

Annual Report

Period covered: January – December 2013

Date of submission: February 4, 2014

I. SUMMARY

1. This is the first Danube Water Program Annual Report. The report covers activities that took place under the program between January and December 2013 (as well as some limited activities in 2012 following Grant Agreement signature). Much progress has been achieved in the year since the signing of the Grant Agreement in November 2012. While the focus of the early months of implementation was on the administrative and organizational setup of the program and supporting structures, the program team was able to roll out several analytical, capacity building, and knowledge sharing activities in the later months. This report highlights some of these early results in dedicated boxes throughout the report.

2. As mentioned above, the program activities prior to the official launch of the program were focused mainly on coordination and outreach and recruiting and making the IAWD Technical Secretariat operational. During that period several technical visits to program countries and coordination meetings with international and bilateral partners took place under Component 1. Under Component 2, progress was made on the selection of the Technical Secretariat, identification and contracting of the financial management company, preparation of the Operating Manual and meeting other disbursement requirements.

3. The Danube Water Program was officially launched at the first annual event on May 22-24, 2013 in Vienna. The Program Launch Event brought together more than 100 representatives of line ministries, water sector regulators, national water associations, and utilities from the eleven program countries, as well as senior sector experts from Brazil, Chile, Poland, Portugal, and Spain. The feedback received at the launch event confirmed the existing need for a regional multi-stakeholder dialogue platform on sector challenges and good practices. As a result, the program will host its second annual event on May 8-9, 2014 in Vienna. The second annual event may be jointly financed and organized with the GIZ's Open Regional Funds for Southeast Europe (ORF) and may also include representatives of local governments.

4. Based on the inputs received at the launch event, the team prepared a Work Plan outlining regional and country-level activities under both program components. Having validated the work plan with key counterparts in August 2013 and started implementation in the fall 2013 allowed the team to fully define its work program and develop further offerings. These additional activities are reflected in an updated work plan attached with this report. The updated work plan includes a detailed description and status of each activity, which are therefore not repeated in this annual report.

5. The program opened a website www.danube-water-program.org that currently serves as a resource depository for program participants and features upcoming sector events in the region. The program team will continue updating the website with additional content of interest to participants.

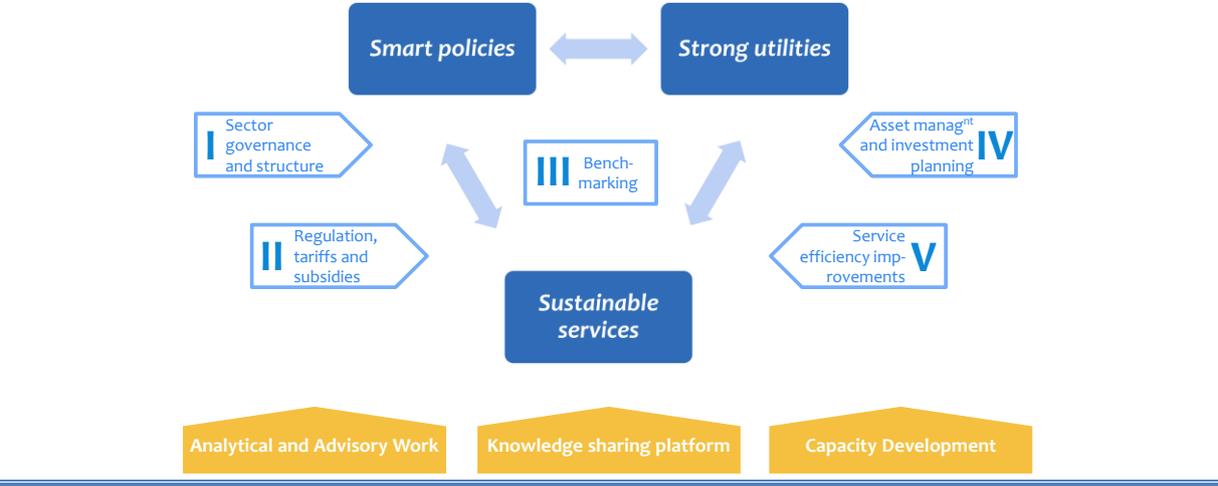
6. As discussed at the Steering Committee meeting in August 2013, the program budget currently exceeds the financial resources available under both program components. While the team has made efforts to generate cost savings by reducing commitments as well as secure additional funding from other sources, the remaining funding gap is not insignificant. Please refer to Annex 6 for the list of additional contributions, and to the updated work plan for the detailed program budget and planned activities. Overall disbursement rate of both components stands at 24%, a reasonable figure considering the Program is about one third into its implementation period and activities are still ramping up.

7. The program is generally on track to meet its Project Development Objective (PDO) level as well as intermediate results indicators. Out of four PDO level indicators and six intermediate results indicators, the program is expected to achieve or exceed eight. In the course of implementation, the team has learned that the current design of program activities makes achieving the two remaining indicators more difficult, but not impossible. The team will discuss the need, if any, to revise the results framework at the midterm review of the project in March or April 2014. Please refer to the results framework in Annex 1 for further details.

Early Result: Danube Water Program launch event kicks-off dialogue on Smart policies, strong utilities, and sustainable services

Apart from officially launching implementation of the Danube Water Program, one of the main objectives of the event was to facilitate collaboration among various sector stakeholders in participating countries. The event succeeded in enabling cross-stakeholder dialogue on pressing sector issues that often does not take place without donor involvement. The design of the country working group sessions literally gathered representatives of national institutions at a table to work on a single list of sector priorities in their countries.

The overall structure of the event mirrored the conceptual organization of the program, with five thematic sessions on each program pillar complemented by country and topic working group sessions. The participants’ feedback received during these sessions served as a basis for development of regional and country-level activities that fall into three categories: analytical and advisory work, knowledge sharing, and capacity development.



II. COMPONENT 1 PROGRESS

1. Overall situation

8. The staffing of the World Bank team executing Component 1 was fully completed by August 2013. The Vienna-based team consists of David Michaud, Senior Water and Sanitation Specialist and TTL; Kirsten Hommann, Senior Economist (part-time); and Anastasia Shegay, Analyst. Stjepan Gabric, Senior Operations Officer (part-time) is based in Zagreb.

9. The role and responsibilities of the Danube Water Program Task Team Leader (TTL) was formally handed over from Bjorn Philip to David Michaud in October 2013.

2. Main activities

10. The main activities under Component 1 included:

- *State of the Sector review.* The first analytical activity under the program aims to provide a comprehensive overview of the state of the water supply and sanitation sector (WSS) in the eleven program countries as well as other comparator countries from the Danube region. In July 2013, the Bank team held a formal review of the concept note for the *State of the Sector* analytical product. A number of internal and external peer reviewers had an opportunity to provide comments on the concept note, all of which were then addressed by the team. At the review meeting, the World Bank Sector Director formally approved the concept note.

To assist with data collection and analysis, the team has contracted 10 local consultants in 9 out of 11 program countries and has identified, but not yet contracted, consultants in the remaining two countries. At the time of this report, data collection is ongoing and initial results from 6 countries were received. The team expects to complete data collection by the end of March 2014 and, depending on the progress, present some early results of the study at the annual event in the beginning of May.

- *Further analytical products.* At the request of several program countries and to better inform further activities, the program is also launching three analytical pieces in addition to the State of the Sector review. These products will focus on exploring the following subjects: (1) potential efficiency gains resulting from aggregation of water utilities; (2) household data on access to services and sector performance; and (3) social impact of tariff increases on poor households. At the time of this report, the team has begun preparatory data collection and contracting of research consultants. Furthermore, additional funding of USD 375,000 from the Water Partnership Program (WPP) for the water tariff study was confirmed.
- *Regional results-based technical assistance (TA) program on WSS sector modernization (Pillar I: Sector policies and institutions).* This activity was designed to support policy dialogue and sector modernization efforts of national institutions in the program countries. The first workshop under Pillar I took place in September 2013 in Bucharest. The policy workshop, themed “Smart policies for strong utilities and sustainable services” brought together over 30 representatives of line ministries, regulatory authorities, and national water associations for three days of learning and discussion on sector policies and networking. The inputs received at the workshop allowed the team to design further policy support activities in select countries; please refer to the updated work plan for the list of activities and their descriptions.

- *Regional results-based TA program on WSS sector regulation (Pillar II: Regulation, tariffs, and subsidies).* This regional activity aims to develop capacity of the WSS sector regulatory authorities in the region. The first activity under Pillar II took place in November 2013 in Florence. The regulatory workshop, themed “Best Practices in Water Sector Regulation in the Danube Region and Beyond,” delivered a three-day training to 13 high-level representatives of WSS sector regulatory authorities from 6 countries. Speakers included President of the Portuguese Water and Waste Services Regulation Authority (ERSAR), representatives of the Italian energy and water regulator (Aeeg), Italian association of water and energy companies (Federutility) and former representative of the French national agency for water (ONEMA). The format of the workshop was a combination of lectures followed by discussions and hands-on exercises. The workshop was designed to facilitate client-to-client knowledge exchange by having participants deliver presentations and some content rather than conducting traditional training. Holding the workshop in Florence also allowed regulators from the Danube region to attend a subsequent seminar on “Water Sector Regulation in Europe,” organized by the Florence School of Regulation.
- *Regional benchmarking initiative and national benchmarking systems support (Pillar III: Benchmarking).* The two activities are closely linked and share the same objective: to promote benchmarking as a tool for sector performance monitoring and improvement. The benchmarking workshop held in Bucharest in September 2013 simultaneously launched three benchmarking initiatives under the Danube Water Program: (1) Danube Utility Benchmarking and Indicators System (DANUBIS); (2) National Benchmarking Systems Support; and (3) Benchmarking for Utility Improvement. Whereas (3) falls under Component 2, the Bank team took the lead in implementing initiatives (1) and (2). The team prepared a concept note for developing a regional WSS utility performance indicator and benchmarking platform that would be based on an already existing platform of the International Benchmarking Network (IB-Net) and customized to the regional context.

In parallel, the team has reached agreement with a number of countries to provide customized support to their national benchmarking systems which would eventually be linked to DANUBIS.

Early Result: Regulatory workshop in Florence responds to capacity development needs of recently established regulatory agencies in the Danube region

While the Danube Water Program has been engaging with WSS sector regulators since the start of the program, the regulatory workshop in Florence was the first workshop under the program designed and delivered specifically to regulators. Among the attendees were Chairman of the Water Regulatory Authority of Albania, President of the Council for Water Services of Croatia, President of the National Regulatory Authority on Communal Utilities of Romania, and Chairman of the National Commission for the State Public Utilities Regulation of Ukraine. Convening a small group of high-level participants allowed for frank and productive discussions on regulatory challenges, such as ensuring independence of regulators and navigating political economy of regulation. The workshop also made it possible to develop professional connections among regulators, which resulted in subsequent independently organized peer-to-peer exchanges between regulators in Albania, Portugal, Romania, and Ukraine, as well as between regulators in Bulgaria and Kosovo.

- *Regional results-based energy efficiency training program (Pillar V: Service efficiency improvement).* This capacity building activity aims to decrease overall

energy consumption in select WSS utilities in program countries. The Bank team has been working with a competitively selected consulting firm on the design and implementation of the regional results-based energy efficiency capacity building program for WSS utilities. In late 2013 the team has received and approved the conceptual program approach presented by the firm and is currently expecting a detailed training plan. In addition, the team has approved selection of four program countries (Bulgaria, Croatia, Serbia, and Ukraine) from which qualified utilities will be chosen. The team expects to issue the call for interested utilities in these countries in early 2014.

Early Result: Representatives from the eleven program countries voice their support for DANUBIS, become members of the Steering Group

At the time of this report, the team has established a DANUBIS Steering Group representing national institutions responsible for data collection in their respective countries. The first meeting of the Steering Group took place via videoconference on January 28, 2014 and was attended by representatives from all eleven countries. During the meeting, members of the Steering Group provided comments on the concept note and timeline and agreed on the next steps in the setup of the system. Although at the moment, not all countries are in a position to formally confirm their participation in DANUBIS—due to legal or data availability constraints—representatives from all eleven countries will continue as members of the Steering Group and closely follow the system development.

3. Problems encountered

11. The main challenges faced so far under Component 1 included:

- Now that many of the program activities are well under way, the main challenge that has emerged under Component 1 is ensuring that the training and exposure to good practices received by representatives of participating national institutions in fact translate into concrete policy and regulatory actions. Given that the program cannot exert control over policy agendas of participating countries, this challenge can be overcome only with genuine commitment and proactive approach on the part of national institutions.

4. Priorities for 2014

12. The main priorities for the next year under Component 1 are the following:

- Complete data collection for the State of the Sector review by the end of March 2014, and present preliminary results to program participants at the second annual event in early May; complete the analysis and prepare country notes and regional overview by the end of summer
- In early 2014, complete selection of qualified utilities that would receive training on the energy efficiency improvements in April; the first round of commercial improvements is expected to take place in the summer
- Continue policy dialogue with select countries and provide advisory and analytical support according to the updated work plan
- Support development of the regional utility performance indicator and benchmarking platform DANUBIS and provide support to national benchmarking systems

III. COMPONENT 2 PROGRESS

1. Overall situation

13. The IAWD management structure has been in place since July 2013 and fully operational and active in implementing the program.

2. Main activities

14. The main activities under Component 2 included:

- Initiation of the Competitive Grant program. The Announcement for the program (the first call for proposals) was published on the site of IAWD at the end of July 2013. A deadline of September 30 was established for submission of the project concept and outline of work. This deadline was subsequently extended until October 11 and resulted in 70 applications. Out of these 70 applications 14 proposals were selected for funding and an additional 7 were identified as projects which could possibly be supported by the grant process or other program elements. The quality of the applications was very high and contracting of the work has been proceeding.
- A program of Asset Management has been developed and contracting is underway. The program is intended to build upon work that has been done in the region through a project of support from KfW and will target utilities in the Western Balkans.
- A Website Designer was hired and a Project website launched at the end of September. The site includes information on the topics of the program, the activities i.e. competitive Grants, staff, events of the program and related events. The website is acting as a communication tool for the project and allowing for outreach to a large number of persons.
- The support and cooperation with Water utility Associations has been a focus of activities in this period and has involved communication and discussion with the Associations on potential support from the program to strengthen the Associations ability to provide assistance and support to utilities. A meeting of the associations took place in Bucharest at the end of September and communication with their members about the program and input on future meetings and events to support the associations and their cooperation was received and will be used in follow-up steps. The need for support in business planning of the associations and their members and technical training programs were identified.
- Support of the Associations has also been received for a program of Utility benchmarking which will be launched in early 2014. The program will utilize the platform and methods of the European Benchmarking Cooperation and target 40 utilities.

Early Result: Competitive Grants Window receives an overwhelming response

The Competitive Grants Window activity under Component 2 generated a very enthusiastic response from various program stakeholders. In response to the Expression of Interest, the team has received 70 applications from all program countries, amounting to an estimated total of EUR 3.2 million. While most of the grants out of the 14 winning proposals were allocated to national level activities, the team welcomed a selected number of grants directed toward sub-regional activities involving more than one country.

- Planning has also begun for a utility commercial efficiency program and will be launched in early 2014. The program will provide support and training for utilizes on business planning and commercial operational issues.
- Discussions on support and collaboration with other funders and programs have taken place during this period and in particular with the Open Regional Fund of GIZ and SDC and with the European Union (Danube Strategy). These discussions have proved beneficial and co-financing for a number of project activities is being finalized.

Early Result: Western Balkan utilities will benefit from Asset Management Service Center

The Asset Management (AM) program is aimed at helping utilities plan and implement improved asset management practices with a capacity-building training program inspired by the work done by Belgrade Waterworks as well as the program developed by the National Laboratory for Civil Engineering (LNEC) in Portugal. In order to carry out this activity in a cost efficient manner the program will capitalize on the experience and knowledge accumulated in the Belgrade Waterworks. The Belgrade Waterworks and its partners will provide in-kind support for the project through provision of part-time staff, office running costs and the AM software currently used in Serbia. The AM will operate primarily through cloud technology with reduced operational costs, enabling much easier participation of utilities. The establishment of the regional AM hub will institutionalize the AM knowledge in the region and enable cooperation and exchange of best practices between the waterworks companies in the Western Balkan region.

3. Problems encountered

15. The main challenges faced so far under Component 2 included:

- Strong interest has existed in the Competitive grants and management of the grants has\and will involve considerable work and careful consideration to achieve maximum benefit of program resources.
- Some difficulties in organizing and managing the financial resources of the project were encountered although support from the Bank and concentrated effort on the part of the project team and the IAWD staff has allowed these difficulties to be overcome and to create conditions for smooth operations in the following periods.
- Overall capacity of the Secretariat to manage the workload (undertake activities connected with project management i.e. regular update of the website and overall communication) has emerged and will be addressed with temporary assistance from additional donor support.

4. Priorities for 2014

16. The main priorities for the next year under Component 2 are the following:

- Ensuring successful completion of the activities proposed under the Competitive Grants
- Further information dissemination through the program website and program newsletter
- Asset Management Program fully operational and launch of the Utility Benchmarking initiative.
- Implementation of a Utility Efficiency component of the program
- Continual support to Utility Associations and strengthening of their capacity including through training of trainers.
- Cooperation with other Funders and Programs (ORF, EU) to achieve synergy and expansion of the resources available for activities

IV. ANNEXES

1. Results framework

PDO LEVEL RESULTS INDICATORS	Base -line	Cumulative Target Values (current year updated up to report date)				Status	
			2012	2013	2014		2015
Indicator One: [NUMBER] of target countries in which regulatory and policy recommendations have been discussed by decision makers.	0	Planned	0			8	<i>Challenging to achieve</i>
		Actual		0			
Indicator Two: [NUMBER] of Operational Performance Improvement Action Plans or equivalent drafted by participating utilities.	0	Planned	0			15	<i>Expected to exceed</i>
		Actual		0			
Indicator Three: [NUMBER] of participating countries that have implemented and are using a sector information system to track utility performance.	0	Planned	0			6	<i>Expected to achieve</i>
		Actual		0			
Indicator Four: [NUMBER] of participating utilities that have defined and undergone at least one cycle of efficiency improvements monitored in the sector information system.	0	Planned	0			10	<i>Expected to exceed</i>
		Actual		0			
INTERMEDIATE RESULTS							
Intermediate Result (Component One): Developed regulatory and policy instruments for improved country framework conditions.							
Intermediate Result indicator One: [NUMBER] of sector regulation reviews conducted.	0	Planned	0			11	<i>Expected to achieve</i>
		Actual		0			
Intermediate Result indicator Two: [NUMBER] of sector policy reviews (including identification of opportunities for Private Sector Participation) carried out.	0	Planned	0			11	<i>Expected to achieve</i>
		Actual		0			
Intermediate Result indicator Three: [NUMBER] of energy audits conducted for participating utilities.	0	Planned	0			15	<i>Expected to achieve</i>
		Actual		0			
Intermediate Result indicator Four: [NUMBER] of participating utilities reporting performance data to the sector information system.	0	Planned	0			20	<i>Expected to exceed</i>
		Actual		0			
Intermediate Result (Component Two): Increased institutional capacity in participating utilities.							
Intermediate Result indicator One: [NUMBER] of policy makers, higher-level technical and managerial staff from participating countries that benefited from cross-country capacity building activities.	0	Planned	0			45	<i>Expected to exceed</i>
		Actual		86			
Intermediate Result indicator Two: [NUMBER] of utilities that have prepared business plans.	0	Planned	0			15	<i>Challenging to achieve</i>
		Actual		0			

2. Disbursement levels¹

All amounts in EUR 1,000

Component	Starting Balance	Annual Disbursements	Ending Balance	Undisbursed Balance	% disbursed
Component 1 / World Bank	0	403	403	1,038	28%
Component 2 / IAWD	0	598	598	2,141	22%
Total	0	1,001	1,001	3,179	24%

3. Missions and technical visits

Dates	Location	Participants ²	Purpose
November 13-19, 2012	Vienna, Austria	Michaud, Gabric	Program supervision and initial Component 1 introduction
January 24-25, 2013	Vienna, Austria	Tausanovic, Gulyani, Gabric, Philipp	Participation in Stakeholder workshop
January 28-29, 2013	Macedonia	Philipp, Michaud	Program introduction to national and local authorities and partners
February 3-5, 2013	Ukraine	Michaud, Gabric	Program introduction to national and local authorities and partners
February 11-13, 2013	Serbia	Michaud, Gabric	Program introduction to national and local authorities and partners
February 14-15, 2013	Croatia	Michaud, Gabric	Program introduction to national and local authorities and partners
April 8-10, 2013	Bucharest	Michaud, Gabric	Program introduction to national and local authorities and partners
April 12, 2013	Vienna	Local team only	Technical discussion with external actors (EBC, IB-Net, ÖVGW/Boku) on benchmarking activities under the Program
April 22-23, 2013	Zagreb	Michaud	Follow-up discussions on possible activities under the Danube Water Program, in particular with regards to benchmarking
May 13-14, 2013	Brussels	Michaud, Gabric	Program outreach to the European Commission (DG Regio, DG Environment, Danube Region Strategy team) as well as Western Balkans Investment Framework
May 22-24, 2013	Vienna	Gulyani, Philip, Gabric	Participation in the Danube Water Program Launch Event

¹ As of December 31, 2013

² Only core IAWD and WB team members' travel is included

June 9-10, 2013	Bucharest	Michaud	Participation in the Danube-Black Sea Regional Water Forum and side meetings with water associations of Bulgaria, Romania and Serbia
July 9-10, 2013	Belgrade	Michaud, Weller	Continued engagement with local stakeholders on possible activities under the Danube Water Program
August 26-29, 2013	Belgrade	Frank	Meetings with Belgrade Waterworks on development of asset management program
September 10, 2013	Zurich	Michaud, Weller	Program outreach to the Swiss Development Agency (SDC) and the Swiss State Secretariat for Economic Affairs (SECO)
September 22-27, 2013	Bucharest, Romania	Frank, Gabric, Michaud, Shegay, Weller	Organization of and participation in policy and benchmarking workshops
October 21-24, 2013	Vienna	Frank, Hommann, Michaud, Philip, Shegay, Weller	Financial management and procurement supervision and TTL handover
November 4-5, 2013	Brussels	Michaud, Weller	Program outreach to the European Commission (DG Environment)
November 6-8, 2013	Pristina	Shegay, Weller	Participation in the Shukalb-Shukos First Joint Annual Conference
November 18-19, 2013	Belgrade	Michaud, Weller	Participation in the Serbian Utility Association Water Forum and side meetings with the Serbian government counterparts
November 25-27, 2013	Florence	Frank, Gabric, Hommann, Michaud, Shegay	Organization of and participation in the regulatory workshop
November 28-29, 2013	Florence	Gabric, Hommann, Michaud, Shegay	Participation in the 2 nd Seminar on Water Sector Regulation in Europe organized by the Florence School of Regulation
December 2-3, 2013	Macedonia	Michaud, Weller	Coordination with the Swiss Development Cooperation, GIZ Open Regional Funds, and Network of Associations of Local Authorities of Southeast Europe (NALAS) on activities in Western Balkans
December 4-5, 2013	Bosnia and Herzegovina	Michaud, Weller	Participation in a national water event organized by a network of WSS sector actors Aquasan and meetings with the government

4. Events, Trainings and conferences

Dates	Location	Number of participants	Purpose
January 24-25, 2013	Vienna, Austria	15	Stakeholder consultation workshop focused on discussing implementation of the Program.
May 22-24, 2013	Vienna, Austria	115	Program Launch Event
September 22, 2013	Bucharest, Romania	19	National utilities association meeting
September 22-25, 2013	Bucharest, Romania	50	Policy Workshop
September 26-27, 2013	Bucharest, Romania	40	Benchmarking Workshop
November 25-27, 2013	Florence, Italy	20	Regulatory Workshop

5. Publications and documents

Date of publication	Title
January 2013	Program Brochure (first version)
May 2013	Program Brochure (second version)
May 2013	Launch Event Program
June 2013	Launch Event Summary Report
August 2013	Program Work Plan
September 2013	Policy and Benchmarking Workshops Program
November 2013	Regulatory Workshop Program
December 2013	Regulatory Workshop Summary Report
December 2013	Policy and Benchmarking Workshops Summary Report
January 2014	Program Work Plan (Update)

6. Agreements with other programs and donors

Partner	Area of collaboration	Amount	Status
Energy Sector Management	Regional results-based energy	USD 120,000	Received

Assistance Program (ESMAP)	efficiency training program		
International Benchmarking Network for Water and Sanitation Utilities (IB-NET)	Support to regional performance indicator system and national benchmarking systems	USD 100,000 (In-kind)	Confirmed
Water Partnership Program (WPP)	Study on designing financially sustainable and socially acceptable water tariffs	USD 375,000	Confirmed
European Union (EU)	Support implementation of the water strategy in Albania	EUR 200,000	Confirmed
European Benchmarking Cooperation (EBC)	Support to benchmarking for utility improvement	In-kind	In discussion
Open Regional Funds for South-East Europe (ORF)	Development of a regional benchmarking platform	EUR 500,000	In discussion
Open Regional Funds for South-East Europe (ORF)	Establishment of a regional dialogue platform	EUR 420,000	In discussion
Open Regional Funds for South-East Europe (ORF)	Development and dissemination of asset management methods	EUR 390,000	In discussion
Public-Private Infrastructure Advisory Facility (PPIAF)	Development of a pilot PPP deal on efficiency improvements	USD 75,000	In discussion