



1. Project Data:		Date Posted : 09/15/2004	
PROJ ID: P007926		Appraisal	Actual
Project Name: Py Asuncion Sewerage	Project Costs (US\$M)	72.20	26.30
Country: Paraguay	Loan/Credit (US\$M)	46.50	24.40
Sector(s): Board: WS - Sewerage (98%), Water supply (2%)	Cofinancing (US\$M)	20.00	0.00
L/C Number: L3842; LP188			
	Board Approval (FY)		95
Partners involved :	Closing Date	12/31/2002	12/31/2003
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components

a. Objectives

The project's original objectives were to

- (a) improve urban water and sewerage services through : i) the decentralization of CORPOSANA, Paraguay's state owned organization providing water and sewerage services; (ii) the participation of the municipalities; (iii) the participation of the private sector; and (iv) the reform of CORPOSANA's institutional structure;
- (b) improve the health conditions and the quality of life of about 250,000 inhabitants in the city of Asunción through: (i) the expansion of the sewerage system; and (ii) the mitigation of the environmental impact of sewage disposal in the Paraguay river; and
- (c) improve the living conditions of about 3,000 inhabitants in the city of Encarnación through the construction of infrastructure works.

In January 2000, after the project had been rated unsatisfactory for two years, the Asunción Sewerage Project was formally revised and called Reform Project for Water and Telecommunications Sectors . The amendments to the loan agreement include the following revised objectives :

- (d) to improve the provision of urban water and sewerage services through the participation of the private sector;
- (e) to improve the living conditions of about 3,000 inhabitants in the city of Encarnación through the construction of infrastructure works;
- (f) to improve the regulatory framework of the Borrower's telecommunications sector and promote private sector participation; and
- (g) to strengthen the administrative capacity of civil servants in order to assist the Borrower in the implementation of its public sector reforms.

b. Components

(Original)

(A) *Institutional Development (costs: appraisal - US\$1.5m./actual - US\$1.3m.)*, consisting of: (i) proposals to decentralize the functions of CORPOSANA, including, a proposal to transfer water and sewerage services to the municipalities; (ii) a proposal for the participation of the private sector; (iii) the restructuring of CORPOSANA; and (iv) training of CORPOSANA's personnel.

(B) *Expansion of the Sewerage System in Asunción (cost: appraisal - US\$69m./actual - US\$19.3m.)*: (i) provide approximately 50,000 house connections in Fernando de la Mora Sur y Norte, Cuenca Avai, Madame Lynch, Primer Presidente and Luque; (ii) construct 550 km of secondary sewage collectors; (iii) construct 24 km of sewage interceptors of about 2 m diameter. (iv) construct 3.2 km tunnel of 2 m diameter; (v) install an automatic sewage screening device to separate coarse materials along with the construction of a new sewage outfall into the Paraguay River; (vi) rehabilitate and extend three existing sewage outfalls into the Paraguay River; (vii) design a monitoring system to control hazardous and toxic chemicals; (viii) hire consulting services for supervision of sewerage works .

(C) *Civil Works in Encarnación (costs: appraisal - US\$ 1.1m./actual - US\$1.1m.)*: Construct infrastructure works, including: (i) water supply and sewage disposal; (ii) roads; (iii) storm water drainage and solid waste disposal facilities; and (iv) a power distribution system for the benefit of about 3,000 people to be resettled under the Second Yacyreta Hydroelectric Project.

(D) *Project Preparation Advance (costs: appraisal - US\$0.6m./actual - US\$0.6m.)*

(Revised, post January 2000 added the following):

(E) *Telecommunications sector reform (costs: appraisal - US\$0.0m./actual - US\$2.2 m.):* TA would be provided to ANTELCO, the state-owned telecom agency, including plans for private sector participation and transition to alternative jobs for redundant employees.

(F) *Public administration training (costs: appraisal - US\$0.0/actual - US\$0.1m.):* To establish a master's level program in public administration at one of the local universities.

(G) *Project management and supervision (costs: appraisal - US\$0.0/actual - US\$0.8m.):* To finance the operation of a new PIU at the General Secretariat of the Presidency of the Republic.

(H) *Public information campaign (costs: appraisal - US\$0.0/actual - US\$0.9m.):* To develop a communication strategy for the government's reform program in water and telecom sectors.

c. Comments on Project Cost, Financing and Dates

The cost of the original project was estimated at US\$ 72.2m., US\$5.7m. to be financed by CORPOSANA; US\$20m. by the European Investment Bank; and US\$ 46.5m. by the World Bank loan. At the time the project was restructured, only US\$19.3m. of the Bank loan had been spent; US\$ 15m. of the Bank loan was cancelled. The EIB loan was not disbursed because sewer contracts were not implemented. At project closure, a total of US\$26.3m. or only 36.4% of appraisal estimates was invested, with the Bank's share amounting to US\$24.4m. or 92.8% of total costs and CORPOSANA's contribution amounting to US\$1.9m or only 7.2% of total costs. An additional US\$7.1m. of the Bank's loan was cancelled at the end of the project. The project was extended for one year.

3. Achievement of Relevant Objectives:

(Original)

(a) *not achieved:* there was virtually no progress toward policy and institutional reform.

(b) *not achieved:* none of the families in Fernando de la Mora Sur y Norte, Cuenca Avai, Madame Lynch, Primer Presidente and Luque received sewerage services.

(c) *fully achieved:* in Encarnación, about 3,000 inhabitants benefited from basic infrastructure, including water supply, latrines and improved roads.

(Revised, post January 2000)

(d) *not achieved:* Congress enacted two laws, one establishing a five-member board to oversee the water sector's regulatory framework as well as the regulatory agency (ERSSAN), and the other to allow for private sector participation by recognizing the approximately 400 "aguateros" - small private water suppliers operating their own wells and providing pumped water. The latter law contained provisions for the government to enter into contracts with the "aguateros." It was suspended shortly after being signed. There were 400 mutually agreed separations from employees with incentives paid out, but no training provided for transition to other jobs.

(e) *fully achieved:* in Encarnación, about 3,000 inhabitants benefited from basic infrastructure, including water supply, latrines and improved roads.

(f) *not achieved:* Studies for opening the telecommunications market and for rationalizing tariffs were drafted, but not implemented. Transforming ANTELCO into a private company was first signed into law and then revoked. 800 employees received compensation for leaving ANTELCO.

(g) *not achieved:* 25 government officials participated in a 2-semester master's program in public administration. The PIU proved effective while the government had political support in Congress; later it had to be dismantled because of strong opposition to privatization and because of allegations of corruption. The PIU hired consultants to develop a communications strategy. Unhappy with the results, it terminated the contract early.

4. Significant Outcomes/Impacts:

(none)

5. Significant Shortcomings (including non-compliance with safeguard policies):

- Evidence from the CAS, Public Expenditure Reviews, and a 1992 OED water sector report, available at the time of project preparation, suggested that the project's components were beyond CORPOSANA's financial and managerial capabilities. Traditionally, CORPOSANA had been unable to generate cash to finance investments and service its debts. Given its prior records it was unrealistic to assume that CORPOSANA would be able to (i) reform itself in line with the project objectives; (ii) implement unprecedented tariff adjustments; (iii) keep a high rate of growth in its operations; and (iv) significantly improve its operational efficiency.
- CORPOSANA failed to comply with the loan agreements since very early in project implementation. It did not implement a plan for a new billing, collection and implementation system; it carried out projects not listed in the Project Implementation Letter and incurred debts above the limits established in the letter. These factors led to CORPOSANA's poor financial performance. CORPOSANA's debts at the end of 2002 amounted to about US\$195 million, or more than twice the debt at the beginning of the project.
- There were substantial gaps between supervision missions during the implementation of the original project: a 17-month gap between the June 1996 and November 1997 missions; and a 16-month gap between the December 1998 and April 2000 missions.
- The disruptive effects of the incomplete reform process caused uncertainties about the company's and staff's future. It negatively influenced the business community's perception about the political climate in the country.

- The QSA5 panel indicated that the extensive and very close involvement of the Bank in the decisions that were taken on the privatization process could have stood in the way of wider ownership by all key Paraguayan stakeholders and could have posed reputation risks to the Bank .
- A 3.2 km sewerage tunnel of about 2 m diameter was completed in November 2000. It does not yield any benefits, however, because the other components of the sewer system - sewerage house connections and secondary sewage collectors - were not built.
- The PIU was discredited based on the fraudulent use of US\$ 390,000 of the loan proceeds deposited in the Special Account and on a US\$500,000 payment to a notary, out of government funds, to carry out a procedure related to the privatization process. The fraud was carried out through four different transactions taking place between August 2001 and March 2002. The government has reimbursed the Bank for the amount stolen . A special audit was requested by the Bank in June 2002 following the fraud, but it was not completed until December 2003.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Unsatisfactory	Unsatisfactory	The unsatisfactory outcome applies whether the assessment is based upon the original or revised objectives.
Institutional Dev .:	Negligible	Negligible	
Sustainability:	Unlikely	Unlikely	
Bank Performance:	Unsatisfactory	Unsatisfactory	
Borrower Perf .:	Unsatisfactory	Unsatisfactory	
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:

- Close attention should be paid to evidence in the CAS, such as : despite many years of IDB financing and conditionality, CORPOSANA continued being managerially and financially weak .
- Had the project design taken into account OED 's recommendations from a 1992 water sector report, it would have strengthened CORPOSANA 's cost recovery and cash generation .
- More supervision missions during the implementation of the original project could have led to earlier decisions regarding project restructuring .
- CORPOSANA 's decision to enter into agreements with private service providers is an approach which could help accelerate the provision of water and sanitation services to those without adequate service .

8. Assessment Recommended? Yes No

9. Comments on Quality of ICR:

The ICR provides a useful account of project experience . It would have benefited from elaborating further on the changes to the project accurately as compared with the loan agreements . Also, the cost data for components, given in the text of the ICR, is not always consistent with that given in Annex tables .