

# 2014 Report on Closeout ERRs

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## Abstract

*The main purpose of this report is to concisely document facts on ERRs that have been updated upon compact closeouts as of end-2015. The report's first three sections describe coverage, characteristics of all closeout ERRs and characteristics of closeout ERRs that fall below MCC's ten percent threshold. Section IV presents original ERRs for open compacts using data available as of end-2015. The data used to estimate these closeout ERRs reflects final cost data as available at closeout. As the benefits stream for most projects may only start after compact closeout, these closeout ERRs remain an ex-ante estimate of economic return.*

## 2014 Report on Closeout ERRs

### Economic Analysis

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#### I. Coverage:

**Closeout ERRs have been produced for the majority of projects and MCC funds.** The Economic Analysis (EA) division started updating ERRs upon compact closeout in 2011. At end-2014, out of 94 projects with a disbursed value of approx. US\$4.7 Billion spanning 10 compacts, EA has estimated and posted 57 closeout ERRs on MCC's external website (see Table 1). The majority of the remaining projects were either cancelled or do not have an ERR planned (12 and 16 respectively). Once the remaining 9 closeout ERRs are updated, 72 percent of all funds disbursed will have a closeout ERR (70 percent of all projects).

Table 1

Overall Description of Data -- Closed Compacts			
	Number	Funds Committed	Funds Disbursed
<b>Total Closed Projects</b>	<b>94</b>	<b>5,053.82</b>	<b>4,686.19</b>
Projects with Closeout ERR	57	2,766.24	2,750.51
Projects without Closeout ERR	37	2,287.58	1,935.68
Closeout ERR pending	9	603.85	607.65
Projects for which no ERR Will Be Calculated	28	1,683.73	1328.03
Completed, but no ERR Planned	16	847.63	755.07
Cancelled Projects	12	836.11	572.96

#### II. Characteristics:

**Closeout ERRs are on average above MCC's 10 percent threshold.** ERRs are estimated at the lowest possible level of disaggregation. When reporting summaries for compact statistics—as we do here—ERRs are sometimes aggregated by project or by activity using funds as weights. Table 2 shows weighted and un-weighted average ERRs for different categories. The table shows no significant differences in these averages, with ERRs fluctuating between 12 and 17 percent. The exceptions are in the compact

category with Lesotho's at 9.59 percent--the lowest overall—and Morocco's, El Salvador's and Ghana's standing out at around 20 percent. The average ERR for the 57 projects weighed by disbursed funds is 16 percent.

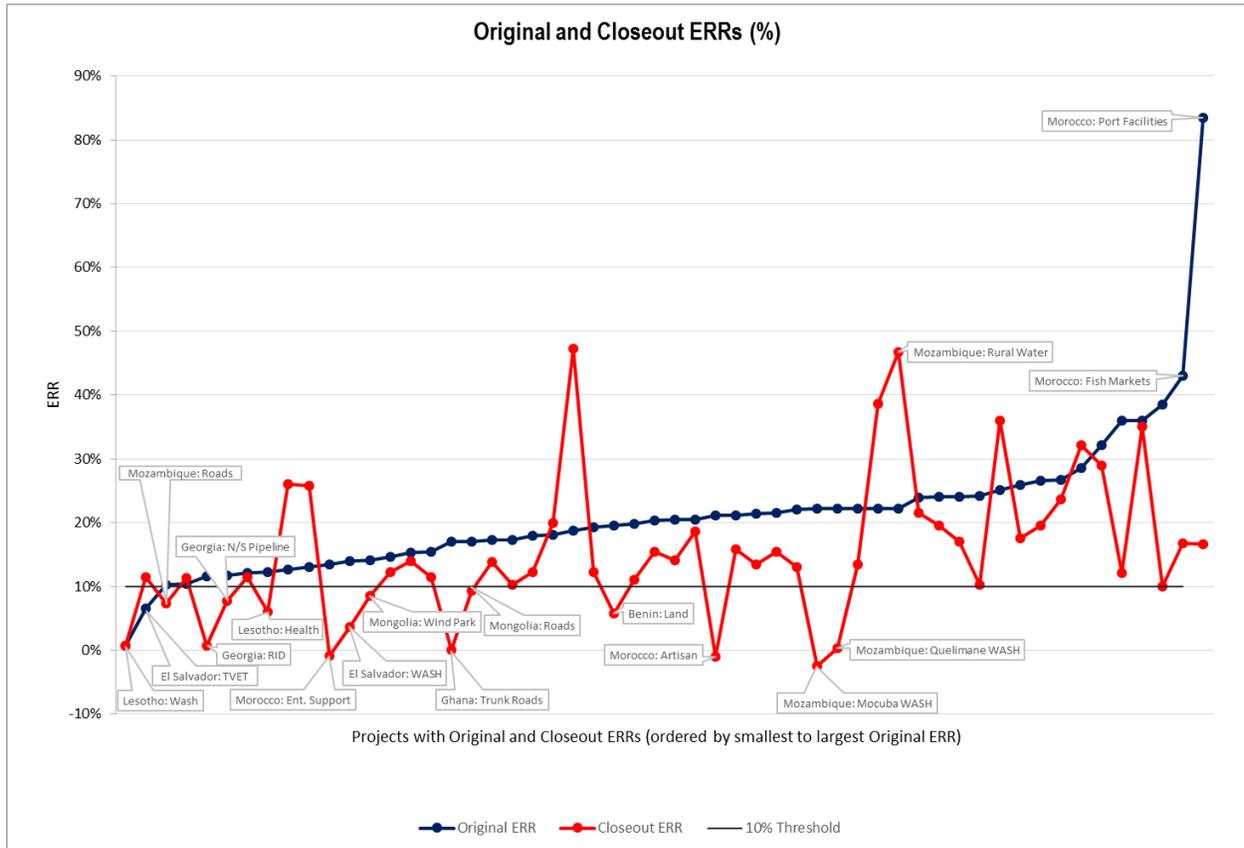
**Closeout ERRs have final cost data but do not include final benefits.** Final benefits will in most cases take a number of years to be realized although it is possible at compact closure to have an updated estimation of the benefits. Notwithstanding that closeout ERRs are still not final ERRs, it is useful to compare closeout ERRs with their original estimates. As Chart 1 shows, the norm is that original project ERRs are above their corresponding closeout ERRs. The weighted average for original ERRs is 19.5 percent compared to the 16 percent for closeout ERRs. The average gap (original ERR – closeout ERR) is 4.5 percentage points, though closeout ERRs increased for 10 projects relative to the original ERRs.

Table 2

All Projects with Closeout Data				
Sector	Weighted Closeout ERR	Unweighted Closeout ERR	Total Projects	Funds Disbursed (US\$M)
Agriculture and Irrigation	19.88%	20.10%	15	628.00
Energy	15.00%	13.70%	4	102.70
Finance, Invest., Trade	12.96%	10.94%	5	309.93
Health, Ed. & Community	12.92%	14.84%	8	299.25
Land	15.55%	15.30%	4	104.40
Transport	17.12%	15.19%	9	944.74
WASH	11.99%	13.89%	12	361.49
Closeout Year	Weighted ERR	Unweighted ERR	Total Projects	Funds Disbursed (US\$M)
2011	12.09%	10.78%	9	699.32
2012	20.85%	15.55%	15	668.82
2013	15.66%	17.09%	33	1382.37
Size at Closeout (US\$)	Weighted ERR	Unweighted ERR	Total Projects	Funds Disbursed (US\$M)
< 50M	15.68%	15.27%	41	993.30
50M - 100M	16.69%	17.42%	9	557.45
> 100M	15.97%	15.93%	7	1199.76
Country	Weighted ERR	Unweighted ERR	Total Projects	Funds Disbursed (US\$M)
Armenia	12.28%	14.55%	2	36.90
Benin	12.77%	11.23%	3	278.13
El Salvador	20.25%	15.14%	8	417.10
Georgia	11.85%	7.97%	3	318.60
Ghana	21.84%	16.01%	7	251.72
Lesotho	9.59%	9.80%	4	258.47
Mongolia	12.52%	13.00%	7	218.10
Morocco	19.68%	19.16%	14	595.00
Mozambique	15.19%	20.70%	8	310.80
Vanuatu	10.30%	10.30%	1	65.69
<b>All Projects</b>	<b>16.01%</b>	<b>15.69%</b>	<b>57</b>	<b>2750.51</b>

**More than one fourth of closeout projects have ERRs below MCC's threshold.** Chart 1 reveals substantial variation across closeout ERRs. They range from -3 percent to 47 percent. Chart 1 identifies the 14 projects with an ERR below the threshold (25 percent of all projects).

Chart 1



**III. Projects with ERRs below the threshold:**

**Projects with ERRs below the threshold are mostly small in size, concentrated in 2013, more prevalent in water and sanitation projects, and evenly distributed across compacts.** Table 3 disaggregates closeout ERRs projects that fall below 10 percent in different categories. The average ERR for the 15 projects is 5 percent corresponding to approx. US\$605M or 22 percent of disbursed funds. The table shows that more than two thirds (71 percent) of the projects are small projects (<US\$50M) but that 40 percent of the disbursed funds correspond to 2 high value projects that sum up to US\$256M. The 2 projects are Mozambique's Rehabilitation/Construction of Roads Project (US\$127.7M) and Lesotho's Health Sector project (US\$128.5M).

All sectors have at least one project with an ERR below the threshold. The water and sanitation sector has the most number of projects amounting to 42 percent of the value of the sector's portfolio. The

transport sector's three projects amount to the highest value of disbursed funds. Two of the four energy projects fall below the threshold and account for almost 40 percent of the value of energy's portfolio. The Lesotho project on health accounts for 43 percent of the nearly US\$300M for the sector's total.

Table 3

Closed Projects with Closeout ERR below 10% Threshold				
Sector	Weighted ERR	Unweighted ERR	Total Projects	Funds Disbursed (US\$M)
Agriculture and Irrigation	-1.00%	-1.00%	1	3.60
Energy	7.77%	8.15%	2	37.98
Finance, Invest., Trade	-0.90%	-0.90%	1	15.10
Health, Ed. & Community	6.00%	6.00%	1	128.46
Land	5.80%	5.80%	1	39.20
Transport	6.87%	5.57%	3	229.51
WASH	0.88%	0.56%	5	151.66
Closeout Year	Weighted ERR	Unweighted ERR	Total Projects	Funds Disbursed (US\$M)
2011	4.02%	4.73%	3	134.40
2012	1.34%	1.80%	2	53.01
2013	5.68%	3.10%	9	418.10
Size at Closeout (US\$)	Weighted ERR	Unweighted ERR	Total Projects	Funds Disbursed (US\$M)
< 50M	2.70%	2.23%	10	220.75
50M - 100M	5.34%	5.05%	2	128.60
> 100M	6.65%	6.65%	2	256.16
Country	Weighted ERR	Unweighted ERR	Total Projects	Funds Disbursed (US\$M)
Armenia	N/A	N/A	0	0.00
Benin	5.80%	5.80%	1	39.20
El Salvador	3.60%	3.60%	1	19.80
Georgia	3.29%	4.20%	2	95.20
Ghana	0.00%	0.00%	1	33.21
Lesotho	5.06%	3.35%	2	156.32
Mongolia	9.37%	9.00%	2	71.38
Morocco	-0.92%	-0.95%	2	18.70
Mozambique	5.44%	1.70%	3	171.70
Vanuatu	N/A	N/A	0	0.00
<b>All Projects</b>	<b>4.93%</b>	<b>3.26%</b>	<b>14</b>	<b>605.51</b>

**Increased costs and reduced scope are the most important reasons behind closeout ERRs falling below the threshold.** Table 4 identifies the reasons for reduced ERRs for every project below the threshold. The single most listed category is increased costs, followed by reduced scope. Other reasons include poor data at EIF and poor project design. At this time, the reasons listed are mainly based on

conversations with the compact-assigned lead economists. Only one of these projects has an evaluation assessment (Ghana, Irrigation). Evaluations of six more projects are planned.

Table 4

Major Drivers of Reduced ERRs at Closeout									
Country	Project	Primary Causes						Project Design	Other
		Reduced Scope	Increased Costs	Reduced Beneficiaries	Poor Data at EIF	Low Carbon Credit Prices	Government/ Third-Party Progress		
Benin	Access to Land	X	X						
El Salvador	WASH	X		X	X				
Georgia	Regional Infrastructure Dev.			X				X	Inadequate Water Supply
Georgia	N/S Pipeline					X	X		
Ghana	Irrigation*						X		Initial assessments indicate that two components of this project are not adequately maintained and that the third has deteriorated considerably. Given the current state of the infrastructure, it is unlikely that the project will have a positive return
Ghana	Trunk Roads	X	X						
Lesotho	Health Sector		X		X		X		
Lesotho	Rural Water Supply							X	Limited economic potential in target community
Mongolia	Choir-Sainshand Road		X						Lower-than-expected traffic
Mongolia	Wind Park					X			Government inaction; construction delays
Morocco	Enterprise Support		X		X			X	
Morocco	Artisan Production							X	Unable to obtain financing
Mozambique	Quelimane WASH		X		X				
Mozambique	Roads	X	X						
Mozambique	Mocuba WASH	X							

\*The preliminary closeout ERR estimated at 13% is based on the assumption that the three components of this project are fully operational. At the time of this report, this assumption does not hold

#### IV. Original ERRs for Open Compacts:

**Original ERRs have been estimated for the majority of the open projects.** Table 5 shows that 82 percent of the 45 open projects have an original ERR. They correspond to 83 percent of committed funds. The majority of the funds for which ERRs are not estimated correspond to the Indonesia compact (US\$M 383).

Table 5

Overall Description of Data -- Open Projects		
	Number	Funds Committed
<b>Total Open Projects</b>	<b>45</b>	<b>3,277.07</b>
Projects with Original ERR	37	2,711.07
Projects without Original ERR	8	566.00
Original ERR pending	1	6.00
Projects for which no ERR Will Be Calculated	7	560.00

**Comparison between currently open and closed compacts reveals a downward trend in original ERRs per compact.** Chart 2 shows that for open compacts, except Malawi, the per-compact average original

ERRs are lower than 20 percent. For half of 18 closed compacts, the per-compact average original ERR exceeds 20 percent. Table 6 shows weighted ERRs of different categories for open projects, including the Namibia and the Burkina Faso compact for which the closeout process is underway. The weighted average ERR for all 37 projects is 19 percent. If Malawi’s original ERR is replaced with 18.7 percent—the ERR revised one year later—the weighted average ERR falls to 15 percent.

Chart 2

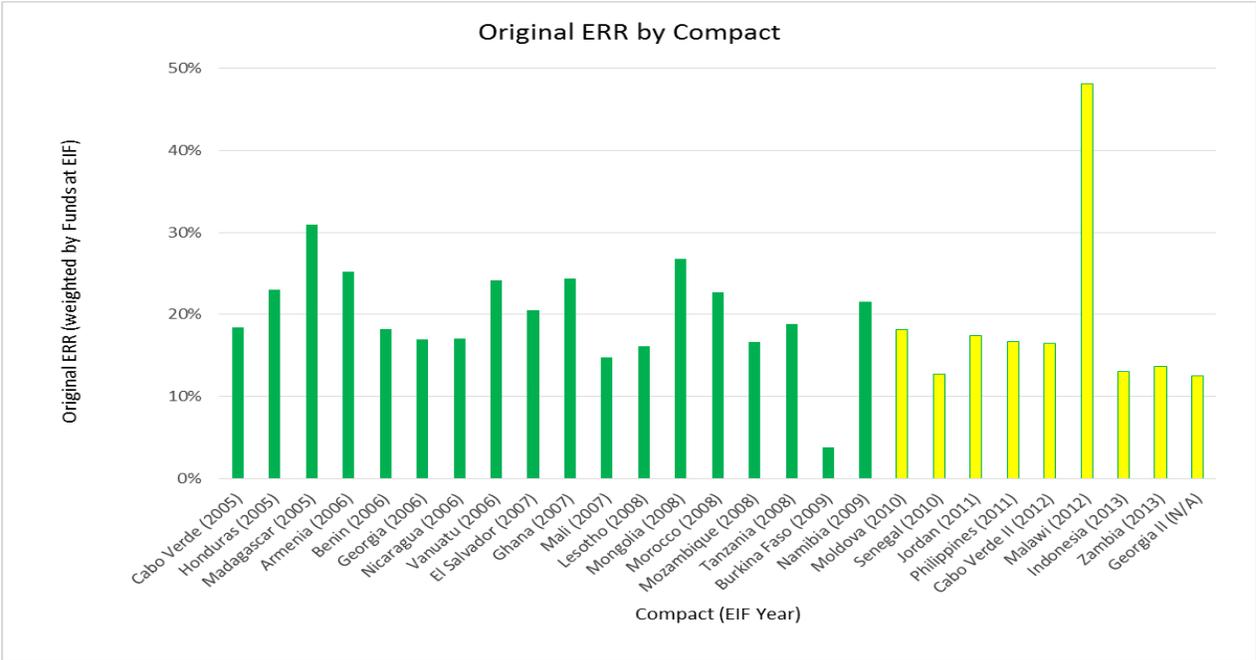


Table 6

All Open Projects with Original ERRs				
Sector	Weighted ERR	Unweighted ERR	Total Projects	Funds Committed (US\$M)
Agriculture and Irrigation	11.99%	9.76%	8	353.782
Capacity Building	40.30%	40.30%	1	54.3
Energy	48.10%	48.10%	1	357
Health, Ed. & Community	18.92%	29.49%	10	351.3
Land	13.47%	16.40%	2	78.65
Other	11.89%	11.98%	4	180.3
Transport	11.69%	8.04%	7	788.43
WASH	14.86%	15.15%	4	572.11
EIF Year	Weighted ERR	Unweighted ERR	Total Projects	Funds Committed (US\$M)
2009	14.06%	19.56%	15	1155.793
2010	16.48%	19.31%	7	411.109
2011	12.38%	12.38%	5	170.26
2012	13.93%	13.03%	3	293.2
2013	46.12%	27.50%	2	375
Ghana II (EIF pending)	12.51%	16.75%	4	114.1
Size at EIF (US\$)	Weighted ERR	Unweighted ERR	Total Projects	Funds Committed (US\$M)
< 50M	16.77%	19.75%	19	351.439
50M - 100M	12.08%	12.78%	9	583.993
> 100M	21.23%	18.74%	9	1800.44
Country	Weighted ERR	Unweighted ERR	Total Projects	Funds Committed (US\$M)
Burkina Faso*	3.77%	4.70%	6	274.292
Cabo Verde II	16.44%	18.00%	2	61.55
Georgia II	12.51%	16.75%	4	114.1
Indonesia	13.00%	13.00%	1	131.5
Jordan	17.44%	16.45%	2	174.51
Malawi	48.10%	48.10%	1	357
Moldova	18.16%	15.63%	3	220.86
Namibia*	21.49%	26.18%	10	208
Philippines	16.71%	22.20%	3	436.73
Senegal	12.76%	11.20%	4	402.53
Zambia	13.70%	13.70%	1	354.8
<b>All Projects</b>	<b>18.70%</b>	<b>17.81%</b>	<b>37</b>	<b>2735.872</b>

\*Burkina Faso and Namibia Compacts have closed, but are still undergoing the closeout process.

**Three compacts—Senegal, Namibia and Burkina Faso—have original ERRs below the threshold.** Chart 3 plots committed project funds and their corresponding original ERRs for open compacts and including Burkina Faso and Namibia. Nine projects corresponding to 24 percent of all open projects have original ERRs below 10 percent. The Burkina Faso compact and the agriculture sector each account for four of these projects.

Chart 3

