

The embrace of corporate development by a utility's general-directors and a municipality's foregoing of political meddling in a utility's operations point to the issue of ownership. In this case ownership concerns the adoption of the corporate development agenda and the exercise of one's authority and means to implement this agenda.<sup>12</sup>

Ensuring or securing such ownership is challenging. The management of utilities are often unfamiliar at the outset with financial modeling, data collection and monitoring, and business planning or modern billing and accountancy practices. Moreover, such modern business practices are cultural-cognitive loaded terms and practices.<sup>13</sup> They are based on or settled in a historical belief and value structure, which could well be quite foreign to a utilities' management. As a lead corporate development expert highlighted in one of the interviews:

*'applying the International Financial Reporting Standard to a utility's annual financial statements is not a purely technical exercise, it requires judgments; judgments which are informed by one's experiences, beliefs and values.'*

Accordingly, a middle-aged accountant, trained in Soviet educational system is likely to make different judgments than a young Swiss trained accountant because their point of reference is starkly different.

Moreover, proposed corporate development measures such as instituting or raising water consumption tariffs can run counter to established social norms or customs, for example of water being a public good, which should be provided for free; an opinion voiced by many in Piura, Peru, and Shkodra, Albania. Changing such norms and customs is challenging, as the commitment to these perspectives is usually quite strong.<sup>14</sup> Put differently, effective corporate development measures require 'context specificity, arising from differences in historical trajectories, geography and political economy or other initial conditions.'<sup>15</sup>

Finally, ownership is not fixed in time. The example of Chiclayo shows that ownership can fade. The opposite is also true. Pogradec and Khujand show that ownership can grow over time, supporting the phased approach to the development assistance applied in both projects. But you need to get there,

<sup>12</sup> Inspired by OECD/DAC's definition of national ownership (<http://stats.oecd.org/glossary/detail.asp?ID=7238>, accessed on 17.9.2014) and the coining of the term ownership in the Paris Declaration on Aid Effectiveness (Paris Declaration on Aid Effectiveness and the Accra Agenda for Action, 2005 / 2008, OECD).

<sup>13</sup> The Limits of Institutional Reform in Development. Changing rules for realistic solutions. Matt Andrews, Cambridge, 2013

<sup>14</sup> Institutions and Development: a critical review, Johannes Jütting, OECD Development Centre, Working paper No. 210, 2004.

<sup>15</sup> Institutions and Development: a critical review, Johannes Jütting, OECD Development Centre, Working paper No. 210, 2004, quoting Rodrik et. al., Institutions Rule: The Primacy of Institutions over Integration and Geography in Economic Development. IMF Working Paper WP/02/189. 2002.

which has clearly not been achieved in Shkodra (where there will unlikely be a second follow-up phase, because of the lack of ownership and success of the project).

### *The issue of transition*

Given the challenges and importance of securing stakeholder ownership of the corporate development agenda, corporate development cannot be seen as merely instituting a change. It rather concerns a transition from one's current practices and beliefs to a new set of practices and beliefs.<sup>16</sup> The most compelling and truthful way to move through a transition is to address the direct needs of the target group: the municipal council, the general-director, and the head of the planning or finance department for example. This statement might invoke the response: yes, but we do so, we address urgent development needs by rehabilitating the water supply production and distribution infrastructure and implementing new billing and accountancy software. True enough, but to the recipient, such integral approaches are likely to be abstract, impersonal, and long-term.

### *The benefit of context-specific, problem-oriented, flexible approaches*

We observe that addressing urgent and specific needs is or has been critical. The Khujand General-Director became enthusiastic about the corporate development program when he realized he could address therewith a corruption case. The Kant Utility had a need to amend its concession contract with the Municipality as it was to take on substantial debt from the EBRD to implement the project. It wanted to ensure that there is a clear link between tariff adjustment approval by the Kant Municipal Council and the Utility's obligation to serve the EBRD debt. With the full support of SECO, it tailored the corporate development to this specific need.

In Vietnam, GIZ reoriented its support from the sewerage operating companies to the Ministry of Construction and the Provincial People Committees as it found out that necessary sector reform in Vietnam could only be realized in a top-down manner.

The Chiclayo Mayor initially supported the project as it would bring waste compactor trucks into the city, providing a visible sign of his commitment to address the solid waste challenges of the city. The Mayor subsequently lost interest when implementation delays meant that the trucks would not be driving in the city before the municipal elections. The Piura Head of the Planning Department wished to understand the tariff methodology of the national water regulator SUNASS better and asked for a financial model accordingly.

On the other hand, we found examples where local needs and wishes were expressed (by either the utility or municipality), but not (sufficiently) addressed according to the recipient. In Bishkek, this concerned the improved billing and collection procedures and the updating of the customer database. In Shkodra, the project's coordination with the wider urban development plans of the municipality.

The value of addressing specific needs of the recipient in a targeted fashion is based in evidence and logic. A recent comparative analysis of 44 projects from the World Bank and the Global Fund to fight Aids, Tuberculosis and Malaria shows that projects which focus on specific and locally defined problems

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<sup>16</sup> Transformational change distinguishes itself from mere change. 'Change is situational: the move to a new sight, the reorganization of a team, the revision of a plan. Transition is psychological ... a [collective] process by which people unplug from an old world and plug into a new world' From: William Bridges, *Managing Transitions*, Da Capo Press, 1991.

and have a build-in flexibility in project activities are significantly more successful than projects which target generic problems with a fixed set of solutions.<sup>17</sup> Moreover, the problems faced by utilities are complex. These problems are complex in the sense that cause and effect are far apart in space and time, they tend to unfold in unfamiliar and unpredictable ways, and are perceived differently by different stakeholders.<sup>18</sup> As a consequence, one cannot assume there is something like a linear line out of underdevelopment (in the economic sense) and instead requires substantial meandering in a consultative process.

#### *The value of a long-term, on-the-ground consultant revisited*

The process of identifying urgent needs, addressing them in a targeted way and in the process identifying further needs and introducing additional new corporate development practices also allow us to understand the value of having a long-term intellectual counterpart or discussion partner by way of an experienced corporate development consultant (as mentioned above). Especially in the Municipal Infrastructure Program, where the terms of reference of the corporate development consultant was openly formulated to assist the utilities in achieving the performance targets allowed for such a process to unfold. However, we understand that the same took place in Khujand. Clearly such a process requires time.

#### *Taking a shortcut to ownership*

In securing ownership, the Municipal Infrastructure Program can be said to take a short-cut. By presenting the utilities a performance target, which when reached will release funding for infrastructure renewal, the utilities are challenged to reveal their ownership of the objective (moving towards financially sustainable operations) and the means (adopting modern corporate business practices). There is however a catch to this. Working with such performance regimes can trigger temporary support for (in this case) corporate development measures, to obtain what the utilities wish (namely physical investments in their infrastructure), only to resort to old management ways once the true objective (physical investments) have been achieved. With no further performance targets or corporate development support envisaged once the investments are implemented, the Municipal Infrastructure Program carries the risk of utilities aborting the corporate development practices.

#### *The terms of reference of the corporate development consultant*

The generic project set-up is that a project implementation or management unit implements the corporate development measures with support from an international corporate development consultant. In the majority of cases, we found that the terms of references of the corporate development consultant are generic in nature and input/output focused. In other words, the terms of references cover more or less all of the activities listed in table 1 in the opening chapter and assign deliverables to the international corporate development consultant for each activity.

The broad scope and input-output character of the terms of references have two consequences. First, utilities are provided a generic corporate framework rather than a tailor-made framework. Second, international consultants are pressured to do the job for the utility (i.e. work substitution between the project implementation unit and the corporate development consultant takes place). This second

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<sup>17</sup> The Limits of Institutional Reform in Development. Changing rules for realistic solutions. Matt Andrews, Cambridge, 2013

<sup>18</sup> Solving tough problems. An open way of talking, listening and creating new realities. Adam Kahane. Berret-Koehler Publishers. 2007.

point is amplified by the fact that the corporate development programs are limited in duration to 2 – 4 years. This project set-up does not facilitate the transition management that corporate development requires.<sup>19</sup>

There are two notable exceptions to the above finding. First, the terms of reference of the international corporate development consultant for the Municipal Infrastructure Program 1 and 2, which is outcome oriented (i.e. does not specify which corporate development activities or measures should be undertaken by the utility or consultant). Moreover, to prevent work substitution (i.e. the consultant carrying out the corporate development measures) the consultant is paid a lump-sum amount (rather than a results based fee) and charged with guidance of 6 utilities (which means he cannot dedicate his attention to one or two utilities).

Second, the terms of reference for the corporate development consultant in Kant is tailor-made and narrow in scope, and takes into consideration the needs of the Utility (i.e. improving the lease agreement and assistance with tariff approval/implementation).

#### *SECO's own institutional constraints*

Each individual project falls under a specific four-year Framework Credit<sup>20</sup>, which guides SECO's development assistance. Project budgets need to be committed (not disbursed) within this four-year time-period. The size of the Framework Credits (in monetary terms) have risen significantly over the last four years, putting pressure on the program officers to devise more or larger projects. Moreover, SECO's program managers perceive increased pressure from SECO's management to not only commit the project budgets, but also – to a significant extent – disburse the money within the four-year Framework Credit. The program managers note that as of late it has become more difficult to obtain project extensions (as this comes with extended disbursements periods.)

Project preparation time normally varies between 12 and 18 months, envisaged project implementation is 3 - 4 years and actual implementation is often 5 – 6 years. Importantly, there is no formal budget assigned to the project preparation phase (i.e. project identification and the conduct of feasibility studies). This phase is covered by the general budget of SECO/WEIN and budgets for feasibility studies are limited in size accordingly. Project monitoring is to be conducted by the Swiss Cooperation Offices in-country. SECO's headquarter-based program managers normally travel only once a year to their country of responsibility.

Finally, both headquarter and the Swiss Cooperation Offices have limited staff numbers. At headquarters there is one program manager in charge of two ies for Central Asia and Southeastern Europe, and there is one programme manager per country of operation for Far East, Africa and Latin America. In the Swiss Cooperation Offices there are two Swiss staff members who are supported by a

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<sup>19</sup> To be fair to the corporate development consultants in the field and SECO as well, many corporate development consultants do prioritize their work and some clearly assist the recipient utilities to transition to new corporate practices (such as in Khujand). SECO also has the flexibility to allow for such practical execution of work. The main point stands however, highlighted by all interviewed corporate development consultants, that at the end of the day all deliverables were provided for and thus required time and effort of the consultants and the utilities.

<sup>20</sup> Either the Framework Credit for 'Economic and trade policy measures within the context of development cooperation' or the Framework Credit for 'Cooperation with the states of Eastern Europe and the Commonwealth of Independent States' (From: Message on International Cooperation 2013 – 2016. Key points in brief, SDC and SECO, Bern, 2012.)

small number of national program officers. The Swiss Cooperation Office is however responsible for the whole SECO portfolio, which extends well beyond the SECO/WEIN projects.

The abovementioned rules and practices logically guide the program managers' current behavior, which need to be taken into account or recognized when formulating our recommendations (especially if and when we make suggestions which require changes in these rules and practices).

#### *Looking forward: recommendations*

SECO's corporate development portfolio has its clear successes, but also includes non-success and projects with bleaker prospects. The potential is there to raise the success rate. Clearly, there is no one recipe to do so. The circumstances utilities find themselves in are simply too divergent and unique to allow for generic approaches. We therefore only provide some 'fixed points', which one can use for orientation, but from which one can also deviate. This is much like the anchor points, which sometimes have been pre-established in rock climbing walls. A climber can use them, but also decide to by-pass one or more of them and use his / her own bolts, nuts or hexes instead. Moreover, we have sought to assist the practical applicability of our recommendations by using a tabular form. We trust this will point SECO in the right direction and allow it to further operationalize the recommendations.

RECOMMENDATION	TAKE A PROGRAMMATIC APPROACH PER COUNTRY OR SUB REGION	
<b>Meaning</b>	<ul style="list-style-type: none"> <li>- To pre-select (an indicative) 4 – 10 municipalities with which to engage in an in-depth dialogue on possible development assistance.</li> <li>- To select (an indicative) 3 – 8 municipalities with which to start a development cooperation partnership</li> </ul>	
<b>Reason</b>	<ul style="list-style-type: none"> <li>- Allows the selection of 'committed' utilities (see next recommendation) and thus improve the overall development effectiveness of SECO.</li> <li>- Allows for the efficient deployment of a long-term corporate development and water and sanitation consultant as he / she supports multiple clients.</li> <li>- Keeps the recipient utilities clearly in the lead as only arm's length support is provided by a consultant, who simultaneously coaches multiple utilities.</li> <li>- Allows for the benchmarking of and exchange between participating utilities (and thus foster peer-to-peer learning)</li> </ul>	
<b>Key actors</b>	- SECO	<ul style="list-style-type: none"> <li>- Provide guidance on selection criteria and process</li> <li>- Quality assurance of process and selection</li> </ul>
	- Swiss Cooperation Office <b>(Lead player)</b>	- Set up program and pre-select recipients
	- Recipients (e.g. water utilities)	<ul style="list-style-type: none"> <li>- Express interest in the program</li> <li>- Participate actively</li> </ul>
<b>Other stakeholders</b>	- Development partners	- Coordinate the assistance to avoid overlap
	- National ministries (e.g. Ministry of Water)	- Coordinate the assistance



	<ul style="list-style-type: none"> <li>- Regulator</li> </ul>	<ul style="list-style-type: none"> <li>- Can provide overview of utilities and their performance</li> <li>- Can allow the benchmarking of the utilities within the program and those which are not</li> </ul>
<b>Method</b>	<ul style="list-style-type: none"> <li>- Consultation</li> <li>- Road show</li> <li>- Open invitation to participate in program – request for expression of interest</li> <li>- Bilateral agreements between utility and SECO for utility to participate in program (in coordination with national level ministries)</li> </ul>	
<b>Duration</b>	<ul style="list-style-type: none"> <li>- Throughout the duration of the SECO assistance</li> </ul>	
<b>Frequency</b>	<ul style="list-style-type: none"> <li>- Intensive during the initial selection phase.</li> <li>- Maintenance of relationships once the program is up-and-running</li> </ul>	
<b>Mental shift</b>	<ul style="list-style-type: none"> <li>- To spread SECO's wings and no longer partner with a single utility</li> <li>- Empower Swiss Cooperation Offices to take the lead in developing the cooperation program</li> </ul>	
<b>Operational implications</b>	<ul style="list-style-type: none"> <li>- Strengthen the role, responsibility and capabilities of the Swiss Cooperation Offices.</li> </ul>	
<b>Training requirements</b>	<ul style="list-style-type: none"> <li>- Training in program set up</li> </ul>	
<b>Training frequency</b>	<ul style="list-style-type: none"> <li>- Upon assumption of office</li> </ul>	

RECOMMENDATION	<b>ENGAGE IN A PROFOUND DIALOGUE WITH THE RECIPIENT UTILITIES AND OTHER STAKEHOLDERS</b>	
<b>Objective</b>	<ul style="list-style-type: none"> <li>- To uncover the primary (short-term) concerns of the utility management and senior staff and the municipality (mayor and council) and how they are already addressing these concerns (which indicates ownership).</li> <li>- Unearth the real underlying causes of these challenges               <ul style="list-style-type: none"> <li><i>Example: Shkodra – the utilities inability to effectively address the illegal tapping of the water main because the main lies in another municipal jurisdiction</i></li> <li><i>Example: Shkodra – the belief amongst wide parts of the population that water is a free public good</i></li> <li><i>Example: Bishkek – consumers under-registering the actual number of inhabitants in one residence in combination with apparent weak enforcement/control and fixed, non-metered billing practices, causing high commercial non-revenue water losses</i></li> <li><i>Example: North Tajik – Resistance of billing collectors to e-metering and invoicing as it reduces the opportunity for collusion with the customers and earn some extra income (necessary because of the low pay scales).</i></li> <li><i>Example Chiclayo – staff resistance to waste collection optimizations as they reduce the opportunity to recycle waste on their own account</i></li> </ul> </li> <li>- Gain a mutual understanding on:               <ul style="list-style-type: none"> <li>- the functioning of the utility</li> <li>- the key challenges and possible ways to amend them</li> <li>- which actions the utility can take themselves</li> <li>- which support SECO can and 'is willing' to provide (i.e. a phased and results-based approach)</li> </ul> <p><i>Example: SECO will not finance physical investments if no actions are taken in the measurable improvement of the operational and financial performance of the utility.</i></p> </li> <li>- Verify or expand on the outcome of the discussions with the utility with other key stakeholders. Include critical stakeholders (i.e. those whose support will be necessary down the road) in the dialogue               <ul style="list-style-type: none"> <li>- Mayor and a municipality's senior management</li> <li>- Municipal council</li> <li>- Ministries</li> <li>- Unions or other staff representatives</li> <li>- Etc.</li> </ul> </li> </ul>	
<b>Key actors</b>	<ul style="list-style-type: none"> <li>- Swiss Cooperation Office <b>(Lead player)</b></li> </ul>	<ul style="list-style-type: none"> <li>- Lead the dialogue</li> </ul>
	<ul style="list-style-type: none"> <li>- Recipient utilities</li> </ul>	<ul style="list-style-type: none"> <li>- Openly engage in the dialogue</li> </ul>

	<ul style="list-style-type: none"> <li>– Long-term resident consultant</li> </ul>	<ul style="list-style-type: none"> <li>– Provide initial coaching and content support</li> <li>– Support the deepening of the dialogue</li> </ul>
<b>Other stakeholders</b>	<ul style="list-style-type: none"> <li>– Municipality (incl. mayor)</li> </ul>	<ul style="list-style-type: none"> <li>– Development partner</li> <li><i>Example: Shkodra – municipality has an active urban development program with interfaces to any water and sewerage rehabilitation program</i></li> </ul>
	<ul style="list-style-type: none"> <li>– Municipal council</li> </ul>	<ul style="list-style-type: none"> <li>– Might need to provide formal approval</li> <li>– Its members might be part of future ruling coalitions</li> </ul>
	<ul style="list-style-type: none"> <li>– Ministries / regulator</li> </ul>	<ul style="list-style-type: none"> <li>– Policy and tariff setting partner</li> <li>– Benchmarking / performance indicator at national level</li> </ul>
<b>Method</b>	<ul style="list-style-type: none"> <li>– One-on-one dialogues between Swiss Cooperation Office and recipient utility, municipality and ministry</li> <li>– Multi-stakeholder workshops</li> </ul>	
<b>Duration</b>	<ul style="list-style-type: none"> <li>– Intensely during the actual set-up of the program and initial selection of participating utilities, thereafter continuation throughout the assistance</li> </ul>	
<b>Frequency</b>	<ul style="list-style-type: none"> <li>– At least the first three months: bi-weekly basis</li> <li>– Thereafter: monthly sessions with the most critical actors</li> </ul>	
<b>Mental shift</b>	<ul style="list-style-type: none"> <li>– From being a 'provider of (monetary) assistance' to being a 'partner in development'</li> </ul>	
<b>Operational implications</b>	<ul style="list-style-type: none"> <li>– The Swiss Cooperation Offices need to take a proactive and leading role in shaping and guiding tailor-made assistance programs. This will require more resources and new skills.</li> <li>– Shift monetary resources from the current 'project implementation' phase to this 'project preparation phase'. This also implies using Framework Credit funds to pay (part of) Swiss Cooperation Offices' activities.</li> <li>– To manage the workload of the Swiss Cooperation Office (especially in the initial phase of the program) some spreading in time of the initial dialogue and selection of utilities needs to take place (i.e. it will be impossible to have 10 intensive dialogues running at the same time). A growth model can also be envisaged: starting with for example 4 utilities and growing the program over time to 6 – 8 utilities.</li> </ul>	
<b>Training requirements</b>	<ul style="list-style-type: none"> <li>– Training in: <ul style="list-style-type: none"> <li>– The art of dialogue</li> <li>– Facilitation of multi-stakeholder workshops</li> <li>– Systems thinking to unearth real underlying causes rather than superficial (and potentially counterproductive) remedies</li> </ul> </li> </ul>	
<b>Training frequency</b>	<ul style="list-style-type: none"> <li>– Annually recurrent training sessions on the above topics</li> </ul>	

RECOMMENDATION	<b><u>PROVIDE LIMITED, PROBLEM-ORIENTED, LOCAL CONTEXT SPECIFIC SUPPORT, WHICH (ONLY) GROWS OVER TIME AS RESULTS ARE DELIVERED</u></b>	
<b>Objective</b>	<ul style="list-style-type: none"> <li>- To convince the recipients of the value-added of the results-based corporate development activities. <ul style="list-style-type: none"> <li><i>Example: Shkodra – address the real and present problem of illegal tapping of the water main by the neighboring municipality community.</i></li> <li><i>Example: Bishkek – improve billing procedure and customer database in a selected pilot area.</i></li> <li><i>Example: Karakol – address the practice of using drinking water for irrigation purposes which puts pressure on system capacity, especially during the dry season.</i></li> </ul> </li> <li>- To reveal the ownership of the key actors of their own development agenda <ul style="list-style-type: none"> <li><i>Example: Shkodra – willingness of the municipality to resolve the illegal tapping of water by people located in the neighboring municipality.</i></li> <li><i>Example Bishkek – willingness of the city of Bishkek to allow improved billing procedures bulk/block metering of apartment buildings.</i></li> </ul> </li> <li>- To test the assumptions underlying the efforts to address the challenges: are the right things being tackled? <ul style="list-style-type: none"> <li><i>Example: Shkodra – is the illegal tapping in the neighboring municipality indeed the prime cause for the high levels of non-revenue water?</i></li> <li><i>Example: Bishkek – verify and evaluate results of customer database improvement on reduction of commercial non-revenue water</i></li> </ul> </li> <li>- To continue the dialogue on the functioning and challenges of the utility <ul style="list-style-type: none"> <li><i>Example: Municipal Infrastructure Program –development of a business plan and financial model of the utilities between the recipient utilities and the long-term consultant and subsequent monthly discussion of the operational and financial performance based on this plan and model.</i></li> </ul> </li> <li>- To increase development assistance subject to the actual achievement of results</li> </ul>	
<b>Key actors</b>	<ul style="list-style-type: none"> <li>- Recipient utilities (Lead player)</li> </ul>	<ul style="list-style-type: none"> <li>- Undertake the agreed upon activities</li> </ul>
	<ul style="list-style-type: none"> <li>- Long-term resident consultant</li> </ul>	<ul style="list-style-type: none"> <li>- Coach the utilities in their actions</li> </ul>
	<ul style="list-style-type: none"> <li>- Swiss Cooperation Office</li> </ul>	<ul style="list-style-type: none"> <li>- Monitor implementation progress</li> </ul>
<b>Other stakeholders</b>	<ul style="list-style-type: none"> <li>- SECO</li> </ul>	<ul style="list-style-type: none"> <li>- Strategic oversight</li> <li>- Quality assurance / compliance function</li> </ul>
	<ul style="list-style-type: none"> <li>- Regional government / Ministries</li> </ul>	<ul style="list-style-type: none"> <li>- Provide approvals</li> <li>- Act as intermediary (e.g. as necessary in the case of Shkodra and the challenges with the neighboring municipality)</li> </ul>

<b>Method</b>	<ul style="list-style-type: none"> <li>- Project implementation</li> <li>- Coaching</li> <li>- Monitoring and dialogue</li> </ul>
<b>Duration</b>	<ul style="list-style-type: none"> <li>- 1 – 2 years of highly targeted activities, subsequently broaden the project scope in a phased approach to allow for continuous results-based management</li> </ul>
<b>Mental shift</b>	<ul style="list-style-type: none"> <li>- To view development assistance as a 'process', rather than a 'product': the goal can be fixed, not the path.</li> <li>- To forego the development and approval of a full-fledged project before the actual assistance starts (i.e. forego the clear distinction between project 'preparation' and 'project implementation').</li> <li>- To put the recipient utilities squarely in the lead of their own development agenda and put the consultants in a supportive rather than leading role.</li> <li>- To allow some time before utilities receive the current level of financial support.</li> <li>- Be prepared to discontinue support if a utility fails to meet predefined performance criteria.</li> </ul>
<b>Operational implications</b>	<ul style="list-style-type: none"> <li>- The Operations Committee needs to approve the programmatic approach in country X or region Y rather than a well-defined investment project for utility Z. Of course, the Operations Committee can be involved again if the investment volume for utility Z in a program in country X exceeds a certain figure.</li> <li>- Rules and procedures need to be formulated to develop and approve small-scale interventions. How much decision-authority can be devolved to the long-term consultant or the Swiss Cooperation Office, when does SECO headquarters need to provide a no-objection?</li> <li>- SECO will work with corporate development consultants who are responsible for a program, rather than a project, and are located in-country.</li> <li>- Extended contractual relationship between SECO and the long-term consultant (providing its own challenges: ensuring continued performance, staff turnover within consultancy, maintaining good personal relations with a multitude of utilities and their stakeholders, etc.)</li> </ul>
<b>Training requirements</b>	<ul style="list-style-type: none"> <li>- Result-based management</li> <li>- Rules and procedures for developing and approving a sequence of small-scale interventions.</li> <li>- Monitoring of long-term consultant</li> </ul>
<b>Training frequency</b>	<ul style="list-style-type: none"> <li>- Annual updates (can be light-touch)</li> </ul>

RECOMMENDATION	SYSTEMATICALLY PROVIDE POST-COMPLETION COACHING	
<b>Reason</b>	SECO's initiative in Macedonia and Kirgizstan to offer post-completion coaching makes perfect sense. Our advocated programmatic approach with an in-country, long-term consultant providing coaching throughout the project preparation and implementation phase offers another stepping stone for this as the established consultant can continue his / her involvement in the program after the major activities have been concluded. The international consultant does no longer have to be on-the-ground.	
<b>Objective</b>	– Provide a sounding board to the utilities in their own efforts to maintain or further improve the operational and financial performance of the utility.	
<b>Key actors</b>	– Recipient utilities	– Responsible for continued performance
	– Long-term consultant	– Coaching
	– Swiss Coordination Office	– Monitoring and development partner
<b>Other stakeholders</b>	– International financial institutions or commercial banks	– New development partners to the utility
<b>Method</b>	– Coaching	
<b>Duration</b>	– Max. a couple of years	
<b>Mental shift</b>	– SECO being a development partner of a utility for an extended period of time, ca.10 – 12 year period	
<b>Operational implications</b>	– See previous recommendations on extended contractual relationship between SECO and long-term consultant.	
<b>Training requirements</b>	– N.a.	
<b>Training frequency</b>	– N.a.	

RECOMMENDATION	<b>CONSIDER SETTING UP A GLOBAL PROGRAM ON CORPORATE DEVELOPMENT OF PUBLIC UTILITIES</b>	
<b>Reason</b>	<p>The above recommendations have a significant impact on the way SECO operates. In a way, it moves SECO in the direction of a development agency (like SDC or GIZ) and away from being a development finance institution. Enlarging and empowering the Swiss Cooperation Offices might (at least in the short term) be a bridge to far.</p> <p>An alternative for SECO is to set-up a special program, with dedicated funds and a small core team of staff, to promote the alternative approach to corporate development advocated in this evaluation report.</p> <p>Such a program would allow the positioning of experts in the countries of operations to perform the role allocated in the above to the Swiss Cooperation Offices.</p> <p>The last ten years has seen many such initiatives or programs: Clean Air Initiative Asia, Cities Development Initiative Asia, Energizing Development Program, and Lighting Africa. SECO could investigate which of these programs have proven most effective and efficient to its donor members.</p> <p>Such a set-up also provides an opportunity: to increase the fund size and intellectual capital of the program by inviting other development partners to join.</p>	
<b>Key actors</b>	<ul style="list-style-type: none"> <li>- SECO</li> </ul>	<ul style="list-style-type: none"> <li>- Founder</li> <li>- Houses the secretariat or implementing agency (like the Norwegian Ministry of Foreign Affairs houses the Energy+ initiative)</li> </ul>
	<ul style="list-style-type: none"> <li>- Other development partners</li> </ul>	<ul style="list-style-type: none"> <li>- Contributing members (content-wise and financially)</li> </ul>
	<ul style="list-style-type: none"> <li>- Country-level utility association</li> </ul>	<ul style="list-style-type: none"> <li>- Members and content-contributors</li> </ul>
<b>Method</b>	<ul style="list-style-type: none"> <li>- Dedicated program with its own account (and possibly judicial status)</li> <li>- Light governance system</li> </ul>	
<b>Duration</b>	<ul style="list-style-type: none"> <li>- Multi-year with option for renewal</li> </ul>	
<b>Mental shift</b>	<ul style="list-style-type: none"> <li>- None really as SECO already supports several of such initiatives amongst other the Cities Development Initiative Asia. The only difference would be that SECO would now initiate and lead.</li> </ul>	
<b>Operational implications</b>	<ul style="list-style-type: none"> <li>- Establish a new governance and institutional arrangement for such a program</li> </ul>	
<b>Training requirements</b>	<ul style="list-style-type: none"> <li>- N.a.</li> </ul>	
<b>Training frequency</b>	<ul style="list-style-type: none"> <li>- N.a.</li> </ul>	

### *Afterword on the above recommendations*

We realize that such a process, which seeks tailor-made approaches and solutions, will be a challenge for SECO to implement as it runs counter to many of the institutions guiding SECO's actions: a relatively large development assistance budget vis-à-vis the number of staff requires staff to devise relatively large investment projects; the overall budget needs to be committed in 4 year time-periods; the lack of dedicated project preparation funds; a customary project preparation practice involving relatively little in-country time of SECO's country program manager and quick, consultancy executed feasibility studies; and overburdened Swiss Cooperation Offices.

The adoption of above process will make hard choices necessary: choosing between the quality of interventions and the number and monetary volume of investments; choosing between a wide or narrower geographic focus, and choosing between being an on-the-ground development agency or a more arm's length development finance institution. The adoption of above process will especially in the short term result in a reduction in investment volume as new dialogues are started. A well-trained, equipped and dedicated Swiss Cooperation Office should however be able to run multiple dialogue and project implementation processes allowing the investment volumes to increase again over time.

Regarding the time-constraint (framework credits of 4 years and political pressure to show results), we make the following two observations. First, the envisaged phased approach allows for the demarcation of shorter term projects and the showing of interim results. Second (and slightly more critical), we should not fool ourselves: the successful projects in Khujand and Pogradec both took roughly 12 years to reach the corporate development outcome target stated in the opening of this chapter.

## **3.3 Specific evaluation questions**

### **3.3.1 Were the supported utilities able to achieve the defined IBNET benchmarks (where IBNET was specifically mentioned during the project preparation) or similar targets?**

No IBNET benchmarks have been defined (or mentioned in the project documentation) for any of the reviewed projects.

The logframe of the second support phase of the Khujand Water Utility includes a number of quantified targets (24 hours of water supply per day for customers on the right bank of Khujand and a collection rate of 92% in 2011). These quantified targets have been achieved.

The quantified targets for the Pogradec Water Utility (98% population coverage, 22 hours of water supply per day, less than 20 system collapses per year and 80% positive water quality test results) have also been achieved, albeit as far as we could assess only after the three consecutive phases of support (rather than just the first phase).

As noted in the previous paragraph, the other reviewed projects have either performed poorly (Shkodra) or implementation is proving difficult or is encountering delays (North Tajik, Bishkek, Karakol, Ba Ria, Osh, Jalalabad) or has just started (Piura, Waste Water North, Kant). For these projects, the answer to the above evaluation question is either negative or premature.



**3.3.2 To what extent did the increased performance of utilities contribute to better access to water, energy, sanitation and waste disposal services?**

As stated previously, this evaluation has focussed with the exception of Chiclayo on projects which seek the provision of improved water and sanitation services. Chiclayo is still early in project implementation.

Based on the evaluation methodology, the evaluators cannot isolate the effects of improved corporate management on better access to water and sanitation services. However in the successful projects (Khujand, Pogradec) significant improvements have been made with nearly the full populations of the respective municipalities receiving 24 hours of water supply per day and having access to improved sanitation services.

**3.3.3 Did the increased capacities in the utility help safeguard the investments in the physical infrastructure?**

We have not identified specific and concrete examples where increased staff and management capacity has directly protected the sustainability of SECO-financed physical infrastructure investments. However in the successful projects increased capacity has gone hand-in-hand with greater awareness of the importance of and commitment to maintaining the physical infrastructure properly.

**3.3.4 Did increased transparency and accountability lead to a reduction of corruption within the public utilities?**

On this question, we have gathered anecdotal evidence. From interviews with representatives of municipalities, utilities, development organizations and consultants, a clear consensus emerged. Corporate development activities such as electronic billing and collection, improved monitoring of activities, and audited financial statements clearly reduce 'the opportunities' for corruptive practices.

## 4 Sustainability

This chapter addresses the sustainability of SECO's corporate development support to public utilities first by measuring the portfolio against the OECD/DAC definition of sustainability, and second by addressing specific evaluation questions.

### 4.1 Measurement against OECD/DAC definition

The OECD / DAC defines sustainability as the extent to which the benefits of the projects continue after donor funding ceased. It also invites to identify the major factors influencing the achievement or non-achievement of sustainability of the projects.

#### *Too early to tell*

Clearly, the question of sustainability is only relevant for the completed projects. The previous chapter highlighted that clear benefits of the corporate development support have accrued in Pogradec and the Municipal Infrastructure Program (Albania), and Khujand (Tajikistan). What can we conclude about the sustainability of these efforts and specifically its benefits?

In principle it is too early to tell. There has not yet been an extended period of time without SECO or SECO-partner (i.e. KfW or EBRD) support. In all these projects a continued donor relationship exists. In Pogradec, KfW is finishing up a third phase of investment and corporate development support. Since closing the second phase of support to Khujand, the EBRD has been continuously monitoring and engaging with the utility and preparing a third phase of support. The Municipal Infrastructure Program is still full in its implementation phase. Moreover, long running projects in Karakol and Ba Ria have been extended beyond their original completion dates in order to secure the attainment of the outputs.

#### *Positive signs exist*

In Pogradec for example, the Utility is implementing an e-metering program and replacing their (KfW-financed) automated billing system to allow for a complete electronic management of connections and billing. The Utility does so at its own costs and risks. Although KfW advised against it due to the vulnerability of the envisaged system and the newness of the old system, it professes a commitment on the part of the management to continue improving the operational and financial management of the Utility. In addition, a 5-year business plan, a 3-year operational strategy and an annual budget plan have been prepared and are used by management. Moreover, monthly financial reports are prepared for the General Director.

In Khujand, the Municipality realized the importance of continuing good management practices and replaced the General-Director, who was clearly not committed to such practices.<sup>21</sup> The current management team indicated that they are continuing using the monthly and quarterly progress report to manage and improve the Utility's operational and financial performance.

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<sup>21</sup> The question is to what extent the Municipality replaced the General-Director because it attaches to continued good managerial practice and positive financial results by the Utility or does not want to jeopardize a third investment program from the EBRD.

### *Utilities remain fragile*

That utilities remain fragile is highlighted by the Khujand example where, as mentioned before, the appointment of a new General-Director by the Municipality in 2011 led to a quick deterioration of the operational and financial performance of the Utility as the new General-Director did not embrace the notion to manage the Utility in a sustainable way. But also in Pogradec, the appointment of the new General-Director created turbulence as the new General-Director openly questioned the correctness of reported operational and financial numbers, which amongst others led to a correction by 50% of the reported non-revenue water numbers. Moreover, according to KfW, it had to intervene massively to prevent numerous changes in the senior management and administration of the Utility and the loss of preciously build-up capacity after a new General Director had been appointed.

### *What is needed is the institutionalization of good corporate practices*

Sustainability is normally assured if the good corporate development practices become embedded in an organization's systems and culture. This requires that these practices are accepted and adopted by all echelons of a utility. Once this is the case, this will allow a utility to continue (improving) proper operational and financial management even in the absence of an authoritative general-director or upon a change in municipal leadership. We understand from one corporate development consultant that this situation has been achieved in the SECO-supported district heating project in Vinnytsia, Ukraine. The evaluators cannot however verify this as the Ukraine portfolio was not studied in detail. The Khujand example however shows that despite considerable corporate development support middle and senior management was not yet strong enough to stand up against the new director in 2011 and 2012.

To underline this observation, the development of SECO's own corporate development policy paper has relevance. The paper lays out that:

*'until now, corporate development reform have been closely associated with persons and not with a process / system. The analysis and understanding of corporate elements have been too much dependent on consultants. Some sort of template / checklist is needed to have a more systematic approach'<sup>22</sup>.*

Although we question whether a template or checklist would be the proper vehicle (as checklists generally do not change people's deeply rooted customs and behaviors), the point is clear: only when we change how we jointly act, can we expect to give wider prominence to the corporate development agenda.

### *The role of middle-management*

It is questionable to what extent the institutionalization of corporate development practices can be forced from the outside upon a utility. Two experienced corporate development experts the evaluators interviewed noted however the importance of working with the middle-management of a utility. For two reasons. First, they actually execute many of the changes, i.e. implement many of the new corporate development practices. Second, they are more likely to stay in the utility, and as such provide stability and a basis for the sustainability of the efforts.

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<sup>22</sup> Corporate development of public utilities in developing and transition countries, Policy Paper, SECO/WEIN, November 2010.

The picture which emerged from the field visits is that a charismatic general-director, who truthfully embraces corporate development practices, implicitly or explicitly leads his staff to adopt these practices as well, especially when they target clear and perceived needs by these staff members. In other words, the institutionalization requires the belief on the part of the general-director in the corporate development concepts and the trust of the staff that they have the room to adopt or even experiment with these concepts.

#### *Looking forward*

The guarantee for the sustainability of results is the broad-based ownership of the corporate development agenda. Such ownership is created early on in the project preparation and broadened to include more stakeholders during project implementation. The seeds of sustainability are planted in the project preparation and implementation. It is for this reason that our recommendations on the effectiveness of SECO's corporate development (see chapter 3), which seek to foster this ownership, also provide the foundation for achieving sustainability of results. Here, we highlight the importance of including middle-management of the utilities in the project preparation and implementation as they are ultimately the change implementers.

The capitalization workshop on the evaluation report also identified a number of supporting measures at the national level, which in the medium-term can promote a culture of performance amongst public utilities and thus the full embrace of the corporate development agenda. These measures include:

- the promotion of a water and sanitation association, which provides an information and knowledge sharing platform and arranges managerial and vocational training courses;
- the benchmarking of the operational and financial performance of utilities by for example the sector regulator;
- strengthening a national consumer organization, which provides a stronger voice to consumer interests; and,
- convincing the national government to phase out any public payment / subsidy schemes of the utilities' operational and maintenance expenditures.

To this end, we recommend SECO:

- to implement our recommendations on improving the effectiveness of the corporate development program in chapter 3;
- to ascertain what supportive measures can be taken at a national level to strengthen a culture of performance in utilities. We note that such measures can be supported by SECO or a development partner.

Given that there are no projects in the project portfolio where the development assistance has ceased for a meaningful amount of time, we additionally recommend SECO to conduct sustainability studies 3 – 5 years after the SECO and development partner support has stopped. We also recommend SECO to do so systematically to – in due time – obtain an accurate picture of the sustainability of SECO's corporate development work and the key drivers of sustainability.

## 4.2 Specific evaluation questions

### 4.2.1 Did Corporate Development measures significantly increase the sustainability of the access to water, energy, sanitation, waste disposal and transportation services?

As noted above, it is too early to draw conclusions on the sustainability of the improved access to water and sanitation services. However, the corporate development measures are likely to increase the sustainability of the improved access as long as these corporate development measures (and their associated objective of customer-oriented and self-financing service providers) continue to be embraced by the utility and municipality.

### 4.2.2 Is «post-completion coaching» a suitable instrument to increase the performance in sustainability?

In Kyrgyzstan, a pilot coaching project was carried out in which SECO supported utilities were participating. The support provided was in parallel to ongoing projects and thus not post-completion support per se. It comprised of a benchmarking study comparing performance of participating utilities and facilitated a joint study tour to a (privatised) utility in Shymkent, Kazakhstan, which has successfully implemented a consumer water meter implementation program. The project was implemented by a local consultant following a competitive tendering procedure. Feedback received from utilities specifically mentioned that the coaching project (i) gave the opportunity to learn from the experiences of other regional utilities and (ii) provided a platform to exchange experience and compare performance between utilities. Such benefits of peer-to-peer learning were also expressed by the general-directors of the Shkodra and Pogradec utilities, who participate in a KfW-initiated directors club.

The Kyrgyzstan experience does not provide a basis to answer this evaluation question. The benefits of the post-completion coaching lay more in the peer-to-peer learning than the coaching by the local consultant. In the previous chapter on effectiveness, we highlighted the value-added of utilities having a long-term intellectual counterpart or discussion partner by way of an experienced water and sanitation and corporate development specialist. The concept of post-completion coaching would make this expert further available upon the project's completion. Given the relationship of trust which has been built over many years of cooperation, it makes sense to ensure that the same counterpart (consultant) is made available to a utility as in the original project.

### 4.2.3 What proportion between infrastructure investment and Corporate Development provides best sustainability?

As stated in chapter 3 on effectiveness, one needs both. In monetary terms, it is non-sensible to assign a ratio. For two reasons. First, corporate development measures only cost a fraction of capital investments. Second, development needs both in terms of physical investments and corporate development differ between utilities.

## 5 Efficiency

This chapter addresses the efficiency of SECO's corporate development support to public utilities first by measuring the portfolio implementation against the OECD/DAC definition of efficiency and SECO's elaboration on this definition, and second by addressing specific evaluation questions from our terms of reference.

### 5.1 Measurement against OECD/DAC definition

According to the OECD/DAC, efficiency measures the outputs – qualitative and quantitative – in relation to the inputs. It is an economic term which is used to assess the extent to which aid uses the least costly resources possible in order to achieve the desired results. This generally requires comparing alternative approaches. In addition, the OECD/DAC invites to ascertain whether envisaged objectives were achieved on time.

SECO/WEQA has elaborated on this definition and suggests to address the efficiency of projects or programs along the following themes: approach taken, the management of the projects (including monitoring), implementation modalities and the cost-effectiveness of project implementation.

This section will thus address the subsequent themes: comparative approaches, delivery time, management, monitoring, implementation models and cost-effectiveness.

#### 5.1.1 Comparative approaches

We have identified a number of variables in the approach to corporate development by SECO or other development organizations. These variables are:

- timing of corporate development support;
- recruitment of the technical and the corporate development consultant under one or separate contracts;
- private sector involvement.

Each of these variables are examined in the following subsections.

#### *Timing of corporate development support*<sup>23</sup>

The corporate development is normally provided alongside the technical assistance (i.e. procurement and construction of the physical infrastructure investments). We have encountered two exceptions. In the Municipal Infrastructure Program, there is an initial, dedicated phase in which only corporate development support is provided. This program shows that substantial increases in operational and financial management performance can be obtained with corporate development measures alone.

In the North Tajik and Osh and Jalalabad projects, the corporate development assistance was provided in the first two years of project implementation. In sharp contrast to the Municipal Infrastructure Program, this assistance did not provide any measurable effects. For the corporate development

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<sup>23</sup> In this section, we also address the following evaluation question from our terms of reference: were the corporate development components logically sequenced and aligned with the infrastructure and framework conditions components?

assistance which was provided in parallel to the technical assistance, some had success, others did not. What does this tell us about the timing of corporate development assistance?

To answer this question, it is useful to briefly recap some critical characteristics of the above projects. First, the corporate development assistance in the Municipal Infrastructure Program was linked to a clear performance target which when reached would release the funding for the physical investments. In at least five out of the six cities, this triggered a willingness on the side of the utilities to address operational and financial inefficiencies, implement a range of corporate development measures, and improve the overall operational and financial performance.

Second, in the North Tajik and Osh and Jalalabad projects, the corporate development assistance was strongly consultancy-led, triggered by an output-oriented terms of reference for the corporate development consultant and a limited implementation time of two years. Even upon formal completion of the corporate development activities, the utilities' senior management and staff did not really capture the value-add or the meaning of the corporate development. They also felt they could not apply some of the tools yet, such as the computerized billing and accounting software, as the envisaged water meters had not yet been procured, received and / or installed, as this was to be done under the implementation component of the project.

We take from the above different two experiences that corporate development measures can very well be implemented from the outset of project implementation. In fact, it seems preferable as it can deliver real, measurable improvements in operational and financial performance of the utilities. The condition however is that the utility grasps the need, is committed and is empowered to take up the corporate development.

The need for ownership of the corporate development measures is shown by the above examples, but also has a firm basis in how organizational learning takes place. True, deep or enduring learning<sup>24</sup> starts when key personal becomes aware of a challenge or development need. Such awareness opens them up to search for new information, take a course, or exchange with peers. These activities will bring new ideas and knowledge to the fore, which they then start applying in their work, slowly but steadily building up new capabilities and skills to deal with the original development need. Once new development needs arise, the learning cycle starts all over again. The original awareness can of course be triggered by direct experiences on the work floor, but also by exchanges with colleagues, peers or development partners.

#### *Looking forward: recommendations*

Given the relative low costs and clear potential for results, we certainly favour to start with corporate development sooner rather than later. Still, the condition that the recipients are receptive to corporate (and by extension personal) development must be met beforehand. Extensive dialogue with the utility by the Swiss Cooperation Office and the resident long-term corporate development expert, peer-to-peer learning between utilities, financial incentives, and recipient-led corporate development can assist in meeting this condition.

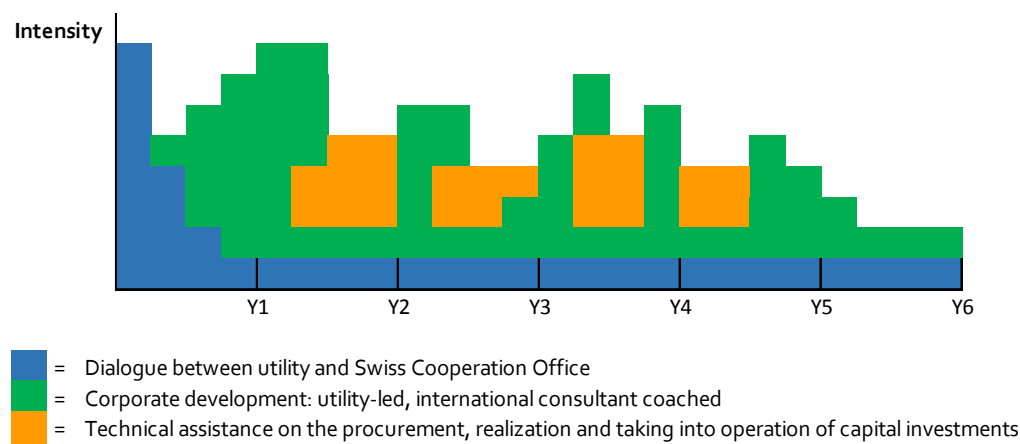
Our recommendations on the effectiveness of corporate development (chapter 3) foresee the start of the corporate development within the dialogue between the utility and the Swiss Cooperation Office.

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<sup>24</sup> Based freely on The Fifth Discipline Fieldbook. Strategies and Tools for Building a Learning Organization. Peter Senge et. al.. Doubleday, 1994.

Ideally, first by the utility alone and subsequently supported / coached by the long-term corporate development expert. As the corporate development progresses, the utility, the long-term corporate development expert and the Swiss Cooperation Office can agree on supportive physical investment measures (including the involvement of an international procurement and engineering expert).

**Graph 1 Illustration of potential sequencing of the dialogue, corporate development coaching and technical assistance**



SECO asked during the capitalization workshop how to deal with potential intermissions in the corporate development consultants (useful) involvement. Particular reference was thereby made to the time between 'the approval of the feasibility study and project design and the start of project implementation'. Actually, this particular intermission no longer exists if our recommendations are adopted. After the dialogue phase, we foresee a framework contract between a utility and SECO, in which an objective, goal and approach is agreed and an experienced corporate development consultant is financed. The utility, with coaching support from the corporate development expert, will then step-by-step implement corporate development measures. In the course of this development process, individual capital investments measures will be identified, prioritized, proposed, developed, and above a certain monetary threshold separately approved by SECO, and subsequently implemented.<sup>25</sup> This set-up takes out the distinction between project preparatory and implementation phase. (It will also require a new investment approval process inside SECO. It goes beyond the scope of this evaluation to make recommendations to this end. We would nevertheless expect a certain kind of delegated decision-authority to the long-term consultant, the Swiss Cooperation Office, SECO/WEIN management and the Operations Committee).

Of course, there will still be lulls in the corporate development experts work load per utility. As we propose a programmatic approach per country or geographical sub-region, it can be expected that the work load evens out across the different utilities being supported by one long-term corporate development consultant. Moreover, whilst the team leader of the corporate development consultant

<sup>25</sup> This approach also has the operational consequence that no full-fledged technical feasibility study will need to be conducted prior to the project implementation. Instead targeted feasibility studies will be undertaken for each incremental investment measure. As such, this approach will also solve the recurrent problems with outdated or incorrect feasibility studies (as mentioned time and again during our interviews with both utilities and consultants).



should be stationed in-country, he / she can be supported by a team of part-time local and international experts.

Finally note that a detailed feasibility study or business plan can still be developed. We perceive such a study however much more as a development process and subsequently a management tool between the utility and the long-term corporate development consultant, than a basis for decision-making. Of course, individual (physical) investment decisions will need to be supported by proper analysis and documentation

#### *Recruitment of the corporate development consultant under one or separate contracts*

Corporate development mandates are generally procured separate from the technical assistance mandates. The reason provided is the distinct skillset required for corporate development vis-à-vis technical assistance. The validity of this reasoning is confirmed by the fact that in those projects where the two mandates are procured together, a consortium of 2 firms rather than a single firm has been recruited, with one consortium partner responsible for the technical assistance mandate and one partner for the corporate development mandate. This holds true for example in Skhodra, Ba Ria and Chiclayo. In Karakol, a technical consultant was in charge of both components but arranged for freelance consultants to carry out the relatively small CD component.

The argument in favour of recruiting the technical and corporate development consultants under one contract is that it improves the coordination and timing between the technical and corporate measures. At face value, this would have been much required in the North Tajik, Osh and Jalalabad projects where the two components have run extremely out of sync. The Shkodra project, with a single consultancy contract, does however not support this argument. In Shkodra, the two components were implemented fully separately from each other nevertheless. A single contract does clearly not guarantee coordination and alignment.

An alternative approach could be to include critical physical investments under the corporate development component. For example, installation of consumer water meters could be included in the corporate development component to ensure that development and implementation of a billing system is coordinated with installation or replacement of water meters. This is the approach adopted in Kant, Kyrgyzstan.

#### *Looking forward: recommendations*

Our recommendations on the effectiveness of corporate development (chapter 3) suggest the early involvement of the experienced corporate development consultant. This has been further illustrated in the previous section and in graph 2. Such a set-up clearly rules out a single contract for the corporate development and technical assistance components. The exact content and timing of the capital investments are simply not yet known at the time the corporate development consultant is recruited. Instead, we suggest the corporate development consultant to take the lead in the recruitment and supervision of the technical assistance consultant, covering either a single or multiple capital investment components.

This role extension of the corporate development consultant makes it important that the corporate development consultant has experience with the procurement and supervision of technical assistance and physical investment works. Corporate development, sector knowledge, procurement skills and technical assistance experience might be united in a single individual. More likely is however that an

experienced corporate development and sector specialist will be (part-time) supported by a team of procurement and technical assistance experts.

#### *Private sector participation as alternative*

The private sector management of the Kant Utility shows promise. The Utility's management is very involved, as expressed by two examples. First, the terms of reference of the corporate development consultant was tailor made to the specific needs of Kant utility as articulated by the Management ( and through the support of SECO). It is the only tailor made terms of reference of corporate development consultants, we have encountered in all reviewed EBRD/SECO projects. This shows commitment of Kant management which clearly knows what it wants and how to get it. Second, Kant Management is pro-active and fully supportive of the scope of the physical measures (i.e. 100% installation of consumer water meters, combined with a stakeholder participation programme), based on its own piloting of (remote controlled) consumer water meters. The study tour to the privately owned utility in Shymkent, Kazakhstan in the framework of the pilot coaching project referred above clearly contributed to this.

We have however also encountered two examples of non-successful private sector participations project in our mission countries.

The World Bank has supported a management contract in the Dushanbe Water Utility (see also our Tajikistan country report in Annex G). After 3 years, the management contract was not extended. Evaluation studies and interviews highlight three primary reasons for the failure of the private sector approach to gain traction: (i) the Municipality and Utility were not ready to provide the private partner with effective control over the Utility's operations and management; (ii) the private partner was not responsive to the development needs of the Utility as perceived by the Municipality and Utility; and (iii) the private partner had little financial leeway to invest more time and means (for having won the contract with a very competitive price).

KfW has supported a concession model for the Elbasan Water Utility. After five years, the concessionaire returned the concession to the Albanian government. A KfW post-completion report<sup>26</sup> notes that (i) a reliable management database failed; (ii) cost coverage was insufficient; and (iii) political and civil society support were insufficient to implement water meters and increase the water tariff.

The above two examples highlight that with private sector approaches, it is just as important for:

- the municipal governments and utilities' management to embrace the objectives and the means of corporate development; and,
- the development partners to be responsive to the perceived development needs of the municipalities and utilities.

As such, private sector involvement does not necessary provide a more efficient route to development results.

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<sup>26</sup> Ex-Post Evaluierungsbericht. Übersicht und Bewertung. Albanien: Wirtschaftsförderung durch Ausbau kommunaler Infrastruktur, KfW, Undated.

### 5.1.2 Delivery time<sup>27</sup>

All evaluated projects had or have substantial (i.e. multiple year) implementation delays. These delays are the result of the interplay between complex operating environments, multitude of procurement lots for the physical investments, limited capacity within the utility, and at times limited commitment / involvement of the municipalities or other government agencies and sub-par consultancy performance. We have not identified one example where the corporate development program as such was the culprit of implementation delays.

### 5.1.3 Implementation models and project management

*Two models with little difference in effectiveness and efficiency*

SECO's corporate development project portfolio includes bilaterally executed projects and development partner led projects. Currently, SECO co-finances projects with the EBRD and KfW.

The choice for executing a project bilaterally or through a development partner depends on the in-country availability of a development partner, who can execute a project efficiently. The choice is (generally) not informed by the approach to corporate development of this partner. We conclude such, based on the simple fact that we have not observed a structural difference between SECO, EBRD and KfW executed projects in how (corporate development) assistance is provided to public utilities. It is for this reason also that, thus far in the report, we have not stressed whether it is bilaterally executed project or a development partner led project.

In lieu of this fact, we have also not observed (within the overall SECO portfolio) that any of the three agencies structurally achieves greater development effectiveness (which constitutes one side of the efficiency equation). The remaining question is whether project execution is more efficient in bilaterally or EBRD / KfW executed projects?

Bilaterally executed projects are clearly more staff-resource intensive as the EBRD / KfW led projects. Chiclayo is a case in point. Many small procurement packages, the requirement for SECO to provide a no-objection on all decisive procurement steps and an underperforming international consultant has pulled the SECO program manager into the actual project implementation (by way of improving the procurement documentation, following its implementation, and providing well-argued and administrated no-objections to all procurement decisions. Khujand is located at the other extreme. An unfortunate replacement of the Utility's General-Director, who did not embrace good corporate practice, led to a quickly worsening operational and financial performance of the Utility. Although the SECO program manager was involved through her role in the Steering Committee (and exerted due pressure on the Municipality to change the General-Director), the dirty work fell mostly to the EBRD (logically, given the agreed upon division of labour).

Of course, SECO pays an administration fee to KfW and EBRD, which is generally in the range of 2% - 3% of SECO's financial contribution to the project.<sup>28</sup> A quantitative comparative analysis would

<sup>27</sup> This section also addresses the following evaluation question from our terms of references: From the evaluation questions: did insufficient capacities of the public utility undermine the schedule of operationalization of the hardware or lead to project extensions (additional phase or non-cost extension)?

<sup>28</sup> The actual percentage can deviate up or down from this range depending on the size of SECO's financial contribution (with a larger contribution resulting in a lower administration fee due to the associated economies of scale).

compare the monetary value of SECO's staff resource inputs in bilaterally executed projects with SECO's staff resource inputs and administrative fee payments in the KfW / EBRD executed projects. Such an analysis superseded the scope of this evaluation, preventing us from making definitive statements on the comparative efficiency of the two implementation models.

#### *SECO's involvement in development partner led projects*

SECO program managers and national program officers are logically much more engaged by the bilaterally executed projects than the EBRD / KfW led projects. The involvement of the program managers in the EBRD / KfW led projects is generally limited to once-a-year, in-country participation in the Steering Committee meeting, provision of no-objections to critical procurement or project decisions, and (irregular, infrequent) informal communications with the EBRD/KfW counterpart (for example on progress reports). The national program officers visit the EBRD / KfW led projects every few months to keep abreast of the project developments.

Although SECO program managers will undeniably make valuable contributions in the Steering Committee meetings (they are all smart persons), the question is whether they truly add value to the (also already smart) KfW and EBRD teams (and all – smart – representatives of the local stakeholders). Having said that, we understand SECO's explicit wish to not be a silent partner, both out of its own engagement and its accountability to the Swiss Parliament.

#### *Project documentation*

We observe that SECO does not have the full set of project documentation from EBRD and KfW on the corporate development (for example relevant loan covenant documentation, credit reports, consultancy reports, or progress and completion reports). We are not necessarily convinced that SECO should have all project documents (as SECO has mandated its partner to execute the project), but would expect a full set of the start-up documentation and all progress and completion reports.

#### *When the walk differs from the talk*

We note that in many of the KfW and EBRD led projects, SECO does not actually finance the corporate development activities. SECO often only finances the infrastructure investments and the associated technical assistance.<sup>29</sup> In these instances, communication between SECO and its development partner also tends to fixate on the co-financing components, i.e. the infrastructure investments and the associated technical assistance (although we add that this is not true for all projects). Up to this point in time, we do not believe this non-financing of the corporate development has exerted negative influence on the projects involved. The reason being that SECO, KfW and EBRD have a similar perspective on corporate development. In fact, SECO's non-financing of corporate development has not prevented the EBRD to systematically include SECO's suggestion to conduct customer awareness campaigns as part of its corporate development activities.

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<sup>29</sup> The common reason for concentrating SECO's funding on the infrastructure investments and technical assistance is that it more easily allows to meet the Swiss Value-Add requirement, which stipulates that a certain percentage of the SECO funds need to be used to recruit Swiss firms or utilize Swiss goods. We understand that SECO funds have recently become untied.

### *Looking forward: recommendations*

We suggest SECO to take a more strategic and programmatic approach to its project management of development partner led projects.

The strategic approach has two components. First, by using the Swiss contribution to exert influence on how the (corporate) development of the public utilities is undertaken (for example along the lines expressed in chapter 3). Second, by conducting strategic oversight: are the intended objectives and desired impacts being achieved? Such strategic oversight is facilitated by taking the programmatic approach.

In most countries, SECO co-finances multiple projects with the same partner. This allows SECO to review these projects together, i.e. as a program, with its partner. Such reviews can take place annually, in-country or at the headquarters. There is no need for SECO to participate in the Steering Committee meetings.

This set-up should not withhold the SECO program managers to visit the projects annually to acquaint themselves with the projects' progress and challenges and be able to report to the Swiss Parliament based (at least partially) on SECO's own observations.

SECO should also clearly define which project documents it critically needs to account to the Swiss Parliament on the Swiss involvement and subsequently ensure that it receives and archives them.

Finally, if SECO adopts the more process-oriented approach advocated in this report, the evaluators do not believe that SECO's non-financing of the corporate development support in development partner led projects is tenable. To show its development partners its commitment to such a process-oriented approach, we think SECO should put its money where its mouth is, i.e. start walking the talk. The fact that SECO funds are no longer tied should greatly facilitate this

#### **5.1.4 Monitoring**

Logframes are included in almost all project documentation (i.e. decision notes and completion notes) of the reviewed projects. Recently, these logframes have become more quantified with the inclusion of baseline data and the setting of measurable project targets. This has been for example the case in Chiclayo and Bishkek.

Despite the use of logframes and the recent uptake of quantifying them, we have not observed a mechanism within SECO which 'systematically monitors' a project's progress along a set of pre-defined indicators. Moreover, we were not able to reconstruct the development of a limited set of key performance indicators for the more mature projects in our evaluation based on the documentation that SECO provided us.

This is not to say that no project monitoring takes place. The national program officers visit the project every few months. Implementation consultants report to SECO, KfW or EBRD on a monthly and (bi-) annual basis. These consultancy reports are used to steer the projects. And project progress and implementation is further discussed and decided upon in (bi-) annual Steering Committee meetings. We do note that project monitoring is relatively loose and informal and, as a result, project management rather reactionary.

The case for more systematic monitoring of key performance indicators is that it provides an extra source of information on how a project is progressing (or not). This would allow SECO to ask the key stakeholders pertinent questions about the observed progress (or lack of it). A discussion of these questions, the search of answers to these questions, provide another opening to discover what elements or factors are driving a project forward or preventing its progress. It is this understanding, which subsequently allows one to adapt the program to strengthen the success factors and take out or circumvent the roadblocks. Interesting enough, the too strict application of logframes could prevent such adaptation to the projects as they potentially cast the project activities in the proverbial stone.

This systematic monitoring is done by KfW and the EBRD, either through dedicated program monitors or through their consultants. The amount of data monitored by the EBRD and KfW is quite vast, including a wide-range of operational and financial performance indicators. In the EBRD case, this data tracking is mostly informed by the associated fiduciary risks. In the example of the Municipal Infrastructure Program, the collected data are directly used in the discussions between the utility and the consultant to understand how the utility is performing operationally and financially.

#### *Looking forward: recommendations*

We consider systematic data monitoring a valuable tool in the overall project management toolkit for the reasons highlighted above. As such, we suggest SECO in its bilateral projects to (i) make more work of systematic data collection and discussion; and (ii) ensure that the originally agreed-upon logframe does not prevent necessary project adaptations from being made. Such data collections do not need to be as vast as in the KfW and EBRD practice. Critical is to identify those performance indicators, which signal whether the project is on the right track. In the KfW and EBRD led projects, SECO can require a subset of the overall dataset to be included in the bi-annual project reporting by KfW and the EBRD (again focussing on the indicators, which inform whether the project is on the right track).

### **5.1.5 Cost-effectiveness**

Chapter 3 noted that SECO has implemented successful and non-successful projects and is implementing promising and less promising projects. The question here is whether a different approach would provide greater cost-effectiveness. In chapters 3 and 6 we make suggestions on how SECO could seek to improve its development effectiveness. We do not expect this to involve less costs (and neither more).

Actual costs of the corporate development support is in the order of a few hundred thousand Swiss francs per supported utility. The bulk of this money goes to the corporate development consultant. Given the importance to utilities of having a long-term intellectual counterpart by way of a seasoned corporate development consultant, this cost-item will remain.

## **5.2 Specific evaluation questions**

### **5.2.1 Are project managers, implementing partners as well as beneficiaries sufficiently aware of the concept and relevance of corporate development within infrastructure financing?**

The SECO program managers that we interviewed were all responsible for projects which include corporate development assistance (as envisaged by SECO's corporate development policy). They spoke engaged about their projects and seemed to hold a genuine belief that corporate development is important for infrastructure financing to have a sustainable impact.

SECO's implementation partners, EBRD and KfW, both include corporate development support in projects, which are not co-financed with SECO. This fact suggests us (over and above the commitment they expressed us in telephonic interviews) they do attach significant value to corporate development of public utilities. Noteworthy is also that the EBRD has included customer outreach campaigns in their projects, a practice introduced to the EBRD by SECO.

As highlighted and elaborated on in chapter 3 on effectiveness, awareness of the concept and relevance of corporate development differed starkly between utilities. Some utilities warm up to it and internalize it more easily, others much less so.

### **5.2.2 Have detailed business-oriented due diligences (including operational, financial and organizational analyses) always been used? Did they prove to be effective and efficient in identifying highly relevant Corporate Development strategies and measures?**

We observe that over the last few years project-preparatory feasibility studies have started to include detailed assessments of the governance structure, organizational model and financial situation of the targeted public utilities. In our mission countries, examples include the feasibility studies for Piura and Bishkek. In the Ukraine, a (slightly more limited) institutional assessment has been made for the Zhytomyr energy efficiency project. We understand from SECO that similar feasibility studies are available for Kočani (Macedonia), Sirdarya (Uzbekistan) and Gjakova (Kosovo).

These institutional assessments are useful to the extent that they provide SECO an overview of the state of affairs of the targeted utility and could provide base values for performance improvement indicators in a logical framework. These studies have however two serious (and related) shortcomings. First, they only capture the formal institutional set-up and not the informal rules and social norms, which decisively guide management and staff behaviour in the daily work. Second, they are prepared by international consultants and thus miss the opportunity to engage in-depth with the utility management and staff on the functioning and performance of the utility at hand. These two shortcomings result from the fact that these studies are based on a document review (albeit, at times, an extensive one) and a single one or two-week visit by the consultants to the utility. In relation to this, we note that we did not see that the due diligence conducted was used to tailor the terms of reference for the corporate development consultants. For example in Bishkek, a template terms of reference was used which can be found in many projects implemented by the EBRD.

The project for which these 'business-oriented due diligences' have been prepared are still in the early phases of project implementation. We cannot make definitive statements on their effectiveness and efficiency. At face value, we have not observed that these feasibility studies have resulted in a different project approach or outline than in the rest of SECO's portfolio. And because of the two abovementioned shortcomings, we do not expect that these institutional assessments will improve the development effectiveness of SECO's interventions. The reason being that these assessments do not address the related issues of ownership and local context. Two issues of which we indicated in chapter 3 are critical to achieve development effectiveness.

#### *Looking forward: recommendations*

Instead of having international consultants prepare detailed institutional and financial assessments of a utility, we suggest the utilities themselves to take up this task together with the long-term corporate development expert. At face value, this pushes SECO in the direction of adopting the Municipal Infrastructure Program approach. In a way, this is true. But not quite. Before starting the recipient-led,

consultancy-coached exercise of preparing a business plan and implementing operational and financial management enhancement measures, the Municipal Infrastructure Program had already defined the infrastructure investment program once the pre-defined performance targets had been met. We on the other hand suggest to use the due diligence process and the business plan to shape the project, implement corporate and capital investment measures step-by-step, monitor the results of these measures, which informs subsequent steps and measures. As repeatedly stated in this evaluation report, we believe that this recipient-led, process-oriented, results-based approach will increase SECO's development effectiveness and sustainability, and as such provide all stakeholders (SECO included) greater value-for-money.



## 6 Relevance of SECO's corporate development policy

### 6.1 Specific evaluation questions

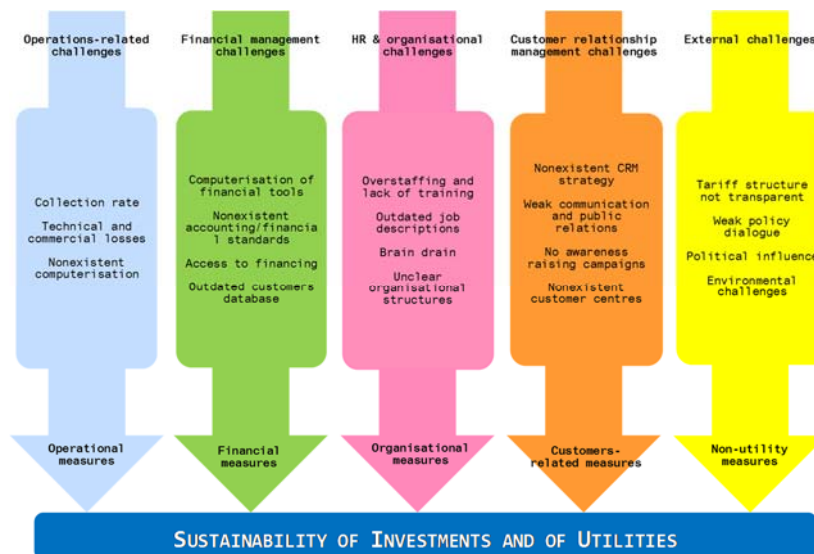
**6.1.1 To what extent are the projects aligned to the Corporate Development Strategy? Is the corporate development strategy logical and conceptually sound? To what extent is the corporate development strategy coherent with SECO's approach to infrastructure financing and economic governance and are potential synergies with other interventions in these fields sufficiently exploited?**

The process of writing the policy paper and of having it formally approved by the management team has likely contributed significantly to (i) a broad awareness and belief amongst SECO's program managers on the importance of corporate development to assist public utilities effectively; and (ii) the systematic inclusion of corporate development in all projects supporting public utilities. As such, the policy paper has been valuable.

*Corporate development activities are clearly aligned to the policy paper*

The policy paper identifies five challenges and corresponding sets of actions to address these challenges (as highlighted by below schedule from the policy paper). The terms of references of the corporate development consultants, who are recruited to assist the public utilities in implementing the corporate development programs, generally include the full set of challenges and actions from the policy paper. The on-the-ground corporate development activities are clearly informed by (and aligned to) the policy paper. In chapter 3 on the effectiveness of the corporate development assistance, we concluded however that this assistance only seems partially successful. So what is missing in the policy paper?

Graph 2 Stylized representation of the corporate development policy<sup>30</sup>



<sup>30</sup> Corporate development of public utilities in developing and transition countries. SECO. November 2010

*An analogy<sup>31</sup>*

When I raise my hand and ask what it is, you are (after perhaps briefly wondering whether I have lost my mind) likely to briskly answer: 'a hand, *of course*'. At that moment, you have given a particular part of my body a dedicated name. You may continue and note that my hand allows me to write, wave, open a door or hold a spoon. You attach a function to my hand. What you do is you abstract: you disassociate my hand from its larger whole, namely the body and mind.

We apply such abstractions continuously, including when we study or work with organizations like public utilities: we see different teams, departments and functions. We make these abstractions to keep things simple, but also because we carry a deep rooted belief that understanding lies in disaggregation. But what works in mechanics (for example in learning how cars functions), falls shorts in more complex (living) systems like organizations. The reason is that the individual parts of an organization cannot explain its overall performance.<sup>32</sup> The whole is more than its parts. Returning to the example of my hand: studying the hand itself will teach you little about how it performs these functions of writing, waving, and opening a door. It is only a study of the body as a whole (i.e. mind, heart, nervous systems, muscles, bones, etc.) which will shed light on how these functions are performed.

Although we 'know' this interconnectedness, we too easily forget or ignore this simple fact in our professional work. This can have dire consequences, as can be nicely illustrated by another telling example<sup>33</sup>: 'A veteran senior engineering manager of a former Fortune 100 company that had all but collapsed had a simple explanation for its demise: "One reorganization too many. After the last reorganization, the social networks collapsed. People simply did not know [anymore] who knew what or how to get the help that they needed. "' In this particular case, the informal relations between staff, the glue that held the organizations together, collapsed.

*So what does this have to do with SECO's corporate development policy?*

The policy also presents a fragmentation. It reduces corporate development to five challenges and associated sets of actions to address these challenges. Although these challenges and sets of actions are informative (as it allows one to visualize some of the problems public utilities face), they are incomplete and in practice too strictly followed. They are incomplete as they heed too little attention to (i) the particular context of a public utility; (ii) the proverbial 'glue' which allows the utility to operate in generally difficult, complex circumstances; and (iii) the specific measures addressing clear and present challenges which will allow a mayor, a municipal council or utility management to embrace, own and apply his / her / its authority to reforms.

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<sup>31</sup> Inspired by a similar example from William Isaacs, Lecturer at the Sloan School of Management of the Massachusetts Institute of Technology. Source: Dialogue and the art of thinking together: a pioneering approach to communication in business and in life. William Isaacs, Random House, 1999.

<sup>32</sup> Ackoff's Best. His classic writings on management. Russel L. Ackoff. John Wiley & Sons, 1999.

<sup>33</sup> Source: Presence. Exploring profound change in people, organizations and society. Peter Senge, C. Otto Scharmer, Joseph Jaworski and Betty Sue Flowers. Crown Business. 2004.

*SECO is well aware of the subtleties of development*

A review of SECO's other policy papers brings to light an interesting fact: it includes ample references to the complexity of development and the institutions that influence it.

The Corporate Governance Policy Paper (2003) refers to the 'rules that frame the relationships, processes and behaviour' of different agents such as managers, shareholders, employees, creditors, customers and communities.

The Factsheet on Economic Governance (undated) similarly refers to 'the rules of play that define the incentive framework for public and private sector players ... and have a decisive impact on the behaviours of these players'. The Factsheet also notes that 'institutional change is a highly complex process and not a mechanical phenomenon.'

The Manual on Capacity Development in SECO Projects and Programs (October 2013) states that for capacity development to be effective 'there should be a clear process of analysis around the purpose ('why') and the type of capacity ('what/ who') [required] ... besides technical capacity development, one can distinguish institutional capacity development [which] supports organizations to develop their own capacity to better fulfil their core functions, and achieve their own mission. This type of capacity development can be slow, complex and continuous, and can require in-depth reflection on an organization's culture, values and vision.' It includes 'addressing fundamental change at an organization and system level.'

*In conclusion: corporate development is more than adopting best practices*

It is for the interconnectedness of things, the prevalence of implicit and informal behavioural rules, the importance of people management, and what we – in chapter 3 – referred to as the cultural-cognitive loaded business terms (such as modern and transparent accounting practices) that we consider that corporate development is more than what the policy paper postulates as 'a process during which public entities adopt best practices in the fields of accounting, human resources, revenue collection and billing, organization and processes'<sup>34</sup> or a 'process focussed on utilities, which does not fully integrate their environment'<sup>35</sup>. Contrary to what is stated in the policy paper, we do think that corporate development is about institution building, intricately linked to wider governance issues, and most likely to be successful if it at a minimum acknowledges contextual constraints and at best comes up with localised solutions to locally perceived problems.

*Looking forward: recommendations*

The easy way forward is to simply develop an integrated policy paper, which includes technical assistance, corporate governance, economic governance, corporate development and capacity building. Albeit an interesting exercise, this is unlikely to cause great effect. We note that only few policy papers are part of the active consciousness of most program managers in SECO.

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<sup>34</sup> Corporate development of public utilities in developing and transition countries. SECO. November 2010

<sup>35</sup> See previous note

Instead, we propagate the program managers to view development assistance as a process, rather than a product. A process in which all aspects of development are considered, in its parts and as a whole. This means looking into the issue of economic governance (the relation with municipality), corporate governance (oversight by owners), corporate development (introduction of new management practices), capacity building (assisting recipients to manage their own affairs), stakeholder participation (inclusion of customers and other stakeholders), physical needs (in infrastructure), resources (staff and financial), and last but not least transition management (how the key stakeholders can be assisted to move from the current state of being into the preferred state of being, taking into account the organization's and the local society's culture, beliefs, norms and values).

To be able to take such an integrated and systemic approach, one would need to acquaint oneself with all these aspects mentioned in the paragraph above. SECO/WEQA can facilitate this by making available a reader on all these topics and organizing an one-week training course (at a basic and intermediate level, and on an annual basis) to work through these topics.

If SECO adopts the practical recommendations of chapter 3 on development effectiveness and implements supportive training and an knowledge management, than SECO will make great strides in achieving the goal stated in its corporate development policy paper to 'considerably increase its knowledge of corporate development and be regarded as a competent actor among the targeted institutions, municipalities and the donor community'<sup>36</sup>.

#### **6.1.2 Is the policy and approach on corporate development equally relevant for south as it is for the east?**

Yes. Our field missions to the respective countries in the 'south' and 'east' did not bring up any issues which would point to the contrary. This is not surprising. The relevance of the corporate development lies in part in the point of reference: the belief that such basic services as water and energy should be provided (at least in urban areas) by customer-oriented and self-financing service providers. As this is not the case in both SECO's countries of operation in the east and south and actual access to water and energy services remains sub-par in both geographical regions, SECO's support to corporate development is equally relevant in both the south and the east.

#### **6.1.3 To what extent does the Corporate Development Strategy deviate from the corporate development practices of other leading players in the international development community?**

Little. As one interview partner noted: 'all development agencies basically provide the same and right assistance' and continued by saying: 'the problem is that this assistance is provided into a framework not designed for these instruments'. Our mission findings confirm this view. Development organizations like the World Bank, EBRD, KfW, IDB and GIZ implement similar corporate development programs. And variations in implementation model, like involving the private sector through management contracts or concessions, equally shows successes and failures.

The above points us into an interesting direction: (i) a number of the bigger development agencies have a similar view on what corporate development entails, (ii) they experience the same mixed results; and (iii) many corporate development measures do not function when transposed from one environment (the 'west') into another (the 'east' or 'south').

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<sup>36</sup> Corporate development of public utilities in developing and transition countries. SECO. November 2010

*Looking forward: recommendation*

Moreover, the mixed results in development effectiveness of corporate development by all development agencies provides fertile ground to plant a special global initiative or program on corporate development of public utilities, in which new, more innovative approaches are sought out.

**6.1.4 To what extent have lessons and recommendations from previous interventions been included into the policy paper on Corporate Development in 2010?**

The main author of the policy paper was a newcomer to SECO and development assistance, who however brought in a (valuable) management and business administration perspective to the support of public utilities. He was supported by a senior development expert, who brought in his personal experiences in corporate development in a development context. They consulted the SECO program managers and conducted a literature review. We trust that this allowed the experiences and lessons learned from previous interventions to flow into the policy paper. However, no systematic, program-level evaluation of all previous SECO interventions in the field (much like the current one) was conducted prior to the policy formulation.

**6.1.5 Are concerned Public Utilities sufficiently committed to develop their capacities, confirming the necessity of corporate development?**

Whilst there are a number of utilities, where the management and staff profess strong ownership and commitment to corporate development: such as in Khujand, Pogradec, Kant and Piura (Peru); we can similarly point to other examples where this ownership and commitment is doubtful: North Tajik, Shkodra, Osh, Jalalabad and possible Chiclayo (Peru).

So what does this tell us about the necessity of corporate development as signalled by a utility's commitment? This depends on one's perspective. On the one hand, a lack of commitment can signal that the utility's management favours a different corporate or delivery model for the provision of water; a model in which corporate development (at least in the form propagated by SECO) features less. In this instance, corporate development assistance is less necessary and relevant. On the other hand (and more normative), a lack of commitment can signal a dire need for corporate development as the utility does not recognize its own poor performance in delivering the services it is supposed to deliver.

All we can conclude is that 'committed' utilities indeed confirm the relevance of the assistance and that uncommitted utilities' can be engaged with, but not supported financially (as long as the lack of commitment persists) due to low chances of delivering assistance effectively without the prevalence of ownership.

**6.1.6 Are the linkages to technical capacity development as well as Policy dialogue on framework conditions sufficiently elaborated / aligned?**

In chapter 5, we have discussed that the corporate development measures have not always been aligned well with the technical assistance or the policy dialogue. In this chapter (and building on the discussion on development effectiveness), we have stressed the need to take a more systemic view on development and explicitly acknowledge the soft-side of development concerning people and their culture, beliefs, values and norms.

**6.1.7 Are Corporate Development components well proportionate in relation to the hard-ware infrastructure components?**

This question has been addressed in the chapter 4 on sustainability.

## **Annex**

## A. Evaluation questions

This annex lists the evaluation questions, which have guided the implementation of the evaluation. Answers to these evaluation questions are provided in chapter 2 – 5 of this report. The first section of each chapter answers the questions in black (which pertain to the OECD/DAC definition of the capped terms). The second part of each chapter addresses specific evaluation questions (highlighted below in blue).

### Relevance

1. How relevant is WEIN's focus on Corporate Development in Public Utilities? To what extent are the interventions suited to the priorities, policies and development needs of the target group, recipient and donor? Do Corporate Development components target the capacities within utilities that are underdeveloped in order to manage the new infrastructure components successfully? *Are concerned Public Utilities sufficiently committed to develop their capacities, confirming the necessity of corporate development?*
2. *To what extent are the activities and outputs of the projects consistent with the defined objectives and intended impacts? Are the linkages to technical capacity development as well as Policy dialogue on framework conditions sufficiently elaborated / aligned? Are Corporate Development components well proportionate in relation to the hard-ware infrastructure components?*
3. *Is the corporate development strategy logical and conceptually sound? To what extent are the projects aligned to the Corporate Development Strategy? Is the policy and approach on corporate development equally relevant for south as it is for the east? To what extent is the corporate development strategy coherent with SECO's approach to infrastructure financing and economic governance and are potential synergies with other interventions in these fields sufficiently exploited? To what extent does the Corporate Development Strategy deviate from the corporate development practices of other leading players in the international development community? To what extent have lessons and recommendations from previous interventions been included into the policy paper on Corporate Development in 2010?*
4. *To what extent are SECO's interventions (i) coordinated with the projects and programs of other development organizations in the sector and (ii) are they complementary to these projects and programs?*

### Effectiveness

5. *To what extent have the projects and portfolio attained their objectives? To what extent did capacities of the Public Utilities increase with regard to the development objectives defined? Were the supported utilities able to achieve the defined IBNET benchmarks (where IBNET was specifically mentioned during the project preparation) or similar targets? To what extent did the increased performance of utilities contribute to better access to water, energy, sanitation and waste disposal services? What were the major factors influencing the achievement or non-achievement of the objectives? Did the increased capacities in the utility help safeguard the investments in the physical infrastructure?*
6. *Did increased transparency and accountability lead to a reduction of corruption within the public utilities?*



**Efficiency**

7. Is the implementation and governance structure adequate? Were the aid modalities chosen in a way that they ensured high efficiency in increasing the capacities within the utilities? Were activities cost-efficient? Did the implementation structure ensure high performance of the implementing agency and efficient cooperation with SECO? *Were the Corporate Development components logically sequenced, achieved on time, and aligned with the infrastructure and framework conditions components?* Did insufficient capacities of the public utility undermine the schedule of operationalization of the hardware or lead to project extensions (additional phase or non-cost extension)? What are the strong and weak points of the implementation and governance structure?
8. Are alternative implementation modalities used in practice (also by other donors) that are more efficient? How does SECO's three-pronged approach to strengthening public utilities compare to other delivery mechanisms, a.o. pure technical assistance programs, twinning approaches or increased private sector involvement?
9. *Are project managers, implementing partners as well as beneficiaries sufficiently aware of the concept and relevance of Corporate Development within infrastructure financing? Have detailed business-oriented due diligences (including operational, financial and organizational analyses) always been used? Did they prove to be effective and efficient in identifying highly relevant Corporate Development strategies and measures?*
10. Is the reporting and monitoring system appropriate to assess progress and to give a truthful representation of the results achieved? Have the projects defined performance indicators? At which levels have these indicators been defined? Have the projects identified suitable benchmarks against which to measure progress? Have the projects systematically monitored and reported on the project implementation and progress in achieving the defined objectives? Which monitoring processes are in place? How is performance data collected and verified? Have international standards like the International Benchmarking Network for Water and Sanitation (IBNET) or the IDB's AquaRating been used and have these proved to be useful.

**Sustainability**

11. Did the performance of the supported utilities remain stable or increase after project closure? *Did Corporate Development measures significantly increase the sustainability of the access to water, energy, sanitation, waste disposal and transportation services?* Are the benefits of the intervention likely to continue after donor support has been withdrawn? Has the management of the public utilities revealed ownership of the corporate development activities? Have the corporate development activities been institutionalized? Was financial, institutional and / or personal sustainability of specific importance with regard to the utilities' performance? *Is «post-completion coaching» a suitable instrument to increase the performance in sustainability? What proportion between infrastructure investment and Corporate Development provides best sustainability?*

## B. List of persons and organizations interviewed

### Program-level

Category / organization	Person	Position
<b>SECO/WEIN</b>		
	Dagmar Vogel	Head Infrastructure Financing
	Alain Geiger	Program manager SECO
	Martin Shenton	Idem.
	Daniel Bruderer	Idem.
	Nicole Suhner	Idem.
	Cliff Hammer	Idem.
	Jérôme Wieser	Idem. and lead of the internal corporate development network
	Ueli Ramseier	Currently evaluation manager, interviewed in his previous capacity as program manager
<b>Consultants</b>		
Ernst Basler + Partners	Felix Ribi	Head of Corporate Development
	Reto Bühler	
Holinger International Consultants	Ulrich Steiner	Managing Director
	Ingo Schoppe	Civil engineer
PwC Basel	Elena Serova,	Senior manager
Individual experts	Alexander Lüchinger	
	Jan Janssens	
<b>Multilateral / bilateral development organizations</b>		
EBRD	Jane Kieran	Co-financing specialist
KfW	Dirk Vallerien,	Senior project manager
	Corinna Engel	Senior project manager
ADB	Marko Davila	Urban development specialist

## Albania

Category / organization	Person	Position
<b>Supported utilities</b>		
Shkodra	Ahmet Omi	Deputy Mayor Shkodra municipality
	Alfred Luleta	Member of the supervisory board
	Leonard Kepi	General Director
	Ardita Sokoli	Head of financial department
	Ardian Shabani	Customer relations office
	Alda Gega	Head of customer service department
	Valbona Paja	Head of planning unit
Pogradec	Artan Shkëmbi	Deputy mayor Pogradec municipality
	Erjon Vesho	General Director
	Edmond Mato	Head of financial department
	Namik Strubollari	Head of customer service department
<b>Non-supported utilities</b>		
Durres	Spartak Kovaci	General Director
<b>National government</b>		
Ministry of Transport and Infrastructure (General Directorate of Water Supply and Sewerage)	Jovan Gjika	Programme Coordinator
Water Regulator	Avni Dervishi	Head of Water Regulator
<b>International organizations</b>		
KfW office Tirana	Bledar Dollaku	Senior National Programme Coordinator
KfW Frankfurt	Corinna Engel	Senior Project Officer
	Dirk Vallerien	Senior Project Officer
	Marie-Lena Glass	Senior Project Officer
	Heike Schwarzl	Senior Project Officer
<b>Consultants</b>		
Iliriadapks	Blerim Kurti	Local technical consultant Shkodra Project
HaskoningDHV Nederland B.V.	Jaap Boomsma	Institutional strengthening consultant for the Municipal Infrastructure Programs 1 and 2
Value Add consultancy company (management services)	Semira Kasimati	Director-Business Services Water/Wastewater Utility Business Planning and Customer Services
<b>Independent</b>		
Polytechnic University of Tirana	Enkelejda Gjinali	Associate Professor Environmental Engineering Department (Water and Energy)

## Kyrgyzstan

Category / organization	Person	Position
<b>Swiss Cooperation Office</b>		
	Elke Oehme	Program manager
	Tunzhur Kudabaev	National Program Manager
<b>Supported utilities</b>		
Bishkek	Asylbek Isaev	Director
Kant	Mickail Shepovalov	Chief Engineer
	Salima Belyalova	Chief accountant
Karakol	Sabyr Omuraliev	Director
Osh	Sanatbay Sherimbetov	Chief Accountant
	Niyaz Karakbekov	Deputy Chief Accountant
Jalalabad	Janybek Kulamidinov	Chief Accountant
	Mukhamedjan Amanov	Chief Engineer
<b>National government</b>		
Ministry of Water and Sanitation	Askar Toktoshev	Head of Department of Water Supply and Sanitation Services, State Agency for Architecture and Construction (Gostroy)
<b>Independent</b>		
Kyrgyz-Slavonic University	Dr. Ilimidin Abdurasulov	Head of Water Supply and Sanitation Department
<b>International organizations</b>		
EBRD	Talay Asylbekov	Associate Banker
ADB	Saparbek Omurakunov	Acting head of PIU of ADB Sustainable development of Issyk Kul Area Project (Karakol, Balykchi and Cholpon Ata)
<b>Consultants</b>		
	Nina Bystritskaya	Comtech LLC, Director

## Peru

Category / organization	Person	Position
Swiss Cooperation Office		
	Martin Peter	Head of Cooperation
	Zinnia Ibáñez	National Program Officer
Supported municipality / utility		
Chiclayo	Cesar Regalado	Municipality Manager
	Wilhelm Padilla	Head of the Environment and Economic Development Department
	Jorge Inchástegui Samame	PMU Head
	Oscar Petroni	PMU institutional strengthening expert
	Hermes Guimoye	PMU financial administration expert
	Bruno Barletti	Local procurement consultant
	Jorge Laos	Local corporate development consultant
Piura - Paita	Porfirio Meca	Mayor of Paita
Piura – Water Utility	Juan Carlos Barandiaran	Chair of Board of Directors
	Carlos Alva León	General Manager
	Addler Sánchez	Paita Zonal Head
	Saúl Benavides	Head of Planning Department
	Edwin Navarro	Head of Engineering Department
	Ruth Sarango	Head of Marketing
	Marcus Borrero	Head of the Commercial Department
	Jose-Luis Ochoa	Head of Financial Department
	Israel Acuña Idrogo	Head of Project Management Unit
National government		
Ministry of Environment	Juan Narciso	Director of Department of Environmental Quality
Ministry of Housing, Construction and Water	Francisco Dumler	Vice Minister
National water regulator (Sunass)	Fernando Momiy Hada	Director
	Ivan Lucich Larrauri	Manager of Tariff Regulation
Independent expert		
Universidad del Pacifico	César Sanchez Módena	Academic director of the Postgraduate School for Government
Independent consultant	Oscar Castillo	Former World Bank Water and Sanitation specialist
International organizations		
IDB	Maria José Rodriguez	Water and Waste Specialist
World Bank	Fernando Laca	Water and Sanitation Specialist
GIZ	Hans-Werner Theisen	Director, Drinking Water and Sewerage Program
JICA	Juan Martin Campos	Solid waste specialist
Consultant (meeting in Zürich)		
Ernst Basler + Partners	Felix Ribi	Corporate development consultants

## Tajikistan

Category / organization	Person	Position
<b>Swiss Cooperation Office</b>		
	Peter Mikula	Director, Counsellor, Consul
	Ruslan Sadykov	National Program Officer for Infrastructure
<b>Supported utilities</b>		
Khujand	Mukim Boboev	General Director
	Muzafar Ikromov	Deputy Director
	Rakhmat Burkhanov	Deputy Director
	Bashorat Shamsieva	Chief Accountant
	Ibrogym Ibrogimov	Focal point at Khujand Municipality, first vice chairman on Khujand city
Kairakkum	Akhun Abdurakhmonov	Director
	Irina Volinschikova	Chief accountant
Kanibadam	Ibragim Abdudjalilov	Director
	Khakimjon Ibrogimov	Head of billing department
Isfara	Shukur Boboev	Chief accountant
	Abdumanon Muzafarov	Engineer
Bobodjon Gafurov	Nazir Radjabov	Deputy director
	Kamol Akhmedov	Chief engineer
	Umed Khaydarov	Chief accountant
Istaravshan	Makhmudov A	Director
	Sulotonov	Chief engineer
	Ibrogimova	Chief accountant
<b>Non-supported utilities</b>		
Dushanbe	Boris Jovkov	Team Leader
	Zafar Nozimov	Chief of PIU
	Abdulloev	Chief engineer
<b>National government</b>		
Ministry of Energy and Water	Yunusov Khol	Head of energy department
	Kholmukhammadzoda Sorbon	Deputy head of energy department
	Sattorov Abdukhakim	Chief specialist of water department
Communal Services "Khojagii Manzili Kommunalii"	Alimurod Tagaymuradov	General Director
	Muso Gafurov	Deputy General Director
	Ravshan Dadabaev	Head of external relations department
Anti-Monopoly Agency	Nazar Odinaev	First Deputy Director
	Zaripov	Chief of Natural Monopolies department
Tajik Technical University	Abdurakhmon Normatov	Professor
<b>Associations</b>		
Consumers Union	Bakhodur Khabibov	Director
<b>International organizations</b>		
EBRD	Catarina Bjorlin Hansen	Operations leader
	Akmal Erkaev	Program Monitoring Analyst
World Bank	Faridun Sanginov	Program Officer

Category / organization	Person	Position
Consultants		
	Ebby Adhami	Corporate Solutions
	Camille Hennequin	Seureca
	Murod Sattarov	Global Business Solutions
	Firdavs Akilov	Director, Company "Fardis"
	Ilkhom Shakirov	IT Specialist, Company "Fardis"

## Viet Nam

Category / organization	Person	Position
<b>Swiss Cooperation Office</b>		
	Roman Windisch	Deputy Country Director SECO
	Le Thi Thanh Huyen	National Program Officer
<b>Supported utilities</b>		
Hoa Binh CPC, PMU of Wastewater and Sewage Project	Le Dung	Deputy Head of Planning Division, Hoa Binh Clear Water JSC
	Nguyen Thi Minh Hieu	PMU accountant
	Dinh Xuan Dinh	Expert, Construction Activities Management Division, Department of Construction
	Pham Quoc Thang	Head of Construction Activities Management Division, Department of Construction
	Tran Quoc Khanh	Deputy Director, Department of Finance
	Phan Thi Dong	Expert, Department of Finance
	Nguyen Thanh Huy	Vice Chairman, PC of Hoa Binh City
	Nguyen Viet Hung	Director of PMU
	Nguyen Quan Chung	PMU staff
<b>BUSADCO</b>		
	Do Anh Tuan	Deputy General director
	Do Thanh Hung	Deputy director, Technical Department
	Phan Thanh Binh	Deputy director, Financial Department
	Hoang Van Nghia	Deputy director, Science and Technology company
	Xuan Thien	Deputy director, Economic Department
	Truong Thi Hong Nhung	Deputy Chief of staff
	Tran Thi Viet Anh	Deputy Manager, International Relations
<b>National government</b>		
Ministry of Construction	Nguyen Hong Tien	Director General of Administration of Technical Infrastructure
<b>Independent</b>		
Water sector association VWSA	Tran Quang Hung	Vice Chairman - General Secretary
	Tran Thi Viet Nga	PhD (Lecturer)
	Tran My Hanh	MSc.
Hanoi University of Civil & Engineering	Nguyen Viet Anh	Assoc. Prof. PhD., Senior Water & Sanitation Specialist
<b>International organizations</b>		
World Bank	Iain Menzies	Senior Regional Water and Sanitation Specialist
KfW	Nguyen Van Minh	Senior Project Coordinator
GIZ	Christian Henschel	Technical Advisor
ADB	Hubert Jenny	Senior Urban Development Specialist
<b>Consultants</b>		
Lahmeyer GWK Consult GmbH	Do Manh Ha	Project Coordinator, Water Engineer



## C. Questionnaire for the interviews

Relevance	<ul style="list-style-type: none"> <li>- When did SECO's assistance start, how has it evolved, what activities does it include, and what were the objectives and desired impacts?               <ul style="list-style-type: none"> <li>o Development needs of the target group? Then and now</li> <li>o State of the public utility (service)?</li> <li>o National / local government policy priorities?</li> <li>o Cause-effect chain?</li> <li>o The role of corporate development? Return to the above</li> <li>o Linkages / timing with investments and policy dialogue</li> <li>o Commitment of the utility?</li> <li>o To what does SECO contribute financially? How much? %-wise?</li> </ul> </li> <li>- Are SECO's activities coordinated with other government or donor projects and programs?               <ul style="list-style-type: none"> <li>o Government ownership and leadership?</li> <li>o Donor coordination?</li> <li>o Different approaches by other stakeholders? Documentation?</li> <li>o Common view / understanding on 'corporate development'?</li> </ul> </li> </ul>
<i>SECO internal &amp; Program-level</i>	<ul style="list-style-type: none"> <li>- Are the CD projects aligned to the CD Strategy and is the Strategy logical and conceptually sound?               <ul style="list-style-type: none"> <li>o South versus East?</li> <li>o Coherence with infrastructure financing and economic governance?</li> <li>o Lessons learned been incorporated into Strategy?</li> </ul> </li> <li>- What alternative approaches to corporate development are around? Documentation? Experiences?</li> </ul>
Effectiveness	<ul style="list-style-type: none"> <li>- Has the project attained its objectives? Has the institutional capacity of the utility increased? Why do you reckon this to be the case? What do you observe?               <ul style="list-style-type: none"> <li>o Defined performance indicators and targets or benchmarks (IBNET)? At which level? Reached? Delays?</li> <li>o Effect on management leadership and staff commitment?</li> <li>o Development over time? Evolution? Sustainability (Major) incidents</li> <li>o Effect on physical infrastructure (investments)? Sustainability?</li> <li>o Effect on water supply service levels? Socio-economic Impacts?</li> </ul> </li> <li>- What were / are the major factors influencing the (non-)achievements of the objectives?               <ul style="list-style-type: none"> <li>o External factors at play?</li> <li>o Attribution? CD activities?</li> </ul> </li> <li>- Specifics:               <ul style="list-style-type: none"> <li>o Is there continuity of service?</li> <li>o Consumer perceptions? Consumer complaints centre? Access and responsiveness? # of complaints p/m?</li> <li>o Detailed due diligences? Usefulness?</li> </ul> </li> <li>- Have the corporate development activities led to increased transparency, improved accountability, reduced nepotism and short-term personal gain?</li> </ul>
Efficiency	<ul style="list-style-type: none"> <li>- Which processes were in place to track and validate progress?               <ul style="list-style-type: none"> <li>o Key actors? Division of labor and responsibilities? SECO's role and contribution?</li> <li>o Data collection? Verification?</li> <li>o Reporting? Frequency?</li> <li>o Inform decision-making?</li> </ul> </li> <li>- What is the implementation and governance set-up?</li> </ul>

	<ul style="list-style-type: none"> <li>o Who involved? Capacity? Awareness? Buy-in? Performance? Time-inputs?</li> <li>o Role of consultants? Presence?</li> <li>o Type of meetings?</li> <li>o Which control and / or incentive mechanisms are in place (for utility and consultants)?</li> <li>o SECO's role and contribution?</li> <li>o Strong and weak point?</li> <li>o Alternative approaches? Effectiveness and efficiency? Documentation?</li> </ul>
Sustainability	<ul style="list-style-type: none"> <li>- What actions have the management of the public utility undertaken to secure the sustainability of efforts?                             <ul style="list-style-type: none"> <li>o Institutionalization of corporate development activities / approaches?</li> <li>o Management behavior / attitude?</li> <li>o Financial, institutional or personal sustainability?</li> <li>o Post-completion coaching?</li> </ul> </li> </ul>
In conclusion	<ul style="list-style-type: none"> <li>- What did we forget to ask? Key lessons? Your recommendations?</li> </ul>

## D. Albania country report

### Introduction

The country mission to Albania took place from 28 July to 1 August. The mission was conducted by Geert Engelsman, who was supported by the local consultant Erion Likaj. It included semi-structured interviews with representatives of the organizations listed below.

- Ministry of Transport and Infrastructure, General Directory of Water Supply and Sewerage
- Water Regulatory Authority of Albania
- Polytechnic University of Tirana, Environmental Engineering Department (Water and Energy)
- KfW Albania
- Valu-Add (corporate development consultant for Shkodra and USAID and EU supported programs)
- Blerim Kurti (local consultant of SRP Consult, technical consultant of the Shkodra PIU)
- RoyalHaskoningDHV

We visited the SECO supported utilities of Pogradec and Shkodra, where we met with the General Director, senior management, and the municipal vice-mayors. We also visited the customer relations office of both utilities.

In addition, we visited the non-SECO supported utility of Durres, which is currently receiving support from the World Bank, and where we exchanged with the General Director.

In addition, we conducted telephone interviews with the responsible project managers for Pogradec, Shkodra and the Municipal Infrastructure Program of KfW (all based in Frankfurt).

A full list of interview partners is included in Annex B of the main report.

### *Reading guide*

This report starts with some country-level observations, which are relevant for both SECO supported projects. We subsequently present our findings on the Water and Wastewater Project Pogradec and the Water and Sewerage Project Shkodra. The final two sections outline the performance-based financing approach utilized by KfW in its Municipal Infrastructure Programs 1 and 2 (covering 6 utilities) and the World Bank support to the Durres Water and Sewerage Utility.

### Country-level observations

#### Relevance

##### *Government ownership*

The role of the central government in the Pogradec and Shkodra projects was to a large extent limited to that of financial intermediary for the KfW loan and grants and the provision of a sovereign guarantee.

In the Shodrak project, the government did provide for a counterpart contribution of €0,5 million (given a total budget of € 15,9 million).<sup>37</sup> In the Pogradec project, counterpart funding through the provision of land, equipment and staff, amounted to ca. € ¾ million.<sup>38</sup>

The central government wished to play a more pertinent role. For the Municipal Infrastructure Program 1 and 2, it therefore agreed with KfW and the recipient utilities to create a project implementation unit within the Ministry of Transport and Infrastructure and take care of the contracting of the institutional strengthening consultant.

#### *Alignment to government policies*

A World Bank document stipulates the Albanian government's strategy for the water supply and sanitation sector for 2003 – 2007.<sup>39</sup> The strategy distinguishes between (i) a short-term action plan (2003 – 2007), which foresees a change of ownership of the water utilities from central to local level and the stabilization of service delivery; and (ii) a medium-term action plan (2007 – 2012), which foresees, amongst others the complete rehabilitation of the obsolete water supply and sewerage networks and the transformation of the water utilities to self-financing entities. The medium-term action plan also foresaw such reforms as the implementation of metering, development and implementation of monitoring and benchmarking, vocational training, public awareness campaigns, improvement of accounting and financial management of utility operations and transform them into commercial companies, etc.

The government's initiatives in the water supply and sewerage sector in the period 2011 – 2017 are intended to focus on the following key objectives<sup>40</sup>:

- Expand and improve the quality of water supply and sewerage services.
- Orient the water utilities towards principles of cost control and full cost recovery.
- Improve governance and regulation in the sector.
- Invest in enhancing the capacities of the sector work force.
- Move towards convergence of Albanian law with EU Water Directives

At face value, the SECO-supported projects of Pogradec and Shkodra fit the objectives of both strategies. A leading player in the national policy debate in the water sector noted however that the first strategy was World Bank-led with little true ownership from the national government. Our interview partners also expressed strong doubts about the implementation of the second strategy, although its coming about was a truly national effort.

The evaluators note that the transfer of ownership from the central government to the municipalities has indeed taken place around 2007 – 2008, as well as the creation of a central Monitoring and Benchmarking Office in the General Directorate of Water Supply and Sewerage of the Ministry of Transport and Infrastructure.

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<sup>37</sup> Separate agreement to the Financing and Project Agreement (13 December 2007)

<sup>38</sup> Finanzierungsantrag für die Beteiligung am KfW-Projekt: Albanien – Wasserversorgung Pogradec, 24. Oktober 2000

<sup>39</sup> Albania – Water Supply and Sanitation Sector Strategy 2003-2007, World Bank, 29 June 2004

<sup>40</sup> National Water Supply and Sewerage Services Sector Strategy 2011 – 2017, Council of Ministers, 14 September 2011.

### *Conflict of interest within the governance structure of individual utilities*

A supervisory board exercises oversight on the utility's management. The supervisory board is appointed by the municipalities who hold shares (according to population size) in the utility. In practice, it are active office holders within the municipal council or assembly who also take seat in the supervisory boards (with the vice-mayor chairing the supervisory board in the case of both Pogradec and Shkodra). This presents a clear and present conflict between the (short-term) interest of the municipality and the (long-term) interest of the utility. The local consultancy firm Value-Add (also the institutional strengthening consultant on the Shkodra project) has under a GIZ assignment prepared a manual for the functioning of a supervisory board and under a USAID assignment conducted trainings to supervisory board members over the last three years. The proper functioning of the supervisory board remains a challenge however, not least due to the frequent member rotations and low professional capacities of the members of the supervisory boards.

### *Donor Coordination*

At the national level, there is a donor coordination group. We obtained mixed signals as to how active this group is. Nevertheless, the coordination of activities in the water and sewerage sector seems – at face value – to be good. The activities of the key development organizations ADA, EU, GIZ, JICA, KfW, SECO, and USAid do not overlap or (in the case of USAid's support on public sector management to local governments and utilities) are in principle complementary to KfW / SECO's activities.

### *Alignment to SECO country strategy*

We have received an Albanian country strategy for DEZA, dated August 2001.<sup>41</sup> It states that due to the uncertain future of Albania DEZA and SECO had decided not to prepare a joint strategy. The objectives of the DEZA strategy concentrate on the political and civic governance issues. The strategy does include an annex listing the ongoing SECO activities in the country. Infrastructure finance has been provided since 1992, mainly concentrating on the energy sector. It also includes the Water and Wastewater Project Pogradec, which is mentioned as a precursor to more investments in the water sector and is similar in nature as the previous energy sector investments. Most infrastructure financed projects are co-financed with the World Bank, EBRD and KfW.

The joint SDC / SECO Albania country strategy for 2006 – 2009 states as objective of the Swiss cooperation to contribute to the political stabilization of the country and the (Balkan) region as a whole, the conclusion of the complex transition process underway, obtaining the Millennium Development Goals, and (more generally) improving the living conditions of the people. To achieve these objectives, SDC and SECO focus, amongst others, on the development of social infrastructure that will be viable and provide for qualitative and quantitative good social services.<sup>42</sup> This focus includes water supply systems.

## **Effectiveness**

### *Corruption*

Several interview partners noted that the project investments in improved billing and accounting systems and practices, use of performance targets, clearer management structures and practices,

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<sup>41</sup> DEZA-Strategie Albanien, 2001-2004, August 2001

<sup>42</sup> Cooperation Strategy 2006 – 2009 Albania, SDC and SECO, April 2007

external financial audits, do increase financial transparency and reduced the possibility of corruption for example between bill collectors and customers or in the procurement of maintenance works or equipment.

## Efficiency

### *Monitoring*

SECO has delegated the implementation and management of the Pogradec and Shkodra projects to KfW.<sup>43</sup> A three-person KfW team manages the projects: a project-manager and engineering specialist (both based in Frankfurt) and a local coordinator in the KfW's Albania office. This core project management team is supported by so-called tender agents (consultants) for the formulation of terms of reference and the recruitment of implementation consultants. The institutional strengthening and capital investments are separate mandates, executed by different consultancy firms. The consultants provide monthly, quarterly and semi-annual progress reports to KfW. The core KfW project team conducts bi-annual progress controls consisting of one-week visits to the utilities. Moreover, a Steering Committee meeting, including SECO and the central government representatives, is held twice a year.<sup>44</sup> KfW provides SECO semi-annual progress reports, which also includes an overview of the use of SECO funds. SECO can, on its own costs, subject the financial statements of KfW to an external audit.<sup>45</sup> We learned from SECO that its monitoring builds around the regular progress reports, specific project issues and tender/contract procedures (such as for example no-objection statements).<sup>46</sup> Finally, the utilities provide monthly monitoring reports on key performance indicators to KfW.

The new General Director of Pogradec Utility, whom assumed office in 2013, has raised doubts about the accuracy of the reported data over the previous years. He estimates non-revenue water to be around 45% rather than the previously reported 30%. Under the Municipal Infrastructure Program 1 and 2 there is also one utility, where the reported data have been put in doubt.

## Sustainability

### *Tariffs*

Tariffs are set at the level of individual utilities based on their specific operating, maintenance and financing costs. Legitimate cost items are: operations and maintenance costs, depreciation, interest and debt payments and, if provisioned for, bad debts. Each utility prepares and submits a business plan to the Water Regulatory Authority, which includes a timeframe to reach a tariff level covering the total operational costs in full. The Water Regulatory Authority nevertheless only approves a gradual increase in tariff levels. Moreover, any tariff increase is subject to the utility reaching pre-defined improvements in key performance indicators (a.o. total operational cost coverage and collection efficiency).<sup>47</sup>

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<sup>43</sup> Vereinbarung zwischen der Schweizerischen Eidgenossenschaft und der Kreditanstalt für Wiederaufbau betreffend Finanzierung und Durchführung des Vorhabens Wasserversorgung Pogradec in Albanien (13 November 2000); Vereinbarung zwischen der Schweizerischen Eidgenossenschaft und der Kreditanstalt für Wiederaufbau betreffend Finanzierung des Vorhabens Water Supply and Environmental Lake Protection Shkodra in Albanien (29 November 2008).

<sup>44</sup> Separate agreement to the Financing and Project Agreement (13 December 2007)

<sup>45</sup> Idem.

<sup>46</sup> E-mail Daniel Bruderer, dated 11 August 2014.

<sup>47</sup>Based on interview with the Water Regulatory Authority and the Report on the Performance of Water Supply and Sewerage Companies 2012, Water Regulatory Authority of Albania, September 2013

**Water and Wastewater Project Pogradec***Project scope – key activities, dates and implementation consultants*

Water and Wastewater Project Pogradec*		
Project period		
Planned	2001	2004
Actual	2001	2007
Activities**		
Technical rehabilitation of the water supply system		
Installation of 9500 water meters and supply of an additional 3500 water meters		
Corporate development		
General company management, including the coaching of management staff		
Project management, including support with the interaction with external stakeholders		
Installation of hard- and software for, and training in, a billing system		
Installation of hard- and software for, and training in, an accountancy system		
Establishment of a customer database		
Implementation of a management information system and business planning		
Development and implementation of an organizational and staffing concept		
Operations and maintenance support		
Implementation and development of a disconnection concept		
Implementation of an incremental tariff adjustment schedule		
Public awareness building through public relations and marketing campaigns		
Establishment of a customer service centre		
Implementation consultants		
PIU / SPP	ILF Consulting Engineers	
CD	Rodeco / Stadtwerke Frankfurt	

\* Based on SECO-internal Completion Note (undated); SECO-internal Finanzierungsantrag für die Beteiligung am KfW-Projekt: Albanien – Wasserversorgung Pogradec, 24 Oktober 2000; External Evaluation Report, Water and Wastewater Management project Pogradec, Brugger und Partner AG, 20 December 2007.

\*\*The evaluators' own summary listing of activities

*Stepwise approach*

By accident, rather than by design (see below section on effectiveness), the project became the first of three steps to rehabilitate the overall water supply and sewerage system of Pogradec: (i) rehabilitate water supply network; (ii) rehabilitation of the sewerage network and construction of a waste water treatment plant; and (iii) extension of water supply and sewerage network to surrounding villages, a doubling of the waste water treatment plant capacity, and the introduction of biological treatment of waste water.<sup>48</sup> SECO has only supported this first step. KfW has been the lead financial supporter for all three steps.

<sup>48</sup> SECO-internal Completion Note (6.12.2007) and mission interviews with KfW and Pogradec utility

### *SECO contribution*

SECO formally only financed the capital investments and the technical consultant. The institutional strengthening component was financed by KfW.<sup>49</sup>

### **Relevance**

The project was designed as part of the multi-donor Environmental Protection Program of Lake Ohrid. This program foresaw both the rehabilitation of the water supply system as the connection of 84% of the population to the sewerage network. The sequencing of the project after major implementation problems caused (what turned out to become the first phase of) the project to address the rehabilitation of the water supply system only. Whilst the rehabilitation of the water supply system did not directly contribute to the objectives of the Environmental Protection Program of Lake Ohrid, it did prepare the ground for a smooth implementation of the second and third project phases. Indirectly, this first, SECO-supported, phase has been relevant for the Environmental Protection Program of Lake Ohrid. It has to be stated though that SECO's contribution was designed from the start to finance the rehabilitation of the water supply system only and thus improve the local living conditions and promote economic development. Still, the positive effect of the overall program on the environmental protection of Lake Ohrid was mentioned in the SECO-internal Finanzierungsantrag.<sup>50</sup>

The rehabilitation of the water supply system was highly relevant: most households and organizations in Pogradec received only 8 – 10 hours of water per day with limited water pressure. Moreover, there was high technical and administrative loss of water.<sup>51</sup>

### **Effectiveness**

The project targeted a minimum of 22 hours of continuous water supply in the project area, a connection rate of minimum 98%, less than 20 system failures per year and at least 80% non-problematic random hygienic water tests.<sup>52</sup> The table below shows the development of the key performance indicators used in this evaluation. The total number of supplied water does not equal 24 hours as some rural areas within the utility's geographical scope are not yet covered.<sup>53</sup> The city of Pogradec and the immediately surrounding areas do however enjoy 24 hours of water supply (according to all our interview partners). We have not received any information on (frequent) system failures. The SECO-internal Completion Note (undated) states that the water quality is regularly tested by the utility's laboratory and deemed satisfactorily (i.e. meeting Albanian quality standards). The Completion Note notes that due to the reduction in project scope two villages could not be connected, two villages which contribute more than 50% of the water losses of the entire system, which led to the non-achievement of the nonrevenue water target. The subsequent KfW-financed interventions have however addressed this issue.

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<sup>49</sup> Vereinbarung zwischen der Schweizerischen Eidgenossenschaft und der Kreditanstalt für Wiederaufbau betreffend Finanzierung und Durchführung des Vorhabens Wasserversorgung Pogradec in Albanien (13 November 2000) and Finanzierungsantrag für die Beteiligung am KfW-Projekt: Albanien – Wasserversorgung Pogradec, 24. Oktober 2000.

<sup>50</sup> Finanzierungsantrag für die Beteiligung am KfW-Projekt: Albanien – Wasserversorgung Pogradec, 24. Oktober 2000.

<sup>51</sup> Idem footnote 14

<sup>52</sup> Idem footnote 14

<sup>53</sup> The KfW commissioned evaluation notes that 90% of the Utility's clients has 24 hours per day service, and 10% ca. 6 hours. Ex Post Evaluierung: Kurzbericht, Albanien: Umweltschutzprogramm Ohridsee – Wasser und Abwasserentsorgung Pogradec, 2012



Pogradec Competence area	Key performance criteria	Data source	Year											
			2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Operational	Non-revenue water (NRW) (%)	Benchmarking monitoring unit					76.84	74.00	60.71	61.45	48.63	39.21	30.28	45.38
	Volume of waste water treated out of total volume of waste water (%)								n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Blockages per KM sewerage network in one year (#)	Benchmarking monitoring unit					0.26	0.33	0.26	0.24	0.42	0.44	0.42	0.47
	Availability of service (average hours per day)	Benchmarking monitoring unit					5.44	18.86	20.79	20.82	20.92	20.98	21.09	21.13
Financial	Collection ratio (%)	Benchmarking monitoring unit					114.83	103.41	91.79	92.37	92.76	81.24	83.66	87.32
	Direct operational cost coverage (%)	Benchmarking monitoring unit					63.66	92.97	97.78	100.69	129.06	125.55	107.04	121.47
	Profitability - share of net profit out of total revenues (%)	Utility Interviews/balance sheet					4.65%	0.18%	1.76%	0.05%	0.67%	1.34%	1.62%	1.28%
	Net profitability without subsidies %	Utility Interviews/balance sheet					7.00%	0.23%	1.79%	0.05%	0.67%	1.34%	1.62%	1.37%
HRD	Number of Staff per 1,000 customers (#)	Benchmarking monitoring unit					5.66	5.14	4.71	4.63	4.53	4.68	4.64	4.16
	Changes in senior management	Utility Interviews	One change of the General Director. Actual GD is in position from early 2013. No other changes in management staff.											
Customer orientation	Complaints per 1,000 customers per year (#)	Utility Interviews	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Availability, accessibility and responsiveness of customer complaints centre	Utility Interviews	One customer relation office in the city center.											
Framework conditions	Average tariff/m <sup>3</sup> sold (Lek/m <sup>3</sup> )	Benchmarking monitoring unit					38.37	53.12	62.48	76.72	81.38	89.01	72.62	82.73
	Number and size of tariff adjustments (%)	ERRU	0%	0%	2.5%	0%	2.7%	0%	2.6%	8%	0%	6%	2.0%	0%
	Extent of cross subsidy between commercial and domestic clients (multiple)	ERRU	3.33	3.33	2.67	2.67	2.63	2.63	2.19	2.12	2.12	2.00	1.79	1.79

**Note:****1 Block tariffs Pogradec**

From 2012 two block water supply tariffs have been introduced in Pogradec. First block (lower tariff) is for monthly consumption up to 4.5 m<sup>3</sup> and second block (higher tariff) for monthly consumption above 4.5 m<sup>3</sup>. This is done to protect low income customers from increase of water tariffs and to promote proper use of water. For domestic customers, the first block is 22 lek/m<sup>3</sup>, the second block is 62 lek/m<sup>3</sup>. For institution and business customers, the first block (lower tariff) is 37 lek/m<sup>3</sup>, the second block (higher tariff) is 111 lek/m<sup>3</sup>. 20% increase from 2012 is a hard value provided by ERRU. It is calculated from the average of low and high tariff.

**2 Total WS tariffs increases Pogradec**

Total WS tariffs increases in % from 2002 are: domestic customers 175%, Institutions 283%, Business customers 143%

**3 Assessment of Tariff Adjustment Proposal – Average Tariff**

The following calculations show how the average tariff (assuming 100% Collection Efficiency) is derived:

Performance Weighted Adjusted Costs / Projected Quantity Billed (in m<sup>3</sup>) = Projected Average Cost (per m<sup>3</sup>)

Projected Average Cost (per m<sup>3</sup>) = Projected Average Tariff (per m<sup>3</sup>)

However, it is recognized that most service providers will not be able to collect 100% of the billed amount. Therefore in the calculations for the average tariff the efficiency indicator "Collection Efficiency" is taken into account.

In order to give incentives to the utilities, ERRU continuously set targets to increase the collection efficiency. By applying the agreed target for this indicator in the calculations as outlined below, the service providers are automatically penalized if they fail to achieve the set performance target or rewarded if they outperform the set performance target.

Therefore, the performance target is set in consideration of the current levels of each individual service provider. This performance target is then applied to calculate the adjusted average tariff, including collection efficiency.

Example: If the Projected Average Tariff (excluding collection efficiency) is 100 ALL and the performance target for Collection Efficiency is 85%, the Average Tariff will be 100/(85/100)=100/0.85=117.65 ALL.

**Second life**

Whilst the project (and two subsequent KfW-financed projects) can now be considered a clear success, such success was not evident during the first years of implementation. Both the SECO-internal completion note and the KfW sponsored external evaluation mention serious implementation difficulties, a minimum cooperation by the municipality, and the non-acceptance of the institutional strengthening consultant by the Utility. KfW even threatened to close down the project. At the end of 2003, the central government responded with the replacement of the Utility Director and at the same time a new Mayor was elected. KfW replaced the technical consultant. Moreover, due to the inadequate capacity of the Utility and an underestimation of the overall project costs, it was decided to postpone the waste water component and concentrate on the rehabilitation of the water supply system instead. The new Utility Director and the Mayor embraced the project.<sup>54</sup>

The SECO-internal Completion Note states that 'the problems faced during the first part of the project were caused to a great deal by the negative attitude of the responsible persons at Pogradec [Utility]. Therefore, the future in-country partnerships should be more carefully analysed during project

<sup>54</sup> SECO-internal Completion Note (undated) and External Evaluation Report, Water and Wastewater Management project Pogradec, Brugger und Partner AG, 20 December 2007.

preparation and the donors should probably set qualification conditions for the main players within the executing agency and other local institutions directly involved in the project implementation.'

#### *Stepwise approach*

This resultant stepwise approach proved salient: through the direct improvement of the water supply system in the first step the project gained the trust of the Pogradec population and improved the financial situation of the Utility, which allowed it to carry the additional KfW loans for the rehabilitation of the sewerage system. At the end of the third phase, Pogradec will have a 100% geographical coverage of the water supply system and circa 80% rural and 93% urban coverage of the sewerage system. The waste water treatment plant should suffice for the next 20 – 30 years. The remaining challenge are (i) to further improve the functioning of the Utility, its ability to bear its own costs and pay back the KfW loans; and (ii) connect new (touristic) real estate development to the system. Many interview partners mentioned the step-wise approach as a key success factor. It prevents utilities from getting 'overloaded', as happened early in the Pogradec project.

The evaluators note that this stepwise approach was applied again by KfW in the cities of Kavaja, Korca, Kruja, Kukës and Rrogozhina. According to KfW, only Korca was equally successful. In the other two cities the 'management was simply not there' to carry out the project.

#### *Highlighted corporate development activities by interview partners*

- Installation of and training in billing system 3S
- Installation of and training in accountancy system Alpha 8
- Developed a monitoring tool for the production and distribution of water
- Preparation of an operations manual
- Review of organizational structure and preparation of job descriptions
- Improvement of customer relations procedures
- Tariff strategy up to 2005
- Formulation of a nonrevenue water strategy
- Preparation of a business plan
- Campaigns on the rationale use of water

Monthly accounts on the operational and financial performance of the Utility can be made and the annual financial statements are in accordance to the Albanian and EU standards. Compliance with the International Financial Reporting Standards was never explicitly asked for.

The Utility has started to implement – on its own account and risks – a new billing system and electronic (bulk and residential) water metering scheme. The objective is to further improve billing efficiency (compared to the previous 3S system), collection efficiency, reduce nonrevenue water, reduce energy costs and increase profitability. Whilst KfW acknowledges that it is indeed a sign of (management embracing) the further professionalization of the Utility's management, KfW advised against it due to the additional financial burden it places on the Utility and the vulnerability of a full electronic system.

The General Director is currently implementing an organizational restructuring and staff reduction plan based on the organizational model proposed by the institutional strengthening consultant under this project. We take from the External Evaluation that this model was already implemented before, and according to the General Director also slowly abandoned thereafter.

The External Evaluation concludes that the inputs of the institutional strengthening consultant were well implemented, but 'not adequately coordinated with the delayed implementation of the rehabilitation works' and ending earlier than the rest of the project.<sup>55</sup> The Evaluation Report does not detail the consequences of this mismatch.

#### *Changes in Director*

KfW notes that even in Pogradec changes in General-Director cause ripples in the Utility's performance (e.g. nonrevenue water or collection efficiency ratios decline). The (management) structures are not strong enough to easily guide the Utility through such a transition. Given this reality, KfW favours the appointment of General-Directors based on qualification rather than political affiliation. It also believes the performance approach applied in the Municipal Infrastructure Projects is helpful to put new manager's eyes on the ball. Finally, it applauds the recent country-wide initiative to bring the directors of the utilities regularly together (which fosters peer learning and competition).

#### *Customer Relations Office*

The Customer Relations Office was set up in 2004 as part of the project. It is a separate office in the centre of town. The Office receives ca. 100 complaints per months pertaining to overbilling, blockages, tariff level, leakages, etc. The External Evaluation notes, in part based on street interviews, an improved customer satisfaction with the water supply of the utility.

#### **Efficiency**

As noted above, the project has had two subsequent technical consultants (one for the period 2001 – 2004, the second for 2004 – 2007). Both consultants concluded that the actual costs of the planned investments superseded the available budget significantly. The External Evaluation adds that 'the project inputs were not well defined upfront and the costs significantly underestimated doing project preparation' and notes that the Feasibility Study was 'prepared between 1996 and 1999, with an update in 2000'.<sup>56</sup> At the end of the day, the first phase (water supply system rehabilitation) and the second phase (renovation of the sewage system in Pogradec and the construction of a new waste water treatment plant could be concluded with a budget overrun of € 8.5 million (of which SECO carried € 1.3 million directly and € 0.5 million indirectly, through accrued interests). We note however that the SECO contribution only flowed to the first phase, i.e. the rehabilitation of the water supply system (to which KfW contributed € 4.9 million).<sup>57</sup>

The SECO-internal Completion Note draws the following conclusion from this experience: 'cost estimates of the feasibility study should already foresee inflationary cost escalation and potential specific cost increases for items exceeding inflation. Reasonable contingencies should also be provided for.' One interview partner, a consultant (not engaged in Albania), also pleaded to shorten the time between the feasibility study and the actual start of the project.

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<sup>55</sup> External Evaluation Report, Water and Wastewater Management project Pogradec, Brugger und Partner AG, 20 December 2007.

<sup>56</sup> External Evaluation Report, Water and Wastewater Management project Pogradec, Brugger und Partner AG, 20 December 2007.

<sup>57</sup> SECO-internal Completion Note (undated)

## Sustainability

### *Institutionalization*

According to KfW, it had to intervene massively last year to prevent numerous changes in the Senior Management and Administration of the Utility (and the loss of preciously build up capacity) after a new General Director had been appointed.

As noted above, the Utility has started to implement – on its own account and risks – a new billing system and electronic (bulk and residential) water metering scheme.

A 5-year business plan, a 3-year operational strategy and an annual budget plan are prepared and used by Management. Moreover, monthly financial reports are prepared for the General Director.

Still, the ex post evaluation commissioned by KfW notes continued managerial challenges in mid- to long term planning and building up the necessary reserves for future (replacement) investments. It also identified a continued political risk as the municipality exerts its influence on the utility through the appointment of the general director and its required approval for tariff adjustments.<sup>58</sup>

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<sup>58</sup> The KfW commissioned evaluation notes that 90% of the Utility's clients has 24 hours per day service, and 10% ca. 6 hours. Ex Post Evaluierung: Kurzbericht, Albanien: Umweltschutzprogramm Ohridsee – Wasser und Abwasserentsorgung Pogradec, 2012

## Water and Sewerage Project Shkodra

*Project scope – key activities, dates and implementation consultants*

Water and Sewerage Project Shkodra*		
Project period		
Planned	2007	2011
Actual	2007	2014
Activities**		
Technical rehabilitation of the water supply system		
Installation of 9.000 water meters and supply of 6.000 water meters		
Corporate development		
Installation of hard- and software for, and training in, the 3S billing system		
Installation of hard- and software for, and training in, the F5 accountancy system		
Development of a leak detection and control strategy		
Implementation of a corporate monitoring and management system		
Implementation of a staff development concept		
Enhancement of the professional skills of the corporate, technical and commercial management		
Development of a service agreement with the municipality		
Implementation of an incremental tariff adjustment schedule, including adaptation of the subsidy system		
Improvements in the customer relations concept		
Implementation consultants		
PIU / SPP	Stucky Ltd. / Dornier Schneider / / Iliridapks	
Corporate Development	Valu Add Management Services	

\* Based on: an extract from the Terms of Reference for the institutional strengthening consultant (as received from KfW);

\*\*The evaluators' own summary listing of activities

### Effectiveness

The main target according to the terms of reference for the institutional strengthening consultant was: 'to convert Shkodra [Utility] into an independent local / regional competence centre for water and sewerage service provision and to transform this water works into a modern customer oriented and self-financing service provider in conjunction with an appropriate tariff structure.'

The terms of reference note that at the outset of the project the Shkodra Utility suffered from 'high administrative losses due to inadequate billing and database system, flat rate billing of domestic users and reluctance of the population to pay water bills<sup>59</sup>, resulting in small collection efficiency and low cost coverage. In addition, there might be a considerable share of illegal connections.' To ascertain the latter, the consultant had to 'investigate simultaneously existing levels of physical losses from the water distribution system and investigate and identify illegal connections at all customer levels within the network'.

The project is to be concluded at the end of this year. The table below shows that over the last five years no improvements in the key performance indicators has been achieved. The activities undertaken by the institutional strengthening consultant were either implemented successfully, but used

<sup>59</sup> Many interview partners claimed that the people in Shkodra, together with other locations in the northern parts of Albania (such as Kukes), are notorious for the non-payment of monthly energy and water service bills.

ineffectively (such as the new management information system) or not carried through by the Utility (such as the envisaged incremental increase in tariffs<sup>60</sup> with just two tariff increases haven taken place and an overall tariff which belongs to the lowest in Albania).

Shkodra								
Competence area	Key performance criteria	Data source	2008	2009	2010	2011	2012	2013
Operational	Non-revenue water (NRW) (%)	Benchmarking monitoring unit		65.35	59.27	56.96	70.38	68.67
	Volume of waste water treated out of total volume of waste water (%)				n.a.	n.a.	n.a.	n.a.
	Blockages per KM sewerage network in one year (#)	Benchmarking monitoring unit		0.27	0.81	0.71	0.55	0.62
	Availability of service (average hours per day)	Benchmarking monitoring unit		21.17	21.13	21.00	20.95	21.57
Financial	Collection ratio (%)	Benchmarking monitoring unit		52.99	54.52	56.61	59.14	52.23
	Direct operational cost coverage (%)	Benchmarking monitoring unit		56.55	56.68	64.72	64.20	63.29
	Profitability - share of net profit out of total revenues (%)	Utility Interviews/balance sheet	-0.03%	-2.47%	-2.09%	-0.67%	-0.33%	8.19%
	Net profitability without subsidies %	Utility Interviews/balance sheet	-0.04%	-2.74%	-2.43%	-0.72%	-0.35%	8.45%
HROD	Number of Staff per 1,000 customers (#)	Benchmarking monitoring unit		4.75	4.83	4.94	4.60	4.13
	Changes in senior management	Utility Interviews						
Customer orientation	Complaints per 1,000 customers per year (#)	Utility Interviews		N/A	N/A	87.00	463.00	434.00
	Availability, accessibility and responsiveness of customer complaints centre	Utility Interviews						
Framework conditions	Average tariff/m <sup>3</sup> sold (Lek/m <sup>3</sup> )	Benchmarking monitoring unit		44.06	47.89	53.23	60.68	68.19
	Number and size of tariff adjustments (%)	ERRU	0.00	0.00	0.37	0.00	0.00	0.00
	Extent of cross subsidy between commercial and domestic clients (multiple)	ERRU	2.67	2.67	2.86	2.86	2.86	2.86

The interviews highlighted three core reasons for this failure. First, the lack of support from the Municipality. This lack of support showed in for example the difficulty to obtain the necessary construction permits for the water supply and sewerage network. The Utility was also not backed by the Municipality to address the poor collection efficiency. The Municipality for its part noted that they were not respected as full partners in the project implementation and felt that their interests and ideas were not sufficiently acknowledged and addressed. This in particularly surfaced with the rehabilitation of the water supply network and the associated opening up of the roads. The Municipality had previously invested a lot in the road network and considered the road works under the Project untimely and of bad quality. The Municipality also had alternative ideas on how to improve the Utility's operations (a.o. by sourcing the water differently, for example from the Drin water cascade, which allows for gravity supplied water and could reduce the energy bill of the utility dramatically). KfW noted in that regard that the project did not include any performance targets to incentivize the Municipality to cooperate. Moreover, the project agreements were concluded between KfW and the Utility (before the Municipality retained ownership of the Utility from the Central Government). Nevertheless, KfW stressed that the involvement of the Municipality is indeed critically important, the Municipality has been invited time and again to participate and get involved, and it in fact should have been the Municipality to coordinate the multiple investments of different donors and the city themselves. Some interview partners suggested that the Municipality's thwarted project implementation, because they wished to play a bigger role or even run and control the tendering of works.

The second reasons pertained to the project scope and the Utility's geographical coverage. The Utility's water source and transmission main lies in the municipality of Rethina, which is not serviced by the Shkodra Water Utility and thus not fall under its jurisdiction. Due to a very large amount of illegal

<sup>60</sup> The Separate Agreement to the Financing and Project Agreement (13 December 2007) includes special implementation agreements, stipulating, amongst others, the requirement for the Shkodra Utility to develop 'a concept of an incremental tariff adjustment schedule, aiming for 100% coverage of operational costs latest in 2011 before the tendering of goods and services has begun'. KfW stated that an incremental increase in tariffs was practically impossible, due to the continuous low collection efficiency of the Utility.

connections to the transmission main (consisting of 4 separate pipelines), 50% – 60% of Shkodra's water production is lost in Rethina. The wording of the terms of reference for the institutional strengthening consultant suggests that the exact proportion of the technical losses in the Rethina area was not known before the project (or investigated in the feasibility study). Moreover, this problem was not addressed by the project (once the scale of the technical losses was known). This is surprising as it is (i) a critical factor in improving the operational and financial performance of the Utility; and (ii) the project did respond to another problem, namely the risk of pollution of the water sources, which surfaced in the same area. (This latter risk came from new dwellings near the water source. The project ensured that all dwellings were connected to the sewerage system to prevent such pollution from taking place. This project extension was financed in full by SECO. This pollution risk was identified during the feasibility study.) KfW did state that the issue of water losses in the Rethina area was discussed time and again in the Steering Committee meetings and the Municipality was pressed to address the issue with the Rethina Municipality. Still, a practical solution like for the pollution threat was not worked out and it remains unclear why practical problems stemming from Rethina being part of another municipality and service provider could be overcome in the one case, and not in the other.

The third reason concerned the ample availability of water (which allowed private households to pump up good quality ground water in their own backyard) and the habit not to pay the electricity bills (which makes the private water production affordable).

KfW notes that improvements have been made (outside of the key performance indicators shown below): the water supply and waste water disposal has improved because of the physical investments and the waste water treatment plant is operational.

#### *Implementation problems*

Besides the challenges mentioned above, the project faced other implementation difficulties, amongst others:

- Damaged water meters due to missing non-returning valves
- Impossibility to install water meters at approximately 4.500 customers who live in flats with a single water supply distribution line connecting all apartments.

#### *Highlighted corporate development activities by interview partners*

- Preparation of a customer database
- Installation of and training in billing system 3S (2010-2012)
- Installation of and training in accountancy system F5 (2009-2011)
- Development of a Geographical Information System
- Campaigns on the rational use of water
- Preparation of customer complaints procedures
- Preparation of an operations manual, organizational structure and business plan

The implementation period was 2010 – 2012. Implementation went smoothly. The institutional strengthening consultant organized joint working sessions with the General Director and senior management to discuss the quarterly monitoring reports. No organizational restructuring or staff reductions have been carried through. The billing and accountancy software facilitate quick daily,

weekly and monthly reporting on selected indicators. Previously, billing was computerized, but in a very basic matter. Financial accounts were constructed manually.

There was no interaction between the institutional strengthening and physical works components.

#### *Billing software 3S*

According to the institutional strengthening consultant, the installation of the 3S system was required by the terms of reference of the institutional strengthening consultant. This statement is not supported by the extract from the terms of reference, we have received from KfW. KfW notes that they do not prescribe a certain system. Fact is that the Billing Department was unsatisfied with the billing software 3S. The software needs frequent updates and doubts existed about its security. The main criticism pertained to the lack of flexibility to adapt the program to the Billing Department's needs (e.g. including more information or analysis on customers). For adaptations and maintenance, the Billing Department is dependent on the software provider, which is based in Germany. The responsiveness of the supplier was considered limited at best.

#### *Customer Relations Office*

The Customer Relations Office was in existence before the project start. It is a separate office in the centre of town. The Office was currently in the midst of a campaign to improve collection efficiency. The applied strategy looked solid.

#### **Efficiency**

The implementation of the institutional strengthening component benefitted from the fact that it was implemented by a local management consultancy (Valu-Add Management Services) because of language and presence. Continued presence allowed the company to play a stabilizing factor amidst two changes of the General Director position. As such, the consultant also helped the implementation of the physical investment component.

The institutional strengthening consultant was recruited together with the technical consultant under one contract. The lead consultant took little responsibility for the institutional strengthening component. In this particular case, the joint recruitment of the technical and institutional consultant provided little benefit. A separate recruitment would have been more cost-effective.

Despite the increase in work load, SECO's participation is much appreciated by KfW because of (i) the financial contribution, which allows for bigger projects; (ii) the extra clout towards the central and local government, if multiple donors are involved; (iii) it widens the view of KfW, as SECO brings in other perspectives; and (iv) SECO gives KfW room to implement the project. The relationship with SECO is also described as pleasant, constructive and relaxed.

#### **Sustainability**

##### *Institutionalization*

The evaluators did not identify any measures taken by the Utility Management to sustainably improve the performance of the Utility. The recently started campaign to address the poor collection efficiency was focussed on achieving a 10%-point improvement in collection efficiency by the end of the year. This was done in part to signal commitment and financial improvement to the donors. KfW noted that campaigns to improve the collection efficiency has been started before (e.g. in response to the central



government's intention to stop subsidizing water utilities), but that thus far these campaigns have not proven to be durable. The General Manager confirmed that he was focussed on the short term. The Performance Improvements Plans<sup>61</sup>, submitted by the Utility to KfW before the Steering Committee Meeting of April 2014, and which have a timeline until 2018 were given little value.

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<sup>61</sup>Steering Committee Minutes of Meetings, dated 16.4.2014

### Performance-based financing in KfW's Municipal Infrastructure Programs 1 and 2

Approximately five years ago, KfW decided to move away from financing stand-alone projects in Albania and instead adopt a programmatic, results-based approach. The programmatic approach was informed by KfW's wish to distribute its funds more fairly and the Albanian central government's wish to be more involved in the water and sewerage sector. The results-based approach built on experiences gained with the use of incentive-mechanisms in the third phase of the Pogradec Water and Wastewater project. This strategic shift resulted in the Municipal Infrastructure Program 1 (2010) and 2 (2012) through which water and sewerage utilities are supported in 6 cities.

The Municipal Infrastructure Programs take a three-pronged approach:

1. Technical assistance is provided to develop a business plan and tariff adjustment plan for a 5-year period. These plans highlight the extent to which the utility can reasonably be expected to cover its operational costs during this period. To the extent necessary, the utility is assisted in setting up a proper financial management system.

*Milestone 1: if the business plan and tariff adjustment plan are adopted by the utility's supervisory board and the municipal council and assembly, the utility qualifies for the next stage of support.*

2. This second phase consists of two components:
  - a. The technical consultant is mobilized to start preparing the detailed design and tender documents of the physical investments.
  - b. Further technical assistance is provided to improve the financial performance of the utility.

*Milestone 2: if the utility achieves a pre-set target for the direct operational cost coverage, the tender documents for the physical investments are released. The achievement of this target is audited by an independent auditor.*

3. In the third phase, the utilities have to submit a renewed tariff adjustment schedule to the Water Regulatory Authority that shows that they can realistically achieve a second, pre-set target for the direct operational cost coverage taking into account the planned physical investments and if necessary a new and higher tariff structure.

*Milestone 3: if the utility has submitted a renewed tariff adjustment schedule to the Water Regulatory Authority that shows that they can realistically achieve a second, pre-set target for the direct operational cost coverage within a predefined time-period, the utility is allowed to enter into contract with the selected contractor for the physical works.*

The exact milestones for the direct operational cost coverage are determined per utility based on a detailed scenario analysis within a cash flow model of the each utility. The exact targets were set jointly with the utilities and municipalities.

KfW's idea behind setting milestones before the investment funds are released is that a utility reveals ownership of the envisaged turnaround process by achieving the targets. Still, such a performance-

based approach only works – in KfW's experience – if it is also accompanied by a major physical investment component (which constitutes the proverbial 'carrot').

In the above approach, the corporate development, or in KfW's terminology institutional strengthening, is provided before the capital investments are made. Of key interest to this evaluation is what this ex ante institutional strengthening entails. We learned from Royal HaskoningDHV, KfW's institutional strengthening consultant for the Municipal Infrastructure Programs 1 and 2, the following (detailed per phase):

1. The first phase proved useful to understand how the utilities work. The products, the business plan and tariff adjustment schedule, were (subsequently) not used as management tools, nor adhered to by most of the utilities. The plans were basically agreed upon by the supervisory boards and municipal councils and assemblies to qualify for the physical investments. HaskoningDHV experienced difficulty in obtaining commitment on the business plan, which is a management tool thus far not used by the utility management.

The groundwork for the business plans have been prepared with the utilities through participatory sessions (conducting a SWOT analysis, formulating ambitions, and defining an action plan). The business plan itself was written by the consultant.

2. The second phase consisted, practically speaking, of two components. First, data collection and monitoring. Haskoning identified the critical operational variables, assisted the utility collecting data on these variables, and subsequently discuss the development in these variables on a monthly basis with the general director and senior management. And second, to start a continuous discussion with the general director and senior management on how to improve the performance of the utility (i.e. how to improve the key performance indicators).

For Haskoning it was important to discuss (not only with the general director, but also with senior management and staff) and let the utility act (i.e. it is your data, your utility, your performance, your future). Haskoning also noted that the utilities gradually came to understand that KfW was indeed looking at the performance indicators. Moreover, Haskoning considered a critical success factor the evolvement of trust, which allows for an open discussion on what is happening in the utility, what has been done to improve the situation, what can be done further, what works and what does not work?

3. In the third phase, which is about to start, no further institutional strengthening is envisaged. (This will be different in the Municipal Infrastructure Programs 3 and 4, in which 'the utilities will receive further institutional support to sustain the operation of the infrastructure/investments, to improve efficiency and to facilitate the implementation of the business, operation and maintenance as well as tariff adjustment plans. There are no milestones/targets defined for [this] phase [of the institutional strengthening support].'<sup>62</sup>

A critical design element of the performance-based approach is that the institutional strengthening consultant is not continuously there or available. Together with the set milestones, this puts the utilities

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<sup>62</sup> E-mail of Daniel Bruderer, dated 20 August 2014.

in the driving seat. KfW has experienced that as utilities come to realize this, they slowly start demanding advice on how best to tackle potential for performance improvements that they themselves have identified and wish to achieve. In other words, KfW experiences that the utilities progressively reveal ownership of the agenda. KfW qualifies this as empowering the utilities. Moreover, the type of institutional strengthening also differs per utility: one may need and wish to implement a new billing system, others need to focus on improving the collection efficiency. Although the total program funds for the institutional strengthening are fixed, they can be spend flexibly.

At the time of this writing the second phase is set to be completed. 4 (out of 6) utilities have achieved the second milestone outright. One utility has missed its operational cost coverage target by a whisker, not least due the fact that the proposed tariff structure by the utility was not approved in full by the Water Regulatory Authority. And for one utility, KfW and Haskoning have serious doubts about the correctness of the reported figures (which is under review).

We note that this performance-based approach had identified one single performance indicator (the direct operational cost coverage). Moreover, starting with the institutional strengthening was based on the (now proven) premise that substantial improvements in operational efficiency can be made without physical investments (a.o. addressing non-revenue water and collection efficiency).

The Municipal Infrastructure Programs 1 and 2 did not seek to address all institutional and investment needs of the utilities at once or in full. The programs adhere to the lesson learned in the Pogradec project to take a stepwise approach. KfW is currently formulating the Municipal Infrastructure Programs 3 and 4, which partly cover the same utilities. As subsequent phases of support are made subject to further improvements in the financial performance of a utility, this step-wise approach also contributes to sustaining the results.

Finally, KfW notes that the Municipal Infrastructure Program also appears to have positive spillover effects to other utilities, who take over the practices of the Municipal Infrastructure Program utilities.

#### *Terms of reference of the Institutional Strengthening Consultant*

We obtained an extract from the terms of reference of the institutional strengthening consultant from KfW. This terms of reference deviates significantly from the terms of references in the Shkodra project or of the EBRD (as reviewed in our Tajikistan and Kyrgyzstan missions).

'The objective of the institutional training measure is the improvement of the economic and financial sustainability of the [utilities] in order to contribute to sustainable water supply and sewerage services.'<sup>63</sup> This objective is more down-to-earth than the target to make Shkodra utility a self-financing competence center for water and sewerage services. The envisaged measures are subsequently also more output than input oriented: definition of the utility's strategy, development of a sustainable revenue basis, reduction of administrative losses, improvement of collection and billing efficiency and improvement of financial sustainability. Moreover, the terms of reference stress 'it is of primary importance that the consultancy services provided are strictly oriented to implementation. An approach that features longer study report writing with lists of written recommendations left to the enterprises' management for appraisal, and possible subsequent implementation, is clearly not considered appropriate. Instead it is expected that the consultants shall be quick in assessing what needs to be done in the organization and capable of devising appropriate procedural improvements to

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<sup>63</sup> Extract from the terms of reference of the institutional strengthening consultant as received from KfW.

management systems and workflow which are then trained and implemented together with the staff in charge with running the systems and delivering the results.<sup>64</sup> The bidders are also asked 'to expand the focus as necessary to achieve the results' and for example 'provide training and support, but not prepare the business plan'.<sup>65</sup>

This evaluation addresses amongst others the question of sustainability. An indicator for sustainability is the revealed (rather than stated) ownership of (in this case) a utility. The set-up of the MIP 1 and 2 and the associated terms of reference of the institutional strengthening consultant clearly promote the utilities to take ownership of the reform agenda. We understand that this was only marginally achieved in reaching the first milestone, but very much the order of the day in achieving the second milestone (see above). This surely is positive. It is to be noted that the institutional strengthening consultant received a lump sum payment (through a conscious decision to do so), i.e. its remuneration was not performance-based (i.e. made dependent on the achievement of the milestones). If it would have been performance-based, it would have been much more difficult for the consultant to step back and make room for the utilities.

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<sup>64</sup> Idem.

<sup>65</sup> Idem.

### **Durres Water and Sewerage Utility**

The Water and Sewerage Utility of Durres is currently being supported by USAID, GIZ and the World Bank.

USAID provides support in preparing a five-year business plan and training the Supervisory Board members on their role and responsibilities. GIZ supports the utility (through a twinning approach) to improve the management of the waste water treatment plant. The World Bank provides with a \$83 million loan the biggest support. The World Bank support entails capital investments in water production, water distribution, rehabilitation and extension of the sewerage system, installation of water meters, and management support.

All World Bank support is implemented in parallel. The management support entails amongst others: water balance modeling, GIS, customer database improvements, asset management, and stakeholder participation campaigns. The business plan contains targets for improvements in the key performance indicators. Lending is not subject to achieving these targets.

## E. Kyrgyzstan country report

### Introduction

The country mission to Kyrgyzstan took place from 28 July to 2 August. The mission was conducted by Michel Leushuis with support by local consultant Leyla Talipova as well as a translator to support during interviews and field visits.

The country mission included semi-structured interviews with representatives from the organizations listed below.

- Swiss Cooperation Office
- State Agency for Architecture and Construction (Gosstroy)
- Kyrgyz- Slavonic University
- EBRD
- PIU of ADB Sustainable Development of Issyk Kul Area Project
- Comtec LLC (Kirgiz consultant for the pilot coaching project)

We visited the following utilities:

- Bishkek
- Kant
- Karakol
- Osh
- Jalalabad

A full list of interview partners is included in Annex B of the main report.

### *Reading guide*

This report starts with some country-level observations, which are relevant for all individual SECO projects. We subsequently present our findings on the Bishkek, Kant, Karakol and Osh & Jalalabad projects.

### Country-level findings

#### Background

##### *Organization of the water supply sector*

The responsibility for water supply & sewerage services lies with the local government. Local government owns the water infrastructure assets and through the municipal council approves water tariffs. Water tariffs need to be endorsed by the national anti-monopoly agency as well, although it was stated that this agency does not play an active role in tariff setting and is seen as a formal procedure.

Policy and priority setting at the national level has for many years been dispersed amongst multiple ministries. Until the year 2012 no formal water sector policy was in place. Only recently, responsibility for sector policy setting at the national level was assigned to the State Agency for Architecture, Construction and Communal Services (Gosstroy), Department of Water Supply and Sanitation.

#### *National sector policy and strategies*

Currently, a number of policy level documents have been developed to formulate development of the water supply and sanitation sector in the country. Some of these documents were developed with the external support through donor's projects, while others were developed solely by the Government of Kyrgyzstan.

Water Supply and Sanitation Sector Development Strategy (2013). This is a general document, prepared with the help of external experts, financed via the World Bank's project "Rural water supply project 2". The document describes the status of the sector in rural and urban areas, the situation with water borne diseases, institutional set up and distribution of roles and responsibilities for the water supply and sanitation infrastructure, and the estimate of the unit costs for rehabilitation of priority rural and urban water supply systems, targeting to meet the Millennium Development Goals. According to the strategy, the total urgent needs for the sector in the country are in range of USD 400 million for rural and urban areas and about USD 500 million for wastewater management for urban and semi-urban areas. Based on the priorities identified in this document, the Government has prepared the "State Program for Development of Water Supply and Sanitation for Kyrgyzstan for the period of 2014-2017".

State Program for Development of Water Supply and Sanitation for Kyrgyz Republic for the period of 2014-2017 was approved by the Prime Minister in 2014 and currently is awaiting the approval of the Parliament. Once approved, the program will serve as the basis for annual budget planning at central, regional and municipal levels. However, it is stated, that the major financing for the sector is expected to be delivered through the joint projects of IFIs and Government of Kyrgyzstan. The program prioritizes rural areas, with no or non-functioning water supply system and to rayon centers, which classify as semi urban areas. Semi urban areas are included as these require urgent rehabilitation and expansion of centralized sewerage and waste water systems. The same applies to urban areas. Here, the priority is securing safe and continuous water supply and improvement of urban sewerage and waste water treatment systems. There is no mention in the State program to new forms of investment attraction like PPP (private-public partnership). However, the need for improved financial management of water utilities is stated.

Sustainable Development Program for Kyrgyz Republic for 2014 – 2017 was approved by the parliament of Kyrgyzstan in December 2013. The program defines the priority sectors for social development, infrastructure and macro-economic growth of the country for the given period. The program will serve as the basis for developing of various relevant national projects to be financed from the central budget. Priority to develop the drinking water supply infrastructure is highlighted in the section of environmental activities, along with the priorities for environmental protection, water resources development and sustainable use, as well as with disaster response management. The specific objectives for the sector include:



- development of the water supply and sewerage development strategy and implementation plan for the country for 2013-2023;
- development of water supply Master Plans for the cities of Bishkek and Osh;
- incorporate water supply & sanitation development in the individual development plans for urban and rural areas;
- increase of access to safe drinking water for 50 more villages up to 2017;
- Assessment of existing service levels of centralized sewerage services in urban and semi urban areas and estimate the required sewerage expansion and waste water treatment needs with the aim to increase the access to centralized sewerage from 26,9% in 2012 to 40% countrywide in 2017;
- prepare and start implementing the program of assuring all schools and preschools in rural and urban areas to be provided with safe water supply services up to 2020;

The required finances are not identified by the program, as it is expected these costs will be developed during next specific planning steps.

## **Relevance**

### *Policy alignment*

The various national level sector documents highlight the need for safe water supply, specifically in rural areas. In addition, improved sanitation is prioritized through improved centralized sewerage systems in urban and peri-urban areas.

SECO support is mainly focused on improved water supply in urban areas and not on rural areas. Also, main focus is on drinking water supply, although there is a sewerage component in the Osh & Jalalabad project (rehabilitation of wastewater treatment plants, extension of sewerage system and supply of sewerage maintenance vehicles).

### *Sector financing*

Apart from co-funding obligations in relation to IFI funded projects, until recently no separate national level funding was allocated to investments in the water supply and sanitation sector, with the exception of some emergency cases. This was also caused by the fact that there was no central level agency responsible for policy development and coordination of the assistance to the sector. Recently, such responsibility was given to the State Agency for Architecture, Construction and Communal Services, with its respective Department of Water Supply and Sanitation. The department currently has representation in all 6 oblasts.

Since the fiscal year of 2013, the central budget has started to allocate budgets for capital investments for improvement of rural and urban water supply services. In 2013, the allocation amounted to KGS 40 mln (about USD 800,000), in 2014 the amount allocated to the sector was KGS 116 mln (or USD 2.3 mln). For the central budget of 2015, the preliminary agreed allocation is KGS 150 mln (USD 2.8 mln).

The priorities for the use of the funds are set in the National Water Supply and Sanitation Sector Strategy for Kyrgyzstan up to 2017, which currently is undergoing the process of acceptance by the

Government. The plans are to rehabilitate water supply systems in 420 rural settlements and to rehabilitate water supply and sewerage systems in all rayon centers (semi urban areas). The amount of internally generated finances during coming year is not likely to be sufficient to reach this target, and therefore, the use of external finances is envisaged.

#### *Donor coordination*

There are several development organizations active in the water supply and sanitation sector. Evaluators obtained the following, non-limitative, overview of players active in the water and sanitation sector.

Level	Development organization	Comment
National policy level	- ADB	New institutional framework, rural WSS policies, technical standards and implementation guidelines
	- World Bank	Water supply and sanitation sector development strategy
Urban water supply	- EBRD / SECO	Bishkek, Kant, Osh & Jalalabad
	- SECO	Karakol
	- EBRD	Talas, Batken, Cholpon-Ata, Karabalta, Naryn
	- ADB	Karakol, Osh, Jalalabad, Bazar-Korgon
	- World Bank	Bishkek, Osh
Rural water supply	- Unicef - World Bank - ADB - Gold mining enterprises	

From this overview it can be noted that several IFI's are active in the same municipality: Bishkek (EBRD/SECO and World Bank); Karakol (SECO and ADB) and Osh & Jalalabad (EBRD/SECO, ADB and WB). Although at the national /policy level regular consultations with State Agency for Architecture, Construction and Communal Services are organized in which other stakeholders participate as well (i.e. universities), evaluators found that at project / municipality level donor coordination is organized in a more informal way and based on specific issues. In relation to this, there are currently different project implementation arrangements in place:

- EBRD/SECO makes arrangements directly with municipalities and their beneficiary utilities;
- The World Bank is implementing its projects through ARIS (community investments and development agency), a national level PIU which has the status of a non-profit NGO, established by the Administration of the President of Kyrgyz Republic;
- The ADB project for improvement of water supply and sewerage services in three towns in Yssyk-kul lake area works with municipalities and water utilities, but through a central PIU, located in the Ministry of Finance. Another ADB project: Improvement of water supply services in the towns of Osh and Jalal Abad, is implemented through a central PIU within the department of water supply and sanitation, of the State Agency for Construction, Architecture and Communal Services (Gosstroy).

## Effectiveness

### *Transparency and accountability*

The ADB has been supporting investments in the rural water supply sector since the year 2001. However, because of poor construction, corruption in procurement and lack of maintenance, new and rehabilitated systems are deteriorating fast. As a result of this poor project performance, ADB has refocused its attention to address these issues at the national and policy level by supporting sector reform through a new institutional framework, rural WSS policies, technical standards and implementation guidelines. ADB stated that further investment assistance in this sector depends on the acceptance by the Kyrgyz government of recommended reforms.

The EBRD funded projects all require the issuance of external audited financial statements. In combination with improved accounting and billing systems and procedures, this can be expected to contribute to the improved transparency and accountability in the sector. These external audited financial statements are an EBRD requirement for the duration of the full loan term.

## Efficiency

### *Monitoring*

In relation to projects jointly implemented with the EBRD, SECO has assigned the full responsibility and authority for project implementation and monitoring to the EBRD, through project-level Management Agreements. In order to fulfill this task, the EBRD has recruited in-country program monitors who regularly visit the utilities. Projects are regularly monitored, specifically (EBRD) loan covenant compliance reports and credit analysis reports are prepared. Implementation and corporate development consultants prepare quarterly progress reports. These reports are shared with SECO. In addition, the EBRD is submitting to SECO specific annual progress reports to review implementation of SECO funded projects. The set-up is similar to the monitoring arrangements in Tajikistan.

The monitoring of the bilateral project in Karakol is managed directly by SDC/SECO office in Bishkek, through the National Program Officer. This is done by direct field visits and through electronic communication. The appointed implementation consultant submits annual activity reports. Based on the documents received, evaluators could not establish whether formal steering committee meetings have been conducted.

## Sustainability

### *Tariff setting and cost recovery*

Tariff adjustment based on (full) cost recovery is identified in all available project documentation as an essential issue in order to achieve financial sustainability. As the EBRD is providing sovereign loans, which are on-lent to the respective municipalities, cost recovering tariffs sufficient to cover the debt service with a certain margin are considered important. The EBRD loan and project agreement therefore foresee in the following tariff adjustments, regulated through loan covenants:

- Bishkek I: adjust periodically with inflation as from 1 January 2008
- Osh: 15% by 31/7/11; 20% by 31/7/12; thereafter with inflation
- Jalalabad: 20% by 31/7/11; 40% by 31/7/12; thereafter with inflation
- Kant: 30% by 1/1/14; 30% by 1/1/15; thereafter with inflation

The EBRD is regularly monitoring, through loan covenant compliance monitoring reports, whether the utilities meet these requirements. Technical assistance on this is provided through the corporate development consultants.

The 2004 decision document of the SECO bilateral project in Karakol also identifies cost covering tariffs as a specific objective, but does not set a specific target.

In practice it is observed that tariffs are not regularly adjusted for inflation, and sometimes remain unchanged for several years in a row. There is no institutionalized annual tariff review and adjustment process in place.

The National Anti-monopoly Agency needs to formally approve tariff increases. There is however no national approved or regulated tariff methodology or formula which can be used by individual utilities to assess and propose tariff adjustments. For this reason, but also as many rural water supply schemes do not have a formal water tariff established, the State Agency for Construction, Architecture and Communal Services has included in its State Program for Development of Water Supply and Sanitation "financial and economic sustainability" as a priority and intends to develop a tariff methodology, cleared by the Antimonopoly Agency.

#### *SECO money not used for corporate development support*

For the joint SECO/EBRD projects, SECO financed investments and project implementation support, but not the corporate development activities, with the exception of a (small) pre-implementation corporate development component in Kant.

**Bishkek Water Supply Project - phase I***Project scope – key activities, dates and implementation consultants*

Bishkek Water Supply Project I		
Project period	Start	End
Phase 1		
Planned	2009	2012
Actual	2010	2014 (expected)
Activities*		
Technical rehabilitation of the water supply system:		
Replacement of water pipes		
Replacement of submerged pumps		
Re-drilling and installation of new boreholes		
Supply and installation of water meters (bulk meters and 16,000 consumer meters)		
Replacement of machinery		
Replacement of chlorination units		
Corporate development		
Introduction of IFRS (excel model, manual, and on-the-job training)		
Approved tariff policy and tariff adjustment plan		
Introduction of Management Reports (excel model, guidelines, including on-the-job training)		
Preparation of an annual budget and financial projection model (including manuals)		
Review organizational structure and prepare department and job descriptions		
Strategy developed and implemented for improved revenue collection		
Formulation of a corporate development plan		
City support program (advisory services on budgeting, capital planning, benchmarking and internal controls)		
Public service agreement prepared and entered into by BWC and Bishkek City		
Stakeholder Participation Program		
Not included		
Implementation consultants		
Phase 1		
PIU	Holinger (CH)	
CD	Corporate Solutions (UK)	

\* The evaluators' own summary listing of activities

**Relevance and effectiveness***Highlighted corporate development activities by interview partners*

- Transfer to IFRS compliant financial statements
- Public service agreement (PSA)
- Implementation new billing software
- Support with tariff policy
- Long term business plan (2012 – 2021)

The Utility stated that they found implementation of the new billing software as the most beneficial activity of the corporate development. It was stated to have helped the Utility to improve the collection

rate. This in part also helped the Utility to improve its customer database and expand it from 177,000 registered clients in the year 2009 to 220,000 in the year 2014. The latter can also be attributed to (i) improved performance by the Utility's billing staff, specifically their internal controllers (ii) addition of 48 new settlements to the Bishkek city.

Evaluators note that an improvement in the collection rate cannot be directly concluded from the collected key performance indicators, which shows a small decline in the year 2012 to 89% (refer to the table below). Still, this is a relatively good performance and very close to the 90% collection rate target mentioned in SECO's Logical Framework matrix and EBRD's project agreement and loan covenant requirements.

Furthermore, the support with drafting and signing a public service agreement was highlighted, as it helped the utility to establish a tariff policy targeting phasing out of the current cross subsidy between customer groups. This however did not help to have tariffs approved by Bishkek city council, despite several requests. Tariffs were last increased in the year 2010, well above inflation adjustment levels, but have remained the same since then.

Finally, the Utility director raised some doubts on the usefulness of the developed 10 year business plan, as it does not fit well with the current one year planning and budgeting cycle used by Bishkek city. Hence it is likely this plan will not be updated or actively used for future planning purposes.

#### *Water metering and revenue improvement*

The original project design documentation foresees in the procurement and installation of 16,000 consumer water meters at individual houses with excessive water consumption. This component of the physical works was however dropped upon the request by the Utility. The request has been accepted by the EBRD.<sup>66</sup>

The reason for the request is that the Utility fears it will incur additional expenses as it would need to hire additional water meter readers to measure actual consumption on a monthly basis. Currently most connections do not have water meters, with customers being charged on a fixed volume per capita. The Utility stated that what it really needed is assistance with (i) improved / smarter water meter reading through improved procedures, organization and possibly an improved legal framework and (ii) improved customer database as many customers underreport the number of tenants as this would result in lower water bill by virtue of the current fixed per capita billing system. This also clarifies the reported extremely high per capita consumption of 600 liter per capita per day for individual houses: the water is actually consumed but if only half of the people actually living in a house are entered in the utilities' customer database, the 'statistical' consumption would be extremely high.

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<sup>66</sup> There was disagreement between the utility and the EBRD & SECO on the type of water meters to be procured. The utility wished to procure remote control water meters, which the development partners found too expensive. Hence partners agreed to drop this component entirely, in favour of an alternative programme to procure and install bulk water meters

Evaluators conclude that this apparent felt need and potential for revenue improvement was not tackled during the corporate development assistance. In addition, it was also not picked up or identified in the due diligence report prepared for Bishkek II project, which primarily concentrates on a technical review of the proposed investment plan.

### **Efficiency**

The physical component of the project was delayed as a result of a delayed starting date due to political turmoil and some procurement issues outside of the control of the PIU consultant. Latest expected completion date is 2014, a delay of 2 years compared to the original envisaged end date.

The corporate development consultant has completed its assignment in 2013, on time and within the original budget.

### **Sustainability**

Bishkek Utility already had a reasonable performance track record and stable management. The provided corporate development assistance added to this performance track record, whereby it can be concluded that the Utility is critical on what has been delivered and what it will continue to use. Likely the billing system will be further internalized and used, potentially with additional assistance provided through the Bishkek II program. On the other hand, the long term business plan is unlikely to be a planning instrument which will continue to be used by the Utility's management. Conclusion: the provided corporate development assistance was instrumental in providing incremental performance improvement of an already reasonably well managed utility company.

Finally, the identified issue with the quality of the customer database and billing and metering procedures highlight that there is a clear potential for improved sustainability if actual / requested needs of the utility are thoroughly discussed and analyzed a priori and subsequently incorporated in the terms of reference of future corporate development assistance.

## Overview of Key Performance Indicators

Bishkek water supply company							
Competence area	Key performance criteria	Data source	2010	2011	2012	2013	2014
Operational	Non-revenue water (NRW) (%)	BVK data, July 2014 for SECO evaluation, Eurasian Cities, WB 2010;	not measured, currently estimated at 30% in 2009 and improved to 23% in 2014; breakage rate ranges from 0.8-0.9 per km per year in 2009 to 0.62 per km in 2014				
	Volume of waste water treated out of total volume of waste water (%)	BVK, Eurasian cities, WB 2010; population coverage with centralised sewerage was about 50% in 2010	99%				n/a
	Blockages per KM sewerage network in one year (#)	interview	0.4-0.6				n/a
	Availability of service (average hours per day)	interview	24	24	24	24	24
Financial	Collection ratio (%)	Audited annual financial statements	90%	95%	89%	n.a.	n.a.
	Direct operational cost coverage (%)	EBRD financial analysis 2013	106%	104%	104%	n.a.	n.a.
	Profitability - share of net profit out of revenues (%)	EBRD financial analysis 2013	2%	2%	5%	n.a.	n.a.
HROD	Number of Staff per 1,000 customers (#)	BVK data for July 2014, for SECO evaluation	7.4	7.2	7.0	6.8	6.9
	Changes in senior management	interview	Top management of the company is stable ( director, chief engineer, chief accountant)				
Customer orientation	Complaints per 1,000 customers per year (#)	interview	1.8	1.6	1.3	1.2	0.8
	Availability, accessibility and responsiveness of customer complaints centre	interview	Online option for complaints at the BVK's web page, tel line and personal visits to the BVK office				
Framework conditions	Tariff/m <sup>3</sup> sold (KGS/m <sup>3</sup> ):						
	population	interview	3.0	4.5	4.5	4.5	4.5
	budget line agencies	interview	4.5	6.2	6.2	6.2	6.2
	commercial and Power and Heating Plant	interview	7.0	8.0	8.0	8.0	8.0
	Number and size of residential tariff adjustments (%)	interview		49%	0%	0%	0%
	Extent of cross subsidy between commercial and domestic clients (multiple)	interview	2.3	1.8	1.8	1.8	1.8



**Kant Water Supply Project***Project scope – key activities, dates and implementation consultants*

Kant Water Supply Project		
Project period	Start	End
Phase 1		
Planned	2013	2016
Actual	2013	2016
Activities*		
Technical rehabilitation of the water supply system:		
- Supply and installation of water meters		
- Operations and maintenance machinery and equipment		
- Network rehabilitation		
- Water wells rehabilitation (main well field)		
- Rehabilitation of buildings (admin, pumping station)		
Corporate development		
- Pre-signing assistance (business plan, MIS, CRM, corporate development plan)		
- Lease agreement / legal support		
- IFRS compliant financial management system		
- Facilitate external financial audit		
Stakeholder Participation Program		
- Water committee establishment		
- Video production		
- Training & seminars public stakeholders		
Implementation consultants		
PIU	Holinger (CH)	
CD (pre-signing)	Holinger (CH)	
CD (post-signing)	Institute for Urban economics (RF)	
SPP	Seureca (FR)	

\* The evaluators' own summary listing of activities

**Relevance and effectiveness**

The Kant Water Supply Project has just recently started, with the loan agreement signed in May 2013. Unique about this project is that the Utility is privately owned and has entered into a renewable lease agreement with Kant Municipality.

*Highlighted corporate development activities by interview partners*

- SPP: water committee establishment, video production & training/seminars with public stakeholders
- Improved lease agreement
- Tariff adjustment
- IFRS introduction
- Improvement billing system
- External financial audit

Interviewed staff was quick to mention the various activities carried out within the framework of the corporate development and Stakeholder Participation Program. Specifically the pro-active role of the pre-signing corporate development / PIU consultant (Holinger) was highlighted and appreciated – even when the formal consultancy contract was not signed yet.

#### *Lease agreement & tailored ToR*

Assistance with an improved lease agreement with Kant Municipality was identified to be of particular importance. Sticking issue in this is (i) EBRD debt service obligation in combination with (ii) tariff increase approval by the Kant Municipal Council. As the Kant Utility is privately owned, it wants to make sure it is able to service EBRD debt obligations. This is only possible if Kant Municipality allows the utility to increase its tariffs, in line with EBRD loan covenant stipulations. This needs to be unequivocally included in an amended leased agreement.

Evaluators note that the ToR for the corporate development consultant is tailor made and quite different from the generic corporate development ToR which can be seen in other EBRD supported projects. It is also observed that this ToR is much narrower in scope and takes into consideration the needs of the utility (lease agreement and assistance with tariff approval/implementation) and EBRD requirements (IFRS compliant financial management statement and external financial audit).

#### *Management commitment*

Utility staff showcased their high interest in the project and were confident to be able achieve the stated project objectives. For example, it fully underscored the need for full metering of all customers, despite the difficulties it faces in engaging water consumers, as individual water meter installation in especially apartment buildings faces quite some technical issues and disruption which create resistance. Hence, assistance from the SPP consultant in setting up water committees and engaging in public awareness and stakeholder consultation is recognized as a valuable contribution to the project.

It is interesting to note that the study tour to privately owned Shymkent Water Utility in Kazakhstan – facilitated through SECO's pilot coaching project was cited as an inspiring example, as this utility has already successfully implemented a full water metering installation program. Also the experience of Khujand in Tajikistan was well known to the interviewees.

Further interest and commitment is shown by the fact that Utility has developed and installed on a pilot basis its own "remote control" water meters.

### **Efficiency**

#### *Project just commenced*

The project has faced some initial delays, due to delays in signing of the loan agreement which faced some bureaucratic / procedural delays as it needed to be ratified by the President. Other than these start-up delays and as the project has just commenced, it is too early to assess efficiency of project execution.

## Sustainability

The implementation of the project is in its early stages. The works still need to be tendered and thereafter implemented. Hence it is premature to assess the sustainability of the project support. As the project assistance is tailored around the needs of the Utility, the prospect that developed procedures and systems will be internalized are promising. No specific post-project planning to ensure sustainability of improved skills, systems and procedures was identified.

## Overview of Key Performance Indicators

Kant water supply company					
Competence area	Key performance criteria	Data source	2012	2013	2014
Operational	Non-revenue water (NRW) (%)	EBRD FS, 2011, and Kant VK data for SECO evaluation	not measured, estimated at 77% in 2009 and 81% in 2012; breakage of pipes rate is about 20 per month 27 km (8.9 per km per year)		
	Volume of waste water treated out of total volume of waste water (%)		n/a	n/a	n/a
	Blockages per KM sewerage network in one year (#)		n/a	n/a	n/a
	Availability of service (average hours per day)	Kant VK for SECO evaluation	24	24	24
Financial	Collection ratio (%)	EBRD credit analysis report	98%	95%	n/a
	Direct operational cost coverage (%)	EBRD FS summary	101%	91%	n/a
	Profitability - share of net profit out of revenues (%)	EBRD FS summary	10%	7%	n/a
HROD	Number of Staff per 1,000 customers (#)	Kant VK for SECO evaluation	7.3	7.3	7.3
	Changes in senior management	Kant VK for SECO evaluation	management is stable: director works in the VK since early 1990s, chief engineer - 2 years, chief accountant - 5 years		
Customer orientation	Complaints per 1,000 customers per year (#)	Kant VK for SECO evaluation	1.3	1.2	0.8
	Availability, accessibility and responsiveness of customer complaints centre	Kant VK for SECO evaluation	tel line in the VK, personal visits of consumers the VK, tel line in the Municipality office;		
Framework conditions	Drinking water tariff/m <sup>3</sup> sold (KGS/m <sup>3</sup> )				
	population	Kant VK for SECO evaluation	6.2	6.2	6.2
	budget line agencies and commercial consumers	Kant VK for SECO evaluation	15.9	15.9	15.9
	Number and size of tariff adjustments (%)	Kant VK for SECO evaluation		0%	0%
	Extent of cross subsidy between commercial and domestic clients (multiple)	Kant VK for SECO evaluation	2.6	2.6	2.6

**Karakol Water Supply Project***Project scope – key activities, dates and implementation consultants*

Karakol Water Supply Project		
Project period	Start	End
Planned	2005	2008
Actual	2005	2014
Activities*		
Technical improvement of the water supply system:		
- New Drinking water treatment plant		
- Rehabilitation and construction of new of production wells		
- Network rehabilitation		
- Extension of distribution network		
- Water meter installation		
Corporate development		
- Modern accounting system		
- Utility organisational review and improvement		
- Technical O&M training		
- Customer awareness campaign		
Implementation consultants		
PIU & CD	AF Consultants (formerly Colenco)	

\* The evaluators' own summary listing of activities

**Relevance and effectiveness***Highlighted corporate development activities by interview partners*

- Customer awareness campaign (since 2008)
- Installation new billing and accounting system (2009)
- Computer training (2009) + operational training through SECO coaching project
- Operational training of new water treatment plant
- Disconnection campaign / establishment of disconnection task force

No particular activity was identified by the Director as being of particular importance for the utility.

*Relevance*

Relevance of the project was and still is high as there continues to be a need for safe, continuous water supply at acceptable service levels, as also confirmed by an external project evaluation conducted in the year 2012.

*Project outputs partly met, but not the intended outcome*

The corporate development outputs have all been implemented, however the intended outcomes have not been met:

- In 2009, a billing and accounting system was installed and is operational. However the quality and completeness of the customer database is questionable and has not been given the attention it deserves. In the absence of water meters which can measure and bill actual water consumption, the billing system is still to a large extent based on normative use per capita (and even for each head of cattle). Although the number of registered clients was stated to have increased from 16,000 to 18,000 out of a total of ~20,000 households, the invoiced water volume remained the same. The 2012 evaluation found that the customer database only contained some 43,000 residents out of a total population of approximately 70,000 inhabitants. As the volume of water invoiced has not been increased, it can be concluded that this issue has not been addressed in the meantime. Implementation of a consumer water metering program could improve this situation, as it would allow the Utility to invoice actual consumption. However, the project only targeted installation of 600 consumer water meters. This is insufficient to tackle this problem.
- The new water treatment plant is operational and a training has been provided to the operators. However, the Utility could not produce water production data or establish a simple water balance, despite the fact that bulk / production water meters are installed at the new treatment plant. A "drastic reduction in unaccounted for water", one of the intended project outcomes, will be hard to assess if a basic monitoring system or practice is not in place.

#### *Excessive water use still an issue*

Although it is stated that in principle connected residents have 24 hours access to water supply without scheduled rationing, frequent supply interruptions are reported as a result of maintenance works. There is continued use of potable water for irrigation purposes, which causes supply constraints, especially during the dry season. Not very surprising as clients are billed on a per capita basis and thus have no financial incentive to reduce their actual water use. Under these circumstances it is hard to have an effective customer awareness campaign targeting water conservation.

The excessive water use also causes water quality issues, as high turbidity intake water is pushed through the new water treatment plant at above design turbidity and volume levels. This has a detrimental impact on the quality of water entering the distribution system. Especially during the dry season when water demand is highest due to continued irrigation practices. Indeed, during the summer time / dry season there continue to be customer complaints about the high turbidity of water, although the situation is said to have improved.

#### *Water meter installation too limited*

The original project design only allocated limited resources for water meter installation (600). The 2012 external project evaluation concluded that this is insufficient in order to have a real impact on a reduction of water consumption.

#### *Coordination and overlap with ADB PIU*

In order to improve high turbidity level of the river water intake upstream of the new water treatment plant, SECO agreed with the ADB that a sedimentation pond / settling tank would be financed through

the ADB's Yssyk-kul lake area development project. To date, this settlement tank has not been realized yet, causing the water treatment plant to continue to use high turbidity intake water, above the plant's design standards. However, tendering for this component was underway at the time of the evaluation visit (early august 2014).

It was stated by the ADB PIU that there were some technical disagreements on the design of the sedimentation pond and that only limited contacts were established with both the implementation consultant (AF consultants) as well as the SECO office in Bishkek. In addition, as there was no contact between the ADB and SECO during the formulation of the ADB project, certain ADB project components were deleted from the scope (billing system, water meter component was cancelled).

*But Utility management remained stable throughout the years*

Despite various changes of mayor, the Utility enjoyed stable management, with the current managing director in place since the year 2008. This certainly has contributed to an improved professional environment, especially at the technical/PIU level.

*And water tariffs have been increased*

Also after many years, the Utility managed to have a tariff increase adopted by the Municipality, effective during the year 2013. Residential tariffs were increased with a whopping 200%. This was badly needed, as the Municipality was incurring increasing losses during preceding years. These cash constraints also caused the Utility to postpone the purchase of water purification chemicals, so that the new water treatment plant was operating without proper water treatment during the summer of 2013. Eventually a short term loan extended by the Municipality allowed the Utility to purchase these chemicals in September 2013 so that water treatment could continue.

### **Efficiency**

According to the SECO 2004 project decision note, the project was planned for 4 years and to be completed by the year 2008. The latest extension foresees project completion by the year 2014, a delay of 6 six years. Many reasons have been identified for this, amongst others remoteness of the project location. For sure, an important contributing factor was also that at the beginning of the project an underperforming consultant had to be replaced after some 2-3 years into the project.

Because of the delayed implementation, but also the limited achievement of project objectives, the project cannot be considered efficient. The external 2012 evaluation rated the efficiency and sustainability of the project as unsatisfactory.

### **Sustainability**

The sustainability of the project continues to be doubtful. This is in line with the assessment of the 2012 external evaluation. Completion and proper functioning of the sedimentation pond remains an issue, even if it is finally commissioned. As recent as summer 2013, the Utility was unable to procure chemicals for water treatment, putting the project objective of continuous, safe water supply at risk. In addition, the Utility did not internalize a basic water balance monitoring procedure to manage its non-revenue water level, despite having the possibility to measure at least the bulk of the water it produces. The



**Osh & Jalalabad Water Supply Project***Project scope – key activities, dates and implementation consultants*

Osh & Jalalabad Water Supply Project		
Project period	Start	End
Planned	2011	2015
Actual	2011	2015
Activities*		
Technical component:		
- Rehabilitation waste water treatment plants		
- Expansion of sewerage system / network		
- Procurement & installation of water meters (bulk and consumer)		
- Rehabilitation of water supply network and pumping stations		
- Supply of sewerage maintenance vehicles		
Corporate development		
Introduction of IFRS (excel model, manual, and on-the-job training)		
Approved tariff policy and tariff adjustment plan		
Introduction of accounting and billing systems, including training		
Preparation of an annual budget and financial projection model (including manuals)		
Review organizational structure and prepare department and job descriptions		
Strategy developed and implemented for improved revenue collection		
Public service agreement prepared and entered into by City and utility		
SPP (customer awareness raising, water users committees creation, policy & stakeholder dialogue)		
Implementation consultants		
PIU	Ernst Basler & Partners (CH)	
CD & SPP	Seureca (FR) / Baker & Tilly (KG)	

\* The evaluators' own summary listing of activities

*Highlighted corporate development activities by interview partners*

- SPP: information campaign
- Accounting and billing software
- On the job training of accounting and billing software

The interviews were held with senior financial Utility staff in both Osh and Jalalabad. The most visual support mentioned was the development and installation of accounting and billing software.

*Accounting & billing system*

Both utilities confirmed the usefulness of the accounting software (1C). Standard Russian language accounting software (1C) was tailored to the needs of the Utility and is currently operational and used in both Utility companies. This was easy for Jalalabad, as they were already used to an older version of the same 1C software. Osh Water Company is however still waiting for promised additional functionality (covenant compliance reporting and budgeting module) which has not been arranged for by the consultant.



The situation is however different for the billing software. Billing software has been made available to both utilities, but is still in the testing phase as the utilities are not satisfied with the offered functionality. Osh remarked that this system was promised to be operational about 1 year ago, but is still not completed. They also stated that the offered training lacked a practical approach and that implementation is constrained due to the fact that physical water meter installation has not started yet.

Jalalabad has identified several technical issues with the billing software and requested improvement early on in 2014. The billing system is not used, pending resolution of these issues. There is also a complicating issue with the developer of the existing billing software, who refuses to make available the source code / historical consumer and billing data for the data migration to the new platform.

As the corporate development component is nearing completion - scheduled for September 2014 - these issues need to be resolved rapidly, otherwise there is real possibility that the Utilities continue to use their existing billing systems and shelve the newly developed billing system.

#### *Low visibility of other components*

There is a low visibility of the other components of the CD assistance, especially the tariff policy and adjustment plan, the business planning process and the public service agreement between city and Utility. In Jalalabad these components were directly discussed and arranged between the PIU located in and headed by Municipality staff and the CD consultant. Interviewees of both Utilities were not directly involved in the development and implementation of these components.

Upon the evaluators' question in what way cooperation took place with the CD consultants, it transpired that the contact was primarily to provide data to the CD consultant's team. Therefore, with the exception of the accounting and billing system implementation, there has been limited cooperation or joint performance improvement activities.

As there also has not been any direct assistance to improve the billing collection procedures and customer database, the impact on revenue improvement as a result of CD assistance will be small. Especially since the billing software has not been put into operation yet and in view of the physical water meter installation which will be realized after the CD consultant has completed its assignment.

#### **Efficiency**

EBRD stated that the CD consultant assignment was delivered on time and within budget. Still, the project can only be considered efficient if the outputs are also actually put into operation by the utilities. As the CD project is not completed yet, it is too early to assess this. However, there is a risk that in both cities the billing software is not put into operation. Also revenue improvement as a direct result of the TA intervention is doubtful in the absence of an improved customer database and improved / streamlined bill collection procedures. Procurement and installation of consumer water meters after completion of the CD assignment does not contribute to the efficiency as well.

## Sustainability

Although the project is still ongoing and hence an assessment of sustainability is premature, it can be noted that key financial utility are not deeply involved in development and implementation of various important components of the CD assistance. Hence, there is a considerable risk that developed systems are not internalized in the utility company and that certain components like the billing system is not put into operation at all.

## Overview of Key Performance Indicators

Osh water supply company						
Competence area	Key performance criteria	Data source	2011	2012	2013	2014
Operational	Non-revenue water (NRW) (%)		not measured			
	Volume of waste water treated out of total volume of waste water (%)		n/a	n/a	n/a	n/a
	Blockages per KM sewerage network in one year (#)		n/a	n/a	n/a	n/a
	Availability of service (average hours per day)	Osh VK interview	24 h in most of the city (interrupted on an ad-hoc basis), but in selected areas is very poor: limited hours a few days per week			
Financial	Collection ratio (%)	EBRD credit analysis report 2014	97%	94%	124%	n/a
	Direct operational cost coverage (%)	EBRD credit analysis report 2014	95%	114%	112%	n/a
	Profitability - share of net profit out of revenues (%)	EBRD credit analysis report 2014	7.5%	6.5%	-7.3%	n/a
HROD	Number of Staff per 1,000 customers (#)	OshVK interview; Comment: for 2011, 2012, 2013 ib-net states: 1.4; 0.9; 0.9	n/a	n/a	n/a	6.1
	Changes in senior management		n/a			
Customer orientation	Complaints per 1,000 customers per year (#)		n/a	n/a	n/a	n/a
	Availability, accessibility and responsiveness of customer complaints centre		n/a			
Framework conditions	Tariff/m <sup>3</sup> sold (KGS/m <sup>3</sup> )					
	population	EBRD credit analysis report 2013/14	3.7	5.3	5.3	5.3
	budget line agencies	EBRD credit analysis report 2013/14	5.3	5.3	5.3	5.3
	industrial	EBRD credit analysis report 2013/14	8.6	8.6	8.6	8.6
	commercial	EBRD credit analysis report 2013/14	22.5	22.5	22.5	22.5
	Number and size of tariff adjustments (%)	EBRD credit analysis report 2013/14		44%	0%	0%
	Extent of cross subsidy between commercial and domestic clients (multiple)	EBRD credit analysis report 2013/14	6.1	4.2	4.2	4.2

Jalalabad water supply company						
Competence area	Key performance criteria	Data source	2011	2012	2013	2014
Operational	Non-revenue water (NRW) (%)	JA VK for SECO evaluation	not measured, only estimated by the VK; the pipe breakage is about 600-700 cases per year per 205 km of the network (3.5 cases per km per year).			
	Volume of waste water treated out of total volume of waste water (%)		n/a	n/a	n/a	n/a
	Blockages per KM sewerage network in one year (#)		n/a	n/a	n/a	n/a
	Availability of service (average hours per day)					
Financial	Collection ratio (%)	EBRD credit analysis report 2013	93%	97%	n/a	n/a
	Direct operational cost coverage (%)	EBRD credit analysis report 2013	86%	112%	n/a	n/a
	Profitability - share of net profit out of revenues (%)	EBRD credit analysis report 2013	-11.5%	1.6%	n/a	n/a
HROD	Number of Staff per 1,000 customers (#)	JA VK data for SECO evaluation	7.5	7.8	7.7	n/a
	Changes in senior management		since the start of the project the management is stable			
Customer orientation	Complaints per 1,000 customers per year (#)		n/a	n/a	n/a	n/a
	Availability, accessibility and responsiveness of customer complaints centre	interview	tel line in the VK and tel line in the Municipality			
Framework conditions	Tariff/m <sup>3</sup> sold (KGS/m <sup>3</sup> )					
	population	interview	5.0	5.9	6.0	6.0
	budget line agencies	interview	9.0	9.0	10.0	10.0
	commercial	interview	13.8	13.8	15.1	15.1
	Number and size of residential tariff adjustments (%)	interview		18%	2%	0%
	Extent of cross subsidy between commercial and domestic clients (multiple)	interview	2.8	2.3	2.5	2.5

## F. Peru country report

### Introduction

The country mission to Peru took place from 8 to 12 September. The mission was conducted by Geert Engelsman. The mission focused on the Chiclayo Municipal Solid Waste Management Project and the Piura Water and Sewerage Project. It included semi-structured interviews with representatives of the organizations listed below.

- Swiss Cooperation Office
- Ministry of Environment
- Ministry of Housing, Construction and Water
- national water regulator (Sunass)
- Inter-American Development Bank (IDB)
- World Bank
- GIZ
- JICA
- Pacific University

We conducted field visits to Chiclayo and Piura. In Chiclayo, we interviewed the municipality's top civil servant, the head of the Environment and Economic Development Department, the PMU head and staff, and local project consultants. In Piura, we interviewed the Mayor of Paita Municipality, as well as the General Manager, the Heads of the Planning, Commercial, Financial and Engineering Departments and the PMU Head of the Piura Water Utility.

A full list of interview partners is included in Annex B of the main report.

Below we subsequently present our findings on the Chiclayo Municipal Solid Waste Management Project and the Piura Water and Sewerage Project.

**Chiclayo Municipal Solid Waste Management Project***Project scope – key activities, dates and implementation consultants*

Chiclayo Municipal Solid Waste Management Project*		
Project period		
Planned	2012	2015
Actual	2012	2016
Activities**		
Investment in new facilities and equipment		
Phase 1		
Storage facilities and street cleaning equipment		
Transfer station, including recycling facilities, a new workshop with repair and maintenance equipment		
Replacement of the collection and transportation fleet		
GIS, communication equipment, service car		
Phase 2		
Construction of a sanitary landfill and pilot composting facility		
Closure and rehabilitation of the current waste dump		
Technical assistance and corporate development		
Capacity building for the municipal departments and its staff responsible for solid waste management		
Improved organizational set-up, administration and human resource management		
Development and implementation of strategic and operational plans		
Integration of informal waste pickers in to the Municipal solid waste service		
Preparation of a PPP-model and identifying potential candidates for the operation of the sanitary landfill and involvement of private sector in recycling waste		
Reviewing, implementing and enforcing local SWM regulations		
Development / adaptation of financial management system		
Review of tariff system (including cost covering tariffs)		
Improved solid waste management (performance-based, analysis of waste streams, enforcement of sanction mechanisms)		
Feasibility study on waste incineration in a cement plant		
Public awareness and information component		
Promote good environmental practices		
Sector policy dialogue component		
Development of technical norms for sanitary landfills		
Closure and rehabilitation of landfills		
Development and implementation of a benchmarking system at the national level		
Implementation consultants		
PIU technical consultant	CSD Ingenieurs	
Corporate development consultant	Ernst Basler + Partners***	

\* Based on SECO-internal Credit Proposal (11.10.2011).

\*\*The evaluators' own summary listing of activities

\*\*\* Subcontracted by CSD Ingenieurs

## Relevance

### *Development needs*

Twenty thousand tons of solid waste are produced in Peru per day. 37% of this amount is safely disposed of. In Peru, only 9 sanitary landfills and 1 controlled dump site exist, most of them in the Lima area.<sup>67</sup> Although solid waste is collected in Chiclayo, collection and disposal capacity is limited and inefficient. Collected waste is dumped in the desert in a designated area.

### *Alignment to government policies*

The Ministry of Environment is currently planning a second national plan on solid waste management. The first plan, running from 2004 – 2014, sought to establish the proper enabling environment (rules, regulations and laws) and develop action plans at the municipal level. The second plan seeks to improve the procurement practices of the government itself (making these more environmental friendly). Moreover, the National Environmental Action Plan 2021 includes ambitious goals for solid waste management, namely the 100% recycling of reusable waste (composting and recycling) and 100% treatment of non-reusable waste. The Peruvian Law on Solid Waste Management aims for increased private sector involvement in solid waste management. The Chiclayo municipality also expressed support for a private sector operator for the sanitary landfill.

Chiclayo's Municipality Manager expressed his continued support for the project (objectives). SECO's support was deemed critical to address the deficient solid waste management in the city.

### *Government contribution*

The overall project budget is CHF 21.1 million. Switzerland will provide a non-reimbursable grant of CHF 19 million. The Municipality will invest CHF 2.1 million in the equipment and infrastructure as their own contribution.<sup>68</sup>

### *Donor Coordination*

Donor coordination is well-established. An overall donor coordination group has established sector-specific subgroups, amongst others on solid waste management (which SECO chairs, with membership of amongst others the GIZ, IDB, JICA, the United Nations Environment Program, and the World Bank). Within this donor working group, SECO coordinates and exchanges on its activities with IDB and JICA (who jointly support 31 municipalities in establishing modern solid waste practices).

### *Other donors' approaches*

IDB and JICA take a similar approach in their solid waste program: combining physical investments in tools, equipment and disposal capacity with strengthening the capacity of recipient institutions.

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<sup>67</sup> SECO-internal Credit Proposal (11.10.2011).

<sup>68</sup> SECO-internal Credit Proposal (11.10.2011).

## Effectiveness

### *Formal objectives*

The project remains in the early stages of project implementation (see efficiency section for more on implementation delays). Accordingly, no effects can be seen or expected. We take from SECO's internal credit proposal the following formal objective: the project seeks 'to improve the municipal solid waste management system of Chiclayo allowing a financially sustainable operation which is fully complying with environmental and social standards and to disseminate the experiences of the model approach through the lead ministries to other Peruvian municipalities. The outcome of the project will be an efficiently operating municipal solid waste management service providing a better quality service from collection to disposal at lower operation cost. ... The technical assistance and corporate development component is equally important as the investment measures as it sets the base for a cost efficient operation while improving the quality of the services. The technical assistance and corporate development measures will ensure sustainability of the investments and facilitate successful replication in other Peruvian municipalities.'<sup>69</sup>

### *Highlighted corporate development activities*

The envisaged corporate development activities were not yet 'lived' by our interview partners. This is however common in the early stages of project implementation, when few of the corporate development activities have actually been undertaken. Still, our interview partners professed support to these activities and acknowledged the importance of improved corporate management. The PMU noted that they had not (yet) received the envisaged dedicated training or coaching.

### *City selection*

Around 2005, the Peru national government announced a national program for solid waste management (which has subsequently been supported by IDB and JICA). Chiclayo was not part of this program (probably because of outstanding debts to the Ministry of Finance). In 2007, Chiclayo approached SECO for support. Subsequent discussions and (pre)feasibility studies culminated in a bilateral agreement being agreed in 2012.

### *Corruption*

Several interview partners confirmed that improved technologies and management practices will reduce the opportunities for corrupt practices. For example, a global positioning systems on compactor trucks combined with measuring actual diesel consumption reduces the opportunity of, or increases the chances for being caught, for stealing diesel.

## Efficiency

### *Early implementation challenges*

The project has faced a number of challenges early on in the project implementation.

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<sup>69</sup> Idem previous footnote.

1. Setting up the PMU within the municipality.
  - a. Initially no staff from the municipality applied to the PMU staff positions.
  - b. Staff was enticed to apply for the PMU by offering enhanced, performance-based pay, only to have the envisaged performance-based payment mechanism be retracted (as it violated municipal remuneration regulations). This required additional efforts and the offering of trainings to keep the selected staff members).
  - c. Some staff members were subsequently rotated out of the PMU by the Chiclayo Mayor.
  - d. Creating a physical work space for the PMU took time (with the municipality having limited and often debilitated office space at its disposal).
2. Preparing the tender specifications and documentation.
  - a. The tender documentation had to apply to both Peruvian and Swiss procurement regulations and be comprehensible to local bidders.
  - b. Some tender specifications had to be reviewed (e.g. feasibility of gas-fuelled compactors, size and material of working tools such as the sweeper).
3. Maintain the support of the municipal political leadership.
  - a. The Mayor was suspended from office for 4 months on suspicion of corrupt practices.
  - b. The interim Mayor suspended support to the project and transferred staff to other positions.
  - c. Upon resumption of office, the Mayor has only provided erratic support to the project (supposedly also due to the lack of progress in project implementation).
  - d. All interview partners highlighted that all aspects of public administration and investment projects in Peruvian municipalities in general and Chiclayo in particular are heavily influenced by (opportunistic and divisive rather than constructive) politics.
  - e. The PMU expressed that the Municipality is not fast enough in answering their queries.
4. Defining the division of labour between the PMU and the technical and corporate development consultants.
  - a. This concerned the preparation of the tender documentation and preparation of the business case for the solid waste management.
5. Other staff issues.
  - a. Staff availability in the afternoon is limited due to them having second jobs (a result of low pay scales).
  - b. Staff commitment is generally low within Chiclayo as their pay is limited and no career lines exists for civil servants.
  - c. Strong labour unions and regulations makes it politically difficult to reduce the workforce (or prepare plans to do so).
  - d. Staff is reluctant to embrace reforms such as geographic information or management information systems. Increased tracking of activities and whereabouts of staff reduces the opportunity to tend to second jobs or recycle waste on their own account.
6. National government's red tape.
  - a. Approval of the environmental impact assessment of the envisaged transfer plant has encountered numerous delays not least because of lack of early coordination



between the Ministry of Environment, the Ministry of Health, and the international consultant.

- b. The acquisition of the land plot for the sanitary landfill has been delayed.

These implementation difficulties still cast a shadow over project implementation. The international consultant has recently expressed concern over these difficulties in a letter to SECO's program manager. We note that at the time of our mission (i) no proposals are in place to promote more fluent project implementation; and (ii) no (senior) international solid waste and institutional strengthening expert is based in Chiclayo.

### *Management*

The project is implemented by the Chiclayo Municipality through a dedicated Project Management Unit (PMU). The PMU works closely with the Municipality's Department of Environment and Economic Development, which manages the solid waste collection and disposal in the city. The evaluators observed with the PMU and the Municipality's Department of Environment and Economic Development a willingness and capability to learn and achieve the project's goals.

The PMU is supported by a consortium of international consultants (CSD Ingenieurs and Ernst Basler + Partners) for the purchase of equipment, the detailed design and procurement of the physical works, and the envisaged corporate development. Initially, the international consultant had a staff member based in Chiclayo. Currently, this is no longer the case. The project is managed by the international consultant through regular skype conference calls and periodic field visits. The PMU members noted that the skype calls allows for information exchange, but is not suited to engaging in a dialogue, an exchange of opinions. We add that the international consultant not being on the ground significantly reduces its ability to address (positively influence) the implementation difficulties.

The international consultant does have a junior local consultant based in the PMU in Chiclayo. Moreover, two senior, highly qualified local consultants are currently assisting the PMU. The involvement of the senior local consultants is temporary and targeted to specific implementation challenges (amongst others ensuring that the tender documents conform to both Peruvian and Swiss procurement regulations and improving solid waste management operational procedures to prevent, example given, the recycling of waste by the waste collectors for the collector's own benefit).

We understand that the international consultant has limited experience with international tenders and SECO's related procedures. As this knowledge is (logically) not present in the Swiss Cooperation Office, SECO's program manager is pulled into project implementation by having to bring the tender documentation up-to-par. The envisaged work structure – with the international consultant implementing, the Swiss Cooperation Office monitoring the implementation, and SECO's program officer involved in strategic monitoring and decision-making – cannot be followed.

SECO's program manager has to provide no-objections to all tender evaluation and selection decisions, which involves careful review and documentation of the decisions. We understand this to be time-consuming. Combined with the tender documentation work, this results in SECO's program officer currently being closely involved in project implementation.

Finally, a Steering Committee supervises the overall implementation and progress, meeting annually, with the participation of the Ministry of Environment, the Peruvian Agency for International Cooperation, the Chiclayo Mayor, and SECO/WEIN.

The PMU and senior local consultants spoke positively about SCO's involvement in the project implementation. There is contact on a weekly bases.

#### *Monitoring*

The project's logframe includes performance indicators. The international consultant has identified the baseline data and the Steering Committee has set performance targets. We have not identified a system for the regular collection and analysis of these performance indicators or the intention to manage the project specifically or the Municipality's solid waste management in general on these performance indicators.

#### *Results-based approach*

The investment component is subdivided into two phases. Financing of Phase 2 is dependent on the Municipality undertaking a number of actions (a.o. land acquisition of landfill-site, approval of the organizational set-up after project completion, inclusion of the Municipality's own contribution to the second phase in the Municipal budget of the following year). Additionally, the Municipality has to reach certain quantified performance targets. The PMU and the senior local consultants showed uncertainty as to what performance indicators and targets are applied. Ultimately, we understood these to be (i) collected waste (in tons) per man-hour; and (ii) service coverage (percentage of paved roads).

#### *Terms of reference*

The terms of reference<sup>70</sup> for the implementation consultant responsible for the technical assistance and corporate development is defined in terms of inputs and outputs, rather than desired outcome. Although it refers consistently to 'support the PMU', the input-output based character of the terms of reference contains the risk that the consultant feels obliged to take over the responsibilities of the PMU to ensure that the required deliverables are completed. This risk is exacerbated by the consultant's need to prepare a detailed procurement plan, as well as handbooks, training modules, guidelines and standards on the main operational, institutional and financial strengthening documents.

#### *Project promotion*

Much attention has been given early on in project implementation to the promotion of the project amongst the population. This is clearly visible in well-designed project logos and pamphlets. The population's expectations are however not (yet) met due to the implementation delays. The PMU has decided to operate with a lower profile until further implementation progress has been made.

#### **Sustainability**

Project implementation has not significantly advanced. No results have been achieved thus far. Little can be said therefore on the sustainability of the project (results). It is envisaged that a working modality of the PMU after the project's end is prepared (including the consideration of setting up a decentralized public entity for the solid waste collection, disposal and management)<sup>71</sup>.

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<sup>70</sup> Terms of Reference Implementation Consultant, Chiclayo Municipal Solid Waste Management Project, SECO, February 2013

<sup>71</sup> Idem previous footnote

Collection of the municipal tax for street cleaning, parks and gardening, city guards and waste collection is currently 30%. General agreement existed with our interview partners that Chiclayo first has to improve the collection and disposal of solid waste before it addresses non-payment of applicable taxes.

**Piura Water and Sewerage Project***Project scope – key activities, dates and implementation consultants*

Water and Sewerage Project *		
Project period		
Planned	2012 (December)	2016
Actual	2013	> 2016
Activities**		
Investment component		
Rehabilitation and extension of the drinking water treatment plant		
Replacement of the raw water intake and pumping station, plus construction of an algae extractor		
Rehabilitation of water supply mains (taken over by Ministry of Housing, Construction and Water; SECO funds redirected to the replacement of the raw water intake)		
Rehabilitation of the waste water pumping stations		
Institutional strengthening component		
Installation of 5000 meters		
Update commercial cadastre		
Reduction of illegal connections		
Tariff adjustments		
Public awareness campaigns		
Improving access to fiscal resources		
Increasing qualification and motivation of staff		
Implementation of a computerized management system and improvement of financial management capabilities		
Incorporation of Acquarating (to be used as management tool)		
Water Resources Management Component		
Fostering an integrated management approach		
Set-up of a water quality monitoring system		
Improvement to operation of waste water lagoons		
Financial and conceptual support to the set-up of the regional water and sanitation fund		
Implementation consultants		
PIU technical consultant	Hollinger	
CD	Selection under way	

\* Based on: Financial Proposal, Piura water and Sewerage Project, SECO, 28.2.2013

\*\*The evaluators' own summary listing of activities

**Relevance***Development needs*

The Piura Water Utility 'is one of the largest water utilities in Peru and provides water and sanitation services to around 750'000 residents in the entire region (approx. 77% water supply, 62% sanitation coverage).'<sup>72</sup>

Despite 13 years of restructuring efforts (see below), the Piura Water Utility is facing numerous management challenges:

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<sup>72</sup> Financial Proposal, Piura Water and Sewerage Project, SECO, 28.2.2013

- Non-revenue water of over 50% of total water production
- Average availability of water of 11 ½ hours per day
- Actual availability of water in the targeted Paíta area only 3 – 5 hours per day for residents.
- Inability to cover its direct operational costs
- Low tariffs
- Low salary scales
- Illegal connections
- Basic, non-integrated billing and accountancy software

Opinions varied amongst our interview partners as to the quality of management. Some argued that little progress has been made despite 13 years of restructuring efforts. Others argued that the management is good as they managed to stabilize and even improve the situation with very little money. The latter group argued that Piura Water Utility has significant potential.

We found the General Manager and senior management very articulate and full of ideas on how to improve the operational and financial management of the organization (a.o. working with private sector firms on a results-bases to increase the collection rate; development of an improved billing software (which they like to be quality-checked under this project); obtain measuring devices to identify PWC piping to detect illegal connections). They also applied modern management practices with basic financial software tools (like the monthly monitoring of key performance indicators). According to the General Manager significant improvements have been made over the last 13 years. The billing ratio has increased from 55% to 89%. Collection rates have increased from 35% to 93%. And non-revenue water has been reduced from 68% to 53%.

#### Overview of key development indicators

Piura			2005	2006	2007	2008	2009	2010	2011	2012
Competence area	Key performance criteria	Data source*								
Operational	Non-revenue water (NRW) (%)		57.40	57.50	55.90	56.50	55.60	54.10	53.90	
	Volume of waste water treated out of total volume of waste water (%)		42.60	41.70	50.60	50.70	50.80	48.90	44.30	45.40
	Blockages per KM sewerage network in one year (#)		1.87	7.07	7.64	9.70	9.80	7.91	7.75	7.91
	Availability of service (average hours per day)		11.70	11.40	11.30	12.00	13.00	12.30	11.30	11.50
Financial	Collection ratio (%)									
	Direct operational cost coverage (%)		82.90			84.90	83.90	87.60	91.90	88.30
	Profitability - share of net profit out of revenues (%)									
HROD	Number of Staff per 1,000 customers (#)		1.12			2.59	2.46	2.44	2.49	2.27
	Changes in senior management									
Customer orientation	Complaints per 1,000 customers per year (#)		69.80	162.50	169.30	202.00	206.00	69.00	101.00	147.00
	Availability, accessibility and responsiveness of customer complaints centre									
Framework conditions	Average tariff/m <sup>3</sup> sold Soles/m <sup>3</sup>		1.67			1.78	1.86	1.89	1.90	1.95

\* Source: Las EPS y su desarrollo. Informe Técnico del sistema de indicadores de gestión, Gerencia de Supervisión y Fiscalización (SUNASS), Lima, 2013

*(Government) contribution*

The total budget amounts to CHF 21.98 Mio with the proposed SECO contribution amounting to CHF 19 Mio. The SECO contribution will be provided on a grant basis. Piura Water Utility and its creditors confirmed to contribute with CHF 2.98 million to the project corresponding to approx. 15% of the total project costs.<sup>73</sup> Outside of the project, the Ministry of Housing, Construction and Water invests ca. \$ 40 million in extension of the distribution network, including the renewal of the transmission main from the El Arenal water treatment plant to the Paita Municipality (which was originally foreseen as part of the SECO project).

*Government ownership*

SECO's support to Piura Water Utility fits well into the objectives and plans of the responsible Ministry of Housing, Construction and Water, which include the provision of 24 hours per day of potable water. The Ministry does question the current governance model in which the utilities are municipal-owned. The Ministry favours stronger involvement of the private sector to foster stronger management capacities. The Ministry's position constitutes an about-face as private sector involvement in the water utilities was politically not accepted over the last few years.

*Changing ownership and regulatory framework*

In the nineties, ownership of the water utilities was devolved from the central government to the municipal governments. At the end of 2013, Parliament has passed the Water and Sanitation Modernization Act. This law foresees in the establishment of the Technical Management Agency Sanitation Services (OTASS), which will be allowed to directly intervene in the operational and financial management of any water utility which is underperforming and unlikely to be able to repay its outstanding debts. OTASS' objective is to improve the management capacity of the water utility which has been taken over and facilitate the eventual entry of the private sector (through public-private partnerships). It is expected that OTASS will intervene in 70% of all water utilities. We understand that the law has been accompanied by regulations detailing general deployment schemes and payroll schedules for the water utilities.

The Piura Water Utility is a unique case. It defaulted in 2001, forcing its creditors to step in and take over the operational and financial management of the Utility. The group of creditors include the Ministry of Finance, the National Housing Fund, the tax administration SUNAT, the workers unions, and several commercial banks). Our interview partners did not know whether the Piura Water Utility would be brought under the OTASS regime in the (near) future.

*Donor coordination*

Donor coordination is well-established in Peru. An overall donor coordination group has established sector-specific subgroups, amongst others on water supply and sanitation (with a rotating chairmanship between all its members). Within this donor working group, SECO coordinates and exchanges on its activities with amongst others IDB, KfW and GIZ (who also support urbanities in rehabilitating and expanding the water supply and sanitation production and distribution systems). The donor working group on water has assisted the Ministry of Housing, Construction and Water (through

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<sup>73</sup> Idem previous footnote

the provision of consultancy services) with the development of National Investment Plan for Water and Sanitation.

GIZ, IDB, SDC and the World Bank have supported the Ministry of Housing, Construction and Water in developing the abovementioned Water and Sanitation Modernization Act. IDB and KfW support different water utilities than SECO (with KfW and SECO having one joint project in Pisco<sup>74</sup>).

GIZ is implementing a large technical assistance program in water and sanitation (called PROAGUA). This program has amongst others set up a national system for capacity building. This system has a central coordination unit within the Ministry of Housing, Construction and Water, which collects and organizes all capacity development needs of the water and sanitation utilities. Each utility is required to prepare a capacity development plan covering technical, operational, commercial, financial management and leadership development needs. The system has also identified 40 in-country training providers (universities and consultancy firms) able to provide capacity development training and coaching. The capacity development activities are for 93% paid for by the utilities themselves, a cost item which they can include in their tariff adjustment proposals. GIZ noted that any corporate development training foreseen under the Piura Water and Sewerage Project can and should be included in the overall capacity development plans and ideally be provided by local training providers.

### Effectiveness

#### *Formal objectives*

The project remains in the early stages of project implementation (see efficiency section for more on implementation delays). Accordingly, no effects can be seen or expected. We take from SECO's internal financial proposal the following formal objective: 'Ensure the sustainable growth of the economically important coastal area of Piura through a reliable and affordable water supply system, enable [Piura Water Utility] attaining financial sustainability in their operations and promote a sound management of the water resources in the Piura Region.'<sup>75</sup>

#### *Implementation constraints*

Our interview partners identified a number of implementation challenges to the corporate development program: lack of qualified professionals, low salary scales, opposing labour unions, and political meddling.

#### *Highlighted corporate development activities by interview partners*

The Chairman of the Board of Directors considered the physical investments first priority (especially to enhance the production capacity to meet the extra demand from the influx of people). For corporate development there is more time. This position differed starkly from the eagerness voiced by the General Manager and especially the senior management team to quickly wrap up the selection of the international corporate development consultant and get started with the corporate development program. Featured corporate development activities included: creation of a financial model to improve insight into the financial performance and required tariff levels, modernization of the billing and

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<sup>74</sup> We have not included the Pisco project into the evaluation, because of time-constraints during the field mission and the very limited corporate development program foreseen under this project.

<sup>75</sup> Financial Proposal, Piura Water and Sewerage Project, SECO, 28.2.2013

accountancy software, adoption of the Aquarating management tool, customer database updating, metering, strengthening human resources, and addressing non-revenue water.

#### *Corruption*

Improvements in the payroll was considered a critical element in combatting corruption.

#### **Efficiency**

##### *Time-line*

Project identification (jointly with IDB)	2007
Project preparation (dialogue and feasibility analysis on private sector involvement in utility)	Until 2011
IDB steps out (expiration of loan agreement and option of private sector involvement not pursued)	2011
Bilateral agreement SECO – Ministry of Housing, Construction and Water	December 2012
Bilateral agreement SECO – Piura Water Utility	April 2013
Selection of PIU implementation consultant	April 2014
Selection of corporate development consultant	underway

Both the bilateral agreement between SECO and the Piura Water Utility (half a year), the selection of the PIU implementation consultant (1 year) and the formulation of the terms of reference for the corporate development consultant have delayed the start of the implementation.

#### *Management*

The project is led by a small PMU within Piura Water Utility (currently 2 team members, projected to grow to 4). The PMU coordinates its activities with the heads of departments of the Utility (including engineering, commercial, financial, and planning). The PMU is supported by an international technical consultant and a corporate development consultant.

The Project is supervised by a Steering Committee consisting of representatives of the Creditors Committee, APCI [the Peruvian Agency for International Cooperation], the regional government, and of SECO/ Swiss Embassy. The Swiss Cooperation Office visits every 2 – 3 months.

#### **Sustainability**

##### *Tariffs*

Tariffs are set by the national water regulator SUNASS. Tariffs are allowed to include all operational and maintenance costs, investment costs (so far not grant-financed), debt service costs and debt contingencies. SUNASS approves tariff increases only subject to the utilities reaching predefined performance targets regarding amongst others the continuity of service, # of connections, cost efficiency, and cost-earnings ratio. Our interview partners noted however that SUNASS is – in practice – not politically independent and has great difficulty to force through higher tariffs. Average water tariffs were considered to be low by all our interview partners.



## G. Tajikistan country report

### Introduction

The country mission to Tajikistan took place from 30 June to 5 July. The mission was conducted by Geert Engelsman and Michel Leushuis and supported by the local consultant Nargis Artyushevskaya. Our local consultant for the Kyrgyzstan mission, Leyla Talipova, contributed the section on the World Bank supported Dushanbe Water Supply Improvement Project.

The country mission included semi-structured interviews with representatives from the organizations listed below.

- Swiss Cooperation Office
- Ministry of Energy and Water
- Holding company for municipal water services *Khogajii Manziliyu Kommunalni* (KMK)
- Anti-Monopoly Agency
- Tajik Technical University
- Consumers Union
- EBRD
- World Bank
- Firdavs Akilov (local consultant)

We visited the following utilities:

- Khujand
- Kairakkum
- Kanibadam
- Isfara
- Gafurov
- Istravshan
- Dushanbe (which is World Bank supported and not part of the SECO portfolio)

We conducted telephone interviews with:

- Regional EBRD office
- Corporate development consultant for Khujand (Corporate Solutions)
- Corporate development consultant for North Tajik 1 (Seureca and GBS)

A full list of interview partners is included in Annex B of the main report.

### *Reading guide*

This report starts with some country-level observations, which are relevant for all individual SECO projects. We subsequently present our findings on the Khujand Water Supply and Sanitation Project

(phase 1 and 2) and the North Tajik Water Rehabilitation Project. We conclude with a section on the World Bank supported Dushanbe Water Utility.

## Country-level findings

### Background

#### *Organization of the water supply sector*

In Dushanbe and Khujand, the responsibility for the provision of drinking water lies with the municipal government. Both cities have set up a State Unitary Enterprise to carry out this responsibility. The Dushanbe and Khujand Water Utilities operate autonomously from the local government (whereby the municipalities do act as guarantor). The director of the water companies is appointed by the city mayor. In the case of Dushanbe, the Mayor also appoints the Deputy Director and the Chief Accountant. In practice, and especially regarding physical investments, there is close coordination between the utilities and the municipal government (amongst others on work permits and construction planning).

The responsibility for the provision of drinking water in all secondary cities lies with the State Unitary Enterprise *Khojagii Manziliyu Kommunalii* (KMK), an autonomous budget organization, which falls under the responsibility of the Ministry of Energy and Water Resources. KMK has 34 subsidiaries: municipal-level water utilities (so-called Vodokanals), which operate financially autonomously. Each subsidiary pays 8 % of its revenues to KMK. KMK appoints the directors of the utilities.

#### *Sector reform*

Seureca and Global Business Services, the corporate development consultants for both the South and North Tajikistan Water Rehabilitation Projects, have prepared an in-depth institutional analysis of the Tajik water sector.<sup>76</sup> They conclude, in short, that the sector is characterized by poor governance and operational management, both at the KMK-level as well as between KMK and the utilities.

Seureca and Global Business Services lay-out a possible roadmap for the reorganization of the Tajik water sector, which in principle consists of three steps: (i) the creation of a dedicated national water company, with four regional operational departments; (ii) the creation of independent regional water companies out of the previously mentioned four regional operational departments; and (iii) the involvement of municipalities as minority stakeholders in these regional water companies. We understand from the EBRD that the concept of a regional water company is being piloted in the Central Tajik Water Rehabilitation Project.

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<sup>76</sup> Institutional Report, Development of a water and wastewater services sector strategy, Corporate Development Program, South Tajik Water Rehabilitation Project, Seureca and Global Business Services Ltd, March 2012, version 2. Organization Report, Contribution to institutional report, Corporate Development Program, North Tajikistan Water Rehabilitation Project, Seureca and Global Business Services Ltd, July 2012, version 1.

## Relevance

### *Policy alignment*

The Law on Drinking Water, adopted in 2010, stipulates the right to drinking water and the division of responsibilities in supplying drinking water. The document guiding government action is the National Program on the Improvement of the Provision of Clean Drinking Water for the period 2007-2020. This program seeks:

- the rehabilitation of existing water supply systems;
- construction of new small-scale and medium-scale water systems;
- integration of new technologies in drinking water supply including water treatment,;
- capacity building of drinking water specialists; and
- promotion of improved water behavior among the population

The program includes planned investments for the period 2008 – 2013 of € 171.4 million of which € 71.6 million (or 41.8%) has actually been realized. This investment program is to be funded by the national government (15%), the local municipal government (10%), end-users (5%), and external development assistance (70%). Actual contributions are 16% from the national government, 2% from the local governments, 24% through user-fees and 58% from external development partners.<sup>77</sup> According to our interview partner at the Ministry of Energy and Water Resources the 16% contribution of the national government is spend on the maintenance and repair of the existing (old) water supply network.

### *Donor coordination*

There are quite a number of development organizations active in the water supply and sanitation sector. Each appear to have a specific focus leading to little overlap in donor activities. With support from, amongst others, the Swiss Cooperation Office, the Tajikistan Water and Sanitation Network (TajWSS Network) has been set up, which involves both government stakeholders and development organizations. We obtained the following, non-limitative, overview of players active in the water supply sector. The water utilities we visited did not receive any other support beside the EBRD / SECO assistance.

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<sup>77</sup> Oxfam. (2010). Водоснабжение и Санитария в Таджикистане. Retrieved July 8, 2014, from <http://tajwss.tj/site/images/Network/RA/RUS/Research-Water-San-Trends-rus.pdf>

RT. (2010). ЗАКОН РЕСПУБЛИКИ ТАДЖИКИСТАН О питьевой воде и питьевом водоснабжении. Retrieved July 8, 2014, from (Ахбори Маджлиси Оли Республики Таджикистан, 2010 год, №12, ч-1, ст. 829) :

<https://extranet.who.int/nutrition/gina/sites/default/files/TJK%202010%20Policy%20on%20Drinking%20Water.pdf>

RT. (2006). Правительство Республики Таджикистан. Retrieved July 8, 2014, from Постановление об Утверждении Программы Улучшения Обеспечения Населения Республики Таджикистан Чистой Питьевой Водой на 2008-2020 годы:

<http://translate.google.com/translate?hl=en&sl=ru&u=http://mwr.tj/>

Sattorov. (2013). Implementation of the "National Programme to Improve the Provision of the Population of RT with Clean Drinking Water for the period of 2008-2020". Ministry of Energy and Water Resources, Water dpt, Dushanbe.



Level	Development organization	Comment
National policy level	- European Union	Integrated Water Resource Management
	- World Bank	National Water Supply Strategy
	- UNDP	
Urban water supply	- EBRD / SECO	Supporting 21 secondary cities, including 12 with SECO co-financing
	- World Bank	Dushanbe Water Utility
Rural water supply	- Oxfam - Swiss Development Cooperation - Aga Kahn Foundation - International Secretary for Water	

## Effectiveness

### *Transparency and accountability*

According to one corporate development consultant, the implementation of a modern accounting system and a computerized billing system makes corruptive practices between billing collectors and customers more difficult. The evaluators add that the application of International Financial Reporting Standards and the annual audits of the financial reports will make it more difficult to include ghost workers on the pay-roll (which was admitted to by the director of one of the visited utilities).

## Efficiency

### *Monitoring*

Through the project-level Management Agreements, SECO has assigned the full responsibility and authority for project implementation and monitoring to the EBRD. For the jointly financed Khujand, North Tajik 1 and 2 projects as well as the EBRD-financed Central and South Water Rehabilitation Projects, EBRD has recruited two program monitors, who are placed in the EBRD country office in Dushanbe.<sup>78</sup> These program monitors have weekly contact with the water utilities and visit the utilities on a monthly basis. An EBRD team from the regional office in Moscow and headquarters conduct an annual review (previously semi-annual) on the implementation progress and the financial performance of the utilities. Moreover, the PIU and corporate development consultants provide quarterly progress reports to the EBRD. (Additional monitoring is conducted from EBRD headquarters concerning debt servicing, procurement procedures, project administration, and environmental and social aspects of project implementation.)

SECO has no formal role in the implementation of the projects. The SECO-internal *Finanzierungsantrag* for the North Tajik Water Rehabilitation Project (dated 7 January 2011) states that 'SECO will participate as a member of the Project Steering Committee that will meet as required'. The Management Agreements between SECO and the EBRD for the Khujand Water Supply Improvement Project and the North Tajik Water Rehabilitation Project also provide for a Steering (or Advisory)

<sup>78</sup> We understand a third program monitor is to be recruited and placed in a newly to be established EBRD office in Khujand.

Committee consisting of representatives of the Tajik Government (national, provincial and local), the EBRD the Swiss Government, for Khujand, the Khujand Water Company and the water users, and for North Tajik, KMK and the participating water utilities. We understand from SECO that these Steering Committees have not been activated.<sup>79</sup> SECO takes part, on an ad hoc basis, in the EBRD missions (by the SECO program manager) or the monitoring visits (by the National Program Officer). SECO also receives all inception, progress and completion reports of the consultants and an annual report from the EBRD.<sup>80</sup> The evaluators note that SECO was not able to provide most of these reports themselves and were obtained by the evaluators from the EBRD directly.

Both SECO and the EBRD qualify their mutual relationship as good, engaged and collegial. Communications mostly take place informally, through e-mail or by telephone. We have received 8 examples of e-mail correspondence between the SECO and EBRD program managers. Topics covered include: establishing baseline data for the KPI in the logframe, reporting on the progress made on the KPI and activities in the logframe in the PIU consultant's progress reports, extension of the PIU consultant's mandate, selection of consultants, progress of implementation, changes in the agreed breakdown of the capital investments, and the availability of safe drinking water in Taboshar.<sup>81</sup>

We learned from the SECO program managers responsible for the Tajik program that they mostly comment on the investment components of the projects as these are implemented by Swiss consultants and directly paid for by SECO. The corporate development component was seen as integral to the program and discussed at length during project preparation. Due to capacity constraints, monitoring of the corporate development activities was left to the EBRD. Still, SECO receives periodic telephonic updates on the program, including on the corporate development activities. Moreover, in case of Khujand Water Supply Improvement Project, SECO and the EBRD acted in consort when severe management problems arose in 2011 and 2012.<sup>82</sup>

We understand that no sustainability or impact studies are conducted x-years after the completion of the projects. However, EBRD monitoring continues until full loan repayment.

## Sustainability

### *Tariff setting*

The Dushanbe and Khujand water utilities, and the individual water utilities residing under KMK, are responsible for setting their water tariffs or, more precisely, determining increases in the municipal water tariffs. Any such increase needs to be approved by the Anti-Monopoly Agency. Tariffs are allowed to cover all operational expenditures, financing costs, depreciation, and taxes, and include a profit margin. Still, tariffs are only allowed to be increased gradually. The tariff setting methodology is

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<sup>79</sup> E-mail from Nicole Suhner, dated 23.6.2014

<sup>80</sup> As stated by the EBRD and in accordance with the Management Agreements between the Government of Switzerland and the EBRD for the Khujand 1 – 3 and North Tajik Water Rehabilitation Projects..

<sup>81</sup> E-mail from Nicole Suhner, dated 7.7.2014.

<sup>82</sup> E-mail from Nicole Suhner, dated 15.7.2014

stipulated in the Law on Natural Monopolies, which has been prepared by the Ministry of Finance, the Ministry of Economic Affairs and the Anti-Monopoly Agency.

In the first phase of the Khujand Water Project, the EBRD required an initial tariff increase of 250% and a subsequent annual adjustment for inflation.<sup>83</sup> In the second phase of the Khujand Water Project, the EBRD required Khujand Water Company to 'adopt and implement a revised tariff methodology based on metered billing no later than 31 December 2008'<sup>84</sup>.

In the North Tajik Water Rehabilitation Project, the EBRD required KMK to (i) 'adopt and implement a revised tariff methodology, based on the full cost recovery principle (including continuous improvement of the water supply system) within the limits of affordability constraints, continuously adjusted in line with inflation for all of KMK's water companies by June 30 2011'; (ii) carry out annual reviews of the water tariffs in the project entities; and (iii) implement two tariff increases for all project entities, whereby the actual tariff increases are specified per project entity (ranging from 35% in Kairakkum to 290% in Kanibadam).<sup>85</sup> Moreover, the Guarantee Agreement between the EBRD and the Republic of Tajikistan for the North Tajik Water Rehabilitation Project requires the Tajik Ministry of Finance to procure that (i) 'the Anti-Monopoly [Agency] ... approves the tariff methodology by 30 June 2011'; and (ii) KMK and the water utilities 'adopt the revised tariff methodology, which secures cost recovery within affordability constraints'.<sup>86</sup>

In addition and on request of KMK, the EBRD has commissioned the consultancy firm Seureca to advise on (i) further refinements to the tariff setting methodology<sup>87</sup>; and (ii) necessary increases in tariff levels and / or improved collection rates to cover the priority investment programs and / or the long term investment programs of the individual water utilities under the South and North Tajik Water Rehabilitation Projects<sup>88</sup>. The adoption of this advice is not covenanted in the loan agreements.

We understand from the Anti-Monopoly Agency that they have accepted Seureca's tariff setting suggestions for the EBRD supported projects (specifically the suggestion to allow for a provision for bad debts, but that Seureca's suggestions on the methodology have not (yet) been formally adopted. The Anti-Monopoly Agency did note that the three- to fourfold increase in tariffs required in the EBRD projects are realistic as current tariffs are very low (especially for customers with water meters).

#### *SECO money not used for corporate development support*

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<sup>83</sup> Project agreement between Khujand water Company and the EBRD, Khujand Water Supply Improvement Program, 13 July 2004.

<sup>84</sup> Loan Agreement between the Khujand Water Company and the EBRD, dated 18 May 2008

<sup>85</sup> Loan Agreement between KMK and the EBRD, dated 26 November 2010

<sup>86</sup> Guarantee Agreement between the Republic of Tajikistan and the EBRD, dated 26 November 2010

<sup>87</sup> PowerPoint Presentation, Recommendations for water and wastewater tariff setting, North Tajik Water Rehabilitation Project, Corporate Development Program, Working Meeting, Seureca and Global Business Services, 23 April 2013.

<sup>88</sup> Financial Modeling and Tariff Calculation Report, 10 Project Cities, South and North Tajik Water Rehabilitation Projects, Corporate Development Program, Seureca and Global Business Services, November 2012.

SECO financed investments, project implementation support, and stakeholder participation programs, and not the corporate development activities.<sup>89</sup>

### Khujand Water Supply Project (phase 1 and 2)

*Project scope – key activities, dates and implementation consultants*

Khujand Water Supply Project I and II*		
Project period		
Phase 1		
Planned	2004	2006
Actual	2004	2010
Phase 2		
Planned	2008	2011
Actual	2008	2013
Activities**		
Technical rehabilitation of the water supply system		
Installation of water meters (#32.900)		
Corporate development		
Introduction of IFRS (excel model, manual, and on-the-job training)		
Introduction of Management Reports (excel model, guidelines, including on-the-job training)		
Preparation of an annual budget and financial projection model (including manuals)		
Preparation of a water balance model (including manual)		
Review organizational structure and prepare department and job descriptions (including roles and responsibilities)		
Strategy developed for revenue collection		
Formulation of a Business Development Plan 2030 (Masterplan)		
City support program (advisory services on budgeting, capital planning, benchmarking and internal controls)		
Public service agreement prepared and entered into by KWC and Khujand City		
Stakeholder Participation Program		
Awareness campaigns on rationale use of water, the cost of water and hygiene		
Establishment of Water User Committees		
Implementation consultants		
Phase 1		
PIU / SPP	IBG (CH), Corporate Solutions (UK)	
CD	Tallin Vesti, Global Business Solutions (UZB)	
Phase 2		
PIU	Ernst Basler + Partner (CH)	
CD / SPP	Corporate Solutions (UK)	

\* Based on SECO internal Khujand Water Supply Project, Completion Note, SAP-number UR-00174.01.01; SECO internal Khujand Water Supply Project II, Completion Note, dated 17 July 2013; 5<sup>th</sup> Progress Report, Khujand Water II, Corporate Development and City Support Program, Corporate Solutions, May 2011; Stakeholder Participation Program, Final Report, Corporate Solutions, October 2011.

\*\*The evaluators' own summary listing of activities

<sup>89</sup> Management Agreement between the Government of Switzerland and the EBRD for the Khujand Water Supply Improvement Project, undated version. Amendment no. 1 to the Management Agreement between the Government of Switzerland and the EBRD for the Khujand Water Supply Improvement Project, 15.11.2008. Management Agreement between the Government of Switzerland and the EBRD for the North Tajik Water Rehabilitation Project, 18.4.2011.





**Relevance and effectiveness***Service levels*

Parameter	Before project (<2004)	After project (2014)
Continuity of service	4 – 5 hours morning and evening	24 hours
Population service coverage	30%	Near 100%
Water losses	80% in 2005	23,6 %
Pipe Breakages	Approx. 18 per day	3,6 per day (with each one solved below \$50 in repairs)
Customer payment delay		Equals 6 months of revenues

*Highlighted corporate development activities by interview partners*

- Computer and software (accountancy and billing) installation
- Training on the use of 1C accountancy software
- Formulation of a general development plan up to 2030 by the international consultant (stipulates amongst others the required water tariffs, number of staff, salary levels, and service targets)
- Awareness campaigns on the rational use of water and the need to pay for water use

The general development plan was said to be used for the annual planning. Our interview partners were unable to produce the document during our stay.

The corporate development and stakeholder participation activities were considered very important by the Khujand Water Utility management: 'we would not have achieved the results without.' The accountancy software helped to speed up the modernization of the company. The stakeholder participation program created awareness amongst the population on the need to rationalize water use and pay for water consumption. The management noted the interconnectedness of the physical investments, the corporate development and the stakeholder participation: 'they need to be implemented at the same time.' Still, the on-the-ground time of the corporate development consultant was considered too short. Management also asked for additional training in accountancy: to refresh memories and include new staff. There was little follow up after the corporate development had been completed. The management notes that internal resources are too little to arrange these trainings internally.

The corporate development consultant notes that the International Financial Reporting Standard requires professional judgments on the part of the financial management. This makes it critically important not to implement the accounting system and International Financial Reporting Standard for the utility, but coach the utility management and staff to apply these systems and standards. The corporate development consultant also stresses that awareness and buy-in to the corporate development program takes time.

### *Debt service*

According to the EBRD, Khujand Water Utility until now serviced all its debt on time. The Khujand Water Utility noted that they expect to be able to obtain regular bank credit in 2 – 3 years.

### *Customer relations*

Khujand Water Utility has two phone numbers, which customers can call with complaints. We gather from our street interviews that customers call the Utility directly. The concept of the Water User Committees was not known. Our interview partners did acknowledge the central role of the Heads of the Mahallas within the community; these heads played however no particular role in water supply issues. The interviewees were not aware of any water campaigns on the rational use of water and hygiene. Of course these campaigns have been conducted some while ago (between May 2009 and June 2011).<sup>90</sup>

### *Water quality*

The SECO-internal Project Completion Note, dated 17 July 2013, judged the effectiveness of the intervention on the extent that the project provided, amongst others, 'uninterrupted and adequate water supply at affordable costs' and consumers 'conserve water and have better hygienic conditions'. The quality of the water provided was not targeted as such. The Khujand Water Company informed the evaluators that the quality of the water is good. Neither phase of the Khujand Water Project included water treatment measures. There are issues however, in part of the city, with the hardness of the water. During 12 street interviews, 8 respondents stated that they only drink the water from the tap after having boiled it. The turbidity of the water was of no concern to our respondents. Our interviewees did note the whiteness of the water, which was attributed to the chlorination of the water. One respondent showed us that the water supply and sanitation pipes were too close to each other, which carries the risk that any breakage in the sewerage pipes could result in sewerage to infiltrate the water system.

As part of the due diligence work for the envisaged Khujand 3 project, the Swiss consultancy firm Hollinger has taken water samples in Khujand and had them tested by the Tashkent Central Laboratory for Water and Environment. Although not an internationally certified laboratory, Hollinger regards it as a viable option in the absence of alternatives. The test results concluded that the water supply in Khujand is safe to drink.<sup>91</sup>

The report on the Rapid Water Quality Assessment (RADWQ) published in 2010 says: 'The results of the RADWQ project in Tajikistan show that the microbiological and chemical quality of water sources is generally high. Of the 1620 sites tested, 87.2% complied with the WHO guideline value and the national standard for thermo-tolerant coliforms, with utility piped supplies showing slightly better compliance than protected springs (88.6% versus 82.0%)'.<sup>92</sup> The official statistics on water-transmitted

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<sup>90</sup> Stakeholder participation program, Final Report, Corporate Solutions, October 2011.

<sup>91</sup> Khujand Wastewater Rehabilitation Project, Phase 3, Due Diligence, Draft Final Report, Hollinger IC, Bern, April 2014.

<sup>92</sup> UNICEF/WHO. (2010). Rapid assessment of drinking-water quality in the Republic of Tajikistan. Country report of the pilot project implementation in 2004-2005. UNICEF & WHO. Dushanbe: Tajikistan.

diseases show decreases in the incidences of typhoid and dysentery to very low levels in the Sughd region, including Khujand city, for the period of 1997-2013 (with Isfara being a negative outlier in dysentery incidences).<sup>93</sup>

### Efficiency

The SECO-internal completion note states a planned implementation period of 2008 – 2011 and an actual implementation of 2008 – 2013. The EBRD Internal Evaluation Report (26.5.2014) indicates an actual planned implementation period until 2013 and a subsequent one-year delay (until the end of 2014) due to the implementation delays under the General Manager who held office between November 2011 and January 2014.

### Sustainability

Except possible the continuation of the stakeholder participation program by a local NGO and the adoption of a new electronic billing system (replacing the project implemented billing software 1C), we have not identified any systemic measures taken by the management of the Khujand Water Utility to ensure the sustainability of the results achieved under the EBRD / SECO assistance.

The evaluators learned from the management that the company does not have a Risk Management Unit or applies a Risk Management Strategy. We take from the Management Letter to the Audit of the Financial Statements for the year ended December 2012 (BDO, 2013, as commissioned by the EBRD) that the Utility (at that time and amongst others):

- had no written and approved manuals for the Utility's policies and procedures;
- had no back up of its accounting information system database;
- had no disaster recovery plan
- employed staff at the Finance Department who had not been trained in accounting and bookkeeping and had limited working experience in 1C accounting software;
- was overstaffed;
- had large outstanding payments to its energy supplier;
- had no strategy in place to recover outstanding debts<sup>94</sup>.

It has to be noted that since this audit a new General Manager has taken office, who has embraced the previous work and investments done under the Project. The General Manager noted that the Utility has been able to retain its senior staff (including those trained under the Project); in part due to agreed salary increases. Average staff salary has gradually increased from \$25 per months in 2004 to \$135 per months now. Improved services and salary increases has made working at the Khujand Water Utility respectable according to our interview partners.

The SECO-internal Completion Note (17.07.2013) recognized that 'certain governance problems have emerged following the appointment of a new Director in the Spring of 2012 and that Khujand Water

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<sup>93</sup> SES. (2010). Statistics on Incidence with Infectious Diseases in Republic of Tajikistan. Sanitary Epidemiological Station. Dushanbe: Tajikistan.

<sup>94</sup> The SECO internal Completion Note (11.09.2013) also notes that special emphasis should be put on managing accounts receivable and payable as well as on the debt situation.

Company remains financially fragile despite multi-year corporate development assistance [which] are an indication that [the Utility's] transformation is still not irreversible'. The abovementioned EBRD commissioned audit of the financial situation in 2013 concluded that 'internal procurement procedure and financial control were weak and that the Company's financial standing as deteriorating'<sup>95</sup>.

**Overview of Key Performance Indicators**

Competence area	Key performance criteria	Data source	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	
Operational	Non-revenue water (NRW) (%)	Interviews											
	Volume of waste water treated out of total volume of waste water (%)		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
	Blockages per KM sewerage network in one year (#)		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Financial	Availability of service (average hours per day)	Interviews	B-10									24	
	Collection ratio (%)	EBRD covenant compliance report, KWC statement, EBRD financial analysis	75%	70%	75%	92%	83%	83%	87%	103%	96%	106%	
	Direct operational cost coverage (%)	EBRD financial analysis	n.a.	68%	79%	12,4%	6,3%	13,6%	10,9%	11,3%	9,6%	14,3%	
	Profitability - share of net profit out of revenues (%)	EBRD financial analysis	-233%	-23%	-10%	7%	2%	-13%	4%	-4%	-20%	-10%	
HROD	Number of Staff per 1,000 customers (#)	Bashora Shamisova, Chief Accountant	13	14	18	17	17	14	15	15	13	13	
	Changes in senior management	Interviews	Since 2004, three different managers appointed: 2004-2012, 2012-2013, 2014, present										
Customer orientation	Complaints per 1,000 customers per year (#)	Interviews	Company has 2 dedicated phone numbers for customer queries; average 2-3 calls/day										
	Availability, accessibility and responsiveness of customer complaints centre	Bashora Shamisova, Chief Accountant	0.14	0.19	0.19	0.24	0.37	0.82	0.99	1.15	1.15	1.40	
	Water + Sewerage residential tariff (TJS/m3)	Bashora Shamisova, Chief Accountant		34%	0%	28%	53%	123%	21%	16%	0%	22%	
Framework conditions	Number and size of tariff adjustments (%)	Bashora Shamisova, Chief Accountant		4.3	4.3	4.7	4.7	4.1	4.0	4.7	4.7	4.6	
	Extent of cross subsidy between commercial and domestic clients (multiple)	Bashora Shamisova, Chief Accountant	4.6										

<sup>95</sup> EBRD Internal Evaluation Report, 26.05.2014

**North Tajik Water Rehabilitation Project***Project scope – key activities, dates and implementation consultants*

North Tajik Water Rehabilitation Project*		
Geographical scope		
7 cities	- Chkalovsk - Gafurov - Isfara - Kairakkum	- Kanibaidam - Khurog - Taboshar
Project period		
Phase 1		
Planned	Dec 2010	Dec 2014
Actual	Dec 2010	<i>delayed</i>
Phase 2		
Under preparation		
Activities**		
Physical investments		
Technical rehabilitation of boreholes, water treatment plants and pumping stations		
Refurbishment of the municipal water mains and distribution network		
Installation of water meters		
Selective waste water system improvements		
Implementation support and engineering services		
Corporate development		
Introduction of Management Information System		
<i>Actual:</i>		
- Purchase and implementation of, and staff training on, 1c accountancy software		
- Introduction of IFRS reports, prepared by the corporate development consultants		
Introduction of Geographic Information System		
Formulation of an Environmental and Social Action Plan		
Adoption of a new tariff policy and tariff setting methodology		
Formulation of a water sector development strategy, including future water sector regulation		
<i>Actual:</i>		
- <i>Tariff and Affordability Report and Recommendations</i>		
- <i>Report on the Creation of Regional Water Utilities</i>		
Public service agreement prepared and entered into by water companies and city administrations		
Gradual transfer of water company ownership from KMK to city or regional utility companies		
Stakeholder Participation Program		
Awareness campaigns on rationale use of water, the cost of water and hygiene		
Establishment of Water User Committees		
Implementation consultants		
Phase 1		
PIU / SPP	Ernst Basler + Partner	
CD / SPP	Seureca and Global Business Solutions Ltd.	

\* Based on: SECO-internal *Finanzierungsantrag* Tajikistan – North Tajik Water Rehabilitation Project, dated 7.1.2011; SECO-internal Decision Note for the Operations Committee, dated 16.11.2010; Final Report, Corporate Development Program, North Tajik Water Rehabilitation Project, Seureca and GBS, December 2013; Terms of Reference, Corporate Development and Stakeholder Participation Program, North Tajik water Rehabilitation Project, EBRD, undated.

\*\*The evaluators' own summary listing of activities

**Relevance***Service levels*

Parameter	Current situation
<b>Kairakkum</b>	
Continuity of service	70% of customers: 24 hrs 30% of customers: 2hrs morning, 2 hrs. evenings.
Population service coverage	100%
<b>Kanibadam</b>	
Continuity of service	10 – 16 hrs. a day
Population service coverage	100%
<b>Isfara</b>	
Continuity of service	24 hrs.
Population service coverage	90%
<b>Gafurov</b>	
Continuity of service	24 hrs.
Population service coverage	93%
Collection rate	50% of customers do not pay for water

All interview partners stressed that the water supply infrastructure is completely worn out and breakages occur on a daily basis.

*Highlighted corporate development activities by interview partners*

- Computer and software installation
- Training on the use of 1C accountancy software
- Awareness campaigns on the rational use of water and the need to pay for water use. On the willingness to pay of customers, the installation of water meters was deemed critical.
- Creation of the Water User Committees (by Kairakkum)

All utilities stressed the importance of the physical investments. The General Director of KMK noted that only the physical works are important: 'all the other stuff is not necessary', 'we have qualified people'. Kairakkum saw possible efficiency gains in its financial management due to the adoption of modern billing and accounting software and practices. The Director of Kanibadam did consider the corporate development important as it could increase transparency in the utility's operations and help to gain the trust of the customers. The corporate development consultant noted a lot of resistance within the utilities in implementing the management information systems and a lack of support from KMK in signaling its importance.

*Economies of scale*

The 7 utilities being supported under this project are significantly smaller than the Khujand Water Utility. Our interview partners at the Khujand Water Utility gave a far more capable and, compared to most if not all utilities, engaged impression. In its Central Water Rehabilitation Project, the EBRD is piloting the concept of a Regional Water Company (RWC) which would be responsible for several municipal utilities. In principle, the RWC would function similar to KMK, except at a regional level. The

idea behind this regionalization process is that it will be easier to attract qualified management and staff at the regional level.

Utility	Number of customers
Khujand	44,000 households, 1294 businesses, 290 budget organizations
Kairakkum	4,000 households
Kanibadam	4,300 customers
Isfara	5,500 customers
Gafurov	4,800 customers

#### *Municipalities are supported, not KMK*

We distill from our interviews and FOIP Report by Seureca (dated January 2012) that the corporate development support is provided to the municipal water utilities and not, in addition, at the KMK-level. We also learned that KMK did not provide dedicated support to the corporate development program for the utilities. Above, we already stated that the KMK General Director did not consider the corporate development activities necessary.

#### *Management and staff capacity*

The EBRD notes a high general director turnover. As examples, Kairakkum has its 4<sup>th</sup> director and Chkalovsk its 3<sup>rd</sup> director since the start of the project. The evaluators note that the quality and engagement of the utility directors is – at face value – lower than in Khujand Water Utility. Our interview partners at Gafurov were younger than average and very much engaged.

#### **Efficiency**

##### *Implementation of the corporate development program*

We distill from the Final Report on the corporate development program by Suereca (dated December 2013) that the corporate development program had been completely implemented by the end of 2013.<sup>96</sup> Specifically, we note that the training of the utility staff to use the 1C accountancy software has been completed in amongst others Kairakkum and Gafurov and is on its way in amongst others Kanibadam and Isfara. If not for lack of staff and power shortages, 'the training would [in these remaining cities] be finished within 3 weeks'.

We observed that in all 4 utilities visited (Kairakkum, Kanibadam, Isfara, and Gafurov) the billing was done manually and financial reports were prepared in excel. In none of these cities, automated billing or the 1C software were operational. Customer data transfer was still ongoing (conducted sometimes by the utility staff and sometimes by the local consultant). The corporate development consultant confirmed that they were still on the ground, providing support to the utilities.

Moreover, the chief accountants did not feel trained and ready to start using the 1C software. Some also noted that the visits of the local consultants did not really comprise training but rather joined

<sup>96</sup> The end-date of Seureca's contract was 31 December 2013



working sessions, which were infrequent and too short in time. These sessions were not deemed very helpful because the new automated billing and financial systems were not yet operational. Moreover, the utilities felt that they did not receive appropriate information: they were basically in the dark about the objectives and planning of the remaining training. Finally, much of the physical investments, including the installation of water meters, had not started in any of the cities<sup>97</sup>. Our interview partners did not consider this an appropriate timing of the training and corporate development.

The EBRD does not consider the timing of the corporate development assistance to be important. The corporate development can be implemented early on in project implementation. Knowledge is knowledge, once acquired, one can use it, now and in the future.

*The terms of reference of the corporate development program are broad in scope*

The terms of reference for the corporate development program for the Khatlon water and North Tajik Water II Rehabilitation Projects (including corporate development for the North Tajik Water Companies)<sup>98</sup> includes the same scope of work as for the North Tajik Water Rehabilitation Project albeit at the level of Regional Water Companies. The corporate development consultants confirmed that the terms of reference for the corporate development programs of EBRD tend to be the same and broad in scope. Whilst the full terms of reference is to be covered, in practice the EBRD requires the corporate development consultant to prioritize based on needs.

When asked, the utilities especially mention the installation of, and training in, the billing and accounting software as part of the corporate development activities and only when pressed come up with other components (such as the stakeholder participation programs). This finding sits well with the observation of the corporate development consultants that most work has gone into the financial and operational improvement program of which the installation of, and training in, the billing and accounting software was a critical and most visible part. Given the resistance in the utilities and KMK towards the corporate development program, the corporate development consultants reckoned to concentrate on the billing and accounting software 'to at least have this in place'.

### **Sustainability**

The implementation of the project is in its early stages. Only part of the works has been tendered and only part of the works are currently under implementation. In principle, it is too early to consider the sustainability of the support. The evaluators have however not observed any specific (planned) measures to ensure the sustainability of the supports and envisaged results. Similar to the Khujand Water Project, the premise appears to be that the individual water utilities will (simply) maintain the rehabilitated infrastructure at its current quality and continue to use the acquired skills in billing and accountancy.

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<sup>97</sup> Quarterly Report, North Tajik Water Rehabilitation Project, PIU, Ernst Basler + Partners, 12 June 2014.

<sup>98</sup> EBRD, undated

**Key performance indicators of the four visited utilities of the North Tajik 1 Project**

Note: the below data have been obtained from KMK (through the EBRD). The utilities of Gafurov, Isfara and Kanibaidam show relatively high collection and direct operational cost coverage rates in 2012 and 2013. These data are difficult to reconcile with the feedback we received from the utilities themselves, which mentioned that 50% of the customers do not pay for water, private business and state agencies have left and obtain water from private small-scale water operators (both Gafurov), customer database is not up-to-date (Isfara) and 30% of customers refuse supply because of bad quality of water and significant water losses are experienced (Kanibaidam).

Gafurov							
Competence area	Key performance criteria	Data source	2010	2011	2012	2013	2014
Operational	Non-revenue water (NRW) (%)		Production is not measured, hence provided data are guesstimates. Management estimate NRW: 25-29%, but many repairs occussing in distribution system				
	Volume of waste water treated out of total volume of waste water (%)		n.a.	n.a.	n.a.	n.a.	n.a.
	Blockages per KM sewerage network in one year (#)		n.a.	n.a.	n.a.	n.a.	n.a.
	Availability of service (average hours per day)	Interview management	pre-project 24/7				intermittent during winter
Financial	Collection ratio (%)	KMK credit analysis 2013 / FS 2013	69%	65%	110%	101%	
	Direct operational cost coverage (%)	FS 2013			107%	100%	
	Profitability - share of net profit out of revenues (%)	FS 2013			-30%	-11%	
HROD	Number of Staff per 1,000 customers (#)	utility management	13.4	13.2	12.9	11.6	11.0
	Changes in senior management	utility management	Present director appointed in 2011; previous director in place for 1 year. Deputy-director retired in 2012; currently				
Customer orientation	Complaints per 1,000 customers per year (#)		no data				
	Availability, accessibility and responsiveness		no data				
Framework conditions	Water + Sewerage residential tariff (TJS/m <sup>3</sup> )	utility management	0.60	0.90	1.05	1.05	1.25
	Number and size of tariff adjustments (%)	utility management		50%	17%	0%	19%
	Extent of cross subsidy between commercial and domestic clients (multiple)	utility management	1.8	2.5	2.9	2.9	3.8

Isfara							
Competence area	Key performance criteria	Data source	2010	2011	2012	2013	2014
Operational	Non-revenue water (NRW) (%)		no data				
	Volume of waste water treated out of total volume of waste water (%)		n.a.	n.a.	n.a.	n.a.	n.a.
	Blockages per KM sewerage network in one year (#)		n.a.	n.a.	n.a.	n.a.	n.a.
	Availability of service (average hours per day)	Interview EBRD, management	4-6 hrs				24 hrs
Financial	Collection ratio (%)	KMK credit analysis 2013 / FS 2013	93%	76%	100%	100%	
	Direct operational cost coverage (%)	FS 2013			101%	110%	
	Profitability - share of net profit out of revenues (%)	FS 2013			0.0%	0.5%	
HROD	Number of Staff per 1,000 customers (#)	utility management			8.7	12.9	11.3
	Changes in senior management	utility management	Due to the reorganization of water supply utilities, the former general director (Mr. Pochoev) was replaced by the current Mr. Umarov in 2012. The previous director (Pochoev) has been in the post during 2011-2012.				
Customer orientation	Complaints per 1,000 customers per year (#)		no data				
	Availability, accessibility and responsiveness of customer complaints centre		company has a general tel phone number for complaints				
Framework conditions	Water + Sewerage residential tariff (TJS/m <sup>3</sup> )	utility management	0.62	0.90	1.15	1.15	1.25
	Number and size of tariff adjustments (%)	utility management		45%	28%	0%	9%
	Extent of cross subsidy between commercial and domestic clients (multiple)	utility management	1.8	2.5	3.2	3.2	3.4

Kanibaidam							
Competence area	Key performance criteria	Data source	2010	2011	2012	2013	2014
Operational	Non-revenue water (NRW) (%)		no data				
	Volume of waste water treated out of total volume of waste water (%)		n.a.	n.a.	n.a.	n.a.	n.a.
	Blockages per KM sewerage network in one year (#)		n.a.	n.a.	n.a.	n.a.	n.a.
	Availability of service (average hours per day)	Interview EBRD, management	4-6 hrs				10-16 hrs
Financial	Collection ratio (%)	KMK credit analysis 2013 / FS 2013	119%	100%	133%	100%	
	Direct operational cost coverage (%)	FS 2013			118%	110%	
	Profitability - share of net profit out of revenues (%)	FS 2013			-21.4%	-14.6%	
HROD	Number of Staff per 1,000 customers (#)	utility management	17.3	13.8	11.5	11.4	12.0
	Changes in senior management	utility management	Director (in function for 8 years) was changed in May 2014 as previous director had dual function.				
Customer orientation	Complaints per 1,000 customers per year (#)		no data				
	Availability, accessibility and responsiveness of customer complaints centre		no data				
Framework conditions	Water + Sewerage residential tariff (TJS/m <sup>3</sup> )	utility management	0.65	0.75	0.90	1.05	1.40
	Number and size of tariff adjustments (%)	utility management		15%	20%	17%	33%
	Extent of cross subsidy between commercial and domestic clients (multiple)	utility management	1.2	1.5	2.5	2.9	3.0

Karaikkum							
Competence area	Key performance criteria	Data source	2010	2011	2012	2013	2014
Operational	Non-revenue water (NRW) (%)		No data				
	Volume of waste water treated out of total volume of waste water (%)		n.a.	n.a.	n.a.	n.a.	n.a.
	Blockages per KM sewerage network in one year (#)		n.a.	n.a.	n.a.	n.a.	n.a.
	Availability of service (average hours per day)	Interview management	4-6 hrs				70% 24/7; 30% 2x2hrs
Financial	Collection ratio (%)	KMK credit analysis 2013 / 2013 CCR	79%	70%	82%	96%	
	Direct operational cost coverage (%)		FS 2013 not available yet				
	Profitability - share of net profit out of revenues (%)		FS 2013 not available yet				
HROD	Number of Staff per 1,000 customers (#)	utility management	12.5	12.4	12.2	12.1	10.9
	Changes in senior management	utility management	Both director and chief engineer were replaced in jan 2013 as a result of KMK becoming in charge of this utility				
Customer orientation	Complaints per 1,000 customers per year (#)		no data				
	Availability, accessibility and responsiveness of customer complaints centre		no data				
Framework conditions	Water + Sewerage residential tariff (TJS/m3)	utility management	1.05	1.05	1.05	1.05	1.20
	Number and size of tariff adjustments (%)	utility management		0%	0%	0%	14%
	Extent of cross subsidy between commercial and domestic clients (multiple)	utility management	2.9	2.9	2.9	2.9	3.4

## World Bank's Dushanbe Water Supply System Improvement Project

By Leyla Talipova

The World Bank has supported two consecutive water supply improvement projects: the First Dushanbe Water Supply Project (DWSP 1, 2002-2011) and the Second Dushanbe Water Supply Project (DWSP 2, 2011-2015).

### *First Dushanbe Water Supply Project (DWSP 1, 2002-2011)*

DWSP 1 implementation (a World Bank loan of USD 17 million and associated IDA grant of USD 5 million) started in 2002. Implementation of DWSP 1 has had major delays linked to governance weaknesses and the termination of the management contract of the private operator responsible for project implementation and utility operations improvements:

- Managerial capacity of DVK was inadequate to meet the needs of an efficient and effective water company. This was reflected in DVK's poor performance. Contributing factors included lack of independent decision making and relatively high turnover of DVK directors. While accountability to the Municipality for errors or service problems may have been stringent, accountability for improving overall performance was low. This was partly related to poorly aligned incentives, to an old-style bureaucratic company culture, and to poor record keeping. The low attention given to customer service (there was no dedicated customer service department) and cost recovery along with the lack of control over the production costs clearly signals that they were not priorities. The low salaries comparing to other Dushanbe based utilities was also telling.
- DWSP 1 revealed internal resistance to externally-driven assistance, through lack of cooperation with the private operator contracted under DWSP1. The initial contract of the Operator was for 3 years (2003-2006), while the Project duration was originally planned for five years. After the 3 period has finished, the Municipality and the Utility refused to prolong the private operator's contract. A Project Management Unit within the Utility took over project implementation, staffed by former members of the private operator's team and supported by a few international consulting assignments.

There were a number of discussions and evaluations on the fact that the private operator was unsuccessful. The following reasons can be distilled.

- The initial scope of works for the private operator was too ambitious for the given contract duration.
- The private operator did not have access to the Utility's Management, nor control over the Utility's staff;
- The private operator was not sensitive to the priority needs of the Utility (as perceived by the Utility management and staff).

- The selection of the private operator was based on the least cost selection method. Once serious implementation problems arose and the private operator had to invest substantially more time, the project quickly became unprofitable for the private operator.
- Lack of sufficient coordination on the management contract by the Bank and Municipality to prevent the private operator's underperformance.
- Overall environment in the region is not ready for accepting such contractual arrangements. It has to be mentioned, that another similar contract under WB/SECO Samarkand and Bukhara water project (Uzbekistan) was implemented during the same period, was also terminated and found not successful.

Implementation challenges aside, it is generally accepted that DWSP has contributed to tangible improvements in the reliability, safety and quality of Dushanbe's water supply. Almost 40 km of pipe network were replaced, pumping facilities for groundwater extraction upgraded, energy-efficient equipment installed, and filter and chlorination systems partially renovated. The Utility's technical and managerial capacity as a modern utility, however, has only improved marginally as a result of the Project.

#### *Second Dushanbe Water Supply Project (DWSP 2, 2011-2015)*

As the needs for improved water services in Dushanbe were not adequately met by the first project, it was decided by the World Bank and the Dushanbe Municipality to continue its support to the Utility through the Second Dushanbe Water Supply Service project (World Bank grant of USD 16 million and co-financing from the Municipality USD 3 million).

The project's objective is to improve the Utility's overall operational and financial performance as well as improved water supply in selected areas of Dushanbe. The project progress is measured through a number of indicators with annual and final targets, set in the project's results framework. The project disbursements are linked to procedural, financial and technical performance of the DWSP 2.

A Governance Assessment was carried out by the World Bank as part of project preparation, which confirmed a critical need to improve the Utility's institutional capacity and management quality if project outcomes are to be achieved in a timely manner. Governance weaknesses identified were (i) poor management capacity; ii) lack of motivating performance incentives for staff; iii) weak accountability; iv) lack of access to information; v) non-payment or underpayment of user fees; and vi) lack of a monitoring and evaluation (M&E) system.

The project includes four components:

*Component 1. Metering and Demand Management (US\$ 7.63 million):* The component will finance commercial and bulk water metering, including: (i) supply and installation of 67,500 residential meters (i.e. approximately 40% of Utility users) and supply and installation of bulk flow meters at water production facilities; (ii) supply and installation of a Network Information System (NIS) and Hydraulic Modelling System; and (iii) communication strategy and public awareness campaigns to promote metering and demand management;

*Component 2. Water Quality Improvement (US\$ 6.26 million):* The component will support system upgrades for improved quality of water, including: (i) partial renewal of filtration capacity at Samotechnaya water treatment plant; (ii) network cleaning; (iii) installation of in-network re-chlorination systems; (iv) equipment for water quality monitoring; and (vi) procurement of selected maintenance equipment.

*Component 3. Institutional Strengthening and Capacity Building (US\$ 3.33 million):* The component will finance activities to build institutional capacity and improve Utility performance, which includes (i) carrying out an assessment of the Utility's organizational and capacity-building needs; (ii) Installation of modern accounting, billing and water revenue collection systems; (iii) provision of technical assistance to the Management to improve its financial performance.

*Component 4. Implementation Support (US\$ 1.78 million):* The component will provide project implementation support, including design and supervision of works, project implementation unit operating costs, and annual project audits.

The project is implemented by a project management unit in the Utility, supported by international technical and corporate development consultants.

## H. Viet Nam findings report

### Viet Nam Country Report

#### Introduction

The country mission to Vietnam took place in the week of 8 to 12 September 2014. The mission was conducted by Michel Leushuis with support of two local consultants / translators: Ms. Huong Phan and Mr. Nguyen Xuan Tung, both contracted through consultancy firm Royal HaskoningDHV.

The country mission included semi-structured interviews with representatives from the organizations listed below.

- Swiss Cooperation Office
- Ministry of Construction
- Vietnam Water and Sewerage Association (VWSA)
- ADB
- World Bank
- KfW
- GIZ
- Lahmeyer GWK Consult GmbH
- Hanoi University of Civil & Engineering

We visited the following Provinces / operating companies:

- Hoa Binh province
- BUSADCO in Ba Ria / Vung Tau province

A full list of interview partners is included in Annex B of the main report.

#### *Reading guide*

This report starts with some country-level observations, which are relevant for all individual SECO projects. We subsequently present our findings on the Hoa Binh and Ba Ria projects.

#### Country-level findings

##### Background

##### *SECO portfolio*

SECO currently is supporting two projects in Vietnam: (i) the bilateral funded Ba Ria waste water project in Ba Ria / Vung Tau province and (ii) the Waste Water North II program comprised of the provinces Hao Binh, Son La and Lang Son. This project is co-funded by SECO and managed and implemented by KfW. GIZ is independently responsible for the corporate development part.



The findings and analysis of this country mission report will focus on the waste water sector, as this is the focus of the SECO project portfolio.

#### *Organization of the water and sewerage sector*

Vietnam's water and waste water sector is highly fragmented. Activities however are mainly organized through the Provincial authorities, the Provincial People's Committees ("PPC"). The Ministry of Construction is the prime responsible line ministry for creating an enabling legal environment and sector strategy and setting policy.

Each province can have a different set-up of the way it organizes its water supply and sewerage services:

- Water supply and sewerage are sometimes combined in one integrated company, but more often these companies are operating separately from each other.
- The scope of activities of these companies can vary widely: from multi service utilities being responsible for municipal services such solid waste collection, street lighting, street cleaning and green park management to conglomerates branching out in commercial activities like construction, manufacturing and consultancy & engineering activities
- Ownership of these companies can be either (i) fully publicly owned, one member companies (usually the Provincial People's Committee, PPC) and (ii) joint stock companies in which at least 51% of the shares is owned by the PPC).

#### *National sector policy, strategies and legal framework*

The Ministry of Construction has formulated a policy / strategy document in 2008/2009 which sets the following criteria (Decision No. 1930/QĐ-TTg "Orientation for Development of Water Drainage In Vietnamese Urban Centers And Industrial Parks Up To 2025 and A Vision Towards 2050"):

- Up to 2015: To prioritize the drainage of rain water, flood control; to construct and upgrade wastewater drainage system; to build or install public toilets for people and tourists in urban centers of Class IV upwards;
- Up to 2020: To do away with inundation in urban centers of Class IV upwards; to expand the service capacity of water drainage systems to over 80%; urban centers of Class III upwards will have centralized wastewater-collecting systems;
- Up to 2050: In big urban centers of Class IV upwards, complete water drainage systems will be constructed to drain rain water, collect and treat wastewater. In small urban centers (of Class V), and craft villages, wastewater will be collected and treated at concentrated or scattered treatment stations. In urban centers, local inundation will be absolutely redressed and all wastewater will be treated up to set standards before being discharged into the environment;

This strategy is currently under review as it is realized that the initial target by the year 2015 will be difficult to meet.

In order to improve the legislative environment and to provide an enabling environment for improved institutional arrangements, roles and responsibilities, the Government of Vietnam has adopted in August 2014 a new decree on waste water management ("degree 80"). This degree 80, which will become effective as of 1 January 2015, has been prepared by the Ministry of Construction with the active support of GIZ. Most salient features and improvement in this new decree are:

- Scope is extended to cover residential areas as well and not only industrial and urban areas;
- Mobilization of (private) investment is enhanced;
- Asset owner of sewerage systems funded by Government budget will be the Provincial People's Committee and not local (city) governments;
- The most important point: the decree facilitates a change away from an environmental discharge fee<sup>99</sup> linked to the water supply tariff to a sewerage tariff based on actual cost recovery of sewerage services.
  - o Under existing legislation, the environmental discharge fee is capped by a 10% maximum of domestic water tariff. This environmental discharge fee is insufficient to recover the actual cost of sewerage collection and treatment cost as experience learns that actual cost are at least equal if not higher than water supply costs. In addition, the environmental discharge fee is only intended to allow users to discharge untreated waste water into the environment. As such it was not intended to cover the costs related to sewerage collection and/or waste water treatment.

Again with the support from GIZ, the Ministry of Construction is currently concentrating on drafting three more detailed circulars which will guide the roll-out of the new decree. An extensive dissemination campaign is being prepared, particularly targeting provincial governments who are in the end to apply the new decree in the field. The three circulars are on:

- Circular 1: Provide regulations on (i) decentralized wastewater treatment; (ii) management and reuse of waste sludge; (iii) management of waste sludge from septic tanks; and (iv) management of effluent / treated wastewater. In specific, roles, responsibilities and applicable standards are set.
- Circular 2: quality standards of wastewater discharges into the recipient sewer system
- Circular 3: tariff methodology or formula to set a cost covering tariff for sewerage and waste water treatment services. This includes guidance on a (full) cost covering sewerage tariff implementation roadmap.

## Relevance

### *Policy alignment*

The recent legislative activity and various national level sector documents highlight the momentum and need for improved sanitation through sewerage and waste water treatment. The recent adoption of degree 80 paves the way for a better institutional embedding of the sector and with a clear policy

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<sup>99</sup> The current legislation allows for an environmental charge which gives the right to discharge wastewater into surface water. Hence it is not a charge for the collection of sewerage and/or the treatment of wastewater.

focus on targeted cost recovery. As such, the SECO assistance in both projects is highly relevant to emerging sector development.

### *Sector financing*

Vietnam is heavily reliant on IFI/donor support to fund its wastewater investment projects. Most large sewerage and wastewater treatment plants implemented in the past were funded by IFIs, with also many active bilateral donors. As there is a large interest from development partners in this sector, Vietnam has been in a position to select development partners offering the most advantageous conditions, preferably on a grant / capital expenditure subsidy basis or on highly concessional loan terms.

Still, the need is much higher than the current pace of investment in the sector. In order to reach the government targets, ADB conservatively estimates that investments would need to triple to approximately USD 500 million/year for the foreseeable future. As Vietnam is developing at a fast pace – it is on the brink of reaching middle income status – this would result in many development partners not being able to offer highly concessional financial terms anymore. Therefore, an alternative financing strategy needs to be applied which can accelerate the investment pace.

Amongst others for this reason, the Vietnamese government has adopted decree 80, which targets the introduction of full cost recovery sewerage tariffs, following a roadmap. This would help to partly fund capital expenditure and/or to meet debt service obligations. There is considerable interest from the large IFI's to provide loan financing in this sector, provided sector reform and specifically a clear cost recovery strategy is implemented.

The World Bank has commissioned a study to establish a pipeline of projects in the water & sewerage sector, suitable for a public-private-partnership implementation route. This could be a potential source to attract private investment into the sector, possibly by leveraging public/IFI financing.

### *Donor coordination*

There are many development partners active in the wastewater sector. Evaluators obtained the following, non-limitative, overview of players.

Level	Development organization	Comment
National policy level	- ADB	Various internal sector assessments; lead in donor coordination group on sanitation
	- GIZ	TA / legal support at national level
	- World Bank	Urban wastewater review
Urban waste water	- KfW / GIZ / SECO	Wastewater North II (smaller provincial towns)
	- KfW / GIZ	9 provincial towns support
	- SECO	Ba Ria
	- JICA, Dutch, French, Spanish, Belgian bilateral partners	Many projects supported in both large urban and smaller towns. Projects are usually directly negotiated and/or procured under tied aid restrictions
	- ADB	Looking to move from water supply into the urban waste water sector HCMC, Da Nang

	- World Bank	Investigating potential for integrated contract (DBO, lease structures) for large wastewater treatment plants in HCMC , other big urban centers
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At national level, a donor coordination group on sanitation is regularly meeting (3-4/year). Most of the above mentioned development partners participate in these coordination meetings. The ADB is coordinating this sanitation focal group. In addition, the Ministry of Construction is pro-actively organizing seminars and stakeholder consultation meetings to elicit the views and recommendations of development partners, but also other stakeholders like the water sector association VWSA, universities, PPC's and their operating companies etc.

At the provincial / project level however, coordination is more limited. For example, BUSADCO is currently engaging with five different bilateral donors<sup>100</sup> who all have ongoing sewerage projects in Ba Ria / Vung Tau province. There is limited actual coordination, although BUSADCO has raised this issue with development partners.

**Effectiveness**

*Planning issues / appropriate technology*

According to the World Bank commissioned *Urban wastewater review (dec 2013)* there are planning issues, specifically in identifying appropriate technology for waste water treatment systems. Frequently, waste water treatment systems are overdesigned based on too optimistic estimates of influent volume and composition. This is partly driven by a technology push from development partners, wishing to promote advanced technologies / suppliers from their respective home countries. Specifically in relation to waste water treatment technology. However, also the lack of attention and underestimating of the time it requires to establish a functioning sewerage network or appropriate sludge collection management system from septic tanks contributes to this.

SECO's Ba Ria project takes into account the need for sewerage network expansion and customer connection issues in its overall design. There is a risk however that the local funding for the sewerage network expansion is not fully made available or delayed which could cause similar problems.

The North II program originally only included mechanical treatment in its design for the first phase, followed by biological treatment during the second phase. In the meantime however and upon the request of the various PPC's, KfW agreed to fund the more advanced biological treatment already during the first phase, as a second phase of the program will be discontinued as a result of BMZ's decision to discontinue prioritizing the water & sanitation sector in Vietnam.

*Implementation issues: re-settlement*

Issues with re-settlement are another frequently occurring complication preventing the proper operation of sewerage and treatment systems. Not only the site of the WWTP needs to be acquired

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<sup>100</sup> France, Belgium, Spain, Netherlands and Switzerland

and re-settlement issues properly dealt with or right of way secured. Also the primary & secondary sewer network needs to be cleared from resettlement issues.

For example, the brand new WWTP in Vung Tau, co-funded by the French government, is currently ready to be commissioned. However, due to resettlement issues, the main sewerage collector connecting the sewerage network to the WWTP still needs to be constructed. As a result of this, wastewater does not reach the WWTP and the plant is not put into operation.

## **Efficiency**

### *Monitoring*

In relation to North II project jointly implemented with KfW, SECO has assigned the full responsibility and authority for project implementation and monitoring to KfW. The responsible KfW project manager is based in Frankfurt but is supported from the KfW office in Hanoi. Annual progress/monitoring reports are submitted by KfW to SECO to report on the use of the funds made available and the project progress achieved. In addition, SECO receives quarterly and monthly progress reports from the implementation consultants.

The monitoring of the bilateral project in Ba Ria is managed directly by SECO headquarters in collaboration with the Hanoi SDC/SECO office through the National Program Officer. This is mostly done through electronic communication, as well as direct field visits, documented in field mission reports. The appointed implementation consultant submits semi-annual activity reports and provides feedback after each field mission. Annual steering committees meetings are organized in which SECO actively participates.

## **Sustainability**

### *Tariff setting and cost recovery*

At national level through the Ministry of Construction, the need for a cost recovering wastewater tariff methodology is recognized as can be concluded from the recent adoption of the new decree 80. This is an initial but important milestone achievement in aiming at financial sustainability of the sector. The challenge will be to develop and roll out a country wide awareness and dissemination campaign to ensure that an acceptable roadmap for introduction of cost covering wastewater tariffs is actually introduced at the provincial level as well.

### *SECO money not used for corporate development support*

For the joint SECO/KfW project wastewater North II, SECO finances project implementation support and some limited TA activities (sludge management), but not the corporate development activities. The latter is commissioned to GIZ by BMZ, the German Ministry of Foreign Affairs.

**Hoa Binh Province / Waste water North II***Project scope – key activities, dates and implementation consultants*

Hoa Binh Province / Waste water North II		
Project period	Start	End
Planned	2010	2013
Actual	2012	2017 (expected end of construction)
Activities*		
Technical component:		
- Improvement and extension of sewerage system		
- Pumping stations		
- Rain retention basins		
- New wastewater treatment plant		
- Sludge treatment and disposal		
Corporate development		
- Customer database		
- O&M management and technical / operational training new infrastructure		
- Human resources and organizational development		
- Household connections and awareness raising		
Implementation consultants		
PIU	Lahmeyer-GKW consult	
CD	GiZ	

\* According to the 2010 SECO decision note

**Relevance and effectiveness***Highlighted corporate development activities by interview partners*

- Roadmap implementation cost covering waste water tariffs
- Training and capacity building, both for PC and operator
- Sector development strategy / plan for PPC
- Management contract PPC – operator

The Utility stated that they already prepared a draft wastewater tariff roadmap in 2012, when the PMU was set-up and started operations. Different tasks within this roadmap are assigned to various provincial PC departments. The sewerage operator is not assigned any of the tasks. Activities within the roadmap can only be completed upon issuance of guidelines (circulars) by the Ministry of Construction.

The (technical) training activities did not start yet, as construction has not commenced yet.

*Choice of sewerage operator*

Currently, multi-service utility URENCO is managing the existing sewerage network in Hoa Binh town. There is a PC decision to assign the operation and maintenance of the existing and new sewerage activities to the Hoa Binh water company, a 95% PPC owned Joint Stock Company. Although the PPC

decision dates back to 2012, the issue which company would be best placed to operate the existing and new sewerage infrastructure was debated for some time between the different stakeholders. However, interviewees confirmed that existing sewerage assets would be handed over to the water company by October 2014.

#### *Cost recovery*

Currently, the water company is charging 10% of the value of the water bill to its customers as a sanitation charge, on behalf of the PPC. These funds, estimated at VND 3 billion for the whole province (60-70% for Hoa Binh city only) are subsequently made available to the PPC.

The existing sewerage operator URENCO gets a PPC budget allocation to carry O&M sewerage activities. Hence, there is no direct link with sewerage fees collected by the water company on behalf of the PPC. The annual budget allocation amounts to VND 1.7 billion, which was assessed to be by far below what would be required to carry out appropriate O&M activities. Hence, a simple comparison between sewerage revenues and PPC budget comparison to assess cost coverage is less useful, as it seems activities are underfunded using a budget allocation system. This is one of the reason that GIZ has focused on improving financial / budget management by providing specific support to PPC's in assessing O&M needs for appropriate sewerage O&M.

#### *Change in scope & focus corporate development activities implemented by GIZ*

The CD assistance provided by GIZ is done in the framework of a larger "waste water management program", targeting in total 9 provincial towns. This program includes the three towns of the Wastewater North II program, as well as the Province of Ba Ria / Vung Tau (2010 SECO decision note). This program is running since the year 2005.

As a result of an internal evaluation of the program in 2013, the scope and focus changed from providing direct technical assistance to sewerage operating companies to the national and PPC level. This was done as it was found that sector reform in Vietnam is organized in a rather top-down and hierarchical way. National and specifically provincial PPC's needed to be involved as they set the policy, not the operating companies. A bottom up approach via direct performance improvement at operator level was therefore deemed less effective. Implementation and coordination issues between GIZ and KFW also contributed to this, as frequently the planning of operational training had to be adjusted as a result of delays in physical implementation.

The CD activities at operator level are still mentioned in 2010 SECO decision note, as summarized in the table at the beginning of this paragraph. These activities have been exchanged for:

- (Legal) support to the Ministry of Construction in drafting the new degree 80 and resulting circulars, including dissemination
- Support to 9 PPC's with drafting provincial sector development plan and strategy and assistance with drafting and implementing provincial level waste water tariff road maps

- Support to 9 PPC's with drafting a performance based management agreement between PPC and respective operating companies. This management contract also includes detailed operating budgets sufficient to allow operating companies to carry out appropriate O&M.
- Operational support and training has not been entirely abandoned, but was assigned a lower priority. This year however, BMZ announced that the wastewater sector no longer is a priority sector in Vietnam. Hence all activities in this sector are to be phased out, which obviously will have an impact on specifically the operational TA in the Wastewater II program, as this typically takes place once construction is nearing completion. A "consolidation phase" is being discussed between GIZ and BMZ for the period 2015 – 2017, in which the national water association VWSA will be trained in providing training and capacity building in the waste water sector. This proposed phase is yet to be approved. On request of SECO, a meeting is scheduled in November 2014 with GIZ and KfW to discuss the TA coverage for operational support to the operating companies.

### Efficiency

As a result of administration procedures to secure counterpart funding, the actual start of the program was delayed with around two years to 2012. The latest expected completion date for construction is 2015end of 7 (Lahmeyer quarterly progress report no. 4, March – May 2014).

The focus of the corporate development activities have been changed drastically compared to what is stated in the 2010 SECO decision note. Part of the direct TA targeted at the operating companies is at risk as a result of the BMZ decision to discontinue support of the waste water sector in Vietnam.

### Sustainability

The recent adoption of decree 80 is an important milestone in devising and implementing full cost recovery waste water tariffs through provincial level tailored tariff implementation road maps. This contributes to reaching financial sustainability at sector level. However, the sector reform does not extend so far that individual operating companies are independently financially sustainable as operating companies continue to depend on PPC budget allocations. Operating companies are not directly responsible for charging its customers for services provided.

The BMZ decision to withdraw from the Vietnamese wastewater sector puts continued CD assistance at risk, and might directly impact sustainability. GIZ is proposing a consolidation / phasing out continuation ("phase IV") for the period 2015 – 2017 in which is intends to develop the knowledge and train VWSA, the countries' water and sewerage association, in waste water management through a trainer-of-trainers style program. VWSA could then subsequently engage with utility operators to replicate the training.



## Overview of Key Performance Indicators

Competence area	Key performance criteria	Data source	Remarks	2010	2011	2012	2013
Operational	Non-revenue water (NRW) (%)	Annual Report of Hoa Binh clean water company	NRW of the city	30%	31%	30%	30%
	Volume of waste water treated out of total volume of waste water (%)		There is no wastewater treatment plant in Hoa Binh	n.a.	n.a.	n.a.	n.a.
	Blockages per KM sewerage network in one year (#)	Reported by Hoa Binh PMU	The length of sewerage network in the city: 95 - 98 km	0.10	0.15	0.10	0.10
	Availability of service (average hours per day)	Annual Report of Hoa Binh clean water company	This means domestic water supply service	21	21	22	22
Financial	Collection ratio (%)	Reported by Financial Department - Hoa Binh clean water company	No sales which are billed but not collected every year (calculated in the city only)	100%	100%	100%	100%
	Direct operational cost coverage (%)	Financial report	calculated in the city only (just in WS)	114%	118%	132%	105%
	Profitability - share of net profit out of revenues (%)		the company does not want to show their profit				
HRC	Number of Staff per 1,000 customers (#)	Annual Report	Calculated in the city only	7.3	6.5	6.2	5.8
	Changes in senior management		Remain unchanged				
Customer orientation	Complaints per 1,000 customers per year (#)		Hoa Binh does not set up customer complaints centre				
	Availability, accessibility and responsiveness of customer complaints centre						
Framework conditions	Average domestic water tariff/m <sup>3</sup> sold	According to Decision ref. 1023/QĐ-UBND, Decision ref. 291/QĐ-UBND, regarding to the domestic water tariff	Average tariff/m <sup>3</sup> sold for household (VND)	VND 5,284	VND 5,284	VND 5,284	VND 5,373
			Average tariff/m <sup>3</sup> sold for business (VND)	VND 8,435	VND 8,435	VND 8,435	VND 10,474
	Average wastewater fee/m <sup>3</sup> collected	10% of domestic water tariff	for household (VND)	VND 528	VND 528	VND 528	VND 537
			for business (VND)	VND 844	VND 844	VND 844	VND 1,047
	Number and size of domestic water tariff adjustments (%)	Tariff remains unchanged from 2010 2012, just has been changed in 2013	Tariff for household		0%	0%	2%
			Tariff for business		0%	0%	24%
	Number and size of environmental sanitation tariff adjustments (%)			0%	0%	24%	
Extent of cross subsidy between commercial and domestic clients (multiple)			1.6	1.6	1.6	1.9	

**Ba Ria Wastewater Collection and Treatment Project***Project scope – key activities, dates and implementation consultants*

Ba Ria Wastewater Collection and Treatment Project		
Project period	Start	End
Planned	2007	2010
Actual	2007	2018 (expected)
Activities*		
Technical component:		
- Connection of households to the sewer system in Ba Ria		
- Rehabilitation and extension of a semi-separate sewer system		
- New wastewater treatment plant		
Corporate development		
- Business plan		
- Establishment customer sewerage connection revolving fund		
- Assistance with implementation of cost covering wastewater tariffs		
- Implementation of a computerized billing and accounting system		
- Improved revenue collection		
- Public awareness campaign (two)		
- Comprehensive technical training		
Implementation consultants		
PIU & CD	Holinger, (corporate development subcontracted to Ernst Basler & Partners)	

\* According to the 2006 SECO decision note and 2008 ToR of implementation consultant

**Relevance and effectiveness***Highlighted corporate development activities by interview partners*

- Revolving fund for customer sewerage connections
- Business planning
- Cost recovering waste water tariff

The Utility highlighted the need for establishment of a roadmap for the waste water tariff and mentioned a conference to take place in October 2014 on this subject. As BUSADCO is covering the whole province and not only Ba Ria town, it expressed the wish to be able to evaluate the impact of cost covering wastewater tariffs on all of its activities and not only Ba Ria. The existing business plan only covers Ba Ria.

BUSADCO also clearly is aware of the design and setting up of the revolving fund to encourage sewerage connections.

Although not formalized, the Company indicated that it does not require assistance with introduction of a computerized billing and accounting system, as currently the environmental discharge fees are invoiced and collected by a separate Water Company. BUSADCO is of the opinion that the Water Company has the possibility to disconnect non-paying customers, and thus is in a better position to

enforce payments than if environmental discharge tariffs are collected separately. Also it is considered more efficient to combine the billing and collection system as currently environmental discharge charges are calculated based on (max 10%) of the drinking water consumption charge. Therefore, the original TA assistance for improved revenue collection seems not to be relevant anymore.

The (technical) training activities did not start yet, as construction has not commenced yet.

#### *Scope of services of BUSADCO*

BUSADCO is a 100% PPC Vung Tau owned company. Originally it was assigned the public task of operating and maintaining all sewerage and drainage systems in Vung Tau Province. However, it has branched out to quite a number of different activities such as construction / contracting, manufacturing of pre-cast concrete structures, consultancy & engineering. It is active throughout Vietnam and even is exporting to other South-East Asian countries. As a consequence, the original sewerage activities only constitute about 25% of current activities, measured in terms of revenues. This might cause the company to divert its (management) time and resources to other company activities and shy away from their original core public task of operating and maintaining the sewerage and drainage system.

#### *Cost recovery*

Like in Hao Binh, the Vung Tau Water Company is charging the maximum allowed 10% of the value of the water bill to its customers as a sanitation charge, on behalf of the PPC. These funds, estimated at VND 20-24 billion (about USD 1 million) are subsequently made available to the PPC.

BUSADCO gets an annual allocation from the PPC amounting to VND 125 billion, to cover all sewerage O&M costs in the province. Hence, the PPC is already providing a substantial subsidy as the actual waste water tariff collection is about 20% this amount. On top of this, BUSADCO states that it would need triple the current allocation to properly operate and maintain all wastewater infrastructure it manages. Especially the recently completed WWTP for Vung Tau city (co-funded with French bilateral funds) would already require some VND 50 billion in direct annual O&M costs. BUSADCO estimates that the SECO funded WWTP in Ba Ria would eventually require about half this amount.

In conclusion, the waste water tariff charge is far below cost recovery level and is even insufficient to cover the direct O&M costs.

#### *Coordination with GIZ and other development partners*

BUSADCO is currently implementing seven wastewater projects in parallel, five of which are funded from bilateral donors. Apparently BUSADCO has the management capacity to handle these projects in parallel, although none of them are completed in accordance within the original planning<sup>101</sup>. The majority of development funded projects in Vietnam face delays, which usually can be attributed to complicated procurement procedures. No regular coordination mechanism was found to be in place

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<sup>101</sup> For example, the Vung Tau WWTP project took about 15 years to completion. It still needs to be commissioned (implementation period: 1999 to 2014)

between the various bilateral donors active in Vung Tau province, although there is an internal steering committee at the level of the PPC which is steering the implementation of the individual projects.

In addition, there is limited coordination between the TA assistance provided by GIZ on the one hand and BUSADCO and its consultant charged with corporate development activities (EBP, acting as subcontractor to Holinger). As GIZ is providing assistance to the Ministry of Construction in the implementation of decree 80 and specifically its support to nine provinces<sup>102</sup> to (i) assist in the preparation of province wide sanitation sector strategies (ii) assist in the preparation of performance based service level agreements between PPC and operating company and (iii) assistance with the preparation of a full cost covering waste water tariff roadmap, compliant with the decree 80 and its three circulars, it would be effective (and efficient) to coordinate and streamline efforts in the best interest of BUSADCO.

### **Efficiency**

Due to various procurement related issues (quality of tender documents, coverage of export credit insurance premium and a Swiss contractors contesting the tender results), the implementation of the project has been delayed with several years. As a result implementation of the corporate development components has been deferred as well and was only picked up during the last 1-2 years. Compared to the original planning included in the SECO decision note, the project will be delayed with 8 years.

As a result of these procurement issues, SECO has been spending considerable time and resources to manage this project. As Ba Ria is a bilateral funded project, management has to be done directly by SECO HQ with the support of the NPO. Evaluators assess that this project alone is much more time- and resource consuming in terms of management and monitoring than the KfW managed Waste Water North II Program.

### **Sustainability**

Similar to what has been stated under the section on Hoa Binh province, the recent adoption of decree 80 is an important milestone in devising and implementing full cost recovery waste water tariffs through provincial level tailored tariff implementation road maps. Care needs to be taken that the various development projects BUSADCO is implementing are aligned and included in the design of the tariff road map.

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<sup>102</sup> Lang Son, Son La, Hoa Binh, Bac Ninh and Hai Duong in the North; Vinh in the Centre and Tra Vinh, Soc Trang and Can Tho in the Mekong Delta

**Overview of Key Performance Indicators**

Ba Ria (BUSADCO)											
Competence area	Key performance criteria	Data source	Remarks	2006	2007	2008	2009	2010	2011	2012	2013
Operational	Non-revenue water (NRW) (%)	Annual report - Ba Ria Vung Tau W/S JSC,	Calculated in the Ba Ria city only	16%	12%	12%	12%	12%	11%	11%	9%
	Volume of waste water treated out of total volume of waste water (%)	Sewerage Planning of Ba Ria city	This rate remains unchanged from 2006 - 2013. Calculated in the city only	65%	65%	65%	65%	65%	65%	65%	65%
	Blockages per KM sewerage network in one year (#)		The company does not have the data on this since the sewerage networks in process of investment								
Financial	Availability of service (average hours per day)		Ba Ria Vung Tau W/S JSC,	24	24	24	24	24	24	24	24
	Collection ratio (%)	Financial report	This is collection ratio of BUSADCO covering all their business activities	82%	97%	88%	100%	98%	88%	99%	99%
	Direct operational cost coverage (%)		No data provided								
HROD	Profitability - share of net profit out of revenues (%)	Financial report	Profitability of BUSADCO covering all their business activities	30%	8%	8%	7%	7%	5%	6%	6%
	Number of Staff per 1,000 customers (#)	Annual report - Ba Ria Vung Tau W/S JSC,	BUSADCO does not want to show this data. They just said. Changes in senior management is suitable with the company development	16	25	22	21	19	19	19	18
Customer orientation	Changes in senior management		No customer complaints centre set up								
	Complaints per 1,000 customers per year (#) Availability, accessibility and responsiveness of customer complaints centre										
Framework conditions	Average domestic water tariffing sold	According to Decision ref: 29/2007/QĐ-UBND, 05/2009/QĐ-UBND, 16/2011/QĐ-UBND (2012), 28/2013/QĐ-UBND issued by Ba Ria Vung Tau PPC	Average tariffing sold for household (VND)	VND 2,800	VND 3,000	VND 3,000	VND 4,000	VND 4,000	VND 5,200	VND 5,200	VND 7,000
	Average wastewater fee/m <sup>3</sup> collected		Average tariffing sold for business (VND)	VND 4,200	VND 4,600	VND 4,600	VND 5,500	VND 6,500	VND 8,100	VND 8,100	VND 9,500
	Number and size of tariff adjustments (%)		Tariff for household	VND 280	VND 300	VND 300	VND 400	VND 400	VND 520	VND 520	VND 700
			Tariff for business	VND 420	VND 560	VND 560	VND 650	VND 650	VND 810	VND 810	VND 950
	Extent of cross subsidy between commercial and domestic clients (multiple)			1.9	1.9	1.9	1.6	1.6	1.6	1.6	1.4

## I. Terms of reference for the evaluation

The terms of reference of this evaluation are – in the PDF version of this report – included hereafter: the so-called 'Approach Paper to the independent evaluation of SECO's corporate development of public utilities'.