



1. Project Data:		Date Posted : 09/30/2003	
PROJ ID: P008319		Appraisal	Actual
Project Name: Water Companies Rest	Project Costs (US\$M)	131.0	NA
Country: Bulgaria	Loan/Credit (US\$M)	98.0	51.8
Sector(s): Board: WS - Water supply (75%), Sewerage (25%)	Cofinancing (US\$M)		
L/C Number: L3739			
	Board Approval (FY)		94
Partners involved : None	Closing Date	06/30/2002	12/31/2002
Prepared by :	Reviewed by :	Group Manager :	Group:
Anthony J. Blackwood	Soniya Carvalho	Alain A. Barbu	OEDST
2. Project Objectives and Components			
a. Objectives			
The project's overall objectives were to assist the government to :			
1. Increase the corporate autonomy and commercial orientation of Regional Water Companies (RWCs), make their management accountable to local authorities, and increase their operating efficiency and cost recovery;			
2. Improve the health and environmental conditions in urban areas and conserve water resources;			
3. Demonstrate the feasibility and benefits of introducing transparent procurement procedures, efficient contract management, and competition for the supply of goods, works and services .			
Another objective was added in 1977, eighteen months after effectiveness :			
4. To improve the efficiency of the government's District Heating (DH) system and identify DH improvement investments.			
b. Components			
1. Priority Water and Sewage Investments : rehabilitation and upgrading of water and sewage facilities, loss reduction, improvement of operating efficiency, improve commercialization and O&M . (US\$98.0, 93 percent of original base costs).			
2. Institutional Strengthening : fund RWC capacity building by training and technical assistance (including general and financial management, O&M, investment planning and construction supervision), a Water Resources Management Study and project implementation assistance (a PMU with TA) (US\$7.5 million, 7 percent); and			
3. District Heating (additional component): provision of building heat meters for 15 district systems (US\$12.0 million, 23 percent of revised base cost). The ICR omits reference to planning investments for improving District Heating as part of this component.			
c. Comments on Project Cost, Financing and Dates			
On December 10, 1996, US\$41.0 million were canceled from the loan at government request due to unaffordability of the loan given the adverse macroeconomic condition of Bulgaria . The loan amount was reallocated as follows : US\$12 million for District Heating and US\$45 million for the Water component. At project closing, \$5.2 million was cancelled. Loan effectiveness was delayed 12 months due to a change of government.			
3. Achievement of Relevant Objectives:			
The project achieved most of its major relevant objectives with significant shortcomings (See Section 5).			
4. Significant Outcomes/Impacts:			
After a slow start because of unsatisfactory economic conditions and RWC investment constraints :			
1. RWCs were restructured towards partial autonomy;			
2. increased tariffs more than doubled RWC revenues;			
3. Loan funds were used to prepare for a concession contract with a private operator for one RWC (although this was not in the project scope);			
4. a Water Resources Management Study was completed; and			
5. energy consumption was reduced as a result of investments under the District Heating component .			
5. Significant Shortcomings (including non-compliance with safeguard policies):			
1. The project design was generally unsatisfactory, especially in setting unrealistic objectives (e.g. financially			

- infeasible investment plans for RWCs), being complex, and failing to distinguish clearly between the sector restructuring strategy and project expectations;
2. Funding of RWC investments for rehabilitation of physical assets was only a tenth of appraisal plans because of affordability concerns, and although these investments reduced water losses, much infrastructure remains in "extremely poor condition" (According to the SAR para 4.11, the rehabilitation of water infrastructure was a priority);
 3. The autonomy of RWCs (the main institutional objective), which is to lead to privatization, is still limited with 51 percent government ownership, all water and network assets are still state owned and are in poor condition, and revenue is far below requirements for financial autonomy as it only just covers cash operating costs; and
 4. Operational and financial efficiency remained elusive goals as infrastructure has not been rehabilitated, unaccounted for water remained high at 54% and the revenue collection ratio fell from 86% to 80%.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Moderately Satisfactory	The ICR's 4-point rating scale does not allow for a "moderately satisfactory" rating. See section 5.
Institutional Dev .:	Substantial	Modest	See Section 5, point 3.
Sustainability:	Likely	Non-evaluable	While a few factors point to likely sustainability, a number of other factors point towards sustainability concerns. In the absence of further data, sustainability is rated "non-evaluable". See section 5, point 2.
Bank Performance:	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR:		Satisfactory	

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

7. Lessons of Broad Applicability:

1. Projects with first time borrowers should be simple with limited objectives;
2. Investment plans for corporate entities must be realistic in terms of revenue projections, and sector and economic conditions; and
3. Appraisal documents must be carefully drafted and reviewed for clarity, consistency and logical organization to avoid confused expectations, and must include well-defined indicators of success.

8. Assessment Recommended? ☒ Yes ☐ No

Why? To verify ratings, fill gaps in the ICR and as one of the first water sector projects in a transition economy.

9. Comments on Quality of ICR:

Rated satisfactory overall. However, cost tables by component are omitted, government contribution and the contribution from the Water and Sewerage Companies is unclear, and the financing table does not show appraisal figures. It is not clear from the ICR whether the project objectives were formally restructured.