Report Number : ICRR0020783

1. Project Data

Project ID P081880	**Project Name** MUNICIPAL SERVICES	
Country Turkey	**Practice Area(Lead)** Social, Urban, Rural and Resilience Global Practice	**Additional Financing** P110770

L/C/TF Number(s) IBRD-73120,IBRD-78850	**Closing Date (Original)** 30-Jun-2010	**Total Project Cost (USD)** 570,650,000.00
Bank Approval Date 23-Jun-2005	**Closing Date (Actual)** 30-Nov-2016	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	275,000,000.00	0.00
Revised Commitment	492,298,206.51	0.00
Actual	484,383,841.38	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

According to the project's two Financing Agreements (FAs), the project development objective, which is assessed in this IEG Review, is to support sustainable environmental services in selected municipalities in Turkey (FA, 2006, p. 14 and FA, 2010, p. 2).

The key outcome indicator under the original FA -- the quality of local services provided in participating municipalities (PAD, p.28) -- was replaced in the 2010 Additional Financing (AF) by a new, more robust results framework with the following key outcome indicators (2010 Project Paper, p. 17):

- percent reduction in Non-Revenue Water losses in the service area
- total annual reduction in Biochemical Oxygen Demand load in wastewater in participant municipalities
- amount of safely disposed waste in rehabilitated solid waste landfills
- sectoral financial working ratio of municipalities or municipal companies
- percentage of projects financed by Iller Bank that are implemented by municipalities or municipal companies

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

No

c. Will a split evaluation be undertaken?

No

d. Components

1. **Municipal Development** (US$ 205.3 million at appraisal, with additional financing of US$ 176 million for a total of US$ 381 million; US$ 363 million actual). This component established a credit facility, which financed physical investments in water and wastewater networks, new treatment plants, and solid waste management activities in eligible sub-borrowers. A grant financed feasibility studies of eligible subprojects and training of municipal officials. With the approval of the AF, municipalities used their own resources to prepare feasibility studies of eligible sub projects acceptable to the implementing entity, Iller Bank.

2. **Municipal Technical Assistance** (US$ 16 million at appraisal, with additional financing of US$ 9.6 million for a total of US$ 25.8 million; US$ 27.1 million actual). This component financed feasibility studies, urban plans, design and bidding documents, operational improvement plans for each sub project relative to institutional, technical, financial, and environmental matters, and construction supervision.

3. **Iller Bank Institutional Strengthening** (US$ 0.8 million at appraisal, with additional financing of US$ 1.1 million for a total of US$ 1.9 million; US$ 1million actual). This component financed consulting activities designed to increase financial, technical, and banking capabilities, support operating costs, and audits of Iller Bank.

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

Project Cost: The project was appraised at US$ 275 million, which included a front-end fee of US$ 1.4 million. Additional Financing of US$ 231.4 million (see below) brought total project cost to US$ 506.4 million. Actual project cost reached US$ 488.94 million or about 96.87% of total costs.

Financing: The International Bank for Reconstruction and Development financed this project with two loans: (1) a Specific Investment Loan (SIL) to Iller Bank guaranteed by the Government of Turkey, and (2) a guarantee agreement between the World Bank and the Government of Turkey for the Additional

Financing (AF) of the project.

Borrower Contribution: There were no borrower contributions.

Dates: The project became effective in May 2006 and was due for completion by December 2009 (FA, p, 14). A Mid Term Review was conducted in December 2009, four and a half years after Board Approval and after the project was first extended to be completed by December 2011. There were five level 2 restructurings, which did not change the Project Development Objective but extended the project first to December 2011, then December 2012. The 2010 Additional Financing effectively extended the project until December 2014. The fifth restructuring extended the project until November 2016 for a total of ten years of implementation. See below for the restructurings.

Restructuring: The project was restructured five times and extended four times. In 2009, a Mid Term Review was conducted and established a more robust results framework (see Section 10, M&E below and Section 8, Bank Performance).

- In November 2009 to extend the project closing date to December 2011.
- In April 2010 to approve a US$ 240 million in Additional Financing, modify the results framework, and extend the closing date to December 2014.
- In December 2011, to amend the FA and the AF to reflect the change in legal status of the Borrower, extend the closing date of the original FA to December 2012, and reallocate loan proceeds from the AF.
- In December 2012, to reallocate funds across categories, cancel unused amounts from the original FA, and introduce a grace period for disbursements
- In December 2014, to extend the AF closing date to November 2016, update the results framework (cancel the Istanbul Water and Wastewater Administration subproject and replace it with Denizli Water and Wastewater Administration), update targets to correspond to the new closing date, and update thresholds in municipal procurement plans.

3. Relevance of Objectives & Design

a. Relevance of Objectives

The project objective remains relevant to Turkey's Tenth Development Plan (2014-2018). This plan outlines objectives and policies that will improve the quality of urban infrastructure, improve municipal services, and promote sustainable cities as contained in a section entitled “Livable Places, Sustainable Environment” (Tenth Development Plan, p. 117 -140). In addition, the project development objective is relevant to the Government's Integrated Urban Development Strategy and Action Plan (2010-2023), built on the structural reform earlier introduced during project implementation and informed by the results of the project such as reducing non-revenue water losses.

The project objective is also relevant to two of the pillars of the World Bank Country Partnership Strategy

(CPS) with Turkey (2012-2015).A more current one is under preparation. Strategic objective 2 focused on "Improved Equity and Public Services" and one of its key activities included the improvement of public services and governance by improving local financial management structures and fiscal positions. In addition. Strategic Objective 3 focused on "Deepened Sustainable Development " noted that this project and its subsequent incarnation, the Sustainable Cities Program, contribute to achieving a key outcome (Outcome 10) directed at the sustainability of Turkish cities (CPS, p.39). The Sustainable Cites Program was also duly noted in the CPS as being grounded in Turkey's Integrated Urban Development Strategy and Action Plan (2010-2023).

Rating
Substantial

b. Relevance of Design

The project's design incorporates lessons from similar operations financed by the Bank. Lessons included the need for (i) a strong pipeline of investments, (ii) improving the operational efficiencies of investments, (iii) ensuring an appropriate institutional arrangement in implementing and financing investments, and (iv) a strong understanding of the requirements in the use of EU resources. (PAD, pp.10-11)

The causal chain is straightforward and linked the investments and technical assistance activities to the expected outputs, the intermediate results and the final outcomes. The development objective is clear although the results framework was not fully delineated during appraisal. Only one indicator was noted to be monitored for progress to achieve the development objective. The actionable results framework was introduced only after the 2009 Mid Term Review as part of the 2010 AF, which had sufficient indicators to inform project progress. However, there were no outcome indicators reflective of the institutional strengthening aspects of the project. There was insufficient attention to the institutional aspects of the technical assistance activities that focus on improving the capacity of the municipalities and the Iller Bank (see Section 10 below).

Rating
Modest

4. Achievement of Objectives (Efficacy)

Objective 1
Objective
To support sustainable environmental services in selected municipalities.

Rationale

OUTPUTS:
The ICR reports simple averages from the participant municipalities as output values. Results from some cities were affected by the 2014 territorial reform where some municipalities expanded coverage while others reduced them.
The following output indicators were met, exceeded, or substantially achieved:

- 45% percent of Non-Revenue Water in the service area was achieved (target 40%). Non-revenue water is water that has been produced and is “lost” before it reaches the customer. Losses can be real (through leaks or physical losses) or apparent (for example through theft or metering inaccuracies).
- 5% of investment projects were implemented by municipalities or municipal companies (target 5% as updated in the final (2014) restructuring paper).
- The staff of the municipal project management unit received 723 person-days of training (baseline of 186 person-days, target of 214 person-days) and those of the Iller Bank project management unit received 390 person-days (baseline of 231 person-days, target of an additional 100 person-days)
- Completed 40 operational plans (target 45, substantially achieved).
- Constructed 2,450 km. of water network, 1,150 km. of sewerage network, 100 km of storm water network, two new wastewater plants, two water treatment plants, three landfills, and capacity extension of one wastewater treatment plant and refurbishment of an existing wastewater treatment plant. 232,341 tons/year of waste in rehabilitated landfills were safely disposed partially achieving the target of 444,845 tons/year.

OUTCOMES:
The project's substantial achievement of targeted outcomes stem in part from the structural reform legislated by the Government in 2014, which redrew municipal boundaries and utility administration, and impacted how results were reported by municipalities (ICR, paragraph 58). As a result, two participant city municipalities became metropolitan municipalities with a wider coverage, and five district municipalities that borrowed directly from Iller Bank became part of metropolitan municipalities (ICR, paragraph 31 and Annex 2). Taking into account this revised coverage of participant municipalities from the original baseline, the project facilitated the following outcomes:

- Iller Bank's institutional capacity in project design, appraisal, implementation, and operations was strengthened. The Ministry of Development and the Treasury noted that the Iller Bank capacity added value to municipal sector financing. Donors began to offer development financing to benefit municipalities through Iller Bank. Iller Bank achieved the target that 5% of projects it financed were implemented by municipalities or municipal companies. Iller Bank successfully conducted annual project audits as of November 2016, thus meeting its target.
- The project improved the financial and operational sustainability of municipal services. Twelve of 14 municipalities reached their financial working ratio targets, achieving 0.60 financial working ratio (target 0.74). Financial working ratio refers to ratio of operating costs less depreciation less debt related to costs divided by operating revenue. Debt related costs refer to interest payments or transaction costs, not actual debt service. (ICR, footnote 15). Municipal utilities achieved 67% of the target value to reduce losses from

Non Revenue Water.

- The project supported investments in municipal services that improved the environment through improved water supply, sewerage, and solid waste management systems. 2.95 million of urban residents have access to improved water sources (baseline of 0.9 million, target of 2.9 million). The sewerage collection network achieved its target of servicing 85% of the residents of participating municipalities. 1.5 million urban residents have access to improved sanitation (baseline of 0.5 million, target of 1.5 million). Landfills were constructed with a capacity of 3.7 million tons per year, exceeding the target of 3.4 million tons per year . However, only 58% in wastewater were treated according to required standards, well below the 87% target 3.4 million urban residents have access to regular solid waste collection (no baseline, target of 3.4 million.The Biochemical Oxygen Demand load was reduced by 20,238 tons/year in participating municipal wastewater (target 23,473 tons/year). Lower than expected results are due to the unforeseen cancellation of a subproject.

Rating
Substantial

5. Efficiency

Economic and Financial Efficiency: The economic analysis of the investments were to be conducted as part of the feasibility assessment of the subproject financed by Iller Bank. An overall financial assessment of Iller Bank itself only noted that it was more cost effective to lend to one institution, which will serve as intermediary rather than lending directly to individual municipalities, which covered a wide geographic spread and with varying levels of capacities. Iller Bank's longstanding relationship with municipal water and wastewater business, which represented 95% of its loan assets, simplified the implementation arrangement since the municipalities were already familiar with Iller Bank as financal intermediary.

For purposes of the ICR, four water and sewerage utilities were selected to assess project efficiency. The four represented more than 3/4 of project funds and 3 of the 4 were loan recipients under both the original loan and the AF. The four also provided reliable data versus the smaller municipalities (ICR, paragraph 66). Analyses concluded that percentage of unaccounted for water (NRW) has been reduced in participant municipalities (ICR, paragraph 71). The second indicator of efficiency according to the World Bank's Comprehensive Development Framework, i.e., the number of employees per thousand households connected to public water supply, could not be reliably assessed because of the structural changes introduced by the Government's new law on metropolitan municipalities. A cost benefit analysis showed positive outcomes. Based on the case studies, ERR reached 14%, FRR reached 4% NPV at Euro 205.3 million and a cost effectiveness ratio of 2.82. Further details were provided in the ICR annex 3.

Administrative and Operational Efficiency: A 2004 PHRD grant supported feasibility studies that created a strong subproject pipeline. Nevertheless, the project took 10 years to implement. Completing 16 Environmental Impact Assessments for 11 subprojects delayed the project launch. The 2009 MTR determined that the 10% co-financing contribution from municipalities caused implementation delays because participating municipalities lacked financial capacity. The 2010 AF redesigned the project to remove this requirement and fund 100% of eligible costs (ICR, paragraph 25). The government introduced structural reforms between 2011-2014, which affected municipalities and the banking sector negatively and affected the pace of implementation. For example, decision making processes at the Project Management Unit resulted in participant municipalities complaining lack of timely support. Implementation efficiency of participant municipalities affected by these reforms was also disrupted (see Section 9. Borrower Performance, and Section 11. Other Issues below). Initial procurement capacity gaps at Iller Bank delayed disbursements for a couple of years.

Efficiency Rating

Substantial

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

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐Not Applicable
ICR Estimate	✓	14.00	93.00 ☐Not Applicable

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

6. Outcome

OUTCOME

The relevance of objective is substantial. Relevance of design is modest. Design lacked institutional development indicators that would have strengthened the attribution of the results of building capacity from the project. Efficacy of the project is substantial. There are moderate shortcomings in the achievement of objectives based on partially achieved targets (although reaching 80% of targets). Efficiency is substantial, despite initial operational implementation slowdown, as project performance reached adequate economic, financial, and operational efficiencies after corrective measures were adopted following the MTR and the AF. The long-term impact of the structural reforms introduced by the government between 2011-2014 were acknowledged to favor the long term sustainability of the project outcomes (ICR, paragraph 28).

a. Outcome Rating

Moderately Satisfactory

7. Rationale for Risk to Development Outcome Rating

Technical: Technical design risks for the subprojects remain low. Evidence is cited that only one utility reported ta echnical design issue, which is being resolved.

Government Commitment: The risk of a loss or decline in Government commitment is low considering the Government has passed a more stringent standard for losses from Non Revenue Water and a law to improve the M&E for the water sector. There are, however, planned administrative reforms in metropolitan municipality management that may periodically disrupt these services.

Institutional Capacity: Municipalities have well established utilities capable of operating and maintaining the services. There are still smaller municipalities that have limited capacity and funding. In addition, there has been an increase in offers from other international financial institutions and donors to work with Iller Bank as intermediary, which may impinge on Iller Bank's capacity to address simultaneous competing demands. This could be mitigated by adequate staff and continuous training. The ICR is unclear if this is addressed.

Environmental Sustainability: There is moderate risk that Iller Bank and the Mugla municipality may not conduct or share the results of periodic site visits to check the status of water level and physical conditions in the discharge location of the Mugla Wastewater treatment plant. In the case of Elbistan municipality, Iller Bank needs to continue to monitor the water catchment area in Elbistan following the hospitalization of a significant portion of its population after its main water source was found to have been polluted. Authorities have to continue to monitor compliance with environmental regulations. Mitigation is addressed by the follow on project, the Sustainable Cities project, which has an integrated approach between investments and planning, and greater focus on municipal capacity building.

a. Risk to Development Outcome Rating

Modest

8. Assessment of Bank Performance

a. Quality-at-Entry

In November 2004 a Quality at Entry review was conducted. The project's design was refocused from direct support to reforming Iller Bank to financing public sector infrastructure investments as a means to foster that reform. Iller Bank became the central government agency to on-lend Bank loan proceeds. The project's design also benefited from lessons offered by similar Bank-supported operations such as (i) having a strong investment pipeline; (ii) improving the operational efficiency of infrastructure investments; (iii) strengthening the institutional aspects of the sub-projects; and (iv) the effective use of European Union funds (ICR, paragraph 22).

However, the M&E system was not adequately designed. There were no baselines established for the various indicators and the results framework was only fleshed out during the AF. The original results framework was insufficient to reflect how the project development objective would be achieved. The AF's more robust results framework was retroactively applied to subprojects even though issues mentioned in reviews have not been resolved. The ICR acknowledged that adding revised sub indicators during the final restructuring was unnecessary since the revisions were related to targets and not to outcomes. Even with the benefit of the AF, economic and financial analyses of the project was deficient. The AF also did not identify measures to address the low disbursements for the institutional strengthening needs of Iller Bank (component 3).

While risks were adequately identified, the project's design did not address mitigating factors.

Quality-at-Entry Rating

Moderately Unsatisfactory

b. Quality of supervision

The Bank team conducted regular supervision missions and a maintained an open line of communication with the implementing agency. The Bank team responded to technical support needs of the implementing agency and encountered no significant fiduciary or safeguard issues.

In 2009, four years after Board approval, a Mid Term Review (MTR) was conducted. Delay in conducting the MTR was not explained.The MTR reassessed the results framework, which, had it been completed earlier could have assisted in introducing more pertinent outcome indicators to inform progress toward meeting the PDO (see also Section 10, M&E below).

There were no baseline data nor indicators of subproject progress until the 2009 MTR even if feasibility studies for the subproject investments were completed by November 2005. The revised results framework was included in the 2010 Additional Financing but both the World Bank and Iller Bank teams did not follow through with establishing baseline data and tracking progress during implementation (ICR, paragraph 35). Nevertheless, implementation achieved good progress after the 2009 MTR and the 2010 AF.

Quality of Supervision Rating

Moderately Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

9. Assessment of Borrower Performance

a. Government Performance

The Government supported the project to jump start preparations to meet European Union accession directives (ICR, paragraph 26). Structural reforms introduced in 2011 -2014 negatively affected the pace of implementation. Iller Bank was reorganized in 2011, and the new Metropolitan Municipal Law (2011-2102) and the Metropolitan Territorial Reforms were carried out in 2014. The law increased the number of metropolitan municipalities, and expanded provincial boundaries, which affected the administration of public utilities such as water, waste water, and solid waste. Two cities under the project became metropolitan municipalities and five district municipalities came under the jurisdiction of existing metropolitan municipalities. This meant contracts of district municipalities were now the responsibility of the metropolitan municipalities (ICR, paragraph 31).

In 2011, the Ministry of Public Works and Settlement, which managed Iller Bank, merged with the Ministry of Environment to become the new Ministry of Environment and Urbanization. Iller Bank's legal status also changed at that time to a Joint Stock Company.

Government Performance Rating

Satisfactory

b. Implementing Agency Performance

The implementing agency was the Iller Bank. Iller Bank had limited initial procurement capacity, which delayed early disbursement. The World Bank team provided training and closer supervision to mitigate this drawback (ICR, paragraph 32). In 2011, following the country's structural reforms, Iller Bank became a Joint Stock Company and was reorganized to comply with the new banking regulations. The resulting staffing changes slowed the Project Management Unit's internal decision making and delayed its response to issues brought by participating municipalities. (ICR, paragraphs 19 and 32).

There were originally 11 municipalities and municipal utilities under the original loan. The AF added three new municipalities and one utility. Three of the original 11 municipalities scaled up its activities. Legislation increased the number of metropolitan municipalities and expanded geographical boundaries to provinces, which affected the administration of water, waste water and waste utilities. This meant that two participant city municipalities became metropolitan municipalities. Five district municipalities that borrowed directly from Iller Bank, came under the supervision of existing metropolitan municipalities. The shift in administrative responsibilities disrupted resource allocation, such as in the loss of personnel, technical expertise, and funding. Some municipalities with lower capacities benefited from the change by joining more efficient host metropolitan municipalities. Some others lost talent and expertise and disrupted resource allocation (ICR, paragraph 33).

The project was implemented over 10 years. The ICR noted that this was lengthy (ICR, paragraph 28). The project took longer to launch because 16 Environmental Impact Assessments had to be completed for 11 subprojects, which were part of the investment pipeline (ICR, paragraph 28).

The results framework was revised, negotiated and adopted under the 2010 AF but both the implementing agency and the World Bank teams did not carry out proper data collection and tracking (ICR, paragraph 35). In addition, Iller Bank at some point during project implementation imposed staff travel restrictions which further negatively affected the PMU's ability to collect M&E data. Nevertheless, the choice of implementing entity, Iller Bank, is an appropriate choice to implement this project and positively contributes to a future engagements with the Government to address its rapid urbanization.

Implementing Agency Performance Rating

Moderately Satisfactory

Overall Borrower Performance Rating

Moderately Satisfactory

10. M&E Design, Implementation, & Utilization

a. M&E Design

The M&E was to be implemented by the Iller Bank Project Management Unit. The ICR notes that the initial results framework was poorly developed (ICR, paragraph 34). For M&E purposes, there was only one outcome indicator to monitor progress, which was acknowledged as not adequate to measure the results chain. The results framework was later replaced during the AF resulting in five new key outcome indicators to be monitored (ICR, paragraph 11). Appraisal pre-identified sub project investments but indicators, baselines, and targets were to be established during implementation. Indicators used to monitor the improvement of the institutional capacities of municipalities and Iller Bank inadequately matched the desired outcome. There was no common data gathering or monitoring and evaluation methodology established. There were no guidelines shared with the implementing agency or participant municipalities. In the fifth and final restructuring, some sub- indicators were added to reflect changes to project targets.

The ICR did not identify planned evaluations. There were no indicators, baselines established for subproject progress until the 2009 Mid Term Review even though feasibility studies relating to the subproject investments were completed by November 2005.

b. M&E Implementation

The results framework was revised during the 2009 MTR, as well as the M&E system, but tracking of implementation progress was not followed. Municipalities reported on the agreed upon indicators but with noticeable inconsistencies throughout (ICR, paragraph 35).

After the 2009 MTR, the following indicators were dropped or replaced because these did not reflect the project's development objectives.

- Quality of local services provided by participant municipalities was dropped. This was replaced by 5 new indicators, discussed in Section 4: Achievement of Objectives.
- Some intermediate outcome indicators at the sub-project level were dropped because of poor definition: for example, under the municipal development component: (a) wastewater treated, (b) water loss reduced, (c) sewerage connection increased, and (d) solid waste disposed in landfill. Under the municipal technical

assistance component: (a) feasibility studies, design and construction supervision carried out efficiently, and (b) operational improvement plans implemented. Finally, under the component of strengthening the institutional capacity of Iller Bank, the indicator "project implemented satisfactorily" was dropped.

c. M&E Utilization

The PMU had limited M&E technical expertise. Travel restrictions imposed by Iller Bank hampered their ability to collect data for use in M&E. While results were monitored and reported, the methodology on gathering data and use of M&E was not evident.

M&E Quality Rating

Modest

11. Other Issues

a. Safeguards

This project was classified an Environmental Category FI (ICR, paragraph 21, PAD, Section 5, p. 19). Both Environmental and Land Acquisition Frameworks were developed and implemented by Iller Bank, which outlines the procedures for public consultation and information disclosure on environmental matters. Iller Bank screened the projects and assessed the applicability of the appropriate environmental categories, which the participant municipalities conducted and submitted to Iller Bank to meet compliance requirements. The project triggered the Environmental Assessment (OP/BP 4.01) and Involuntary Resettlement (OP/BP 4.12) (PAD, Section 6, p. 20).

The financing instrument was a Specific Investment Loan rather than financial intermediary lending, which required compliance with the Bank's Operational Policy 8.30 (ICR, paragraph 21). Since the subproject loans were between Iller Bank and the beneficiary municipality, full environmental assessments were conducted for subprojects that fell under Category A (i.e., projects requiring Environmental Assessments).

Two subprojects raised concerns:

1. the Mugla Wastewater Treatment Plant, which used an old quarry site for its discharge location and therefore needed to be continuously monitored by both the Iller Bank and by the municipality.
2. the Elbistan municipality, which implemented an investment in the water network, recently experienced the hospitalization of a significant segment of its residents due to pollution of the main water source. The incident, while not related to the project-financed investment, requires monitoring and corrective measures.

Compliance with OP 7.50 (International Waterways) was originally discussed based on potential subprojects but the government preferred to finance those projects. Iller Bank did not accept applications that may require compliance with OP 7.50.

The ICR notes that Iller Bank and the project implementation units in each subproject implemented the Land Acquisiton and Resettlement Policy (LARP) Framework satisfactorily (ICR, paragraph 41). The ICR notes that municipalities prepared Land Acquisition Reports and Land Progress Reports in accordance with the two LARP even though there was not a social safeguard staff within the Iller Bank PMU until 2010 to monitor expropriation and resettlement issues of subprojects. The ICR further reports that there were no physical resettlements in any of the subprojects and where applicable, land acquisition and compensation processes were in compliance with the requirements (ICR, paragraph 42).

Municipalities established grievance mechanisms for subprojects but with weak implementation. One complaint was brought to the court but was eventually resolved with final compensation determined by the court.

b. Fiduciary Compliance

Procurement: The ICR reports that procurement was handled satisfactorily (ICR, paragraph 45) although there were issues during the structural reform introduced by the government, which resulted in contract modifications. In response, both Iller Bank and the Bank team intensified the procurement training needs of the weaker participant municipalities. The Bank provided regular and continuous training on contract management, procurement methods throughout implementation. There were no reported cases of arbitration or dispute resettlement for financed contracts. There were 8 procurement complaints, seven of which were lodged during the early phase of project implementation. All were resolved. There were no reported cases of mis-procurement.

Financial Management: Financial management was assessed as satisfactory (ICR, paragraph 48). The Treasury Controller audited project financial statements, which received clear audit opinions. Iller Bank's audited financial statements were prepared in accordance with International Financial Reporting Standards.

c. Unintended impacts (Positive or Negative)

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d. Other

Iller Bank was moving toward a more efficient and independent financial intermediary owing to its performance in the project. This project was its first and its performance under the project has convinced other international financial intermediaries and other donors to provide similar financing arrangement (ICR, paragraph 50).

All municipal infrastructure assets financed under the project are reportedly actively operated by municipalities with adequate staff, equipment and financial resources to sustain operations and maintenance services. A few issues remain that require continued monitoring such as the progress in settling legal issues in Beypazari, monitoring the water catchment area in Elbistan, and monitoring discharge location in Mugla.

The Sustainable Cities Project was approved by the World Bank in December 2016, following this project and will continue financing municipal service investments under a more integrated urban approach (ICR, paragraph 52).

12. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	---
Risk to Development Outcome	Negligible	Modest	Two municipalities requiring continued monitoring of environmental safeguards compliance raise a modest risk.
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	---
Borrower Performance	Moderately Satisfactory	Moderately Satisfactory	---
Quality of ICR		Substantial	---

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

13. Lessons

The ICR presents five lessons. The most important of these are the following:
1. Exogenous factors may have the negative impact of leading to a longer than expected implementation period. During a lengthy 10 year implementation period, government action may dilute the impact of desired project outcomes. While government reform could favorably impact a project, the uncertainty from political and administrative actions may pose a high risk to achieving a project's development outcome. Preparing a subsequent operation after considering exogenous factors such as new legislation could be a more prudent approach rather than continuously restructuring an original project to extend its end date.
2. A robust results framework during preparation, in consultation with beneficiary participants (e.g., municipalities) is useful to strengthen a project's M&E system. A realistic assessment of M&E capacity of an implementing entity is also helpful to identify incentives that could be included in design that would encourage the implementing entity to closely monitor project progress.

14. Assessment Recommended?

No

15. Comments on Quality of ICR

The ICR is thorough, evidence based, and internally consistent following OPCS guidelines. The ICR candidly discusses the lack of robustness of the initial results framework, the weak M&E framework, and the lack of commitment to follow a revised results framework and an updated M&E system through.There is an extensive discussion of individual outcomes of the participant municipalities in the annexes and the economic and financial efficiencies associated with each subproject. The quality of evidence and analysis adequately support lessons drawn from implementation and the decisions that led to the five restructurings and resulting project extensions. However, there is a lack of discussion on indicators that could have assessed how the implementing agency strengthened its capacity to monitor project outcomes. The ICR could also have better explained why the risk regarding the readiness of participant municipalities to implement a 10% co-financing requirement was not adequately mitigated, which slowed initial implementation even though feasibility studies were completed by 2005 to generate a robust pipeline.

a. **Quality of ICR Rating**
Substantial