



1. Project Data:		Date Posted : 12/06/2001	
PROJ ID : P007707		Appraisal	Actual
Project Name : Water&Sanit II	Project Costs (US\$M)	770.0	392.95
Country : Mexico	Loan/Credit (US\$M)	350.0	228.25
Sector(s) : Board: WS - Sewerage (48%), Water supply (48%), Central government administration (4%)	Cofinancing (US\$M)		
L/C Number : L3751			
	Board Approval (FY)		94
Partners involved :	Closing Date	09/30/1998	08/31/2001
Prepared by :	Reviewed by :	Group Manager :	Group:
Kristin S. Little	Anwar M. Shah	Alain A. Barbu	OEDST
2. Project Objectives and Components			
a. Objectives			
<p>The project helped to finance the continuation of the urban areas water program (<i>Agua Potable para Zonas Urbanas</i>, APAZU) launched in 1990 under the Bank-financed Water and Sanitation Sector Project. Specific project objectives were to:</p> <p>(a) improve the quality and expand coverage of water and sanitation services;</p> <p>(b) strengthen the institutional capacity of the National Water Commission (<i>Comision Nacional de Agua</i>, CNA);</p> <p>(c) reduce subsidies to the sector by promoting the development of adequately sized and operationally and financially autonomous local water utilities;</p> <p>(d) support the development bank BANOBRAS' (<i>Banco Nacional de Obras y Servicios Publicos</i>) efforts to enhance its capacity to appraise and supervise projects;</p> <p>(e) encourage private sector participation (PSP) by establishing an appropriate legal and technical framework to attract private investment;</p> <p>(f) improve management of water resources and the environment by supporting water quality programs;</p> <p>(g) strengthen the sector's capacity to enforce environmental regulations and carry out environmental impact assessments; and</p> <p>(h) strengthen the institutional capacity of the Mexican Institute of Water Technology, IMTA.</p>			
b. Components			
<p>(a) Institutional development support for the federal agencies in the sector. (\$33.7 million)</p> <p>(b) Investment support to local water utilities (\$722.8 million)</p> <p>(c) Institutional support for the water utilities (\$13.5 million)</p> <p>Following the December 1999 reallocation, an additional component was added:</p> <p>(d) Emergency disaster relief component (\$60 million). These funds were intended to reconstruct water and sanitation infrastructure affected by natural disasters.</p>			
c. Comments on Project Cost, Financing and Dates			
<p>The loan became effective on June 20, 1995 and was amended four times. The closing date was extended from September 30, 1998 to August 31, 2000 to finance new sewerage works (which never materialized). \$84.3 million was cancelled in March 2000. About \$60 million of the original loan amount was reallocated for emergency relief (\$50 million in retroactive funding).</p>			
3. Achievement of Relevant Objectives:			
<p>Only 50 percent of the original loan amount was disbursed against original project components and objectives. The financial crisis of 1995, combined with a change in governments, and five different task managers contributed to a lack of consistency and attention. Consequently, the project failed to meet most of its objectives. During implementation, several project objectives received no loan proceeds (strengthening CNA's information systems, BANOBRAS' project monitoring systems, and developing a framework for PSP). The project failed to improve the working relationship between the Federal Government, the States, and the water utilities. And in the end, only 32 percent of the intended beneficiaries received improved water service, although the project did have some success in furthering decentralization efforts and strengthening the water utilities.</p>			
4. Significant Outcomes/Impacts:			
<ul style="list-style-type: none"> There is an increasing mix of internal cash generation and loans to water utilities (19 percent for non-APAZU programs and 31 percent for APAZU). The project supported several international seminars, organized by CNA, to discuss PSP related experiences. CNA's interest in PSP increased substantially during the loan period and became a pillar in the new administration's strategy. 			
5. Significant Shortcomings (including non-compliance with safeguard policies):			

- Several activities envisaged in the SAR lacked explicit plans to convert them into a reality. Increasing private sector participation was one of the loan's goals, but no specific activities to this end were planned. Also, components were designed to encourage better prepared projects and strengthen the capacity of water utilities, yet they did not support broader structural reform or attempt to resolve pressing issues such as pricing, cost recovery, and the regulatory framework.
- M&E systems and other evaluation activities were proposed for CNA and BANOBRAS in the SAR, (paras. 2.39– and 2.29) but it can be assumed that nothing happened -- the ICR states: "no mechanisms were designed or put in place to follow the project's targets" (p 15).
- There were almost no incentives for water companies to increase cash generation and/or to borrow. A financial crisis in 1995 coincided with an steep reduction of Federal sector investment allocations, reducing grant allocations and upsetting the mix of funding available to water utilities, rendering the Bank financing plan unviable
- Eighty-nine percent of TA funds were not used. (External resources do not provide additional budgetary resources to Federal agencies.) It was easier for them to tap unrestricted federal funds than external resources with conditionality.
- Supervision missions reportedly had the wrong mix of expertise and were unable to dialogue with government agencies and a general lack of attention was reported. Supervision reports link success to disbursement levels, not to performance of the project. Even after lying dormant for much of 1995, the project was not restructured and no mechanisms were created for M&E.
- Retroactive and emergency expenditures were exempt from subproject screening (clearance for proposals). This bypassed the quality assurance mechanisms put in place for the regular lending process.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Unsatisfactory	Unsatisfactory	
Institutional Dev .:	Modest	Modest	
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:

- Some staffing continuity is critical. Those replacing others (task managers, government officials) need to make an effort to quickly understand decisions already made and to continue the dialogue where necessary.
- Providing incentives and limiting disincentives for water utilities to borrow for operations or to utilize project funds for TA is crucial to the success of a project.

8. Assessment Recommended? ☒ Yes ☐ No

Why? Restructuring was badly needed, but not pursued. The Bank staff and Borrower government incentives and disincentives in such a context need to be examined. An audit of this project could inform sector staff and contribute to a larger OED study.

9. Comments on Quality of ICR:

The ICR carefully catalogued the project experience, looking at the project from a number of useful perspectives, and identifying factors that enhanced and constrained effective implementation. It caught errors in the Borrower's contribution and reached carefully thought out but straightforward conclusions.