Water supply and electricity project

Report No: ; Type: Report/Evaluation Memorandum ; Country: Gambia; Region: Africa; Sector: Urban Water Supply; Major Sector: Water Supply & Sanitation; ProjectID: P000810

The Gambia Water and Electricity Project, supported by Credit 1724-GM for US$7.9 million equivalent was approved in FY 86. The Credit was closed in February 1996, 20 months behind schedule. Originally, the Islamic Development Bank (IDB), the African Development Fund and France were to contribute US$13.6 million to project financing. However, IDB withdrew their assistance and two other cofinancing agencies, the European Investment Bank and the Government of Austria, supported the project. Total cofinancing was US$36.5 million equivalent. The Government of Gambia did not contribute to project financing. The Implementation Completion Report (ICR) was prepared by the Africa Regional Office, with a contribution from the implementing agency, the Gambia Utilities Corporation (GUC). The cofinanciers did not provide comments.

The project's objectives were to assist the GUC, the Government-owned water supply and electricity utility to: (i) improve and expand water service in the country's capital, Banjul, and surrounding areas, and in provincial centers; (ii) improve the quality of electricity supply; and (iii) improve GUC's operational and financial performance. Accordingly, the project funded: (a) installation of, and equipment for water and for electricity supply in the targeted areas; (b) a nine-month supply of fuel for GUC's generating plant; and (c) 48 man-months of technical assistance for training, improvement of financial management, and strengthening GUC's operational capability.

The physical project objectives were partially achieved. Water production capacity in the Banjul area increased by 55 percent, falling only 4 percent short of the project target. However, cost overruns of over 200 percent (partly related to increases in the scope of the water supply component) and delays of up to 30 months were incurred. In the provincial centers, the project contributed to an increase in water sales of some 500 percent over eight years. The electricity component of the project was canceled because: (i) sever donors discontinued their support of the project and GUC failed to submit concrete proposals for structuring IDA's component; and (ii) funding was constrained because of the high cost overruns in other components. Ultimately, IDA did not finance fuel oil purchases.

The institutional component, which was to focus on improving GUC's maintenance, manpower development, management (including cost accounting), and internal auditing, started inauspiciously with unsuccessful assistance through individual consultants in selected areas. Later, after GUC was restructured into a holding company it entered into a lease contract with a private operator, but in 1995 the Government unilaterally terminated the contract after communication had broken down between GUC and the operator. The major reasons for the lack of success of the contract were: (i) ambiguities in the contract about the reimbursements to be made by the operator to GUC for debt service and other expenditures and on the definition of operation and maintenance functions and reporting requirements; (ii) lack of administrative capacity and financial resources for GUC to monitor the contract; (iii) weak incentives for the operator to carry out specified functions, such as reduction of unaccounted for water; and (iv) government interference, for example, by not allowing disconnection of customers for non-payment of bills. In 1995, a new management contract was signed with another company, but in the one year of the contract's duration, little was achieved. The economic rate of return for the water supply component, estimated at 7-11 percent at appraisal, could not be recalculated because of the lack of reliable data. It is likely, however, to be much lower than the appraisal estimates, given the significantly higher investment costs. The Borrower failed to comply with all major covenants.

OED rates project outcome as highly unsatisfactory and institutional development impact as negligible. Sustainability is rated as uncertain because some recent institutional improvements have

improved the chances that benefits from physical components will continue to materialize. IDA performance is rated as unsatisfactory because IDA: (i) overestimated the Government's and implementing agency's ownership of the project, and GUC's institutional competence to carry out the project; and (ii) during project supervision, IDA gave in to pressure from cofinanciers several times and, against its better judgment, did not suspend disbursements from the credit, limiting itself to threats. These ratings are consistent with those in the ICR.

This disappointing project demonstrates most of the major deficiencies in public utilities projects: deficient project ownership by borrower and beneficiary, unwillingness of the borrower to comply with agreed covenants (especially concerning tariffs), inability to reduce losses, inadequate staffing (too few skilled and too many unskilled employees), and poor operational and financial management. A key lesson from this project is that lease contracts with the private sector are difficult to monitor and enforce in countries with weak institutions that lack both administrative and financial resources. One option is to contract out part of the monitoring function to private sector auditors. Alternatively, a management contract with a few simple performance targets that will not be subject to disagreement may be preferable to lease contracts that involve complex risk sharing clauses that are subject to interpretation.

The ICR is satisfactory. It candidly reflects IDA's heroic but mostly futile attempts to obtain, against all odds, some sustainable benefits. However, the document fails to clearly compare the institutional measures carried out with those identified as objectives. The ICR does not provide a plan for future operation of project components.

No audit is planned.