Ex post evaluation – Republic of Serbia

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Sector: 24030 (Formal sector financial intermediaries)
Project: Municipal Environmental Grant-Loan Investment Programme (Initiative for Climate and Environmental Protection) (BMZ nos. 2010 66 307*, 2012 70 149 (complementary measure), 1930 04 934 (training component))
Project-executing agency: Serbian commercial bank

Ex post evaluation report: 2020

All figures in EUR million	Project (Planned)	Project (Actual)
Investment costs (total)	12.0	12.0
Counterpart contribution	0.0	0.0
Funding	12.0**	12.0**
of which BMZ budget funds	11.0	11.0

*) Random sample 2021
**) Around EUR 1 million in grant funding allocated from EU IPA, 2011 (BMZ no. 2020 60 838)

Summary: The Municipal Environmental Grant-Loan Investment Programme (MEGLIP) aimed to establish a funding instrument to promote energy efficiency and environmental measures among Serbian municipalities and public utility companies (PUCs). To this end, a loan was extended to a partner financial institution. The partner financial institution received technical assistance to develop its municipal energy efficiency and environmental protection business sectors, and the investments were subject to ex post audits.

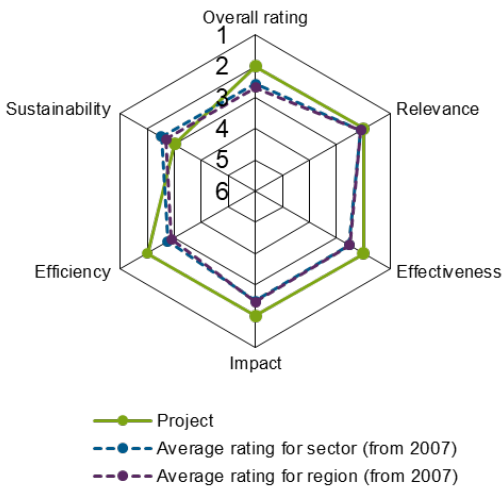
Development objectives: The module objective (outcome) was to ensure the broad-based and long-term establishment of a funding instrument in the Serbian banking sector to promote energy savings among Serbian municipalities and PUCs. The overarching developmental objectives (impact) were (1) to help deepen and broaden the Serbian financial system and (2) to help protect the climate and environment by reducing energy consumption and other environmentally harmful emissions.

Target group: The target group consisted of municipalities and PUCs in Serbia.

Overall rating: 2

Rationale: The module objective indicators were fully achieved, and the Serbian municipalities have a good repayment record, resulting in very low default rates. All in all, the financed sub-projects only led to a few energy efficiency projects being realised. One important factor in this was the municipalities' relatively low levels of awareness on this matter. Instead of this, a larger number of conventional environmental investments were funded. It became more difficult to implement the credit line from 2015 onwards, as other international financial institutions placed promotional programmes on the market with softer terms. Thanks to the strong commitment of the executing agency, it was possible to implement the programme close to the planned time frame.

Highlights: The implementation consultant hired during the project made significant efforts to raise awareness of the issue of energy efficiency among the Serbian municipalities, including visiting all the municipalities in Serbia for this purpose.



Rating according to DAC criteria

Overall rating: 2

Ratings:

Relevance	2
Effectiveness	2
Efficiency	2
Impact	2
Sustainability	3

Breakdown of total costs

		(RIL) (Planned)	(RIL) (Actual)	(CM) (Planned)	(CM) (Actual)	(Training) (Planned)	Training (Actual)
Investment costs	EUR million	10.0	10.0	0.5	0.5	0.5	0.5
Counterpart contribution	EUR million	0.0	0.0	0.0	0.0	0.0	0.0
Funding	EUR million	10.0	10.0	0.5	0.5	0.5	0.5
of which BMZ budget funds	EUR million	10.0	10.0	0.5	0.5	0.5	0.5

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Relevance

At the time of the project appraisal (PA), Serbia's energy intensity[1] was very high compared to the EU, and the energy sector largely depended on fossil fuels. The government did not have a rigorous climate policy or suitable legislation, and energy prices were very low. As a result, there was no incentive for the municipalities to save energy. At the PA, it was relatively rare for the municipalities to make investments in energy efficiency measures. Firstly, the municipalities' awareness and technical knowledge were heavily limited when it came to implementing energy efficiency and environmental measures. Secondly, it was difficult to fund activities of this nature. The municipalities only had very limited access to long-term funding for energy efficiency and environmental measures.

The results chain envisaged the FC measure enabling partner banks to issue energy efficiency and environmental loans to municipalities and PUCs. In particular, the aim was for small and medium-sized enterprises to benefit from the services provided, which in turn would develop and establish the market for this type of loan. Additional investments would have a positive overall effect on the economy and employment. Furthermore, the investments would lead to reduced CO_2 emissions.

FC also extended a reduced-interest loan (RIL) to a selected financial institution and arranged for capacity development measures. The results chain is coherent on the whole. However, at the time of the PA, there were already indications that the government subsidised energy prices would not increase significantly and that otherwise no real pressure was or would be exerted from the government to save energy – even despite energy efficiency being a stated goal of the Serbian government.

Boosting EE/RE and energy efficiency was a declared objective of the Serbian government during the programme appraisal. As a result, the project was in line both with these goals and the goals of BMZ (including the sectoral strategy paper on sustainable economic development).

[1] Ratio between energy consumption and value creation in the economy as a whole, e.g. measured with primary or final energy consumption per unit of gross domestic product (GDP)

Donor coordination efforts were not undertaken during the project, although this would have been sensible in hindsight to prevent competition over terms.

From today's perspective, we rate the programme's relevance as good.

Relevance rating: 2

Effectiveness

All in all, the following results were achieved: Loans were issued for 21 sub-projects in the environmental sector (solid waste/wastewater) and 3 sub-projects in the EE/RE sector (energy efficiency in buildings, heating supply).

Target achievement at the outcome level is summarised in the table below:

Indicator	Status PA, target PA	Ex post evaluation
(1) The partner banks successfully offer the EE Loan product on the market (complete disbursement of funds to ultimate borrowers).	N/A / <3 years.	Contract signed in January 2014, funds completely disbursed to end customers in June 2017; -> Indicator almost achieved (six-month delay).
(2) Energy consumption/pollutant emissions reduced among ultimate borrowers relative to initial situation	N/A / ≥20%.	There is no baseline data, although the ex post audits demonstrate that the indicator has been achieved. Specifically, two out of three EE/RE projects achieve energy savings and/or CO_2 reductions in excess of 20%. The environmental investments have also had positive environmental impacts (unquantifiable). -> Indicator achieved.
(3) There is awareness of the EE issue among the municipalities, and 15% of Serbian municipalities have already financed EE measures in their local authority areas via the refinancing lines.	N/A / >15%.	Generally, there is now awareness of energy efficiency as an issue among the municipalities. -> Indicator achieved.
(4) (NEW) The repayment record for the refinanced municipal loans is satisfactory (portfolio at risk (PAR) >90 days in the partner banks' refinanced sub-loan portfolio).	./. / < 5%.	0%. -> Indicator achieved.

The consultant, Fichtner, compiled verification reports for all the sub-projects implemented over the entire duration of the programme. The bank does not have a dedicated system for monitoring the environmental impacts.

The customers' repayment record was exemplary, with no registered cases of payment delays. This is one of the reasons why the bank values its business with the municipalities and state-owned enterprises. The excellent repayment situation is due to a municipal finance reform that was implemented in tandem with the project, which led to significant professionalisation of municipal finances.

Municipal energy efficiency was a completely new issue both for the bank and the Serbian municipalities. As a result, it took some time to develop a project pipeline. Some of the municipal decisions were also slow-moving. The resulting delays were underestimated in the project appraisal. A number of sub-projects lasted for such a long time that the disbursement date for the EU grant had already passed. The EU grants were an important motivator for the municipalities to roll out the projects that had been funded.

Thanks to the bank's broad-based, decentralised structure, it had good relationships with the various municipalities.

There were several limiting factors in terms of implementation:

- The change in the central tendering procedure for municipality/state-owned enterprise financing.
- Competing lines of credit with lower interest rates from 2015 onwards (in particular from the EIB).
- Delayed disbursement of the EU grants resulting in the credit line having a poor reputation.

Yet the bank managed all these limitations relatively well.

With all the programme indicators having been achieved, we rate the effectiveness as good.

Effectiveness rating: 2

Efficiency

The total costs of the sub-projects were covered in full by the respective loans/grants. Some sub-projects were co-financed by the EIB, the local government or the KfW programme that preceded MEGLIP.

The bank's loan processes are comparatively efficient. A CO_2 tool was not used for the MEGLIP programme, which was a good decision in retrospect given the relatively low investments in energy efficiency. The use of such an instrument is generally time-consuming and only becomes efficient after a certain minimum project volume has been reached. The technical consultants from the consulting firm working on the complementary measure were responsible for technically appraising the various project proposals, as the bank does not have technical expertise in this area.

A survey was conducted among participating municipalities to investigate cost coverage for the various municipal investments (solid waste, water/wastewater, energy), with 7 out of 19 municipalities responding. Of the 7 municipalities, 6 indicated that they had a largely cost-covering fee system for solid waste, water/wastewater and energy.

The interest subsidy remained with the bank, with the municipalities paying the normal interest rate for municipal financing.

In terms of allocation efficiency, on-lending the funds via multiple partner banks would also have been a conceivable possibility. However, since the municipal financing requires a good network of customers, the selected approach to this matter was the most efficient from an ex post perspective.

In summary, we rate the programme's efficiency as good.

Efficiency rating: 2

Impact

The overarching developmental objectives (impact), as specified in the PA, were (1) to help deepen and broaden the Serbian financial sector and (2) to help protect the environment and climate by reducing energy consumption and other environmentally harmful emissions. No separate indicators were defined for this during the PA.

The impacts of the programme varied depending on the type of investment. The various sub-projects in the solid waste sector helped to facilitate collection of solid waste from mostly unserved urban areas, improve working conditions for employees, prevent fly tipping and better the overall environmental situation (including protecting water resources).

In wastewater sub-projects, the residents now discharge their wastewater into the sewerage system instead of into soakaways that flow directly into rivers. This protects both above- and below-ground water resources. The living conditions for the relevant population are improving, especially in cases of heavy rainfall, as the roads are now less prone to flooding. The procurement of street sweeping vehicles has also improved living conditions.

The sub-projects focusing on energy efficiency played a role in the CO_2 reduction. In light of the small number of sub-projects, the reductions are limited in absolute terms (energy savings: 5,000MWh/a; CO2 reductions: 2,200 metric tonnes/a). In a few cases, it was difficult for the consultant to calculate the exact reductions, as there was no baseline data available – especially in the area of building insulation. However, in light of the small amount of funds invested in energy efficiency activities it was not possible to achieve more substantial impacts.

It is difficult to determine whether this programme has had an impact on the entire Serbian banking sector.

The bank has an environmental and social management system as well as employees specialising in corporate social responsibility, who work in the communications department. The bank is also the centre of excellence for all corporate social responsibility activities within the international group.

It is highly unlikely that the sub-investments had significant adverse environmental or social impacts.

Overall, we consider the results at impact level to be good.

Impact rating: 2

Sustainability

At the municipal level – at least in Smederevo, which was visited – it seems that the future use and sufficient operation of the facilities are ensured.

At the bank level, the programme has clearly improved the bank's knowledge in terms of partnering with the municipalities on energy efficiency and has introduced efficient tools. The bank seems to be interested in continuing its business in this area (albeit only with financing from international donors, not with suitable internal funds). The bank seems to focus more heavily on general municipal investments than on investments specifically targeted at environmental or energy efficiency issues. However, the project was also a role model for municipalities not participating in the programme, which has resulted in noticeably higher demand for more municipal investments in energy efficiency.

Even if there were no structural changes to the refinancing, we rate the sustainability as satisfactory in terms of the results already achieved.

Sustainability rating: 3

Notes on the methods used to evaluate project success (project rating)

Projects (and programmes) are evaluated on a six-point scale, the criteria being **relevance, effectiveness, efficiency** and **overarching developmental impact**. The ratings are also used to arrive at a **final assessment** of a project's overall developmental efficacy. The scale is as follows:

Level 1	Very good result that clearly exceeds expectations
Level 2	Good result, fully in line with expectations and without any significant shortcomings
Level 3	Satisfactory result – project falls short of expectations but the positive results dominate
Level 4	Unsatisfactory result – significantly below expectations, with negative results dominating despite discernible positive results
Level 5	Clearly inadequate result – despite some positive partial results, the negative results clearly dominate
Level 6	The project has no impact or the situation has actually deteriorated

Rating levels 1-3 denote a positive assessment or successful project while rating levels 4-6 denote a negative assessment.

Sustainability is evaluated according to the following four-point scale:

Sustainability level 1 (very good sustainability): The developmental efficacy of the project (positive to date) is very likely to continue undiminished or even increase.

Sustainability level 2 (good sustainability): The developmental efficacy of the project (positive to date) is very likely to decline only minimally but remain positive overall. (This is what can normally be expected).

Sustainability level 3 (satisfactory sustainability): The developmental efficacy of the project (positive to date) is very likely to decline significantly but remain positive overall. This rating is also assigned if the sustainability of a project is considered inadequate up to the time of the ex post evaluation but is very likely to evolve positively so that the project will ultimately achieve positive developmental efficacy.

Sustainability level 4 (inadequate sustainability): The developmental efficacy of the project is inadequate up to the time of the ex post evaluation and is very unlikely to improve. This rating is also assigned if the sustainability that has been positively evaluated to date is very likely to deteriorate severely and no longer meet the level 3 criteria.

The **overall rating** on the six-point scale is compiled from a weighting of all five individual criteria as appropriate to the project in question. Rating levels 1-3 of the overall rating denote a "successful" project while rating levels 4-6 denote an "unsuccessful" project. It should be noted that a project can generally be considered developmentally "successful" only if the achievement of the project objective ("effectiveness"), the impact on the overall objective ("overarching developmental impact") and the sustainability are rated at least "satisfactory" (level 3).