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PROJECT PAPER

ON A

**PROPOSED ADDITIONAL FINANCING
IN THE AMOUNT OF SDR 51.1MILLION
(US\$ 80 MILLION EQUIVALENT)**

TO THE

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

FOR A

WATER SUPPLY AND SANITATION PROJECT

March 2, 2010

**Africa Urban and Water Unit (AFTUW)
Ethiopia Country Department
Africa Region**

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CURRENCY EQUIVALENTS

Currency Unit:	=	Ethiopian Birr (ETB)
US\$ 1.0	=	ETB -----
US\$1.56556	=	SDR 1

FISCAL YEAR
July 7 – July 6

ABBREVIATIONS AND ACRONYMS

AF	Additional Financing
CAS	Country Assistance Strategy
DFID	Department for International Development-UK
ESMF	Environmental and Social Management Framework
GOE	Government of Ethiopia
ICB	International Competitive Bidding
IDA	International Development Association
IRR	Internal Rate of Return
M&E	Monitoring and Evaluation
MDG	Millennium Development Goals
MIS	Management Information System
MOFED	Ministry of Finance and Economic Development
MWR	Ministry of Water Resources
NCB	National Competitive Bidding
NGO	Non Government Organizations
NPV	Net Present Value
O&M	Operation and Maintenance
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
PRT	Prior Review Threshold
PMU	Project Management Unit
RPF	Resettlement Policy Framework
RWBs	Regional Water Bureaus
RWSS	Rural Water Supply and Sanitation
SOE	Statement of Expenditure
TOT	Training of Trainers
TSG	Town Support Group
UAP	Universal Access Program
WASHCO	Water, Sanitation and Hygiene Committee
WRDF	Water Resources Development Fund
WSG	Woreda Support Group
WSSP	Water Supply and Sanitation Project

Ethiopia
Project Paper for Additional Financing
Water Supply and Sanitation Project

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Project Paper Data Sheet

Date: March 25, 2010 Country: Ethiopia Project Name: Water Supply and Sanitation Project Project ID: P076735	Team Leader: Yitbarek Tessema Sector Manager: Junaid Kamal Ahmad Country Director: Kenichi Ohashi Environmental Category: B				
Borrower: Government of Ethiopia Responsible agency: Ministry of Water Resources					
Revised estimated disbursements (Bank FY/US\$m) (Original project + AF)					
FY	2004 - 2009	2010	2011	2012	2013
Annual		20	25	35	18
Cumulative	69	89	114	149	167
Current closing date: March 31, 2010 Revised closing date : March 31, 2013					
Does the project require any exceptions from Bank policies? Have these been approved by Bank management? Is approval for any policy exception sought from the Board?				X Yes <input type="radio"/> No X Yes <input type="radio"/> No <input type="radio"/> Yes X No	
Revised project development objectives/outcomes: The Water Supply & Sanitation Project development objective remains the same: <i>"The objective of the project is increased access to sustainable water supply and sanitation services, for rural and urban users, through improved capacity of stakeholders in the sector".</i>					
Does the scaled-up or restructured project trigger any new safeguard policies? No.					
For Additional Financing					
<input type="checkbox"/> Loan <input checked="" type="checkbox"/> Credit <input type="checkbox"/> Grant For Loans/Credits/Grants: Total Bank financing: US\$80 million Proposed terms: Standard IDA financing terms					
Financing Plan (US\$ m.) (AF)					
Source			Total		
Borrower/Recipient IDA <ul style="list-style-type: none"> • New • recommitted Others Total			80		
Financing Plan (US\$ m.) (Original Project + AF)					
Source			Total		
Borrower/Recipient IDA <ul style="list-style-type: none"> • New • recommitted Others Total			80 87 167		

Project Paper for Additional Financing

Ethiopia Water Supply and Sanitation Project (P076735)

I. Introduction

1. This Project Paper seeks the approval of the Executive Directors to provide an additional financing the form of an IDA Credit to the Federal Democratic Republic of Ethiopia in an amount of SDR 51.1 Million (US\$80 million equivalent) for the ongoing Water Supply and Sanitation Project P076735 (IDA-3901, IDA-H0850) of the Federal Democratic Republic of Ethiopia.

2. The proposed additional financing would cover the costs associated with the financing gap in the Urban Water Supply and Sanitation Component of the project. This is due to (i) higher than expected per capita costs for piped systems (from \$ 47 per capita at appraisal to US \$80 per capita currently), (ii) larger than expected populations in participating towns¹, (iii) the shifting of US\$ 13 million of project funds to the Global food crisis project, and (iv) the termination of the government counterpart contribution (US\$ 15.98 million) under the project. With increased costs, reduced project funds and without the additional financing, the remaining resources available in the project account for urban water supply and sanitation component can only partially fund construction of water supply facilities in 28 towns (17 small, 5 medium and 6 large) of the 50 towns originally targeted by the project, with the financial shortfall of US\$ 80 million. Out of the US\$ 80 million additional financing requested US\$22 million will be used to cover the financial gap in the 28 ongoing towns and US\$ 58 million will be used to fully finance the remaining 22 towns to meet the original project objective.

3. With the proposed additional financing, water supply facilities can be constructed in all the fifty towns as set out in the initial project design and the original development objectives of the project can be met. In addition, the Bank can remain engaged in the sector and thereby fulfill its commitment to government and donors to support scaling up the National WASH Program and the multi donor trust fund. Continued engagement will also enable the integration of Woreda Water Supply, Sanitation and Hygiene (WASH) Programs with general Woreda (district) development and other rural infrastructure, which is important for sustainability of the program.

4. The rating for the project development objectives has been “satisfactory” throughout the project life. However, the implementation progress rating has slipped to “moderately satisfactory” due to the relative slow implementation of the urban water supply component. The original development objectives will be met fully for the rural water supply component by

¹ During project design, 15,000 was considered threshold population size to distinguish between large and small towns (>15,000 was considered large and < 15,000 as small) with 20,000 average population size. Currently most of the towns have larger population than original estimates and the average population size of towns covered under the project is 40,600 for large towns and 11,900 for small towns.

serving 1.8 million rural residents but will not be met for the urban component without additional financing and an extension of the credit closing date. The Additional Financing will support activities defined in the original Project Appraisal Document. The Additional Financing remains economically justified and the activities aligned with the current Ethiopia Country Assistance Strategy (CAS)².

II. Background and Rationale for Additional Financing

Project Data

5. The original IDA credit/grant blend of US\$100 million for the Water Supply and Sanitation Project (US\$75 million credit and US\$25 million grant) was approved by the Board of Executive Directors on May 11, 2004, and the financing agreement became effective on November 22, 2004. The original and current closing date of the project is March 31, 2010. If the AF is approved, the IDA financing for the project would be increased by US\$80 million and the revised closing date would be March 31, 2013.

Project's original objectives, design, or scope

6. The Project's original development objective was to "increase access to sustainable water supply and sanitation services for rural and urban users through improved capacity of stakeholders in the sector". Accordingly, the project is designed to build the joint capacity of all stakeholders, both public and private, to plan, construct and maintain water supply and sanitation facilities in towns and villages. In the process approximately 2 million people in 3700 rural communities and 1 million people in 50 towns would obtain improved water supply.

7. *Component A: Rural Water Supply and Sanitation.* (US\$63.8 million) Funding is provided (i) to increase the capacity of participating Woredas to effectively manage their rural water supply and sanitation programs; (ii) to increase the capacity of participating communities to effectively manage their water supply and sanitation facilities; and (iii) to ensure that well functioning water supply schemes are in place in participating communities. Key outputs include Woreda-wide WASH Programs, Woreda staff trained and equipped to implement their WASH programs, community water committees established and able to manage their systems, and local service providers capable of supporting the communities to construct and maintain their facilities.

8. *Component B: Urban Water Supply and Sanitation.* (US\$ 47.4 million) Funding is provided (i) to increase the capacity of participating water boards and operators to effectively manage and maintain their water supply facilities; and (ii) to ensure that well functioning water supply systems and improved sanitation are in place in participating towns and cities. Key outputs include the establishment of Town Water Boards with business plans and sound management systems; local operators with improved management systems; local consulting firms able to support Town Water Boards and operators; and sustainable, efficient and improved water supply and sanitation facilities.

² International Development Association, Country Assistance Strategy for the Federal Democratic Republic of Ethiopia April 2, 2008 covering the period from FY 2008 to FY 2011. IDA report No.43051-ET

9. *Component C: Program Support.* (US\$ 8.8 million) Funding is provided to build the capacity of Ministry of Water Resources and Regional Water Bureaus (RWB) personnel plus regionally-based consultants, to equip water quality testing and training centers, to develop the MWR web site and networking capabilities, to monitor and evaluate the program, and to refine policies and program implementation arrangements.

Rationale for Additional Financing

10. In 2000 approximately 7 of 50 million people in rural areas and 8 of 11 million people in urban areas had access to at least some safe drinking water. To achieve the MDG about 45 million more people need improved water supply services, representing some 3 million additional people each year. With one of the lowest coverage rates in the world and such a large population the Government has established a Universal Access Program (UAP) for Water Supply and Sanitation that calls for total coverage by 2012, a daunting task. With its high priority on improved water supply and sanitation, the Government has substantially increased its own investment in water supply and enlisted the World Bank to assist with the development of its WASH Program. The aim of this collaboration is to build the capacity needed to supply and sustain water supply services and to attract increasing funding from external investors. The Government has found the Bank to be an important partner and wishes to continue to receive its assistance in developing its WASH Program. Also, the Government wishes to meet its commitment to the fifty towns that were promised improved water supply services under the project.

Strategic Context and Rationale

Plan for Accelerated and Sustained Development to End Poverty (PASDEP)³

11. The overarching objective of Ethiopia's Poverty Reduction Strategy Paper, termed the Plan for Accelerated and Sustained Development to End Poverty, is to foster economic growth, improve access to and the quality of basic service delivery, reduce Ethiopia's vulnerability, and foster improved governance. To achieve these objectives Government and donor investments are targeted at program to eliminate the poverty traps that have hindered the development of the country in such areas as infrastructure, rural development, human development, and capacity building. PASDEP through the Universal Access Program for water supply and sanitation services aims to provide clean potable water to the entire population by 2012.

The Ethiopia CAS

12. The WSSP remains aligned with the current PASDEP and CAS by:
- Fostering economic growth through small town development
 - Improving access to and the quality of basic service delivery through sustainable access to potable water and sanitation services
 - Fostering improved governance by building the capacity of local government to engage with citizens for more responsive services.

³ Plan for Accelerated and Sustained Development to End Poverty is the Ethiopian Government Poverty Reduction Strategy Paper covering the period from FY 2006 to FY 2010

- Supporting donor harmonization through a multi-donor trust fund for water supply and sanitation.

13. The Bank's County Assistance Program through the Water Supply and Sanitation Project has been instrumental in supporting the development and implementation of the Government's Universal Access Program for Water Supply and Sanitation Services.

14. The CAS notes that the Bank has been well engaged in the water sector and will continue to scale up support in the sector in part by bringing other donors into the sector. The intended outcome of government, donor, NGO and individual interventions is to increase access to safe drinking water from 52% to 85% and to increase the proportion of households using latrines from 39% to 78%, while reducing the proportion of malfunctioning water facilities from 25% to 10%.

Project Performance

15. Capacity building under the project is of paramount importance due to the limited implementation capacity and magnitude of the challenge in meeting the national and millennium development goals in Ethiopia. The key elements of this capacity building are in place. They are:

- Stepped/phased approach for both rural and urban water supply components to ensure sustainability through demand driven, performance oriented, and cost effective service by involving districts and communities from planning to operation and maintenance (*Annex 4 shows schematic presentation of the stepped approach*).
- Combined effort of communities, government and private sector to take full advantage of all local capacity.
- Combined effort of the ministries and bureaus of water, health and education to implement integrated WASH Programs in each region and Woreda.
- A National Program to provide implementation capacity that attracts increasing government and donor investments and achieves MDG and GOE targets.
- Multi-donor trust fund to support the National WASH Program.

16. For the rural water and sanitation component the targeted 204 Woredas have established their Woreda WASH Programs, and 1.5 million of the planned 2 million people in rural communities have established their WASH committees and obtained an improved water supply. As stated in the following table it is expected that 1.8 million rural residents will be served by the project.

Number of Facilities and Estimated Population Served

Rural Water Supply	Persons per water point	No. Built Jun09	No. Built End Project	Population Served Jun09	Population Served End Project
HDW	270	1502	1662	405,540	448,740
Spring (on spot)	338	961	1280	324,818	432,640
BH+HP	425	677	788	287,725	334,900
Rural Pipe system					
Spring	3,313	56	56	185,528	185,528
Deep well	3,313	80	120	265,040	397,560
Roof water harvesting	117	53	88	6,201	10,296
protected pond	350	13	13	4,550	4,550
Total		3,364	4,007	1,479,402	1,814,214

17. For the urban water supply and sanitation component progress has been slower. This is because the implementation arrangements are new in Ethiopia, so it took time for: (i) the RWBs to resolve all the issues related to contracting and supervising regionally-based town water supply consultants, and (ii) local consultants to learn how to establish water boards, carry out an initial technical/capacity assessment, and prepare an immediate action plan (step 1), contract an operator, carry out a baseline survey, introduce immediate service improvements, identify priority sanitation improvements, and complete a business plan, detailed design and tender documents (step 2) so that water supply facilities could be constructed (step 3). At present 86 small towns and 29 large towns have completed step 1, 86 small towns have completed step 2a. The large towns are about half way through step 2 business planning and detailed design. With increased costs and lost project funds, only 12 of the 50 targeted towns (28 small and 22 large) can be funded for step 3.

18. A considerable effort has been made since the mid-term review to streamline the implementation strategy for the urban component. Now that local small town consultants are experienced, the best way to expedite implementation and reduce consultant and construction costs is to strengthen the RWBs' screening process before towns are selected and consultants start the planning and capacity building process. This includes confirmation of the population size, assessment of economic activities and the demand for water by businesses and institutions, confirmation of the water source, and estimation of the cost of producing, conveying, treating, and distributing water. The most important step is to identify, confirm and if possible develop the water source before consultants start their work. In this way planners know where the water source is and how much is likely to be available. They can then proceed to design the rest of the system with confidence.

Fiduciary Performance

19. **Procurement:** The ISR rating for procurement has been ‘moderately satisfactory’ for the duration of the project. It was not until the midterm review (2.5 years after project effectiveness) that the MWR was able to secure the services of a qualified procurement specialist. Prior to the midterm review, the Bank’s internal capacity to respond in a timely fashion was limited. The Ministry now has two qualified procurement specialists and is hiring two more, to compensate for the continuing turnover of procurement staff in the RWBs. Also, regional program managers are now a bit familiar with Bank procurement procedures and standard procurement documents for goods, works and consultancy services. As the result of the experiences gained, draft bidding documents, evaluation reports, and draft contract documents submitted to the MWR by the RWBs require less revision, and Bank procurement specialists are less burdened with making extensive, often repeated reviews and comments.

20. With the Prior Review Threshold (PRT) and International Competitive Bidding (ICB) thresholds currently applicable to the Ethiopian context, more and more contracts will be procured under NCB procedures and more will be subject to post review. This situation will demand further capacity building works of the client institution. The current capacity of the MWR is fairly adequate to handle the project procurement provided it can retain the current experienced staff both in procurement and the management e. The ministry’s procurement team has developed its own procurement tracking system and is able to execute acceptable procurement cycle management. The team has put in place retrofitted procurement registers in the Regional PMUs that combine procurement plans and contract outcomes including the final contract price and summary of deliverables. The MWR also has gained the capacity to provide on-the-job training to regional procurement staff and to advise them on critical procurement issues that arise during bidding/RFP documents preparation, bid announcement, bids/proposals evaluations and contract discussions. For contracts that are procured through International Competitive Bidding (ICB) and consulting services that involve international competition, the project will follow the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006 (“Procurement Guidelines) and the “Guidelines: Selection and Employment of Consultant by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006 (“Consultant Guidelines”).

21. **Financial Management:** Based on the latest FM implementation review mission, conducted in May 2009 the overall financial management rating for the project is classified as moderately satisfactory. In most previous supervisions the project was rated ‘moderately satisfactory’ except for one reporting period when it slipped to ‘moderately unsatisfactory’ due to a qualified audit and substantial outstanding advances in the regions. The project financial performance has improved. The audit report including management letter for the year ended 7 July 2009 were submitted to the Bank within the period stipulated in the financing agreements and the audit opinion on the financial statements, statement of expenditures and special accounts were unqualified (clean). Similarly, the project is now submitting IFRs regularly on a quarterly basis.

22. Major changes have been made in the fund flow arrangement of the project. Funds flow is now through Chanel 1B⁴; i.e., through the Ministry of Finance and Economic Development (MOFED) - Bureaus of Finance - Woreda finance desk. The project has now shifted from SOE based disbursement to report based disbursement to facilitate implementation of the project through disbursement to Woredas and bureaus on the basis of their cash flow requirements of the units they manage. The financial management manual was modified to accommodate the change in fund flow and facilitate the government's shift to a programmatic approach in the sector. The manual was developed with the leadership and full participation of MoFED.

23. Disbursement: The project has disbursed US\$69m of the US\$93m total project credit (74%) at the time of negotiation.

24. Compliance with legal covenants: There is full compliance with the covenants in the financing agreement.

III. Changes in the original objectives, design, or scope of the project

25. There has been no change in the objectives or scope of the project. The only change in the project design was made at the mid-term review when the ministries and bureaus of health and education joined the ministry and bureaus of water as implementing entities in the WSS Project to combine and coordinate their efforts in establishing Woreda WASH Programs serving all communities, schools and health facilities to maximize health and related economic benefits.

Project Costs and Financing Plan

26. The project cost and financing plan have been revised in the course of implementation. In response to the global food crisis US\$ 13 million was reallocated to a new operation. The financing plan was also amended to remove the 15% cost sharing required from the government for most of the categories and agreement was reached to cover all the project costs from the IDA proceeds. The combination of these two changes brought the project cost down to US\$ 93 from its original total of US\$ 116 million (See table in annex 3).

Fiduciary Arrangements

27. The current financial management, procurement, or disbursement arrangements will be used for the additional financing. However, the closing date of the project will need to be extended to complete detailed designs, carry out the bidding process, and complete all remaining construction activities. Allowing for inevitable problems that will arise during the procurement and construction stages, a three year extension would be prudent.

Areas Requiring Improvement

Monitoring and Evaluation:

⁴ Channel 1B : is the mainstreamed government fund transferring channel from Federal MoFED to regional finance bureaus and further to woreda finance offices.

28. The advantage to switching to Channel 1 is the project will be aligned with the financial management and reporting system that is operated by the Federal Ministry of Financing Economic Development, regional bureaus of finance and economic development, and woreda finance desks. The system accounts for funds used in all regions and at all levels and provides consolidated reporting at the federal level. The shift to a National WASH Program involving the ministries and bureaus of water, health and education also offers the opportunity to aggregate key monitoring indicators related to water and sanitation facilities plus hygiene behavior in communities, schools and health facilities. The Multi-stakeholder Forum made up of these ministries plus donors and CSOs active in the sector has established monitoring and evaluation as a key step in the sector harmonization process. The Forum can also lobby the Central Statistical Agency to introduce questions into national surveys that would allow national and regional access to water and sanitation to be estimated more precisely. Other important initiatives include the commencement of implementation of M&E-MIS for the WaSH sector, Ministry of Water Resource's national inventory of water supply facilities, and the joint effort being made by the three ministries with support from the Bank's Water and Sanitation Program to pilot the integrated Woreda Wide WASH Program in Amhara Region and roll it out to other regions.

Social and Environmental Safeguards:

29. The original project was assigned the environmental category B, and an Environmental and Social Management Framework (ESMF) was disclosed in Ethiopia and in the Bank's Infoshop in March 2004. The proposed additional financing operation has not triggered any new safeguard policies as the project activities have not changed. Under the original project, at the request of the Government, the Bank has notified Ethiopia's riparians. This notification is still valid because no new water supply investments are planned under the additional financing operation and the estimates of water extraction originally provided to riparians remain unchanged. Efforts to further strengthen environmental and social management capacity at the regional and Woreda levels continue as discussed below

30. At mid-term, terms of reference for an international capacity building consultant were prepared to develop and implement a Training of Trainers (TOT) Program at the regional level and prepare a training manual as a way of strengthening the implementation of environmental safeguards.. Subsequently, environmental training will be provided at the Woreda level, including the implementation of the environmental and social screening process. The Consultant is expected to commence his assignment in January 2010. It is anticipated that the implementation of the environmental and social screening process will improve as a result of the Consultant's work.

31. At the moment, the project's updated environmental and social screening process included in the Project Implementation Manual at mid-term is not being applied at the planning stage of water supply and sanitation investments. Instead, alternative measures are taken such as incorporating environmental measures in the utility's Business Plans, and including environmental sections in the Woreda WASH Plans. These alternative measures are adequate and satisfactory. The Project Coordination Unit has been requested to regularly report on its environmental management activities in a separate chapter of the Progress Report. An EA report for the Wolkite Town Water Supply and Sanitation Project is in the process of being finalized and will subsequently be disclosed in Ethiopia in publicly accessible places and at the Bank's Infoshop.

32. The Water Resources Development Fund (WRDF) arranges for the preparation of separate EA reports for its investments once the feasibility studies have been prepared, and the screening is carried out as part of the EA process. In the WRDF's experience, the environmental assessment sections in the feasibility studies are not sufficient. The WRDF has agreed to use the environmental and social screening process as part of its appraisal process of water supply and sanitation projects.

33. Environmental management capacity at the Ministry of Water Resources has been strengthened through the appointment of two Environmental Specialists who will ensure efficient environmental and social management of ongoing and future water supply and sanitation projects.

IV. Appraisal summary:

Economic Analysis

34. There are significant changes in the price of factor inputs and outputs since the first WSSP project was appraised in 2003. To provide clean water for urban residents a per capita cost of US\$ 47 was used in the 2003 economic. However, due to significant increase in factor inputs the per capita cost of providing clean water for urban residents has escalated to US\$ 80 for large towns and US\$ 55 for small towns. In addition the minimum wage increased from Birr 200 to Birr 320, the discount rate has increased from 10% to 10.23%, the exchange rate of Ethiopian Birr against US\$ has depreciated from Birr 8.55 to 11.55 Birr, the inflation from 2% to about 5%, and the per capita health cost from 5 Birr to 7.14 Birr. After making adjustment for these changes financial and economic analysis was conducted for the urban components of the project.

35. The economic analysis of the project consists of a cost-benefit assessment of the investments at town level (capacity building and infrastructure) on a with and without- project basis, modeled over 15 years using a 10.23% discount rate. The cost of the project including technical assistance and infrastructure at the town level for planning, capacity building and improving infrastructure is compared with the benefits of implementing the project. Benefits with project scenario include value of time saved from reduction in time spent for fetching water (without the project 2.5 hours per day & with the project 1.5 hours/day) as well as from reduced medical expenditures due to increased availability of safe water and sanitation facilities and increased knowledge of good sanitation and hygiene practices (Households 7.1 Birr per capita medical expense without the project will be saved in the with project scenario).

36. According to the economic analysis, the revised rate of return is 27.4% and the net present value is Birr 58.5 million. The economic rate of return is slightly higher than the 2003 return which was (20.6%). This is due to the increase in minimum wage and per capita cost of health expenditure which are used for calculating benefit streams. The sensitivity analyses show that the project has positive NPV (Birr 0.67 million) at 25% cost increase while a 25% decline in benefit will result in 2.67 million NPV. Hence the project remains economically justifiable.

Summary of Financial Analysis Revised for Urban Water Supply and sanitation

No.	Description	Number Of town	Average population	Per capita cost in US\$	NPV In Million US\$	IRR
1	Combined Large & small town	44	24,215	64.1		
	Base Case				58.5	27.4%
	Sensitivity Analysis At 25% cost increase				0.67	10.5%
	Sensitivity Analysis At 25% benefit decrease				2.67	8.8%

Financial Analysis:

37. The Government Policy of full cost recovery for urban water supply systems as well as the sub project appraisal approach will ensure that the investments in water supply can be sustainable.

Summary of results

ETHIOPIA: Water Supply and Sanitation Project

<i>Key outcome and result indicators</i>	<i>Results achieved</i>
Access to improved water supply for at least 2 million people in rural and 1 million people in urban project areas	<ul style="list-style-type: none"> • Thus far 1.5million people in rural areas under (component 1) and 0.15 million people in urban areas (component 2) have improved water supply facilities.
Effective woreda water and sanitation programs established through project in at least 150 woredas.	<ul style="list-style-type: none"> • 204 woredas have established rural water and sanitation programs. Of these greater than 90% have well functioning programs. Through the Multi-donor Trust Fund DFID is continuing to invest in these woredas to increase coverage and strengthen their WASH Programs.
Effective, autonomous water boards established through project in at least 30 town/urban areas	<ul style="list-style-type: none"> • All 87 participating towns have established autonomous water boards, 75 of which have introduced immediate service improvements, typically increasing the production and distribution of water and improving the performance of the local operator. IDA financing for the immediate service improvements was \$5 per capita. The Oromia RWB added its own funds to top up IDA financing in 29 towns. Water service will improve significantly when rehabilitation and expansion works are completed in the targeted 50 towns and operators have completed their technical and financial management training.
Component One : Rural Water Supply and Sanitation	
<i>Result 1: Capacity of participating Woredas developed to effectively manage their rural water supply and sanitation programs.</i>	<ul style="list-style-type: none"> • By the mid-term review 204 (102% of the planned 200) woredas had prepared and received approval for their rural WASH Programs. • More than 180 (>90%) of the 204 participating woredas have WaSH teams effectively implementing their RWSS programs. Woreda WASH Team comprising relevant sector desks have been established and remain staffed and equipped even though turnover is high. They understand policies and implementation arrangements of the project, know what's going on in the participating villages, are proficient in procurement, accounting, reporting, and supervision of spring catchments and hand dug wells. Areas that generally require improvement are in critically appraising WASHCOM facilities and management plans, M&E, and in submitting fully documented withdrawal applications.

<p><i>Result 2: Capacity of participating communities developed to effectively manage their water supply and sanitation facilities, with water supply schemes functioning well.</i></p>	<ul style="list-style-type: none"> • 3348 (90%) of participating community WASHCOMs working according to bylaws, with at least 40% female membership. In most communities WASHCOM members and chairpersons and virtually all treasurers are women. Community participation was already well established in Ethiopia through the previous IDA-financed social fund project, so uptake has been excellent in the WSSP. All WASHCOMs paid their cash contribution, are collecting O&M tariffs, and are maintaining the pumps and surrounds. Virtually all communities in Amhara Region deposit their O&M tariffs in the local microfinance institution, and the practice is spreading to other regions. • 3140 (84% of the planned 3730) rural water points have been constructed, and 106 (60% of the planned 175) rural piped systems have been constructed. Greater than 90% of the facilities constructed are functioning. The planned inventory of water supply facilities planned by the MWR will provide a more accurate figure.
<p>Component Two: Urban Water Supply and Sanitation</p>	
<p><i>Capacity of participating towns developed to effectively manage their water supply and sanitation facilities, with facilities improved and functioning properly.</i></p>	<p>Towns are divided into three categories (small towns less than 15,000 population, big towns greater than 15,000 population, and loan towns through the Water Resource Development Fund). Newly formed regionally based consultants (TSGs) support the small towns, experienced national consulting firms support the big towns. With existing financing about 12 of 28 small towns and 5 of 21 big towns can be constructed. Details follow:</p> <p>Towns <15,000 population</p> <ul style="list-style-type: none"> • 86 towns through step 2a (85% complete) • 23 towns going to step 3 (not started) (Additional Financing needed for all the 23) (DFID to finance 22 of the 87) <p>Towns >15,000 population</p> <ul style="list-style-type: none"> • 29 towns in step 2a (50% complete) • 21 towns going to step 3 (not started) (Additional Financing needed for all the 21) <p>Towns >15,000 through the WRDF</p> <ul style="list-style-type: none"> • 6 towns through steps 2 and 3 (IDA financing US\$11m, RWBs financing much more) <p><i>Step 1 = establish water boards and system manager, identify immediate service improvements (small works and capacity), and prepare an application for step 2.</i></p> <p><i>Step 2 = establish water boards, make immediate service improvements, and prepare business plans and detailed designs.</i></p> <p><i>Step 3 = rehabilitate and expand facilities, supervise construction, and continue to build capacity of water board</i></p>

	<p><i>and operator.</i></p> <ul style="list-style-type: none"> • All 87 (100%) of the participating small towns have established autonomous water boards, 75 (86%) of which have introduced immediate service improvements, and 63 (72%) of which have completed their business plans and feasibility study. All 35 (100%) of the big towns (>15,000 population) have established their water boards and are in the process of preparing their business plans (50% complete). • The first performance agreement has been signed in one of the six big loan towns where expansion work has started. Others are expected to be signed in the next year. • The towns can cover their O&M plus renewal and replacement of short life assets after the expanded works are constructed. • 63 (72%) of the 87 participating towns have prepared their sanitation plans. The 35 big towns are in the process of preparing their sanitation plans (50% complete).
<p>Component Three: Program Support</p>	
<p><i>Capacity of MWR, WRDF, and participating RWBs and regionally based consultants developed to effectively fulfill their sector roles.</i></p>	<ul style="list-style-type: none"> • The MWR has been a strong advocate for the policies and implementation arrangements agreed during project preparation. Their Program Coordination Office was particularly strong in supporting the roll out of the rural water supply and sanitation component of the project, orienting and training RWB staff and WSGs. Support for the urban component was weaker, primarily because no one had previous experience with the different elements of the stepped implementation process. Financial managers have worked hard to keep funds flowing in the project in their role as intermediaries between regions/woredas and the Bank's Loan Department. Not an easy task. For the first two years of the project the Ministry was unable to secure the services of a qualified procurement specialist. Since that problem was solved the Ministry has played a constructive role in assisting the RWBs to prepare bid documents, evaluation reports and contracts. The Ministry still needs to make a concerted effort to put a M&E system in place and to ensure that the RWBs and woreda are dealing effectively with social and environmental safeguards. The Ministry has recently hired international consultants to help with both. • Six of the eight RWBs are managing their regional programs satisfactorily. The Bureaus should be commended for getting the WASH Program off the ground, including addressing the many issues that arose in contracting WSGs and TSGs, and in rolling to program out to 204 woredas and some 140 towns. Their focus has been on getting water to people, so have paid less attention to M&E and safeguards. Going forward the RWBs will need to pay particular attention to the quality of

	<p>environmental management plans and resettlement (compensation) plans for town water supply construction.</p> <ul style="list-style-type: none">• The WSGs and TSGs have been the cornerstone of the project. The work of the WSGs in supporting Woreda WASH Programs was simple compared to that of the TSGs in supporting town water boards and their operators. Further the learning curve was much steeper for urban than rural water supply component because the basic approach for RWS was already well known in Ethiopia while that for the urban component was new to everyone. The result has been that the rural WSS component moved along at a good pace, while the urban WSS component has fallen about two years behind.• WRDF had a slow start, but management has improved and staff have learned how to screen potential investment projects and appraise them against technical, financial and management criteria. The Fund has been a strong advocate for effective utility management and their credit worthiness.
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ANNEXES

Annex 1: Result Framework and Monitoring Ethiopia Water Supply and sanitation project Additional financing Result Framework

PDO	Project Outcome Indicators	Uses of project outcome Information
<p>“increase access to sustainable water supply and sanitation services for rural and urban users through improved capacity of stakeholders in the sector”</p>	<p>2 million people in rural and 1 million people in urban project areas provided with access to Improved Water Sources</p>	<p>Access complaint with targets and determine whether project strategy is working</p>
	<p>2 million people in rural and 1 million people in urban project areas practice Improved Sanitation”</p>	
	<p>2 million people in rural and 1 million people in urban project areas directly benefit from the project of which 50% are female</p>	
	<p>Effective Woreda water and sanitation programs established through project in 230 Woredas.</p>	
	<p>Effective autonomous water boards established through the project in 50 town/urban water utilities.</p>	
<p>Intermediate Outcomes</p>	<p>Intermediate Outcome Indicators</p>	<p>Uses of Intermediate outcome Monitoring</p>
<p>Number of participating Woredas with prepared and approved RWSS programs</p>	<p>204 participating Woredas with prepared and approved WASH programs</p>	<p>Low levels will indicate need to assess level of delay and take corrective actions</p>
<p>Number of participating Woredas with teams effectively implementing WSS Plans</p>	<p>175 participating Woredas with teams effectively implementing WSS Plans</p>	<p>Assess prospects for sustainability and if project design is working as intended</p>
<p>Number of participating community WASHCOMs with facilities and management plan prepared, working according to bylaws with at least 50% female members participation</p>	<p>2,800 participating communities have WaSHCOMs working according to bylaws with at least 50% female members participation</p>	<p>Low level will flag need to revise strategy of capacity building</p>
<p>Number of water points constructed in participating communities functioning properly</p>	<p>4,125 water points constructed in participating communities functioning properly</p>	<p>Assess prospects for sustainability and if project design is working as intended</p>

Intermediate Outcomes	Intermediate Outcome Indicators	Uses of intermediate Outcome Monitoring
Number of participating town water utilities with systems expanded or rehabilitated, functioning properly supplying at least 15 liter per capita per day	38 participating town water utilities with systems expanded or rehabilitated and functioning properly supplying at least 15 liter per capita per day	Assess prospects for sustainability and if project design is working as intended
Number of participating town water boards/committees operating autonomously with business plans	38 of participating town water boards/committees operating autonomously with business plans	Assess whether project design producing desired institutional results or whether modification needed
Number of additional people benefiting from improved water supply	2 million more people in rural and 1 million more people in urban area will get access to improved water supply	Assess complaint with targets
Number of additional people practicing improved sanitation	2 million people in rural and 1 million people in urban project areas practice Improved Sanitation”	Assess prospects for sustainability and if project design is working as intended
Number of participating town water utilities working under performance contract	38 of participating town water utilities working under performance contract	Assess whether project design producing desired institutional results or whether modification needed
Number of participating town water utility revenue covering O&M plus renewal & replacement of short life assets	38 of participating town water utility revenue covering O&M plus renewal & replacement of short life assets	Assess prospects for sustainability and if project design is working as intended
Number of participating towns with integrated sanitation plans	48 of participating towns with integrated sanitation plans	Assess whether project design producing desired institutional results
Regional Water Bureaus effectively managing regional programs	204 woreda WSS plans and 50 town utility business plans appraised	Assess whether project design producing desired institutional results
MoWR effectively supporting and monitoring national programs	M&E frame work for developed for the WSS sector	Assess whether project design producing desired institutional results
Number of participating towns and Woredas effectively supported by regional service providers	204 woredas and 50 towns received technical assistance from regional service providers	Assess whether project design producing desired institutional results
Improved capacity of MoWR for water quality testing	Set of water quality test kits provided by the project	Assess whether project design producing desired institutional results
WRDF effectively appraising and monitoring projects	Six town utility business plan appraised and monitored	Assess whether project design producing desired institutional results

Arrangements for results monitoring

Project Outcome Indicators	Baseline		Target values			Data Collection and Reporting		
	Original	Yr 2010	YR1	YR2	YR3	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Number of people in rural area provided with access to improved Water sources under the project (50% female)	0	1.5m	1.7m	1.8m	1.8m	Annually, Regional reports		Regional water bureaus and MoWR
Number of people in urban area provided with access to improved Water sources under the project (50% female)	0	0.15m	0.25m	0.63m	1.0m	Annually, Regional reports		Regional water bureaus and MoWR
Effective Woreda water and sanitation programs established through project in 230 Woredas.	0	204	204	204	204	Annually, Regional reports		Regional water bureaus and MoWR
-Effective autonomous water boards established through the project in 50 town/urban water utilities.	0	86 small ⁵ and 29 large	86 small 29 large	86 small 29 large	86 small 29 large	Annually, Regional reports		Regional water bureaus and MoWR
Total number of people in rural and urban project areas directly benefiting from the project of which 50% are female	0	1.65m	1.95m	2.43m	3ml	Annually, Regional reports		Regional water bureaus and MoWR
Component 1								
Result 1								
Number of participating Woredas with prepared and approved	0	204	204	204	204	Annual	Review of official records, interviews and focus groups	Regional Water Bureau

⁵ Autonomous boards were established in more than 50 towns in the process of selecting the 50 towns to be financed by the project

Project Outcome Indicators	Baseline			Target values			Data Collection and Reporting		
	Original	Yr 2010	YR1	YR2	YR3	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection	
									Yr 2010
RWSS programs.	0	115	138	161	175	Annually assessment report	Interviews, field visits, stakeholder assessment of capacity	MWR/RWB	
Result 2	0	3700	3700	3700	3700	Annual	Official records and rapid participatory assessment	MWR/RWB	
Number of participating community WASHCOMs with facilities and management plan prepared, working according to bylaws with at least 50% female members participation	0	3364	4125	4125	4125	Annual	Inventory, focus group, review of records, surveys	MWR/RWB	
Component 2									
Number of participating town water utilities with systems expanded or rehabilitated, functioning properly supplying at least 15 liter per capita per day	0	0	15	30	38	Annual	Field visits, participatory assessments	MWR/RWB	
Number of participating town water boards operating autonomously with business plans	0	0	46	47	48	Annual	Review of official records	Woredas & Towns	
Number of participating town water utilities working under performance contract	0	0	15	30	38	Annual	Review of official records	RWBs & Consultants	

Project Outcome Indicators	Baseline		Target values			Data Collection and Reporting		
	Original	Yr 2010	YR1	YR2	YR3	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Number of participating town water utility revenue covering O&M plus renewal & replacement of short life assets	0	0	15	30	38	Annual	reports	RWBs, Woredas & Towns
Number of participating towns with integrated sanitation plans	0	0	46	47	48	Annual	Review of water board annual reports	RWBs, Woredas & Towns
Component 3								
Regional Water Bureaus effectively managing regional programs (No. of plans appraised)	0	204 woredas & 0 towns	15	30	38	Annual	Surveys Participatory Assessment	RWBs, Woredas & Towns
MoWR effectively supporting and monitoring national programs (Sector M&E frame work developed and implemented)	0	0%	30%	75%	100%	Annual	“	RWB and consultants
Number of participating towns and Woredas effectively supported by regional service providers	0	50	50	50	50	Annual	“	RWBs, Woredas & Towns
Improved capacity of MoWR for water quality testing (set of Test kits procured)	0	1	1	1	1	Annual	“	RWBs, Woredas & Towns
WRDF effectively appraising and monitoring projects (number of business plans appraised)	0	3	4	6	6	Annual	“	RWBs, Woredas & Towns

Annex2. Risk Monitoring and Mitigation Matrix

ETHIOPIA: Water Supply and Sanitation Project

Risk	Rating at Appraisal	Risk Mitigation Measure Agreed at Appraisal	Progress Over the Last 5 Years	Current Rating
<p>From Outputs to Objective</p> <p>Sector policies may not be implemented by all levels of government due to capacity constraints, including cost recovery, decentralized implementation, involvement by all stakeholders (incl. the private sector)</p>	M	Ensure wide dissemination and promotion of policy objectives with experience/case studies to show how they can be applied and provide for effective monitoring by MWR	The policies and institutional arrangements agreed during the preparation of WSSP have been followed. With respect to the urban WSS component, the RWBs have established town water boards, who in turn have hired system managers and operating staff. Water tariffs are determined as part of the design and business planning process.	N
<p>From Components to Outputs</p>				
Lack of commitment to demand responsive approach to identifying projects, community involvement in technology selection based on associated costs, and affordability as the overriding concern in project design	M	Ensure regional guidelines make adequate provision for these approaches, program promotion highlights them and appropriate monitoring is in place	There has been high demand for improved water supply on the part of rural communities and towns. Towns have readily established Water Boards, hired operators, and participated in the planning process. The risk remains that the RWBs will be diligent in appraising town project proposals for cost effectiveness and affordability.	M
Project implementation is slow and cumbersome	S	Ensure regional implementation manuals include procedures for standardizing and streamlining processes and program monitoring is in place with appropriate feedback system to improve processes	Regional implementation manuals were in place at the beginning of the project and have been updated as part of the harmonization process so that government and donors adhere to the same implementation arrangements. The planning process for Town WS has been revised to expedite implementation.	M
Regional Bureaus and woredas fail to assign resources, including staff, and do not actively participate with all relevant	M	Ensure performance based approach is well understood – resources will be allocated to regions and woredas that perform in accordance with project	Shifting funds between regions proved impossible due to strict adherence to the equity formula. In retrospect the biggest issue has been the difficulty the RWBs have had in hiring/retaining qualified personnel and purchasing	S

Risk	Rating at Appraisal	Risk Mitigation Measure Agreed at Appraisal	Progress Over the Last 5 Years	Current Rating
stakeholders		design criteria.	vehicles to supervise the project due to restrictions applied at the cabinet level. High turnover of staff at woreda level has also been problematic. The original rating should have been "Substantial".	
Individuals and small firms are not available or interested in participating in the water sector	M	Ensure adequate promotion and selection of participants is carried out, including targeting unemployed youth	The great success of local consultants (WSGs) in assisting woredas to establish and implement their Rural WASH Programs proved to be the cornerstone of the rural WSS component. Newly formed town consultants (TSGs) took longer than expected to go through the stepped planning and capacity building process in towns, primarily because it was new to them and the national consultants who were there to support them. Having gone through the process in a number of towns, the TSGs are familiar with the process and can expedite it.	M
Lack of trained manpower in accounting and auditing with decentralized implementation.	S	Civil service reform process particularly salary levels. Training and field supervision of project related staff, and revised government accounting systems.	In an effort to accelerate fund flow and to harmonize implementation arrangements with standard accounting and reporting practices, the project shifted to Channel 1, that is fund flow from the Ministry of Finance, to Regional Finance Bureaus, to Woreda Finance Desks for rural WSS and RWBs for urban WSS. Four other decentralized Bank projects utilize Channel 1, so there are opportunities for joint capacity building.	S
Lack of trained staff to ensure social and environmental safeguards are identified and carried out.	Not rated	ESMF and RPF prepared, agreed, and disclosed.	The project implementation manual, training materials, and consultant/works contracts set out safeguard policies and procedures. Staff is being trained again to conduct environmental baseline surveys, review environmental management and resettlement plans, and enforce them.	S

Annex - 3: Project Cost by Category

	Category	Original Project Financing (US\$ 1000s)	Current Project Finance (US\$1000)	Proposed Additional financing (US\$1000)
1	Works	21,070.00	17,580.54	
2	GOODS	12,880.00	10,769.05	
3	CONSULTANTS SERVICES	2,930.00	12,490.48	
4	TRAINING	4,190.00	4,605.86	450,000.00
5	GRANT	43,520.00	30,767.63	70,800,000.00
5-A	GRANTS - WATER SUPPLY		26,938.05	70,800,000.00
5-B	GRANTS - HYG and SAN		3,829.57	
6	SUBLOANS	12,420.00	14,036.18	6,250,000.00
7	OPERATING COSTS	390.00	2,326.35	1,000,000.00
8	REFUND OF PPF	600.00	640.14	
9	UNALLOCATED	2,000.00	187.36	1,500,000.00
	Total	100,000.00	93,403.59	80,000,000.00
	Government Contribution	15,961.00	-	
	Total	115,961.00	93,403.59⁶	80,000,000.00

⁶ This figure is higher than the original amount after the deduction for global food crisis because of gain in exchange rate in the course of implementation.

Annex 4-Stepped Approach to Town Water Supply & Sanitation



