

FINAL EVALUATION

SRB/013

Support to the Municipality of Novi Pazar
(Phase II)

PROJECT SUMMARY DATA

Country	Serbia
Long project title	Social Investments in the Municipality of Novi Pazar: Institutional and Technical Support for the Water Supply System
Short project title	Support to the Municipality of Novi Pazar (Phase II)
LuxDev Code	SRB/013
Version of the Report	January 2014

RATING OF THE PROJECT BY THE EVALUATION MISSION

Global rating (Effectiveness)	3 On a scale of 1 (excellent results, significantly better than expected) to 6 (the project was unsuccessful, or the situation has deteriorated on balance)
Rating using other evaluation criteria	Relevance: 1 Effectiveness: 3 Efficiency: 2 Sustainability: 5

EXECUTIVE SUMMARY

The project SRB/013 final evaluation took place during the first two weeks of December 2013 and was conducted by a team from Hydroconseil composed of Mr Emmanuel Chaponniere and Mr Georgi Histrov. The evaluation's objective was to establish the overall balance of the project at closure and draft a series of recommendations for the project's direct beneficiaries (the water company and the municipality) along with lessons learned throughout project implementation for LuxDev.

The project targets a municipality (Novi Pazar) in the southern region of Serbia. Its specific objective is to provide a reliable and sustainable water supply to the population at a socially and economically acceptable price. The project managed to deliver all the planned outputs set out in the project document; however, the outputs did not turn into outcomes and the specific objective and project results were only partially achieved. The project fell short largely because of the attitude of the project partners (the municipality of Novi Pazar and the water company), who did not manage to seize the opportunity presented by the substantial investment and technical assistance provided by the project to "turn the company around" and get it back on a positive trajectory.

The overall project rating is 3, mainly because of the inability to transform the outputs into outcomes, which consequently led to only the partial achievement of the specific objective and the three project results.

The relevance of the project is rated 1 because it targets one of the Serbian priorities in relation to the sustainable development strategy and national priority for international assistance. The project was jointly identified and formulated through collaboration between the Luxembourg Ministry of Foreign Affairs, Serbian national and local authorities and LuxDev.

The rating for the project's effectiveness is 3 as all the planned outputs have been delivered but without the planned results being fully achieved (30% of the results' indicators are considered to have been achieved, whereas 50% are partially achieved and 20% not achieved). The mid-term evaluation recommendations were implemented when possible (this was the case for the majority of the recommendations) and project monitoring (measuring indicators) is considered acceptable, although some indicators could have been improved to better measure the specific impact of the activities implemented.

The project efficiency is rated 2 as benchmarking of the principal project costs (Water Treatment Plant extension works contract and the two main technical assistance contracts) shows that these are within or below national (Serbian) and regional (Balkans) averages.

The project's sustainability is 5 for two main reasons:

- the water service is and will be provided, at least in the medium-term, by the water company and the sustainability of the service is thus directly linked to company's sustainability. The Municipal Water Enterprise's financial situation at the project end is bleak to say the least : salary arrears have now risen to 10 months; the accounts have been frozen by the tax authorities ; and the Non-Revenue Water level is still around 70%. The company is trapped in a vicious circle with permanent insolvency, continuous negative cash flow and frozen company accounts. The cumulative negative cash flow has increased by 1 500 000 EUR in the last three years;
- the assets provided by the project (additional Water Treatment Plant capacity, new intake, new equipment and software) are of good quality and will, without doubt, be continuously used in the future; however, due to the financial situation of the water company, all assets and equipment will be used without proper maintenance, meaning they will wear out quicker than normal. This is not sustainable usage.

Two sets of recommendations have been formulated by the evaluation team: recommendations for the water company to help extract it from the vicious spiral in which it now finds itself and lessons learned for Luxembourg Agency for Development Cooperation and the Ministry of Foreign Affairs to ensure they are able to avoid such situations in the future.

Recommendations for the Municipality of Novi Pazar and the water company

The financial situation of the water company is such that it is unlikely to manage to reverse the current trend and establish a positive trajectory by itself. The need has now shifted from evolution to revolution. We believe that “shock treatment” is required to restart this company. However, this “shock treatment” is unlikely to come from within either the Municipality of Novi Pazar or the Municipal Water Enterprise. The most likely scenario is that, at some point in the future, the water service will experience a serious crisis that, in turn, will create sufficient turmoil to force the stakeholders to make significant changes within the company.

We have nevertheless developed a list of concrete actions for the Municipal Water Enterprise and the Municipality of Novi Pazar to follow:

- first priority: money, money, money. The company must focus on improving its financial performance by focusing on the collection rate, disconnection policy, tracking of illegal connections. The water company has all the necessary procedures and legal tools required to improve the situation and the municipality must be totally supportive in this area but monitor the performance carefully and set clear targets to be achieved. A financial analysis of the company must be performed in order to define, for the Municipal Water Enterprise, a proper exit strategy of the situation in which it is trapped;
- second priority: Non-Revenue Water improvement. The company must embark on a full-fledged fight against losses and request the contribution of all staff (from the lowest to the highest level). Specific efforts should be made to organise the customer database based on the measuring zones so as to provide a precise picture of where losses are located and to develop an efficient non-revenue water reduction strategy;
- third priority: introduce a new company culture. There is a need for a positive corporate culture to be introduced; staff must associate with a positive image of the company. There is a requirement for proper team management, reporting procedures and results-based management to be introduced;
- fourth priority: once the company has been turned around and is on a positive trajectory, a cost reduction plan must be set up (staff reduction, appropriate staff capacity and job descriptions) and a young generation of engineers must be recruited to cover the phasing out of ageing management staff.

Lessons learned for Luxembourg and LuxDev:

The Municipal Water Enterprise situation was well known at the time of project formulation and could have been taken into consideration in the project document and, especially, in the bilateral agreement. We have formulated four lessons learned from project formulation and implementation:

- full financial analysis of the water company during project formulation: such a business plan, with five to 15 year forecasts, would have supported the establishment of concrete technical and financial performance targets to help extract the company from the vicious circle in which it was trapped at the project start;
- the bilateral funding agreement could have used these performance targets as conditions for investing in the system: a first set of soft actions could have been launched to improve the company’s financial performance, which, depending on the results, would have then triggered the actual investment (and the real interest of the project stakeholders) in the infrastructure;
- more active project participation in the implementation of essential activities could have resulted in greater benefits (for example, if the network condition survey had been conducted more quickly, the testing period of the measuring zones during the project period would have been longer), even though this approach (pro-active project participation) should have been on an exceptional basis ;
- more active capacity building and lobbying at the municipal level on the water service’s economic approach may have helped to obtain more support from the Municipality of Novi Pazar.