MANAGEMENT RESPONSE TO THE IED EX-POST IMPACT EVALUATION: IMPACT OF COST SHARED WATER SUPPLY SERVICES ON HOUSEHOLD WELFARE IN SMALL TOWNS IN NEPAL

On 13 June 2018, the Director General, Independent Evaluation Department, received the following response from the Director General, Strategy, Policy and Review Department on behalf of Management:

A. General Comments

1. Management appreciates the *Impact Evaluation Study of Cost-Shared Water Supply Services on Household Welfare in Small Towns–Ex-Post Impact Evaluation of a Project in Nepal*. The report is generally well prepared, and management largely agrees to its findings.

2. The study affirms the findings of the project completion report (PCR), which concluded that Nepal Small Towns Water Supply and Sanitation Sector Project, implemented during 2000–2009, was successful in improving water supply and sanitation and meeting 95% of the outcome target of providing improved access to 600,000 population in 29 project towns. The project supported local beneficiaries' participation in project formulation, design, implementation, operations and maintenance, and cost sharing and led to strong community ownership. The project was rated highly relevant, effective, efficient, and likely to be sustainable. The performance of Water Users Associations established to manage services at the town level were rated *satisfactory*. The PCR identified few lessons including provision for additional time during implementation to enable strong community participation, need for support for community organizations after the transition to post-construction period, extensive and thorough investigation of potential project sites to overcome design shortcomings, among others.

3. Management supports the major findings of the impact evaluation report that the operational and financial sustainability of water services provided improved in project towns leading to household access to high quality water supply that translated into improved health and nonhealthy outcomes. Management also agrees with the study findings that the project approach is more successful than an approach that is less comprehensive, and community based; and progressive tariffs, which are essential for financial viability, are made easier to accept through transparent reporting of the financial status of the water schemes and through demonstrated improvements in level of service. The study also noted avoidable design flaws and lack of subsidies for poorer households, which were remedied in subsequent phases.

4. Management notes that the study acknowledges data and methodological limitations that could have led to upward bias due to unobserved characteristics. Cost-sharing inherently is likely to adversely affect the poorer households without appropriate mitigation measures. The study could have added more operational value if it had also investigated the impact of cost-sharing on access to water supply and sanitation by poorer households. Our assessment is that the study reliance on

propensity scores to address placement/selection bias is not likely to control for unobserved factors that are inherent in a self-application process of the project. More robust methodological approaches are necessary to improve future impact evaluations

B. Management Response to the Recommendations

5. **Recommendation 1:** Further test the model that was the object of this evaluation (cost- shared, community-managed water supply systems with institutional support) in other countries with a similar context to see whether it can be replicated and scaled-up.

6. *Management agrees.* In a context where public resources are constrained, and the governments are encouraging private sector participation, cost-sharing is welcome from financing perspective. Literature review supports evidence of higher end-user engagement in public service provision where cost-sharing is involved, and such higher end-user engagement has to greater· accountability on part of the public service providers and higher quality of services. However, poor households are likely to be disadvantaged if the cost-sharing is unaffordable. This may lead to exclusion and deepening of inequalities in the access to services. Management suggests that the dimension of 'inclusion' be rigorously tested in cost-sharing models to determine optimal project designs that mitigate the risk of exclusion of the poor in a cost-sharing model.

7. **Recommendation 2:** Devote more attention to understanding the geohydrological setting when preparing water supply systems in multiple small towns, so that variability in quality and quantity of the source water can be better accommodated in project design.

8. *Management agrees.* While the importance of the recommendation at the project design stage is· well understood, the whole ecosystem that enables the implementation of the recommendation needs to be strengthened also through medium to long term efforts. This will involve strong, geohydrological capabilities among the consultants, concerned local institutions, regularly updated quality survey data, and transfer of relevant technologies.

9. **Recommendation 3:** Strategically plan and implement impact evaluations for future programs or projects that have potential for replication and scale-up as identified by sector and thematic groups.

10. *Management agrees.* However, management would like to point out that the operational departments are not expected to have expertise in impact evaluation or identify projects ex-ante for replication and scale-up that can be subject for implementing impact evaluation. As 'One ADB', the impact evaluation expertise is hosted in the Economic Research and Regional Cooperation Department, which can implement the recommendation in coordination with various regional departments.