



<b>1. Project Data:</b>		<b>Date Posted :</b> 08/22/2002	
<b>PROJ ID:</b> P005435		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Water Supply V	<b>Project Costs (US\$M)</b>	353.6	201
<b>Country:</b> Morocco	<b>Loan/Credit (US\$M)</b>	160	67
<b>Sector(s):</b> Board: WS - Water supply (97%), Sanitation (2%), Health (1%)	<b>Cofinancing (US\$M)</b>	84	53
<b>L/C Number:</b> L3664; L3665			
	<b>Board Approval (FY)</b>		94
<b>Partners involved :</b> Overseas Economic Cooperation Fund, Japan; African Development Bank	<b>Closing Date</b>	12/31/2001	12/31/2001

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**2. Project Objectives and Components**

**a. Objectives**

The overall objective of the project was to assist the Government of Morocco in developing a long-term policy on institution building and cost recovery of water services and to address the needs of the poorest population groups by improving water supply services in urban and rural areas. The specific objectives of the project were to:

1. improve the operational and financial performance of sector institutions;
2. complete ongoing rehabilitation of existing waterworks;
3. expand and reinforce water supply facilities;
4. expand environmental activities;
5. mobilize additional financial, resources; and
6. expand and upgrade services to the poor.

**b. Components**

The project components include:

- rehabilitation and expansion of urban water supply systems operated by six Régies, and upgrading of operational efficiency and management systems through technical assistance (TA) and training (US\$159.4 million);
- rehabilitation and expansion of semi-urban water supply systems and water production facilities operated by ONEP (*Office National de l'eau Potable*), and upgrading of operational efficiency and management systems through technical assistance and training (US\$111.6 million);
- physical works, consulting services, equipment and training for Hydraulics Administration (US\$12.2 million);
- equipment, TA, and training to Epidemiology and Sanitation Program Directorate (ESPD) to sensitize the rural population on the importance of hygienic handling of water at collective water points after abstraction, and to provide disinfection to rural water supply resources (US\$4.1 million);
- rehabilitation works, equipment, TA, and training to Water and Sanitation Directorate (WSD) to provide adequate safe water to about 3 million inhabitants and to provide guidance for the operation and cost recovery of all rural water supply facilities (US\$6.2 million); and
- meteorological data gathering equipment, physical works, technical assistance and training to National Meteorology Directorate (US\$7.1 million).

In February 2000, the Loan Agreement was amended and the scope of the project was substantially changed. However, the development objectives were not formally modified. The amendment included:

- (a) cancellation of Bank-financed Casablanca and Rabat components due to privatization of their water and

wastewater services.

(b) cancellation of two components - (i) the rural water supply component (with the Hydraulics Administration); and (ii) the meteorology/hydrology component (with the National Meteorology Directorate), as alternative sources of financing were identified.

(c) In addition, the Project Agreements with the four remaining Régies were amended to reflect the Government's decreased capacity to increase tariffs, recover arrears due by municipalities, and to meet targeted financial objectives.

### **c. Comments on Project Cost, Financing and Dates**

In February 2000, the amended Loan Agreement led to cancellation of US\$71.0 million. At closing on schedule, another US\$17.0 million was canceled because ONEP was unable to complete the procurement of new information systems and equipment by December 31, 2001.

### **3. Achievement of Relevant Objectives:**

Project development objectives were not formally amended, and the late change to project scope and cost (six years into the project and one year before closing) were necessitated by poor implementation progress and government's decision to take advantage of alternative cheaper funds. Therefore, following ICR/OED guidelines, the project is evaluated against its original objectives. The project achieved fully only one of its six main objectives and partially achieved two others:

- Expanded and upgraded water services to the poor was fully achieved (61,234 connections vs the SAR target of 47,700) for the Bank-funded component, although the ICR does not report on the achievement of objectives for rehabilitation of the system serving 2 million rural people (for which the government obtained alternative funding).
- Improving the operational and financial performance of sector institutions was only partly achieved principally through the privatization of water and wastewater services in Casablanca and Rabat.
- Expanding and reinforcing water supply facilities was partially achieved; 386 km of the 1,000 km of pipeline was constructed and 13 of 16 planned reservoirs supplied 81% of estimated incremental water storage needed.

### **4. Significant Outcomes/Impacts:**

- 735,000 people gained access to safe water supplies which generate significant and positive social and health impacts.
- Two of the six Régies were privatized independently of the project (at government request a senior resident Bank officer acted as an advisor during the transition from public to private concession).

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

- The project was the fifth Bank water supply project in Morocco. Even so, the project design was complex, over-ambitious in scope and unrealistic with respect to government and agency commitment to the main institutional objectives. The scope included six main cities, ONEP, three ministries and 11 implementing agencies.
- The objective to complete ongoing rehabilitation of existing works was reduced in importance by the cancellation of the rural water supply component which served 2 million people. The achievement of the remaining target of rehabilitating 22,000 household connections cannot be determined from the ICR and is rated as negligible.
- Under the institutional objective, none of the financial or operational efficiency targets were achieved because neither the ONEP nor the Régies adhered to the several financial covenants which included periodic adjustment of water tariffs (as needed to maintain adequate cash flow for O&M) after annual audit and cash generation through reduction of billing arrears to 3 months. Even the revised target of "eight months of billing" was not achieved. Arrears for four Régies were between nine and twelve months. For ONEP, there was no change in arrear collection which remained at 12.6 months of billing and the arrears level hardly changed at DH 932 million. As a consequence of these problems none of the utility performance benchmarks were achieved.
- Neither original nor revised water use efficiency targets were achieved. Although three of the four Régies modestly improved them, those of Fes declined even following replacement of 35,000 or 23% of its water meters primarily because the targeted 400 km of new water mains was not laid.
- Adoption of a poorly designed block tariff structure provided a strong financial incentives to minimize water consumption (which may be a worthwhile result on resource grounds) such that water incremental water sales were only a tenth of SAR projections causing utility deficits to balloon. This pro-poor strategy whilst benefitting those in real need led to a decline in revenue from the better-off consumers.
- Achievement of the objective to improve environmental services, which was linked to the rural water supply

program, is unknown because of insufficient information in the ICR.

- ONEP was unable to implement the new information system due to start-up problems and disagreement about the design and objectives of the proposed program.
- ICR economic analysis shows negative ERRs and NPVs for the four Régies.

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome :</b>	Satisfactory	Unsatisfactory	The project fully achieved only one of its six main objectives and there were significant shortcomings with other objectives. (Even the late revised objectives with much reduced scope were not achieved.) Negative ERRs and NPVs.
<b>Institutional Dev .:</b>	Negligible	Negligible	
<b>Sustainability :</b>	Likely	Unlikely	The resilience of the benefits of the water systems is highly dependent on large public subsidies so long as the revenue problems are unresolved. System maintenance is thus at risk. Although Régies and ONEP have technical skills to operate and maintain the facilities, tariff setting and collection are still the weak points and have not met the appraisal expectations.
<b>Bank Performance :</b>	Satisfactory	Satisfactory	A judgment call, as Bank performance was weak with questionable quality at entry and unduly delayed restructuring of a failing project.
<b>Borrower Perf .:</b>	Satisfactory	Unsatisfactory	Borrower performance is rated unsatisfactory because low government and utility ownership allowed only partial achievement of the broad objective to improve the autonomy and financial viability of water supply utilities. The late cancellation of Bank funding incurred substantial prior fees.
<b>Quality of ICR :</b>		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:

- Blueprinting financial reform of utilities does not work particularly when the Bank has a weak understanding of local institutions and financing, and how they function. Country and sector -specific knowledge is essential to tailor achievable covenants and balance social objectives with financial ones.
- Plan comprehensively but intervene only when borrower commitment is high and a narrow set of realistic time-bound targets can be agreed. Multiple objectives, agencies and targets create an unimplementable project.
- The Bank needs to better target its efforts in middle-income countries with large number of donors. Bank funding can be relatively expensive and uncompetitive in such situations. In Morocco, 25% of the loan was cancelled because the government found lower cost financing, but not before substantial Bank commitment charges had been incurred.

#### 8. Assessment Recommended? Yes No

**Why?** As the fifth in a series Bank water supply projects it was notable unsuccessful apparently because project cancellation was deferred in favor of the poverty targeted component. An assessment should evaluate the efficacy of this approach and where the Bank's comparative strength lies given the apparent donor competition in the

country.

**9. Comments on Quality of ICR:**

Although the ICR has been rated satisfactory in a judgment call, it contains weaknesses, including that the text lacks clarity in places such that it is difficult to follow the argument. Achievement of project objectives and components is not systematically or adequately covered and some of the data presentation lacks consistency. However, the ICR's Lessons Learned are well thought through and substantive.