



1. Project Data:		Date Posted : 12/18/2001	
PROJ ID: P007612		Appraisal	Actual
Project Name : Second Solid Waste Management Project	Project Costs (US\$M)	415.5	21.0
Country: Mexico	Loan/Credit (US\$M)	200	4.7
Sector(s): Board: UD - Solid waste management (92%), Central government administration (4%), Sub-national government administration (2%), Other social services (2%)	Cofinancing (US\$M)	0	0
L/C Number: L3752			
	Board Approval (FY)		94
Partners involved :	Closing Date	12/31/1999	12/31/2000
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components

a. Objectives

Original Objectives were to:

- a) improve solid waste services and extend their coverage in participating municipalities;
- b) strengthen the capacity of two federal agencies BANOBRAS and SEDESOL to appraise and supervise projects to be implemented by municipalities;
- c) increase state and local capacity to improve sector capacity and management;
- d) improve the sector's legal and regulatory framework and cost recovery mechanism to encourage greater private sector involvement and safeguard the environment
- e) correct environmental problems and reduce health hazards cause by inadequate collection and disposal systems;
- f) mitigate social impact of modernized waste management system on the livelihood of traditional garbage scavengers.

The project was formally restructured in July 1998. But only objective (a) was changed: its scope was contracted to "the implementation of a pilot program of sustainable waste management at selected municipalities ." Objectives (e) and (f) were dropped, because they could no longer be achieved when the physical investment program was so highly truncated. The other objectives remained unchanged, although the expected magnitude of the improvements was more limited without the physical investment component ..

b. Components

The original components included: i) Institutional Strengthening - \$24.7 million; Financing for new solid waste management investments - \$384.7 million; and Social Component for assisting garbage scavengers adjust to the new methods of treating solid waste - \$6.1 million.

In the revised project, the Institutional Strengthening was reduced to \$ 6.8 million, the Investment Financing was reduced to \$14.2 million. The component for assisting garbage scavengers was dropped, because investment in new methods solid waste handling was not going forward .

c. Comments on Project Cost, Financing and Dates

The original project was highly ambitious . It included \$152 million of Federal Government grant funds for interest rate subsidies for municipalities investing in solid waste facilities . Mexico entered into a period of financial crisis two months after loan signing (but almost a year before loan effectiveness), and as part of its belt tightening, the Government withdrew this grant money . The crisis affected the municipalities financial capabilities . They were less credit worthy, and were unable to borrow from BANOBRAS at the new enormously high interest rates imposed after the start of the financial crisis . \$140 million of the Bank's \$200 million loan was cancelled in July 1995, three months before the project was made effective, and another \$ 53 million was cancelled in April 1997, about the time that discussions on formal restructured were initiated . The project should have been restructured before it was signed, particularly because by that time it was, or should have been evident that the Federal grant funds, which were

considered essential project co-financing, were no longer available.

3. Achievement of Relevant Objectives:

Considerable institutional strengthening was accomplished. Several master plans, diagnostic studies and feasibility studies were completed. Methodological guides and administrative and technical manuals were produced. Terms of Reference for sanitary landfills and environmental impacts were produced, and became a required element in all new landfill programs. The regulatory framework has been improved by the enactment of the federal standards on disposal sites and the establishment of model regulations for operation of these sites.

4. Significant Outcomes/Impacts:

Although the original project could not be implemented, due to deteriorating national economic conditions, the restructured project was able to make substantial progress in institutional building. The focus of the restructured project was on capacity building at the municipal level. In addition to the capacity building, the most notable project accomplishment appears to have been its facilitation of a GEF supported demonstration project for Methane gas capture from landfills. The second "result" has been the increase in private provision of services in the sector, presumably through improvement of the legal and administrative framework for landfill investments. There is no indication, however, how the project may have been instrumental in facilitating this progress. In at least one municipality (Monterrey, NL) a municipal waste landfill was been established (but not financed by the Bank) and significant progress was achieved towards sustainable financial and environmental practices. The project also provided inputs for a demonstration project for landfill Methane gas capture, which is going to be financed by GEF.

5. Significant Shortcomings (including non-compliance with safeguard policies):

The project failed to make any significant progress for expansion of modern sanitary landfills in Mexico. 70% of the loan was cancelled before the project became effective. It was another two years before the Bank got around to considering how to restructure the project so that some of the objectives could be met, even under the continued poor economic conditions. In preparation for restructuring, another 26% of the loan was cancelled. However, even after the restructuring, only three of the seven planned pilot municipal waste management facilities approved under the restructured project were implemented, and one of them, the Monterrey Landfill was primarily financed by the Bank under the first Solid Waste Management Project. Only \$1 million (38%) of the \$2.5 million Bank resources allocated to this activity were used.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Moderately Unsatisfactory	The project was restructured because Mexico's economic crisis forced the Government to reduce investment and reorient its priorities. The focus of the restructuring was on institutional building, which progressed successfully. However, only three of the seven pilot municipal waste treatment facilities included under the restructured project were implemented, and only \$1million was disbursed for this purpose.
Institutional Dev.:	Substantial	Substantial	There is now a much greater involvement of the private sector in the provision of services.
Sustainability:	Unlikely	Unlikely	Institutional capacity has been improved, and is likely to be maintained, but real progress on the ground requires substantial investment, and there is no evidence that sector investment will grow in the foreseeable future, given the Municipalities continued unattractive borrowing terms.
Bank Performance:	Satisfactory	Unsatisfactory	The QAG rates the quality at entry as unsatisfactory. The ICR points out that project design was unsatisfactory, in that the SAR failed to identify risks associated with the viability of the financing mechanism, and the high turnover of staff at the local level. The ICR also notes that Supervision was unsatisfactory in that it took several years to react to the

			changing financial circumstance of the municipalities brought about by the financial Crisis of 1995. The new team that initiated the restructuring program carved out a small project that could lay the basis for further development in the sector. The institutional strengthening under this smaller program was successfully implemented, which has provided the framework for future development of the sector, possibly with substantially more private sector inputs. Nevertheless, this positive impact during the last years of project implementation does not, on balance, outweigh the poor performance at design and supervision during the early years of project life.
Borrower Perf .:	Satisfactory	Unsatisfactory	Only three of seven municipalities were able to implement projects. There was an unresolved problem of excessive staff turnover and changes in municipal priorities with changes of government. On balance the inadequacies of the implementing agencies outweighed the good performance of the Federal agencies.
Quality of ICR :		Unsatisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

Good coordination is needed between the agency providing technical assistance and the agency providing financing. Basic weaknesses of municipal governments, such as their limited capacity to implement investments and their lack of continuity (between one political administration and the next) need to be addressed if one is to achieve lasting improvements in this sector.

8. Assessment Recommended? ☐ Yes ☒ No

9. Comments on Quality of ICR:

The ICR fails to discuss the quality of the three municipal waste management facilities that were financed under the project, or the lessons that were learned from these three "demonstration projects". It focuses on the expected benefits of a new, "add on" GEF project. However, key supporting evidence on impacts and results of institutional building is missing. Most of the indicator of success are defined in terms of successful completion of inputs (studies, policy reviews), rather than whether rules, regulations and law have been changed or how the recommendations of the studies have been implemented to improve the sector policies.

It would have been useful to have included the justification for the positive assessment of borrower performance. Information on Bank staff resources applied to the project is missing, as is the Borrower comments on the ICR and the executive summary of the comments by SEDESOL (a one line summary is not a reasonable substitute). Finally, the Lessons Learned section hints at many issues that are not touched upon in the text of the ICR.