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| 1. Project Data : | |
| OEDID: | C2039 |
| Project ID: | P000901 |
| Project Name: | Water Sector Rehabilitation Project |
| Country: | Ghana |
| Sector: | Urban Water Supply |
| L/C Number: | Credit 2039-GH |
| Partners involved : | Austrian Development Corporation ADC); Overseas Development Administration (ODA), UK and Overseas Economic Corporation Fund (OECF), Japan |
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| Date Posted : | 08/19/1999 |

2. Project Objectives, Financing, Costs and Components :

Objectives: The overarching objective was to turn the implementing agency, Ghana Water and Sewerage Corporation (GWSC), into a financially and technically viable institution . The detailed project objectives were to (a) strengthen the managerial, financial and technical capabilities of GWSC both at headquarters and in the regions; (b) improve the operating and maintenance ability of GWSC; and (c) improve the financial performance of GWSC. The project was also intended to assist GWSC to : (i) to reduce the levels of non-revenue earning water; (ii) increase the output from existing water systems by rehabilitation; and (iii) expand some systems and complete others to further increase water production.

Components: The project included: (a) Institutional development of GWSC, with a twinning arrangement with Thames Water International U.K. and a Manpower Improvement Program, including recruitment of key professional staff and retrenchment of about 1,500 redundant employees; b) emergency replacement of mechanical, electrical and water treatment plant and equipment; (c) Rehabilitation and completion of 37 water supply systems on which work had been suspended for lack of funds; (d) Limited expansion of 31 water supply systems; (e) Improvement of workshops, stores and training centers and provision of staff housing; (f) Supply of essential equipment and materials including vehicles and chemical supplies; and (g) Technical studies such as hydrology studies and feasibility and design studies for future projects and a tariff study and one on revaluation of assets .

Costs: The actual project cost was US\$ 120.4 million against an appraisal estimate of US\$ 125.0 million.

Financing: An IDA credit of SDR 19.3 million (equivalent to US\$ 25.0 million) was approved in May, 1989. The credit closed on June 30, 1998 after one one-year extension at which time a total of US\$ 23.6 million had been disbursed. ADC co-financed US\$ 20.6 million; ODA co-financed US\$ 24.1 million; OECF co-financed US\$ 45.3 million, and GWSC financed US\$ 6.8 million. A fourth intended co-financier, the Agence Francaise de Developpement withdrew from the project due to the continued lack of creditworthiness of the implementing agency, GWSC.

3. Achievement of Relevant Objectives :

Out of the main objectives (a) the managerial, financial and technical capabilities of GWSC were partially strengthened; (b) the operating and maintenance ability of GWSC improved somewhat; but (c) there was no improvement of the financial performance of GWSC . Among other objectives (i) the non-revenue water actually increased from 56% to 57% of production over the 1992-98 period; (ii) water production rose only slightly from 41 billion gallons in 1992 to 42 billion gallons in 1997 which confounded the objectives of more substantial increases through rehabilitation and expansion .

4. Significant Achievements :

The realization that public water monopolies are formidable obstacles to reform may have paved the way for the present effort to bring private operators to offer competition and better and sustainable service .

5. Significant Shortcomings :

The number of consumers connected to the network was stagnant, hardly any more water was produced and non-revenue water actually increased . These factors help explain why GWSC suffered from constant cash -flow

problems which led to protracted implementation delays and reductions in scope of work under many contracts . GWSC management instability with five managing directors over the 1991-98 affected project implementation and institutional and financial performance negatively .

| 6. Ratings : | ICR | OED Review | Reason for Disagreement /Comments |
|-----------------------------|----------------|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Outcome : | Unsatisfactory | Unsatisfactory | |
| Institutional Dev .: | Partial | Negligible | The OED rates the institutional development negligible since there is little guarantee that the partial improvements noted can be sustained without private sector participation . |
| Sustainability : | Likely | Uncertain | The sustainability of the project works depends on the success of attracting an experienced private operator under incentives that will increase revenue water and decrease operating costs . PSP is being pursued under a project that is now under preparation. |
| Bank Performance : | Deficient | Unsatisfactory | The two ratings are equivalent. |
| Borrower Perf .: | Deficient | Unsatisfactory | The two ratings are equivalent. |
| Quality of ICR : | | Satisfactory | |

7. Lessons of Broad Applicability :

Stable and sustained management is a necessary condition for project success . As it happened GWSC had none and project performance suffered: Operating efficiency did not improve, the cash flow was much worse than projected, and technical progress turned worse with components actually canceled for lack of counterpart funding . Under the circumstances the twinning arrangement with Thames Water was ineffective . It is likely that the Ghana water supply and sewerage sector performance will not improve until a private operator takes over with appropriate incentives to increase efficiency and produce operational profits .

8. Audit Recommended? Yes No

9. Comments on Quality of ICR :

The quality of the ICR is uneven . It is exemplary in the way it openly discusses the shortcomings of the Bank and the Borrower alike based on a wealth of data . However, the applied methodology for calculating the economic rate-of-return is flawed since it assumes that the increased amount of water produced could serve as a proxy for estimating quantifiable benefits of the project . This is not true in a situation with increasing technical and commercial losses.