1. Project Data:

**PROJ ID:** P095555

**Project Name:** Rural And Small Towns Water Supply And Sanitation Project II (praguas)

**Country:** Ecuador

**Sector Board:** WAT

**Sector(s):**
- Water supply (44%)
- Sanitation (26%)
- Central government administration (13%)
- Sub-national government administration (9%)
- Solid waste management (8%)

**Project Costs (US$M):** 76.62

**Loan/Credit (US$M):** 48

**Cofinancing (US$M):** 7.5

**Board Approval Date:** 07/25/2006

**L/C Number:** L7401

**Partners involved:**
- Closing Date: 02/28/2011
- 03/31/2009

**Evaluator:** Anna Amato

**Panel Reviewer:** Peter Nigel Freeman

**Group Manager:** IEG ICR Review 1

**Group:** IEGPS1

2. Project Objectives and Components:

**a. Objectives:**

As stated in the Project Appraisal Document (PAD) the project aimed to:

(i) provide sustainable access to WSS services for approximately 285,000 new rural beneficiaries and to promote their effective use;

(ii) provide improved and sustainable WSS services to approximately 205,000 beneficiaries in cantonal capitals;

(iii) promote sustainable solid waste services in cantonal capitals; and

(iv) improve overall sector performance by the national government by promoting performance-based investment financing for the urban WSS sector.
The Loan Agreement stated the objective more broadly: The objective of the Project is to increase the coverage and effective use of sustainable water, sanitation and solid waste services with a focus on the poorer populations in rural communities and small towns.

For the purposes of this review, the PAD formulation is used as it is more specific.

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Components (or Key Conditions in the case of DPLs, as appropriate):

(1) Sector Reform and Institutional Strengthening (US$1.6 million at appraisal, US$0.39 million actual): Strengthen the capacity of the Sub-Secretariat of Water, Sanitation and Solid Waste (SAPSyRS) as well as other key WSS sector actors such as municipalities, WSS operators, water users associations and others.

(2) The Rural Water Supply and Sanitation Component (US$30.7 million at appraisal, US$5.29 million actual): Design and build rural water supply and sanitation systems, train communities, organize water user boards into regional organizations, and finance a nationwide hand-washing campaign.

(3) Promotion of New Management Models for Water, Sanitation and Solid Waste (US$24.8 million at appraisal, US$0.64 million actual): Provide technical assistance to help municipalities delegate their water and sanitation services to autonomous operators, and develop sustainable arrangements for solid waste services, while providing investment finance to upgrade municipal water, sanitation, and solid waste services.

(4) Project Administration: (US$3.2 million at appraisal, US$1.14 million actual) Finance project management activities, as well as a strategic communication program.

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

The PRAGUAS II project was an APL (Adaptable Program Loan) which became effective shortly before the new Administration came to power. Soon after effectiveness however, it became clear that the new administration had concerns with some of the project's activities and serious concerns emerged with the design of key project components, including the contracting of a few large companies to implement most of components 2 and 3. The design and preparation of the project were done by previous administrations that prioritized active participation of the communities and up-front social interventions to ensure local empowerment and capacity building, and eventually greater sustainability. This led to a project cycle that was relatively long and complex. In contrast, the new administration strongly emphasized the importance of achieving rapid and visible impacts and gave less importance to local empowerment and participation. Because of a history of frequent political turnover in Ecuador, the project design called for a strong and relatively insulated Project Management Unit (PMU) for implementation. The technical staff of the PMU was contracted for a long-term period, following a rigorous evaluation process conducted in part by an independent personnel recruiting firm, with exception of the general coordinator. This model, which had served the precursor project, PRAGUAS I well, meant that most senior staff - who were appointed before project effectiveness could not be easily removed or changed once the new administration came in. There were disagreements between the new administration and the PMU over the project’s approach, conceptual design and implementation strategy. These differences led the Minister to unilaterally revoke the agreement governing the staffing of the PMU in November-December 2007 and to dismiss high-level staff of the PMU shortly thereafter. The decision to dismiss key PMU staff reduced its operational and management capacity, created a lack of coordination and negatively affected sub-project implementation. In January 2008, the GOE decided to cancel 36M USD out of the total loan amount of 48M USD. The remaining amount was to be used to complete on-going activities and commitments. From January 2008 onwards, the PMU operated with only limited staff. The project then closed two years early, in March 2009. The final actual numbers shown in Section 1 above reflect the disbursed amount received from the Task Manager at the interview with IEG and so is different from the ICR number. Also, the Borrower contribution portion of the final project costs was estimated, since it was difficult to know how much of this project was continued by the Government after they cancelled the Bank loan.

3. Relevance of Objectives & Design:

The relevance of the Objectives was high. The project was intended to support Ecuador’s 2003-2007 Country Assistance Strategy (CAS) which stated that a "concerted fight against poverty, through coordinated advances on the economic and social fronts" would require "improved basic infrastructure". To this end, the CAS aimed to "strengthen governance by helping the Authorities build an accountable and efficient government whose services are accessible for all Ecuadorians". The project also supported progress towards the drinking water and sanitation targets contained in Millennium Development Goal No.7 ("Ensure Environmental Sustainability"). The Bank's experience in rural water supply in Ecuador under the...
precursor to this project, as well as in other South American countries such as Peru and Paraguay under similar projects, provided a solid basis to support Ecuador with the second stage of its Rural and Small Towns Water Supply and Sanitation Program. In the absence of a new sector strategy or policy, project objectives appear to continue to be relevant to the country’s development priorities. National needs for improving water and sanitation services remain large. Interest shown by participating rural communities confirms their willingness and commitment to collaborate in the implementation of sub-projects to gain access to improved WSS services.

The relevance of the Design was modest:

The Project represented the second phase of a three stage APL. PRAGUAS II was designed based on the experience of the first phase and experiences from projects in Ecuador and other countries in the region. The design considered risk factors, including political risk, and tried to mitigate these. It included a participatory framework for stakeholders and direct beneficiaries to the decision-making process. PDO Indicators were good measures for the project and targets were clearly established. However, the design did not adequately foresee the problems that could ensue with a changed administration.

4. Achievement of Objectives (Efficacy):

The Project was unsuccessful in achieving its objectives. The most significant factors for not achieving the Project objectives were (i) the cancellation of several project components at the Government’s request; (ii) the failure to restructure the project despite several attempts by the supervision team; (iii) the decision by the Government to complete only the on-going subprojects with simple implementation schemes. As a result, the project had a partial implementation with an outcome far from achieving the PDO.

(i) provide sustainable access to WSS services for approximately 285,000 new rural beneficiaries and to promote their effective use. The project directly benefited 31,400 people with access to improved rural water supply services and 44,500 people with access to basic sanitation for a total of 75,900 beneficiaries. This figure represents 26.7 percent of the target population for this objective, but it is not clear that these services are sustainable. -- Modest

(ii) provide improved and sustainable WSS services to approximately 205,000 beneficiaries in cantonal capitals. PRAGUAS II developed rehabilitation and efficiency improvements of water supply and sanitation systems in only 3 cantonal capitals (20 were targeted). The total population of these cities is 220,000 inhabitants, but the share of the population directly affected by the project’s activities is unclear in the absence of close technical involvement by the PMU. -- Negligible

(iii) promote sustainable solid waste services in cantonal capitals. The component related to this objective was cancelled. -- Not achieved.

(iv) improve overall sector performance by the national government by promoting performance-based investment financing for the urban WSS sector. Three of the components had activities that would have led to this objective. One component was cancelled and the other two were only partially completed, so this objective was only partially achieved. -- Negligible

5. Efficiency (not applicable to DPLs):

Modest. A cost/benefit analysis was done at appraisal for Component 2 and part of Component 3. These were averaged proportionally and included here. Since those components were not completed, a parallel analysis was not done at closing. However, the project team did attempt to measure efficiency on those contracts for water supply connections or Basic Sanitation Units that were completed to see how many were signed for an amount below a given cost ceiling agreed during project preparation. The results were that 87 percent of 103 contracts were signed or an amount below the ceiling, with the water connection cost averaging 30 percent below the ceiling and the BSU averaging 33 percent below the ceiling cost.

a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

<table>
<thead>
<tr>
<th>Rate Available?</th>
<th>Point Value</th>
<th>Coverage/Scope*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraisal</td>
<td>Yes</td>
<td>25.3%</td>
</tr>
<tr>
<td>ICR estimate</td>
<td></td>
<td>%</td>
</tr>
</tbody>
</table>

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:
The project is rated as highly unsatisfactory, essentially because its overall outcome is measured against the project's original Results’ Framework since no formal restructuring took place. As a result, the PDO was not achieved. Furthermore, while the project was highly relevant to the administration which prepared it, its design did not coincide with the priorities of the new administration that was left to implement it. The few activities implemented under the project generally did not follow the original design, did not represent good practices and the implementation did not integrate lessons learned during the first phase of the APL. There were clear deficiencies in the technical quality of the works constructed and there are serious doubts as to the sustainability of the investments financed.

**a. Outcome Rating:** Highly Unsatisfactory

---

**7. Rationale for Risk to Development Outcome Rating:**

The risk to development outcome is considered high because of the following factors:

- **Risk of weak political support.** The Government announced a new WSS investment program but the policies and strategies to be applied under this new operation are unclear.

- **Risk of communities not sustaining the assets.** Long term technical assistance, training and operational and management services to existing juntas (water user boards) are required to ensure sustainability. The Ministry does not have the institutional set up to provide technical assistance to rural communities. PRAGUAS focused on strengthening municipalities and creating water board user associations so that these technical assistance mechanisms would be close to communities. This component was canceled; therefore, the risk of not having an institutional mechanism to provide long-term assistance (technical, administrative and social) to water board user associations remains high.

**a. Risk to Development Outcome Rating:** High

---

**8. Assessment of Bank Performance:**

The preparation for this project was comprehensive, incorporating many lessons learned from its precursor, PRAGUAS 1. However, the Bank should have taken on board the lack of Government ownership more directly and balanced better its "preoccupation" (ICR page 19) with technical matters. In its comments, the Region has stated that: (i) the project had been "endorsed by all presidential candidates, including the new President who had requested the preparation of this second phase of PRAGUAS II" as Finance Minister in the old administration," (ii) "During the first year, the slow pace of implementation was related to the normal cycle of procurement and there were no indications of "strong Ministerial opposition" to the project; and (iii) The Bank decided not to cancel the loan because "The Bank has a strong relation with sub-national governments...the Government was requesting funds to complete ongoing works." The Region has also pointed out that "Other Bank projects were cancelled immediately after the administration took over, and at the government's request; however the [new] administration chose to continue with the implementation of Praguas II, although they never agreed to restructure the project when it was clear that they did not agree with the original design," and "...it was a necessary trade off considering the difficult dialogue and engagement in the country." The Ministerial report included in the ICR recognizes the efforts of the Bank team in implementing the project as smoothly as the circumstances allowed. Financial management procedures were sometimes found not to adhere to good practices and the Bank made a number of recommendations (that were not systematically implemented).

**a. Ensuring Quality-at-Entry:** Moderately Satisfactory

**b. Quality of Supervision:** Moderately Satisfactory

**c. Overall Bank Performance:** Moderately Satisfactory

---

**9. Assessment of Borrower Performance:**

Borrower performance during appraisal was satisfactory. During implementation, however, there were significant problems of ownership. The decision to dismiss high and intermediate level staff of the PMU that had been hired through independent, competitive processes, and the subsequent weaknesses due to the high turnover in key personnel and the lack of key staff to perform project planning and implementation activities, severely affected implementation after December 2007. The revised procurement plan was not carried out as planned. The Government failed to act after independent supervision revealed significant technical and social weaknesses in the on-going sub-projects in June and October 2008, and did not implement the agreed action plan. As noted in the ICR, the PMU failed to follow-up on collaboration agreements to synchronize demands of subprojects originating in indigenous groups. There were major shortcomings in implementations, including in financial
management (see Section 11).

a. **Government Performance**: Unsatisfactory

b. **Implementing Agency Performance**: Moderately Unsatisfactory

c. **Overall Borrower Performance**: Unsatisfactory

10. M&E Design, Implementation, & Utilization:

*Design was substantial.* The M&E system was based on upgrading and integrating monitoring tools used in PRAGUAS I. Tracking key operational and process monitoring indicators were to be primarily based on inputs, outputs and intermediate outcomes recorded in the IMIS and through participatory rapid appraisals, focus group discussions and sample consumer satisfaction surveys of beneficiaries through the associations of water boards (juntas) and EPAS to ensure direct feedback. M&E would be supplemented by an impact evaluation for a sample of projects and control communities.

*Implementation was negligible:* During implementation, the information management systems were not upgraded and tools previously developed under PRAGUAS I were not used. Overall project monitoring was weak. No baseline, midterm or ex-post survey was completed.

*Utilization was negligible:* Because of the lack of information and the early closing of the project, appropriate data were not evaluated and used to inform decision-making and resource allocation.

a. **M&E Quality Rating**: Modest

11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):

*Safeguards:* Given the presence of Indigenous and Afro-Ecuadorian peoples in the project area, and in compliance with Operational Policy 4.10, the GOE included an Indigenous and Afro-Ecuadorian Peoples Plan (IPP) in the project design after due agreement with the Consejo Nacional de Nacionalidades y Pueblos Indígenas del Ecuador (CODENPE) and the Coordinadora de Desarrollo Afro-Ecuatoriano (CODAE). However, staff turnover did not allow continuity and results before the project was cancelled.

*Fiduciary:* overall project financial management performance is moderately unsatisfactory due to shortcomings related to: high turnover of key financial management staff; delays in submission of interim financial reports and audits; lack of quantification of communities’ contributions in financial reports; lack of a systematized monitoring process of transfers made to municipalities; and delays obtaining timely support documentation.

According the ICR page 12-13: “There were no significant deviations or waivers from Bank safeguards, fiduciary policies and procedures during the implementation of the Project, although, as mentioned above, financial management procedures were sometimes found not to adhere to good practices and the Bank made a number of recommendations that were not systematically implemented.”

12. **Ratings**

<table>
<thead>
<tr>
<th>Outcome</th>
<th>ICR</th>
<th>IEG Review</th>
<th>Reason for Disagreement /Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Highly Unsatisfactory</strong></td>
<td><strong>Highly Unsatisfactory</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>High</strong></td>
<td><strong>High</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Moderately Satisfactory</strong></td>
<td><strong>Moderately Satisfactory</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Moderately Unsatisfactory</strong></td>
<td><strong>Unsatisfactory</strong></td>
<td></td>
<td>There were major shortcomings in implementation, including in financial management. See section 9 and 11.</td>
</tr>
<tr>
<td><strong>Satisfactory</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**NOTES:**
- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

### 13. Lessons:

1. The Bank teams must be alert to changes in administration priorities and consider a restructuring of the project early on to make the necessary adjustments if common ground can be found on sound technical principles. The impact of political transitions on project implementation can be significant, in particular when the new administration disagrees with significant aspects of project objectives and design. The Bank should not shy away from sustaining high-level, frank discussions with incoming administrations on the scope and technical principles of on-going or new projects, and consider a mutually agreed cancellation as an acceptable option if no agreement can be found.

2. Rushing through initial implementation shortly before an administration change, despite allowing for more expedited implementation, poses risks especially when it can be expected that the incoming administration might have different priorities from the one preparing the project.

3. Insulating the implementing team from staff turnover could have positive results in the case of highly unstable political environments, but also negative consequences, especially when the political context changes and the PMU staff no longer has the trust of the new political authorities. In such cases, it is important to recognize that the Bank’s counterpart is not the PMU but the Government’s implementing agency (in this case the Ministry) and the Bank team must exert special care in identifying possible discrepancies between both.

4. In the case of a deteriorating project implementation, it is important for the Bank team not to alienate the Borrower’s goodwill towards the project. Trade-offs must be made between the need to maintain or improve the quality of project implementation, and the need to maintain working relationships with the client so as to reduce the risk of having to close a project without the support and engagement of the client.

### 14. Assessment Recommended?

- Yes
- No

### 15. Comments on Quality of ICR:

The ICR was complete and generally well written. The documentation of the actual disbursements and project costs was confusing, and needed to be corrected as part of the ICR Review process.

*Quality of ICR Rating*: Satisfactory