1. Country and Sector Background

Ghana has an estimated population of 20 million people, of which only approximately 10.3 million (51 percent) have access to improved water supply. In the country’s urban areas, comprising about 8.4 million residents, just 61 percent of the population had access to an improved water source. It is, therefore, not surprising that water supply and sanitation plays a key role in the Ghana Poverty Reduction Strategy (GPRS, approved by Parliament in February 2003). The GPRS focuses on improving access in rural, peri-urban and poor urban areas and emphasizes (among other key points): effective management of urban systems; sector restructuring to improve management and investment in water supply and sanitation, and improving financial solvency through charging appropriate tariffs.

Similar to the urban water sector in many developing countries, there are serious constraints to meeting the challenge to provide adequate water for all urban residents. In Ghana these include a steadily worsening financial condition over the last five years for Ghana Water Company, Limited (GWCL), the country’s national urban water utility; which in part led to investment levels over the last decade that averaged only US$1.50 per capita per year; all of which was compounded by weak implementation capacity caused by a rate of staff attrition and salary erosion.

To address these constraints, the Government of Ghana (GoG) has undertaken several key initiatives. First, the GoG, in consultation with a wide range of stakeholders in 1996, opted to explore a significant public-private partnership arrangement for the urban water sector, both to restore financial stability and to lay the foundations for attracting private sector investment over the long run. Next, and in order to provide an adequate regulatory framework to support both public and private operations in the sector, Ghana established multi-sector (water, electricity and gas) regulator in 1997. Finally, the Government has recognized the importance of a qualified and adequately compensated staff and has committed itself to financing a large staff reduction program in GWCL, increased training for those remain with the utility and gradually restoring salaries to be in line with comparable skills and responsibilities other sectors of the economy.
2. Objectives

The Project’s two principal development objectives are to: (i) significantly increase access to the piped water system in Ghana’s urban centers, with an emphasis on improving access, affordability and service reliability to the urban poor; and (ii) restoring long term financial stability, viability and sustainability of the GWCL.

3. Rationale for Bank Involvement

One of the three pillars of IDA’s Strategic Assistance Framework for Africa is “service provision for human development”. The GPRS and CAS for Ghana also both acknowledge that efficient basic service delivery is a necessary ingredient to sustainable development. Along with energy, roads, telecommunications and sanitation, a reliable and affordable source of clean water is an essential component of the basic infrastructure package needed for robust economic activity and also necessary to ensure a healthy and vibrant population. Recognizing the central role that urban water supply plays in any country’s growth and poverty reduction strategy, and in consideration of the sector challenges highlighted in the previous section, the World Bank has for many years targeted a portion of its assistance efforts to Ghana’s urban water sector.

Although it has not always been the case, today IDA is the only multilateral donor active in the urban water sector. Bilateral participation is limited to a few countries, most notably the Dutch government. In contrast, the rural water sector enjoys widespread support from both multilateral and bilateral donors. The difference between the urban and rural sectors can largely be explained by: (i) the long gestation period for a viable PSP option to be identified and implemented; (ii) the deterioration of GWCL’s balance sheet which made it un-attractive to some lenders; and (iii) the inclusion of selected previous donor loans in the HIPIC process. Fortunately, the World Bank could consistently dedicate sufficient resources over many years to help the GoG work through the sector’s difficult issues, and to assist in designing a project that fulfills the difficult requirements of basic service provision plus a significant public-private partnership focus. In addition, given its extensive and world-wide experience with both PSP in infrastructure and the urban water sector, the World Bank Group brings a unique and valued added input to the Project.

The World Bank has several advantages over other possible avenues of assistance to the sector. First, the World Bank can make large investments and achieve significant impact in terms of physical rehabilitation and increasing access. The Bank Group also has a large staff with extensive experience and expertise in water engineering and the commercial operation of utilities. As was mentioned above, it also has sufficient resources to permit engagement over a prolonged period, helping to ensure consistent policies and investments. Finally, urban water utilities will need substantial financing from private sources, and the Bank is perhaps uniquely positioned in terms of expertise and knowledge to assist the government in establishing the necessary conditions and environment to encourage non-public investment.

4. Description

The proposed Project comprises the following four components, plus an unallocated amount of US$0.9 million and re-paying the PPF for US$2.0 million:
i. Network Expansion and Rehabilitation (US$91.8 million). This component is designed to support: (i) increasing the amount of treated water for sale; (ii) extending service to low income areas; and (iii) rehabilitating existing network to reduce non-revenue water. It also includes dam safety upgrades, meters, engineering and vehicles and equipment for GWCL Regional and District offices.

ii. Public-Private Partnership Development (US$6.5 million). This component supports the payment of the private operator under the proposed management contract and technical and financial auditors to measure the operator’s performance.

iii. Capacity Building and Project Management (US$7.7 million). The largest allocations in this component go for Training (US$2.0 million) and Technical Assistance (US$2.5 million). Details of the Technical Assistance program are given in Annex 4. The Training component is left unspecified because the Management Contract Operator will propose a training plan once it is in place and can assess training needs. Also included are allocations for training in the GWCL Headquarters, vehicles, office equipment, support for the PMU and environmental safeguards as well as support to the PURC.

iv. Severance Program (US$11.0 million). The major part of this component is to finance the anticipated retrenchment program at the Ghana Water Company Ltd.

5. Financing

<table>
<thead>
<tr>
<th>Source</th>
<th>($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Ghana</td>
<td>12</td>
</tr>
<tr>
<td>International Development Association</td>
<td>103</td>
</tr>
<tr>
<td>Nordic Development Fund</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>120</td>
</tr>
</tbody>
</table>

6. Implementation

The Project has potential financing from the Nordic Development Fund (NDF). NDF has committed €4.0 million (about US$5 million) of parallel financing to support technical assistance and training, plus rehabilitation civil works, for the Project’s dam safety component.

The Project will be implemented by the GWCL through a dedicated Project Management Unit (PMU). The PMU is staffed with an IDA-project experienced Project Director. The Director is complimented by a Project Engineer, a Financial Officer, Public Relations Officer and a secretary. An Low Income Customer and Safeguard Officer may also be appointed once the Project is Effective. During preparation, it was also agreed with the GOG that the Ministry of Works and Housing would be the primary contact for sector policy matters, but that the PMU, with technical support from other parts of the GWCL would be in charge of day-to-day Project implementation.
This implementation arrangement was selected in order to have the most qualified agency, i.e. GWCL, ultimately responsible implementing for the Project. Having the Project integrated in GWCL (i.e., without a separate PMU) was considered, but then rejected given the complex PSP arrangements and the large amount for civil works that will require substantial procurement using World Bank guidelines.

7. Sustainability

The Government has demonstrated its commitment to the Project and relevant polices through: (i) requesting and using US$2 million in PPF funds; (ii) requesting and disbursing US$0.6 million in PHRD funds; and (iii) committing to request proposals from qualified firms for a management contract prior to presenting the Project to IDA’s Board for approval.

Ensuring the financial stability of the GWCL over the medium term is also critical to the sustainability of the Project’s objectives. In this context, the GOG has: (i) agreed to continue subsidizing a portion of GWCL’s electricity bill during the term of the management contract; (ii) instituted and implemented quarterly pass-through adjustments of the water tariff to reflect changes in the inflation and energy sensitive components of the GWCL’s cost of service; (iii) agreed to borrow from IDA to finance the retrenchment of about 1,600 GWCL staff; and (iv) will, during implementation, attempt to rationalize GWCL’s debt structure with a view to sharply reducing its debt service obligations.

The Project’s design compliments these sustainability measures by supporting a public-private partnership with a view to improving especially commercial management capacity in GWCL, by providing investment funds to augment the number of customers and water available for sale, and by providing support and expertise for the GOG to work out a sustainable long-term strategy for both wastewater and the institutional organization of river basins.

8. Lessons Learned from Past Operations in the Country/Sector

Projects in the urban water sector have been undertaken by the World Bank in virtually every borrowing country since Bretton Woods. As a result, there is a wealth of experience in this area, and a continually expanding list of important lessons learned. For example, in just the last four years the World Bank Operations Evaluation Department (OED) issued over 40 evaluation reports for water projects, with the majority dealing with urban water. In addition, there are 3 previous IDA urban water projects in Ghana since 1990 which provide specific lessons for this country. The World Bank Infrastructure Network is also very active in researching and promoting best practice for this sector. From this large reference base, four lessons learned appear to be most relevant for the Project.

1. Physical Infrastructure Design: Project evaluations generally reveal there was often over-estimation of demand when planning for expansion in water supply. Also, some projects in the Water Decade were not synchronized well – while the piped network expansion was completed, production capacity was not enhanced and as a result there were new pipes with no water in them. In other cases, treatment and transmission capacity was expanded, but the distribution network remained insufficient to deliver water to the final consumer. For this Project; (i) in
order to better understand demand, rehabilitation will precede network expansion, with the result
that plans for expanded capacity can be more accurately matched to demand; and (ii) civil works
will include the whole system, from extraction to house connection, helping to ensure consumers
receive the benefits of upstream improvements.

2. **Institution Building**: Experience in the sector, and in particular with GWCL, has confirmed
that strong utility management is key to cost recovery, better service delivery and long term
sustainability. Just as important is the need for strong and capable sector institutions, including
the capacity for effective communications and stakeholder outreach. The Project design has
emphasized management improvement through introduction of the private sector, and supported
institution building and stakeholder outreach during preparation through the use of a PPF and a
PHRD grant to build up technical and managerial capacities, undertake stakeholder opinion
analysis and communications plus train the PMU—especially in financial management and
procurement. During implementation, the Project will provide at least US$3 million to build on
these efforts to further strengthen the sector regulator, improve PIU capacity to implement,
monitor and evaluate progress, assist the MWH to develop and improve sector policies, build up
technical capacity in the country’s environmental agencies and support a wide range of technical
training programs.

3. **Enabling Environment**: OED evaluations and related sector work emphasizes the need for
broader sector reform, rather than discrete investments, in order to have sustainable and
measurable impact on service delivery. Thus, there is need for well functioning legal,
institutional and regulatory agencies. Experience also indicates that tariff setting should also be
independent of the service delivery ministry and the utility, in order to reduce the political
drag on utility finances. These core lessons have been fundamental to Project design. The sector
reform focus of the Project includes support for the regulator, developing a national wastewater
strategy, and examining the possibility of establishing river basin authorities. Finally, the Project
also introduces a management contract with the private sector, which should establish a
foundation for more complex PPP arrangements in the future that will bring private investment.

4. **Autonomy of Implementing Agencies**. Experience shows that utilities that can bill, collect
and keep their revenues, have their own employees (i.e., that are not civil servants), can employ
the best qualified people and set salary levels free from government interference, and that have
the opportunity to develop their own procurement rule will generally perform better than utilities
that are under close political control or part of a large bureaucracy. Thus, the Project seeks to
deepen the autonomy of the GWCL through strengthening of the regulatory framework,
lessening its reliance on subsidies (especially for electricity and debt service) and increasing its
commercial capacity.

9. **Safeguard Policies (including public consultation)**

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment (OP/BP/GP 4.01)</td>
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</tr>
<tr>
<td>Natural Habitats (OP/BP 4.04)</td>
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</tr>
<tr>
<td>Pest Management (OP 4.09)</td>
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<td></td>
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<tr>
<td>Cultural Property (OPN 11.03, being revised as OP 4.11)</td>
<td>X</td>
<td></td>
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</tbody>
</table>
Involuntary Resettlement (OP/BP 4.12) | X
Indigenous Peoples (OD 4.20, being revised as OP 4.10) | X
Forests (OP/BP 4.36) | X
Safety of Dams (OP/BP 4.37) | X
Projects in Disputed Areas (OP/BP/GP 7.60)* | X
Projects on International Waterways (OP/BP/GP 7.50) | X

10. List of Factual Technical Documents

Environmental and Social Management Framework Report (Placed in InfoShop on May 7, 2004)
Integrated Safeguards Data Sheet (last updated May 20, 2004)

11. Contact points

Alexander A. McPhail
Lead Water and Sanitation Specialist
World Bank Headquarters, Washington, DC USA
Tel: +1 (202) 458-2125
Fax: +1 (202) 473-8249
Email: amcphail@worldbank.org

Arthur Swatson
Water and Sanitation Specialist
World Bank Country Office, Accra, Ghana
Tel: +233 21 229-681
Email: aswatson@worldbank.org

12. For more information contact:
    The InfoShop
    The World Bank
    1818 H Street, NW
    Washington, D.C. 20433
    Telephone: (202) 458-5454
    Fax: (202) 522-1500
    Web: http://www.worldbank.org/infoshop

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas