Country and Sector Background

1. Almost all of the Polish population living in urban areas receives public water and sewerage services. In many places, however, the quality and reliability of services is deficient and facilities are in need of rehabilitation and improvement. Particularly pressing is the need to improve and expand wastewater treatment to clean up Poland’s heavily polluted water resources. At present Polish water and wastewater enterprises are generally weak institutions with large potential for efficiency gains in management and operation. For the foreseeable future, Poland’s water and wastewater enterprises must mobilize large financial resources to: (a) conserve the achievements of the past by rehabilitating and replacing aging water and wastewater infrastructure; (b) expand and improve present service levels and the quality of the water offered to the population; (c) upgrade and expand wastewater treatment to clean up the country’s water resources; and (d) modernize and improve the efficiency of utility management and operation. Mobilizing the resources to satisfy all investment needs will require a sustained effort for years to come. Optimizing resource mobilization and making the best possible use of these resources requires efficient administration and operation of water and wastewater enterprises, improved resource mobilization from all sources, particularly from service beneficiaries, and prudent investment decisions to reserve scarce resources for least cost and high priority investments.

2. The Local Self Government Act of March 1990 transferred responsibility for water and wastewater services to municipal (gmina) governments. Along with the transfer of assets and the freedom to
reorganize institutional structures, local governments and their water and wastewater enterprises also have acquired the responsibility for improving and expanding services and, as traditional central government subsidies have been eliminated, raising resources for funding capital investments as well as maintenance and operating costs. The decentralization reforms are providing a unique opportunity to introduce new, more efficient institutional structures and policies on the local level for the provision of water and wastewater services. Many progressive local governments and enterprise managers have launched important initiatives in the right direction--corporatization of water and wastewater enterprises and tariff adjustments towards full cost recovery.

3. The Bank’s water and wastewater sector study proposes a comprehensive program of sector reform, including the following key measures: (a) transform municipal water and wastewater enterprises into autonomous, financially independent and commercially run utilities under the regulatory control of local government; (b) improve performance and efficiency of municipal water and wastewater enterprises through well focussed technical assistance programs; (c) promote private sector participation (PSP) in the management and operation of utilities and in funding investments; (d) create suitable domestic facilities for financing utility investments through the Municipal Credit Program (MCP) supported by the Bank; (e) introduce tariff and pricing policies aimed at full cost recovery and demand management; (f) introduce more cost effective investment selection criteria oriented towards making the best use of existing systems rather than investing in new capacity; (g) introduce more cost effective policies for investments in municipal wastewater treatment based on affordability and a phased approach of reaching effluent requirements; and (h) strengthen utility business support by improving the quality of equipment and materials used in the sector as well as the performance of civil works contractors.

4. The Bank assistance strategy for the sector supports reforms outlined above and proposes four different activities: (a) direct lending operations with the municipal water and wastewater utilities in Bielsko-Biała, Bydgoszcz, Krakow and Wroclaw (the Bielsko-Biała project became effective in January 1997; the Bydgoszcz project was appraised in October 1995); (b) a direct lending operation for water and wastewater in Warsaw. Consultants have started project preparation, with private sector participation in the management of the company an option under consideration. Anticipating the large investment needs for Warsaw, cofinancing by private investors and use of the Bank’s guarantee instrument would be pursued. The Government is informed of the project, but has not yet made a commitment for sovereign guarantee of Bank participation; (c) several smaller municipal water and wastewater projects to be financed under the proposed Municipal Development Project being prepared with Bank assistance; and (d) operations in support of innovative private sector participation; contacts are being established with several interested municipal governments. This strategy is designed to support, on the sector level, many of the elements of the Bank’s Country Assistance Strategy: decentralization, public sector strengthening, fiscal responsibility, environmental protection and private sector participation. The projects are expected to have an important demonstration effect for the future development of the water
and wastewater utilities in Poland and in other countries of Central and Eastern Europe.

Objectives

5. Project objectives are the: (a) transformation of the borrower into an autonomous, more efficiently managed and operated, financially self reliant utility working under a clear goal oriented performance agreement with local government; (b) improvement of the safety, reliability, quality and operational efficiency of water supply services; (c) improvement of reliability and efficiency of the sewer system; and (d) reduction of pollutant emissions into receiving waters. Wroclaw has been identified by HELCOM, the Helsinki Commission for Baltic Marine Environmental Protection, as a "hot spot" pollution source. The project’s principle of phasing and setting clear priorities would be in agreement with the recommendation of European governments taken at their meeting in Lucerne, Switzerland in 1993.

Description

6. The project would include the following components: (A) Water Supply: (i) rehabilitate and upgrade the Na Grobli infiltration intake system, (ii) rehabilitate and upgrade the Na Grobli water treatment plant, (iii) rehabilitate and upgrade the Mokry Dwór water treatment plant, (iv) expand the water transmission system, (v) undertake programs to rehabilitate and improve operation of the transmission and distribution system, and (vi) undertake programs to replace and expand pipe networks and house connections; (B) Wastewater: (i) complete Phase I of the Janowek wastewater treatment plant (75,000 m3/day primary and secondary biological treatment), (ii) complete and extend wastewater collectors, (iii) undertake programs to rehabilitate and improve operations of the sewer system, and (iv) provide sewer services to an additional 30,000 consumers; (C) Institutional Strengthening: technical assistance and training to improve utility management and operations; and (D) Engineering Services for (i) water system rehabilitation and operational improvement, (ii) wastewater system rehabilitation and operational improvement and (iii) and preparing final designs and supervision of construction.

Financing

7. The Bank, together with cofinanciers, would finance 100 percent of the project’s foreign exchange cost, up to a maximum of 60 percent of total project cost. Cofinancing of wastewater investments is expected from Poland's National Fund for Environmental Protection. Remaining funds are expected to be provided from local sources, including the utility’s cash generation.

Implementation

8. MPWiK would be the borrower and implementing agency for the project. The utility would appoint a full-time Project Implementation Manager with overall responsibility for all aspects of project implementation and reporting directly to the General Manager. The PIM would lead a Project Implementation Unit (PIU) made up of individuals
(engineers, accountants, support staff) drawn from the existing company structure and assisted by expert consultants to carry out final design and supervision of construction. Designs exist for all project components, but revisions are needed to reflect changes in planning parameters and to incorporate international quality standards. Throughout project implementation MPWiK would retain qualified consultants to assist in preparing final designs, supervision of construction and procurement. Final designs and bidding documents for initial investment components would be completed by Board presentation. The consulting services supported under the project would emphasize participation of utility management and staff to ensure borrower ownership. Most of the work would be carried out by borrower staff and Polish consultants working with foreign consultants. An explicit objective of the consultant’s work would be to transfer know-how to utility personnel through on-the-job training and participation in decision making.

Sustainability

9. The best assurance for project sustainability is borrower and local government commitment to the objectives of the project, particularly institutional strengthening and availability of financial resources. The utility and municipal government are expected to enter into a performance agreement, satisfactory to the Bank, that would include annual indicators of utility management, operations and financial performance. A key element of the performance agreement would be a formula based tariff adjustment clause that reflects the tariff increases projected to be needed over the duration of the project.

Lessons Learned from Past Operations in the Country/Sector

10. Bank implementation experience in Poland’s water and wastewater sector is just beginning, with the first project negotiated in November 1995. To avoid implementation problems experienced in other projects in Poland and sector projects in other countries, project preparation and the formulation of objectives and investment components were carried out in close coordination with the borrower and local government. Particular importance was given to structuring a transparent relationship between the borrower and local government with borrower autonomy and financial self sufficiency as cornerstones.

Poverty Category

Not Applicable

Environmental Aspects

11. The project is classified in Environmental Screening Category "B" requiring sub-project environmental analysis, consistent with Bank guideline OD 4.01. The analysis revealed the project would generate significant environmental benefits with no negative impacts anticipated. Resettlement issues are not foreseen. Proposed investments in wastewater treatment are based on a phased plan of implementation with primary and secondary treatment provided under the project and nutrient removal requiring advanced treatment in a next phase to be initiated
after the completion of this project. The Voivodship Environmental
Department in charge of issuing permits for the proposed wastewater
treatment investments and the utility would sign an agreement on a
phased approach committing the Environmental Department to issue
operating permits for the project’s wastewater treatment plants, as a
condition of Board presentation.

12. Wroclaw is located on the Odra River in Lower Silesia in southwest
Poland. The main objective of the project is to rehabilitate, expand
and improve the functioning of Wroclaw’s water and wastewater systems.
The project would not have any harmful effect on downstream riparians;
on the contrary it would reduce water use and the pollution load
discharged. The project is unaffected by any riparian’s water use. The
project therefore presents no issue in terms of Bank guideline
OP/BP7.50.

Program Objective Categories

13. In terms of the Bank’s targeted areas of special operational
emphasis, the project would foster environmentally sustainable
development and encourage development of the private sector.

Project Benefits

14. As a result of the project, consumers would receive more reliable,
safer and better quality water and wastewater services. The
institutional strengthening, network rehabilitation and operational
improvement would result in higher system efficiency and improved
productivity, thereby helping to contain the cost to the consumer for
services. Of equal, if not greater value, is the significant positive
environmental benefit which would be obtained. The project would
support an investment program providing upgraded wastewater treatment
and would reduce pollution discharge into receiving waters. Another
important positive impact is the demonstration effect in a number of
areas identified as crucial for the sector reform, including creation of
an autonomous utility, introduction of modern utility management and
administration, adoption of full cost recovery principles, and multi-
year least cost business planning and investment program identification.

15. These economic benefits can be put into perspective by examining
the situation in Wroclaw without the project. Without the project’s
rehabilitation work—a significant share of both water and wastewater
components—operations and maintenance costs for these systems would
escalate. In an extreme case, conditions could so severely deteriorate
that water and wastewater service to residential and industrial
customers would be jeopardized, with severe consequences for public
health and production losses by industry. Failure to support project
investments in wastewater treatment would result in continued
degradation of the immediate receiving waters.

Project Risks

16. Overall the project has moderate risks. The utility is fully
committed to project institutional, financial and physical objectives,
and local city management is similarly supportive. The company has
strong financial capacity, good management and staff who supported by consultants should be able to carry out the project as planned. While there is always risk that local government may compromise utility autonomy for political gain, the good will of the municipality demonstrated by a performance agreement between the utility and local government minimizes this risk. Because of borrower competence and commitment, other significant risks are not foreseeable, and close project monitoring is planned to detect and address any problems early on.

Contact Point: Walter Stottmann, Task Manager, EMTIE
The World Bank
1818 H Street N.W.
Washington D.C. 20433
(202) 473-2495 (tel)
(202) 477-1523 (fax)

Note: This is information on an evolving project. Certain components may not necessarily be included in the final project.

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