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IMPLEMENTATION COMPLETION REPORT
(IF-N0170 PPFI-Q0170 IDA-35660)

ON AN INTERIM FUND CREDIT

IN THE AMOUNT OF SDR 18 MILLION (US\$ 25 MILLION EQUIVALENT)

AND A SUPPLEMENTAL CREDIT

IN THE AMOUNT OF SDR 20 MILLION (US\$ 25 MILLION EQUIVALENT)

TO THE

REPUBLIC OF GUINEA

FOR A THIRD WATER SUPPLY AND SANITATION PROJECT

June 27, 2006

**Water and Urban
Central and Western Africa
Country Department 15
Africa Region**

CURRENCY EQUIVALENTS

(Exchange Rate Effective May 3, 1997)

Currency Unit = Guinea Franc (GNF)

GNF 1,000 = US\$ 1.0

US\$ 1.0 = GNF 1,000

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ADB	African Development Bank
AFD	<i>(Agence Française de Développement)</i> French Development Agency
CAS	Country Assistance Strategy
DATU	<i>(Direction de l'Aménagement du Territoire et de l'Urbanisme)</i> Directorate of Land Development and Housing
DCA	Development Credit Agreement
DNH	<i>(Direction Nationale de l'Hydraulique)</i> National Hydraulics Directorate
EIB	European Investment Bank
EOP	End-of-Project
ERR	Economic (internal) rate of return
GDP	Gross Domestic Product
ICB	International Competitive Bidding
IDA	International Development Association
ISR	Implementation Status and Results
NCB	National Competitive Bidding
NGO	Nongovernmental Organization
OED	Operations Evaluation Department
O&M	Operations and Maintenance
PPAR	Project Performance Assessment Report
PPF	Project Preparation Fund
PSP	Private Sector Participation
PSR	Project Status Report
QAE	Quality at Entry
QAG	Quality Assurance Group
QER	Quality Enhancement Review
SAR	Staff Appraisal Report
SDR	Special Drawing Right
SEEG	<i>(Société d'Exploitation des Eaux de Guinée)</i> Guinean Water Operation Company
SEG	<i>(Société des Eaux de Guinée)</i> National Water Utility
SONEG	<i>(Société Nationale des Eaux de Guinée)</i> National Water Asset-holding Company

UFW Unaccounted-for-Water
WRM Water Resource Management
WWTP Wastewater Treatment Plant

Vice President:	Gobind T. Nakani
Country Director	Mats Karlsson
Sector Manager	Eustache Ouayoro
Task Team Leader/Task Manager:	Yao Badjo

**GUINEA
THIRD WATER SUPPLY AND SANITATION PROJECT**

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<i>Project ID:</i> P001075	<i>Project Name:</i> Third Water Supply and Sanitation Project
<i>Team Leader:</i> Yao Badjo	<i>TL Unit:</i> AFTU2
<i>ICR Type:</i> Core ICR	<i>Report Date:</i> June 30, 2006

1. Project Data

Name: Third Water Supply and Sanitation Project *L/C/TF Number:* IF-N0170; PPFI-Q0170;

IDA-35660

Country/Department: GUINEA

Region: Africa Regional Office

Sector/subsector: Water supply (69%); Sanitation (29%); General public administration sector (2%)

Theme: Access to urban services and housing (P); Water resource management (P)

KEY DATES

	<i>Original</i>	<i>Revised/Actual</i>
<i>PCD:</i> 1991-07-22	<i>Effective:</i> 1997-07-17	1997-08-04
<i>Appraisal:</i> 1995-06-30	<i>MTR:</i> 2000-06-15	2001-01-27
<i>Approval:</i> 1997-04-17	<i>Closing:</i> 2002-12-31	2005-12-31

Borrower/Implementing Agency: GOVERNMENT/SONEG-DATU-DNH

Other Partners:

STAFF	Current	At Appraisal
<i>Vice President:</i>	Gobind T. Nankani	Jean-Louis Sarbib
<i>Country Director:</i>	Mats Karlsson	Mamadou Dia
<i>Sector Manager:</i>	Eustache Ouayoro	Max Pulgar-Vidal
<i>Team Leader at ICR:</i>	Yao Badjo	Yao Badjo
<i>ICR Primary Author:</i>	Yao Badjo & Richard Verspyck	

2. Principal Performance Ratings

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HL=Highly Likely, L=Likely, UN=Unlikely, HUN=Highly Unlikely, HU=Highly Unsatisfactory, H=High, SU=Substantial, M=Modest, N=Negligible)

Outcome: U
Sustainability: HUN
Institutional Development Impact: N
Bank Performance: U
Borrower Performance: U

	QAG (if available)	ICR
<i>Quality at Entry:</i>	U	U
<i>Project at Risk at Any Time:</i>	Yes	

The marginally unsatisfactory rating used in the text is translated here as *unsatisfactory*

3. Assessment of Development Objective and Design, and of Quality at Entry

3.1 Original Objective:

The overall development objectives of the project, as stated in the Staff Appraisal Report (SAR) were to alleviate the effects of poverty and improve health by increasing access to safe and affordable water and sanitation; to encourage private sector participation by setting the stage for a new affermage (lease) contract; and to ensure sustainability by improving water pricing and cost recovery and developing Guinea's water sector regulatory and planning capacity. The SAR also mentioned the following specific project objectives:

- To improve Guinea's urban and rural water resource management (WRM) by formulating an integrated, multi-sectoral strategy for the shared use of water by households, industry, and agriculture that would be coordinated with future development projects in those sectors.
- To build institutional capacity by strengthening the National Directorate of Hydraulics (*Direction nationale de l'hydraulique*, DNH), developing activities in urban water distribution and increase coverage in Conakry by 100 percent and to increase metered connections by 100 percent.
- To rehabilitate and extend Conakry's sewerage and to contribute to improvements in environmental quality through construction, rehabilitation and extension of the existing network, training to private local contractors for pit emptying and sewage management.

The above objectives mix development goals (poverty alleviation and health improvements), outcomes (access to and sustainability of services, integrated water resources management) and outputs (capacity building, service connections, rehabilitation of networks). In any case, the above objectives convey a sense of complexity.

The project primarily aimed at consolidating the achievements of the Second Water Supply Project (Cr. 1985-GUI of May 3, 1989), which was the first Bank project ever to support private sector participation (PSP) in the delivery of urban water services. Therefore the new project sought to (i) improve the PSP arrangements [with the National Water Asset-holding Company (*Société Nationale des Eaux de Guinée*, SONEG) as the public asset-holding company in charge of investments and the Guinean Water Operation Company (*Société d'Exploitation des Eaux de Guinée*, SEEG) as the operator under a ten-year lease contract ending in 1999] and (ii) increase access. The sanitation component, which did not exist in the previous project, was a logical addition to address disposal of the wastewater generated by the increased access. The Directorate of Land Development and Housing (*Direction de l'Aménagement du Territoire et de l'Urbanisme*, DATU), the executing agency of the sanitation component, was also the executing agency of the Third Urban Project, which included a solid waste component, closely linked to drainage and sanitation. The Government itself identified the need to build capacities in WRM in its sector development policy letter of August 16, 1996.

Many of the project objectives were fully consistent with all pillars of the Country Assistance Strategy (CAS) for Guinea (Report No.17183, November 21, 1997), which focused on poverty alleviation measures, including service delivery improvements, access to basic public services, and effective human resource development. As of today, and with respect to the Millennium Development Goals, the objectives of the project are still relevant in terms of increasing access to water and sanitation services.

3.2 Revised Objective:

A Supplemental Credit (Cr. 3566-GUI), which focused on sanitation, was approved by the Board on August 23, 2001. The Supplemental Credit introduced additional specific objectives as follows: (i) improve sanitary conditions in the Kaloum district of Conakry by increasing access to sewer services; and (ii) reduce pollution of the marine ecosystem from wastewater discharge and septic dumping.

3.3 Original Components:

The project comprised three components:

Component I. Urban Water Supply. (US \$18.6 million) This component included (a) an investment sub-component consisting of : (i) rehabilitation and expansion of the water supply network in Conakry (about 300 kilometers of pipelines); (ii) construction of two storage reservoirs for Conakry; and (iii) installation of about 10,000 household connections; and (b) a capacity building sub-component consisting of: (i) strengthening of SONEG regulatory and policy capacity; (ii) preparation of the urban water strategy; and (iii) technical assistance to SONEG to prepare and negotiate a new PSP contract.

Component II. Urban Sanitation. (US\$ 8.4 million) This component included: (a) an investment sub-component consisting of: (i) rehabilitation and maintenance of existing sewerage system in Conakry; (ii) construction of a waste water treatment plant (WWTP) and rehabilitation of a waste stabilization pond for sludge and sewage treatment and (iii) detailed design studies; and (b) an institutional sub-component consisting of: (i) a cost recovery study; (ii) recruitment of a private operator for sewerage service; (iii) promotion of proper technologies; (iv) training and support for artisans to rehabilitate and construct on-site systems, and support for small contractors for pit emptying; and (v) establishment of institutional arrangements for management and cost recovery;

Component III. Water Resources Management (WRM). (US\$ 1.0 million) This component provided assistance to DNH to develop a national water management policy and strategy, namely by (i) helping to organize a national WRM workshop as the starting point for preparing an integrated strategy; (ii) financing technical assistance to revise the legal framework of the water sector at large; (iii) strengthening human resources and institutional capacity in the field of water resources management, and (iv) promoting regional river basin cooperation.

The size of the urban water component was clearly within the reach of SONEG, which had satisfactorily executed more than US\$ 100 million of investments under the Second Water Supply Project. The sanitation component presented a greater challenge as the physical investments were technically complex and also because a sectoral institutional framework had to be created from scratch, together with the financial resources expected to support operations and maintenance. The Development Credit Agreement (DCA) included a disbursement condition, namely that the contract for the management of the sewerage system had to be signed prior to the implementation of physical investments. This disbursement condition was not strictly enforced, but a contract was eventually signed with a local operator.

The WRM component funded a comprehensive menu of activities to support the ambitious objective of developing a sectoral strategy and sectoral policies. DNH, the executing agency, had no prior experience with the Bank or with development activities requesting extensive involvement in procurement and management of schedules and consultants.

The SAR does not document the linkage between inputs, outputs and outcomes, and particularly how and whether the physical investments to be implemented will reach the objectives. The project files evidence that the completion of the development objectives was essentially contingent on the execution of the new lease contract. The latter was expected to bring, in addition to the 10,000 new water connections financed by the project, even more substantial investments to increase access. Other donors were to join after project approval by the Bank and the signing of the new lease contract between the Government and the private operator.

3.4 Revised Components:

Preliminary design studies revealed in 1999 that the option to rehabilitate the sewers was not technically valid and that the cost of the sanitation program as identified at appraisal would be much higher than

expected. A Supplemental Credit of SDR 20 million was approved and made effective on May 28, 2002 for (i) the construction of new sewers and of a 7,000 m³/ day WWTP; (ii) supervision of works; (iii) community awareness and hygiene education activities; and (iv) staff training and development of institutional capacity to regulate management of sewer network and the treatment plant; (v) DATU's operating costs.

With the supplemental credit the sanitation component increased to US\$ 35.9 million and the project cost became US\$ 55.5 million; thus, the percentages of the sub-components became as follows: Urban Water supply 34%; Urban Sanitation 64%; and Water Resources Management 2%. But it was not possible to reflect those changes in the project data. The closing date was then postponed to December 31, 2004 to allow for physical works completion.

3.5 Quality at Entry:

The quality at entry for the project was rated *less than satisfactory* by the Quality Assurance Group (QAG). QAG's particular area of concern was the lack of skills mix of the Bank team. This finding was strongly challenged by the then Sector Manager, who pointed out that "The success [of the previous operation] was remarkable given the country context [...and] was due in part to the experience, quality and continuity of the team [which] has been maintained through preparation/appraisal and now supervision of the current project."

Using the standard criteria developed by QAG to assess the quality at entry (QAE), the quality of the project concept and its alignment with the CAS were satisfactory. The project built on the lessons of a previous operation. A Project Performance Assessment Report (PPAR) issued by Operations Evaluation Department (OED) in June 2000 confirmed the relevance of the priorities identified in project preparation such as the need to increase access, to reduce unaccounted-for-water and establish a closer link between the remuneration of the operator and its commercial performances. Major risks--e.g. that the negotiations of a new lease contract could fail or that the institutional setting of sewerage services could not be established by effectiveness--were identified together with remedial actions in the form of dated covenants and disbursement conditions. Actually, to avoid putting excessive pressure on the Government in discussing a new contract with SEEG, the minutes of credit negotiations indicate that: "*In case SONEG could not agree with SEEG on satisfactory terms and conditions of a new lease contract, SONEG would tender for a new contract, [which] SONEG will submit to IDA for review [...], no later than March 31, 1999*".

However, the project was not ready for implementation, as evidenced by the shortcomings of the technical design of the sanitation component and the long delays between effectiveness and the actual start-up of physical works. With the benefit of hindsight, a postponement of project processing would have been beneficial by providing sufficient time (i) to complete reliable technical studies; and (ii) more importantly, to bring the contract negotiations to closure (or alternatively to conclude that negotiations could not be successful). The Bank should have insisted to repeat a major feature of the processing of the previous operation, i.e. that contractual agreements be signed before negotiations of the credit.

In view of the above, quality at entry is marginally unsatisfactory.

4. Achievement of Objective and Outputs

4.1 Outcome/achievement of objective:

The development objectives stated in the SAR are reorganized around three main themes: access to water and sanitation services, sustainability of services and capacity building. The discussion below is based on the (quantified) outcome indicators as detailed in Annex 1 and an assessment of the sectoral capacities and

of the quality of services.

Objective no. 1: to alleviate the effects of poverty and improve health by increasing access to safe and affordable water and sanitation. This objective was partially achieved.

Access to water. By the end of 2004 (completion date of the water component), about 700,000 additional people gained access to water through a household connection. However the total urban population served (through connections or standpipes) was only 2.09 million, i.e. below the EOP target of 2.50 million people. These achievements should be qualified by the fact that the quality of water services steadily declined during the project. Whereas the previous operation had allowed establishing 24/7 service together with compliance with water quality standards, water services became intermittent, and information on the quality of water is no longer available. The service interruptions result from water shortages, which are compounded by the huge losses of water through technical/commercial leakages in Conakry.

Access to sanitation. It is estimated that about one million people benefit from the sludge treatment facilities and more than 200,000 people are connected to the sewerage network in the Kaloum area, the most densely populated of Conakry. This number is beyond the EOP target of 180,000 people, estimated at appraisal. Hospitals and military barracks benefit from autonomous wastewater treatment facilities. The sanitary conditions changed dramatically in Kaloum as wastewater is no longer spread everywhere. Facilities are operational, but domestic wastewater is still dumped into the sea without treatment, pending for the completion and commissioning of the WWTP, and the achievement of the specific objective of the Supplemental Credit is therefore uncertain.

Objective no. 2: to ensure sustainability by improving water pricing and cost recovery and encouraging private sector participation. The project failed to achieve this objective and its outcome is highly unsatisfactory in this respect.

The sustainability and the financial viability of the urban water services actually declined during project implementation. The water tariffs were frozen until 2005. The standard rate applicable to most of the customers increased then from GNF 940/m³ to GNF 1,100/m³, which actually translates into a sharp decrease in (real) dollar terms (from US\$ 0.86/m³ to US\$ 0.21/m³). The lower-than-expected commercial performance compounded the impact of the tariff freeze on cost recovery and the financial viability of the sector. Revenue collection from private customers thus decreased from US\$ 5.8 million in 1998 to US\$ 1.7 million in 2005. SONEG/National Water Utility (Société des Eaux de Guinée, SEG) is no longer able to contribute to the development of the sector, as its net income fell from US\$ 2.9 million in 1998 to a net loss of US\$ 0.5 million in 2005.

The urban water sector reversed to public management after the failure of the negotiations of a new lease contract and the withdrawal of the private operator in December 2000. The Government expressed at that time its willingness to re-bid a contract and to establish interim management arrangements—the Supplemental Credit being granted on this explicit understanding—. The Government eventually decided in July 2003 to keep the services under public management. The departure of the private operator did not help attract donors, who would have invested in the sector in order to improve the water service if the private entity has continued to operate the water system. However, the Government of Japan recently financed the expansion of the Conakry water production, which would be operational in March 2007 and would help address the issue of the water shortages in Conakry. The expansion of the water production would have allowed to use all the facilities constructed under the project and to install the 10,000 new connections acquired under the project.

Facing the absence of a lease contract, the Government and the Bank eventually agreed to renounce to link sanitation and water services as initially contemplated. A Guinean contractor, *Poubelles de Conakry*, was

selected after competitive bidding and signed a services contract in December 2005 to operate and maintain the sewerage system. In addition the Government had decided to fund the operations and maintenance (O&M) costs from a specific sanitation tax assessed on properties connected to the network, rather than from a sewerage surcharge assessed on water consumption. Legislation was passed to that effect, but the detailed regulations (*décrets d'application*) are still pending approval, which prevents the O&M contract to become effective.

Objective no. 3: to develop Guinea's water sector regulatory and planning capacity. This objective, which primarily refers to WRM, was not achieved. The expected outcome, which was to set up an effective regulatory framework supporting an effective WRM strategy, has not yet materialized because neither the regulatory framework, nor the strategy were approved and/or implemented by the Government. The two laws related to (i) water abstraction fees and (ii) penalties for violations of the Water Code were issued on July 4, 2005 while the three decrees complementing the regulatory framework, i.e. decrees related to (i) authorizations and licenses for abstracting water resources; (ii) the National Fund of Hydraulics and (iii) the National Water Commission are not yet signed although prepared from a wide participatory process along with the draft WRM strategy. Finally, Guinea made commendable progress on the international water resources front, by joining the other riparian countries of the Senegal River in OMVS, but this key move was actually facilitated by parallel Bank efforts and cannot be credited to the project.

In view of the above assessment of achievements, of the negative Economic (internal) rate of return (ERR) computed at completion and of the lack of sustainability, the project outcome is *unsatisfactory*.

4.2 Outputs by components:

Component I. Urban Water Supply. (SAR estimated cost: US\$ 18.60 million; final cost: US\$ 19.21 million). This component is rated marginally unsatisfactory mainly because: (i) part of the water facilities are not operational; and, (ii) the limited impact of the technical assistance.

All works contracts contemplated in the investment sub-component have been completed, but a portion of them are not operational. Two water storage tanks were constructed (total capacity 6,500 m³). 240 km of water pipelines (20 percent less than expected at appraisal) were installed in the Sonfonia and Cimenterie districts. The project files and the Borrower's completion report show that many additional service connections were eventually financed by other donors (the French Development Agency (Agence Française de Développement, AFD) and the European Investment Bank) and SONEG; those connections were built on network extensions funded by the project. However, the water shortages prevented commissioning one of the water storage tanks and installing materials purchased under the project to construct 10,000 service connections.

Favorable exchange rate variations generated savings, which helped fund the rehabilitation of production facilities (three water intakes in Kakoulima, boreholes in Kakimbon and part of Yessoulou water treatment facilities), together with two water storage tanks (Aviation and Kaloum) and part of a 700 mm water main. The cost of capacity building sub-component was much higher than expected. The failure of the lease contract negotiations led to fund interim management assistance (two contracts) and consulting services for re-bidding the lease contract. Both tasks resulted in a disappointing output. Interim assistance helped provide tools for accounting and financial management, but the operational and commercial assistance had a limited impact on SEG's performance. The terms of reference of the advisors for the utility management contract re-bidding were changed shortly after contract signature, so that they produced only an assessment of options for the delivery of water services.

Component II. Urban Sanitation. (SAR estimated cost: US\$ 8.40 million; revised cost: US\$ 35.90 million; final cost: US\$ 40.24 million). This component is rated marginally unsatisfactory as a major

contract, the wastewater treatment plant (WWTP), was not completed by the closing date.

The investment sub-component was substantially expanded, with the inclusion of large collective sanitation facilities (WWTP and sewers), in addition to the construction of on-site and semi-collective facilities that were initially contemplated. The latter were timely completed, including the construction of: (i) 2,500 household latrines and public facilities in five of the poorest districts of Conakry; (ii) two septage treatment facilities for the population living in the areas not covered by the sewerage system; and (iii) five autonomous wastewater treatment facilities for the University of Conakry and the Donka hospital.

An entirely new sewerage system has been constructed including: five wastewater pumping stations, 4.1 km of sewer interceptors, about 7,700 household connections (requiring 33.5 km of connecting pipes) and 40 km of sewers. As mentioned above, the WWTP is expected to be completed by the end of July 2006.

The capacity building sub-component is rated as satisfactory. On-the-job training was provided to 100 craftsmen for latrine construction and pit emptying; local contractors were trained in septage management and maintaining household connections. These outputs largely exceeded the expectations (the target was 50 craftsmen). A local contractor already experienced in managing solid wastes collection (including the collection of fees from households), signed an O&M contract for the sewerage system.

Component III. Water Resources Management. (SAR estimated cost: US\$ 1.00 million; final cost: US\$ 1.35 million). The output of this component is rated marginally satisfactory. The expected outputs (strategy, seminars, technical assistance, draft legislation and regulations) were produced. However, only two out of five regulations have been approved.

4.3 Net Present Value/Economic rate of return:

The economic analysis carried out at appraisal focused on the quantifiable economic benefits of the water supply component, which represented 66 percent of the initial project costs. The ERR was estimated at 13 percent, taking into account the incremental water consumption valued with the average tariff as a proxy for benefits, together with consumer surplus.

Using the same methodology, the ERR of the project as completed is negative (minus 8 percent). Actually the water consumption billed by SEG in 2005 (15.2 million m³) is not greater than the one recorded in 1997 and the incremental consumption is zero. The consumer surplus accruing to the new customers connected to the distribution network cannot by itself offset the investment costs and the incremental O&M costs.

4.4 Financial rate of return:

The financial rate of return was not calculated at appraisal.

4.5 Institutional development impact:

The institutional development impact is rated negligible as: (i) the improvements expected in the urban water supply sector did not take place; (ii) the management arrangements contemplated for the sewerage network are not operational; and (iii) the legal and strategic framework of WRM is not effective.

The legal, institutional, technical, and financial framework established under the Second Water Supply Project for developing the urban water sector has not been consolidated as expected. The improvements of the water network and of the commercial performance that were necessary to consolidate the gains have not taken place. As importantly, the quality of the water services has deteriorated and the accountability and viability of the sector have been put aside.

As mentioned above, the O&M contract for the sewerage sector is not operational, pending the effectiveness of the regulations establishing the sanitation fee. Similarly the WRM regulations and strategy are waiting for Government approval.

5. Major Factors Affecting Implementation and Outcome

5.1 Factors outside the control of government or implementing agency:

One important external factor was the progressive worldwide disengagement of international operators from the water supply sector. Although this trend has been more obvious in concessions than in lease contracts, there is no doubt that, by the turn of the century, international operators became more and more selective and did not hesitate to withdraw from less promising markets. Another factor was the inaccuracy of the preliminary costs estimates of the sanitation component, which eventually led to the Supplemental Credit. Finally, contract hazards, such as the loss of heavy construction equipment by the international contractor in charge of the WWTP, delayed the construction of the treatment plant.

5.2 Factors generally subject to government control:

The change of political cabinet after project approval deprived the reform process from strong supporters at the higher level of government. All key decisions related to PSP were further transferred to the Presidency. The ministries in charge of water and sanitation had limited influence on major sectoral decisions, which made more difficult the policy dialogue. This was a key factor in preventing the approval and effectiveness of regulations (sanitation fee, WRM) and in delaying the reform process, as well as tariff adjustments.

5.3 Factors generally subject to implementing agency control:

The commitment of SONEG/SEG to the principle of private sector participation to the delivery of services eventually appeared lukewarm, particularly in view of the long delays in bringing external assistance after the collapse of the lease contract negotiations.

5.4 Costs and financing:

The total project cost was estimated at appraisal at US\$ 28 million. The estimated cost was revised to US\$ 55.5 million when the Supplemental Credit was granted. The final cost at completion is US\$ 60.80 million, i.e. an increase of about 9.6 percent in dollar terms. This increase reflects exchange rate variations between the dollar and the euro, in which most of the foreign contractors denominated their contracts. Actually, the final project costs in SDR terms are quite close to the revised estimates.

Cost sharing at completion is close to the forecasts. IDA provided US\$ 55.47 million (including the Supplemental Credit); 97.5 percent of the Interim Fund Credit (SDR 17.55 million or US\$ 25.85 equivalent) and 99.97 percent of the Supplemental Credit (SDR 19.99 million or US\$ 29.45 million equivalent) were disbursed. SONEG provided US\$ 1.45 million of counterpart funds (95 percent of SAR estimate) to finance the urban water supply component. The Government eventually provided US\$ 3.88 million (100 percent of the revised estimate) of counterpart funds for the sanitation component and the WRM component.

6. Sustainability

6.1 Rationale for sustainability rating:

The sustainability of the project is rated *highly unlikely*. The project failed to set up a contractual/institutional framework that would have helped improve the operational (commercial) performance and consolidate the financial viability of the urban water supply sector. In the past, a vicious circle of high UFW leading to excessive tariffs and then to low collection performance had been observed. During the project, the tariff freeze brought real water rates to a fraction of their initial value (US\$ 0.21/m³ on average in 2005, to be compared to US\$ 0.86 in 1997), but the collection performance has not improved, nor the UFW. Actually, SEG is engaged in another vicious circle of high UFW leading to water shortages, now that the production capacity has been reached. In the case of sanitation, the contractual framework is in place but cannot be sustained in the absence of adequate cost recovery. A continuation of

this situation would likely lead to the collapse of the sanitation facilities.

6.2 Transition arrangement to regular operations:

The transition to regular operations of the facilities built under the project raises substantial issues. First, some facilities are not operational. The treatment plant has still to be completed, but is expected to be commissioned in July 2006. The fate of the un-commissioned storage reservoir and of the connections that could not be installed due to the shortage of water is much more uncertain. Second, the sanitation systems are being operated temporarily by DATU despite the fact that an operator has been contracted out for the management of these facilities.

The above uncertainties influence the eventual impact of the project, and it would be advisable to carry out a PPAR within a twelve to eighteen months delay.

7. Bank and Borrower Performance

Bank

7.1 Lending:

The Bank team worked actively with all stakeholders to draw the lessons of the first lease and to promote an improved contractual framework with adequate risk-sharing and performance incentives. By appraisal, there was no reason for the team to question the commitment of the public and private parties to continue their partnership. It would be unfair to second-guess the team's judgment whereas at that time the Bank at large was embracing PSP as the ultimate solution for funding infrastructure.

However, and as noted above in paragraph 3.5, the timing of the operation is questionable; the project was not ready for implementation by Board approval. Therefore, Bank performance in lending is rated as *marginally unsatisfactory*.

7.2 Supervision:

The Bank supervision is rated *unsatisfactory*.

Bank staff, including country office staff handled satisfactorily procurement and fiduciary issues arising from the lack of experience of one executing agency. Budget-related issues (counterpart funding and payment of arrears on water bills) were successfully addressed thanks to a continuous dialogue of the team with the Ministry of Finance.

The dialogue was far less successful on the sector reforms and the institutional aspects linked to PSP. The facilitating role played by the Bank during more than two years of negotiations of the lease contract did not prevent their collapse. Even though an alternative (re-bidding for a new management contract) had been agreed, it proved to be difficult to implement, in the face of the growing reluctance of both SONEG and the Government to re-launch the PSP process. The Project files mention a variety of project clinics, Quality Enhancement Reviews (QERs) and internal meetings over the way to go, but the Bank did not convey a clear message to the Borrower in the face of delayed actions and of the lack of compliance with covenants. Those ambiguities are reflected in the Project Status Report (PSR)/Implementation Status and Results (ISR) ratings over time, which seem to be managed to accommodate the possibilities of supplemental financing and extensions of closing dates.

7.3 Overall Bank performance:

The overall Bank performance is rated as *unsatisfactory*.

Borrower

7.4 Preparation:

Borrower performance at preparation is rated *satisfactory*. The Borrower then displayed a good degree of

ownership of project design and submitted an action plan for continuing sector improvements. According to this action plan, the most immediate needs in the water supply and sanitation sector were the rehabilitation of existing systems and associated improvements in operation and maintenance, which were to be followed by carefully planned expansion and improvement of existing systems to serve to a rapidly increasing population. In addition, the Government reiterated its commitment to maintain the established institutional arrangement for the management of its urban water utility management.

7.5 Government implementation performance:

The Government implementation performance is rated *unsatisfactory*. The Government's ownership of reforms decreased sharply after the cabinet changes (see para. 5.2) and despite a good start, the project was plagued by noncompliance with covenants, absence of approval of agreed laws and decrees, arrears on counterpart funding, and delays in payment of Government water bills. All these issues had a highly negative impact on results and prospects for sustainability and put in question the Government's commitment to its stated priorities in relying on private sector for improving the infrastructure and service delivery in water and sanitation sector.

7.6 Implementing Agency:

SONEG. SONEG performance is rated *unsatisfactory*. SONEG adequately procured and executed the project investments, and installed in parallel more service connections than anticipated. However, the global urban water service has not improved: SONEG was indeed not prepared to take over operating responsibilities after SAUR's withdrawal, and failed to benefit from the assistance provided under the project. The current level of UFW (50%) does not meet the performance levels expected (39%) and SONEG/SEG commercial performance has not improved significantly. Fraud and water theft persist, as evidenced by the percentage of "inactive" connections, in the face of a swift decrease of tariffs in real terms. In order to address water shortages, in addition to increase water production capacity, SONEG/SEG should also tackle issues related to water theft and reduce dramatically the level of UFW.

DATU. DATU performance is rated as *satisfactory*. DATU adequately managed the procurement and execution of the sanitation facilities. Reporting was timely and issues timely discussed with the Bank. Together with the Bank team, the agency demonstrated flexibility to find a workable solution for the management of facilities.

DNH. DNH performance is rated *satisfactorily* under the project, the national Water resources management strategy, the water legislation and its own capacity building. A national workshop was organized and these proposed documents were discussed. However, DNH had some difficulties in procurement handling and its advocacy efforts to get final approval of the legal/regulatory framework were not successful.

7.7 Overall Borrower performance:

The overall Borrower Performance is rated *unsatisfactory*.

8. Lessons Learned

Lesson 1: Government Commitment to Reforms.

The Third Water and Sanitation Project--which built on the experience of a prior successful project--shows that strong and continuous political will is as essential for consolidating and deepening reforms, as for initiating them. In a country where policy decisions are highly centralized, the Bank should be prepared to elevate sectoral policy dialogue at the highest level and to integrate sectoral reforms in the macro policy dialogue. The Bank should also be prepared to wait for policy decisions to materialize at the preparation stage, before committing funding for investments even if investment levels are relatively modest.

Lesson 2: Contract Extensions and Negotiations

The lease/affermage arrangements did not entail major investment risks for the private partners, but the investment climate in the country and the general trend of international operators to limit their international exposure influenced the strategy of SEEG's shareholders. The latter perceived a risk in continuing their involvement in Guinea beyond the normal duration of the initial contract. The length of the negotiation process (more than two years) was excessive in that respect, as it led the parties to multiple extensions of the contract, without a clear deadline. Discussions should take place long in advance so that they can conclude during the normal timeline of the ongoing contract. Inability to conclude them could lead to serious difficulties and even to failure as exemplified by this case and let the authority with limited recourse to manage and operate their water system effectively.

Lesson 3 : Effectiveness of Donors Coordination

Whereas the prior project mobilized many donors, this project was purely a Bank operation. Other (bilateral and multinational) donors were expected to step in later and specifically after the closure of the new contractual arrangements in urban water supply. This coordination strategy failed, as the contract negotiations collapsed and the donors were unable to present a common position on sector reforms to the Government. Donor coordination in supporting and deepening reforms in the water sector are critical for the Government to remain on track and sustain commitment to reform. Lack of co/parallel financing and ability for the donors action in the country to support the deepening of the previous reform in the water sector didn't help cement the development of a strengthened partnership in the Guinean's urban water supply that culminated with performances that were lower than during the previous project.

Lesson 4: Effectiveness of Bank Response

The unsatisfactory Bank performance reflects the ambiguous message conveyed to the Government during project implementation. The Bank's supplemental financing did not help to strengthen the reform process and actually gave the wrong signal to the Government. The concept of Supplemental Financing put too much emphasis on technical aspects and cost control and failed to address the bigger picture of sector development and sustainability. The new guidelines on Additional Financing, by specifically addressing performance issues, may prove to be more effective in that respect.

9. Partner Comments

(a) Borrower/implementing agency:

The ICR was prepared in close coordination with the Borrower. The Borrower has submitted a completion report, which is listed in the supporting documents. This document is summarized in annex 8, which provides the translation of sections 5 (impact assessment), 6 (Bank and Borrower performances) and 7 (lessons) of the report.

(b) Cofinanciers:

N/A

(c) Other partners (NGOs/private sector):

N/A

10. Additional Information

Annex 1. Key Performance Indicators/Log Frame Matrix

Outcome / Impact Indicators:

Indicator/Matrix	Projected in last PSR ¹	Actual/Latest Estimate
Urban population with access to safe water	2,500,000	2,088,000
Urban population connected to sewerage network (Supplemental Credit)	180,000	200,000
Contracting out sewer system to a private operator (by Dec.31,03) with an adequate cost- recovery system.	No contract	Contract signed on December 14, 2005; cost recovery system not yet effective
Signature of the water second generation lease contract.	No contract	No contract was signed
Development of national water resources management strategy.	Strategy document approval expected	Strategy document not approved

Output Indicators:

Indicator/Matrix	Projected in last PSR ¹	Actual/Latest Estimate
Number of water supply connections	56,000	85,400 o/w 69,700 active connections
Number of public standposts	1,030	1,030
Length of new pipelines to be installed	300 km *	240 km
Ratio billing/production %	78%	50%
Number of connections per worker	135	147
SONEG Net Income (Loss) in GNF billion	4.2	(0.7)
Average Water Tariff GNF per cubic meter (US\$ equivalent)	GNF 860/m3 (US\$0.86/m3)	GNF 970/m3 (US\$0.21/m3)
Number of Pumping Stations Constructed (Supplemental Credit)	5	5
Number of Sewerage Household Connections(Supplemental Credit)	6,200	7,664
Length of sewers installed (Supplemental Credit)	44 km	44 km
Abatement of BOD5 (Supplemental Credit)	75%	Treatment plant not yet operational

¹ End of project

*There is a discrepancy in the SAR: the text (para. 3.03) mentions a target of 300 km, whereas the table of annex 2-4 mentions 216 km

Annex 2. Project Costs and Financing

Project Cost by Component (in US\$ million equivalent)

Component	Appraisal Estimate US\$ million	Actual/Latest Estimate US\$ million	Percentage of Appraisal
Urban Water Supply			
Systems rehabilitation and expansion	15.09	14.07	93
Technical assistance, consultants' services, and on-the-job training	1.42	4.70	331
Equipment	0.00	0.44	
Water Resources Management			
Consultants services and training	0.43	0.70	163
Equipment	0.45	0.60	133
Operating costs	0.00	0.05	
Urban Sanitation			
Construction and rehabilitation of sewerage system, sludge treatment pounds, individual and semi-collective utilities	30.64	34.83	114
Training and technical assistance	4.21	4.73	112
Equipment	0.00	0.29	
Operating costs	0.00	0.19	
Sanitation facilities management contract	0.00	0.20	
Total Baseline Cost	52.24	60.80	
Physical Contingencies	2.60	0.00	
Price Contingencies	0.66	0.00	
Total Project Costs	55.50	60.80	
Total Financing Required	55.50	60.80	

Nota Bene:

1. Appraisal estimate is made of two credit amounts: the initial credit of SDR 18 million and the supplemental credit of SDR 20 million.
2. The project's final cost in US\$ stays within the limits of the total credit of SDR 38 million; it has increased following the depreciation over project life time of the US\$ vis-à-vis the Euro and FRF, the main currencies used for major works and engineering contracts.

Project Costs by Procurement Arrangements (Appraisal Estimate) (US\$ million equivalent)

Expenditure Category	Procurement Method ¹			N.B.F.	Total Cost
	ICB	NCB	Other ²		
1. Works	42.10 (38.10)	6.00 (5.20)	0.00 (0.00)	0.00 (0.00)	48.10 (43.30)
2. Goods	0.00 (0.00)	0.00 (0.00)	0.50 (0.40)	0.00 (0.00)	0.50 (0.40)
3. Services	0.00 (0.00)	0.00 (0.00)	5.90 (5.80)	0.00 (0.00)	5.90 (5.80)
4. Other consultants (Community awareness / Hygiene education)	0.00 (0.00)	0.00 (0.00)	0.50 (0.25)	0.00 (0.00)	0.50 (0.25)
5. Operating Costs	0.00 (0.00)	0.00 (0.00)	0.50 (0.25)	0.00 (0.00)	0.50 (0.25)
6. Sanitation facilities management contract	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Total	42.10 (38.10)	6.00 (5.20)	7.40 (6.70)	0.00 (0.00)	55.50 (50.00)

Project Costs by Procurement Arrangements (Actual/Latest Estimate) (US\$ million equivalent)

Expenditure Category	Procurement Method ¹			N.B.F.	Total Cost
	ICB	NCB	Other ²		
1. Works	30.67 (27.60)	15.24 (13.83)	1.70 (1.52)	0.00 (0.00)	47.61 (42.95)
2. Goods	2.74 (2.46)	0.19 (0.17)	0.60 (0.44)	0.21 (0.00)	3.74 (3.07)
3. Services	0.00 (0.00)	0.00 (0.00)	8.90 (8.90)	0.00 (0.00)	8.90 (8.90)
4. Other consultants (Community awareness / Hygiene education)	0.00 (0.00)	0.00 (0.00)	0.25 (0.25)	0.00 (0.00)	0.25 (0.25)
5. Operating Costs	0.00 (0.00)	0.00 (0.00)	0.10 (0.10)	0.00 (0.00)	0.10 (0.10)
6. Sanitation facilities management contract	0.00 (0.00)	0.20 (0.20)	0.00 (0.00)	0.00 (0.00)	0.20 (0.20)
Total	33.41 (30.06)	15.63 (14.20)	11.55 (11.21)	0.21 (0.00)	60.80 (55.47)

^{1/} Figures in parenthesis are the amounts to be financed by the IDA Credit. All costs include contingencies.

^{2/} Includes civil works and goods to be procured through national shopping, consulting services, services of contracted staff of the project management office, training, technical assistance services, and incremental operating costs related to (i)

managing the project, and (ii) re-lending project funds to local government units.

Project Financing by Component (in US\$ million equivalent)

Component	Appraisal Estimate			Actual/Latest Estimate			Percentage of Appraisal		
	IDA	Govt.	CoF.	IDA	Govt.	CoF.	IDA	Govt.	CoF.
Urban Water Supply									
Systems rehabilitation and expansion	13.56	1.53		12.66	1.41		93.4	92.2	
Technical assistance, consultants' services, and on-the-job training	1.42			4.70			331.0		
Equipment				0.40	0.04				
Water resources management									
Consultants services and training	0.43			0.70			162.8		
Equipment	0.35	0.10		0.48	0.12		137.1	120.0	
Operating costs				0.05					
Urban sanitation									
Construction and rehabilitation of WWTP, sludge treatment ponds, individual and semi-collective facilities	27.56	3.08		31.14	3.69		113.0	119.8	
Training and technical assistance	4.21			4.73			112.4		
Physical contingencies	1.95	0.65					0.0	0.0	
Price contingencies	0.52	0.14					0.0	0.0	
Equipment				0.26	0.03				
Operating costs including sanitation facilities management contract				0.35	0.04				

Annex 3. Economic Costs and Benefits

SAR Economic Analysis

The economic analysis provided in the SAR focused on quantifiable economic costs and benefits from the urban water supply component, the largest component of the project, taking into account of a reduction in un-accounted for water due to improved managerial efficiency and the immediate rehabilitation of the water system, as well as consumer's surplus generated from the increase in water consumption per capita. The economic rate of return of the water component was calculated taking into account the probable benefits that would occur from the incremental quantity of water the project supplied. This incremental amount of water would be used by the beneficiaries both to replace previously used sources (water from vendors), and to increase water consumption. To calculate the benefits from the increase in water consumption, the SAR estimated the additional consumers' surplus, which arises from the increase in water consumption assuming a linear demand curve and price elasticity of -0.2. The estimated economic rate of return (ERR) of water supply component was estimated at 13 percent with shadow prices adjusted. The ERR did not take into account positive externalities such as improved health and productivity as the result of the better availability and quality of water, which cannot be quantified in the absence of reliable data.

ICR Economic Analysis

Costs and benefits were recomputed at completion, using the SAR methodology. The benefits are substantially lower than expected, as the (billed) water consumption did not increase as shown in the table below:

Ventes eau ('000' m³)	Conakry	13,231	12,259	11,970	12,709	13,189	13,369	13,231	12,324
	Centres	2,003	2,054	2,168	2,324	2,680	2,959	3,404	2,894
	Total	15,234	14,413	14,138	15,033	15,869	16,328	16,635	15,228

However, the increase in the number of connections generate a substantial surplus for the new customers, who shifted from other sources (notably vendors) to direct services from the water utility.

On the economic costs side, investment costs are close to the ones identified at appraisal. As most of the new connections have been financed by other donors or by SONEG, the costs of those connections have been added to the investments directly financed by the project. Incremental O&M costs are negligible, since the incremental water consumption is zero.

The following table summarizes the calculations of the net economic benefits. The net stream of benefits has a negative cumulated value and the Economic Rate of Return is negative (minus 8 percent).

Year	Number of connections	Incremental connections	Consumption of new customers (Million m ³)		Consumer surplus	Investment costs	Connection costs	Incremental costs	Net benefits
	(Thousands)		Without project	With project	(Million 1997 GNF)				
1997	39.0	0.0	0	0	0	0	0	0	0
1998	45.5	6.5	0.36	0.95	131	329	1,601	1,930	-1,800
1999	41.7	2.7	0.15	0.39	49	911	0	911	-862
2000	46.6	7.6	0.42	1.11	114	5,491	203	5,694	-5,580
2001	50.3	11.3	0.62	1.65	144	886	578	1,464	-1,320
2002	59.5	20.5	1.12	2.99	254	1,479	1,401	2,880	-2,625
2003	63.8	24.8	1.36	3.62	305	5,446	648	6,094	-5,790
2004	69.7	30.7	1.68	4.48	313	1,504	738	2,242	-1,929
2005	69.7	30.7	1.68	4.48	211	0	0	0	211
2006 to 2027	69.7	30.7	1.68	4.48	211	0	0	0	211

Annex 4. Bank Inputs

(a) Missions:

Stage of Project Cycle	No. of Persons and Specialty (e.g. 2 Economists, 1 FMS, etc.)		Performance Rating	
	Month/Year	Count	Specialty	Implementation Progress
Identification/Preparation				
01/1995	1	SANITARY ENGINEER (1)		
05/15/1995	4	SANITARY ENGINEER (1) FINANCIAL SPECIALIST (1); PR. OPERATIONS OFFICER (1) CONSULTANT ENVIRONMENTALIST (1)		
Appraisal/Negotiation				
09/21/1996	5	SANITARY ENGINEER (1) FINANC.SPECIALIST (1) ; PR.OPERATION OFFICER (1) ECONOMIST (1); URBAN SANITATION SPECIALIST (1)		
02/10/1997	3	SANITARY ENGINEER (1) PR.OPERATION OFFICER (1) WATER RESOURCE MANAGEMENT SPEC. (1)		
Supervision				
10/17/1997	1	SR. SANITARY ENGINEER (1)	S	S
04/28/1998	1	SR. SANITARY ENGINEER (1)	S	S
03/13/1999	3	SANITARY ENGINEER (1); FINANCIAL ANALYST (1); ENVIRONMENTALIST (1)	S	S
06/01/1999	3	WATER/SANITATION SPEC. (1); ECONOMIST (1); ENVIRONMENTAL SPEC. (1)	S	S
10/10/1999	3	ECONOMISTE (2); TTL,SR.SANIT. ENGINEER (1)	S	S
04/07/2000	3	SR. SANITAR.ENGINEER (1); ECONOMIST (2)	S	S
06/17/2000	2	ECONOMIST (2)	S	S
05/04/2001	4	TEAM LEADER (1); ECONOMIST (2); PROGRAM ASSISTANT (1)	S	S
07/16/2001	1	ECONOMIST (1)	S	U
11/26/2001	4	TEAM LEADER (1); COUNTRY OFFICE MANAGER (1); SR IMPLEMENTATION SPEC (1); PROCUREMENT SPECIALIST (1)	S	U
04/08/2002	5	TEAM LEADER (1); COUNTRY OFFICE	S	U

			MANAGER (1); PROCUREMENT SPECIALIST (1); FINANCIAL SPECIALIST (1); ENVIRONMENT,CONSULTAN T (1)		
	11/16/2002	5	SENIOR ECONOMIST (1); PROCUREMENT SPECIALIST (1); SR. SANITARY ENGINEER (1); TEAM LEADER (1); CIVIL ENGINEER (1)	S	S
	02/06/2003	2	PROCUREMENT SPECIALIST (1); FINANC.MGMT.SPECIALIST (1)	S	S
	07/26/2003	1	TEAM LEADER (1)	S	U
	01/21/2004	5	TEAM LEADER (1); FINANCIAL MNGT SPEC. (1); PROCUREMENT SPECIALIST (1); ECONOMIST (1); CONSULTANT (1)	S	U
	11/16/2004	2	TEAM LEADER (1); INFRASTRUCTURE SPEC. (1)	S	U
ICR	05/2006	3	SR. INFRASTR. SPEC. (1); INFRASTRCT. SPEC. (1); SR. LEAD SPECIALIST (1)		

(b) Staff:

Stage of Project Cycle	Actual/Latest Estimate	
	No. Staff weeks	US\$ ('000)
Identification/Preparation	12.3	50.5
Appraisal/Negotiation	24.6	100.9
Supervision	295.7	648.3
ICR	22.2	27.5
Total	354.8	827.2

Annex 5. Ratings for Achievement of Objectives/Outputs of Components

(H=High, SU=Substantial, M=Modest, N=Negligible, NA=Not Applicable)

	<u>Rating</u>				
<input checked="" type="checkbox"/> Macro policies	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA
<input checked="" type="checkbox"/> Sector Policies	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input checked="" type="radio"/> N	<input type="radio"/> NA
<input checked="" type="checkbox"/> Physical	<input type="radio"/> H	<input checked="" type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input checked="" type="checkbox"/> Financial	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input checked="" type="radio"/> N	<input type="radio"/> NA
<input checked="" type="checkbox"/> Institutional Development	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input checked="" type="radio"/> N	<input type="radio"/> NA
<input checked="" type="checkbox"/> Environmental	<input type="radio"/> H	<input type="radio"/> SU	<input checked="" type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA

Social

<input checked="" type="checkbox"/> Poverty Reduction	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA
<input checked="" type="checkbox"/> Gender	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA
<input type="checkbox"/> Other (Please specify)	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA
<input checked="" type="checkbox"/> Private sector development	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input checked="" type="radio"/> N	<input type="radio"/> NA
<input checked="" type="checkbox"/> Public sector management	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input checked="" type="radio"/> N	<input type="radio"/> NA
<input checked="" type="checkbox"/> Other (Please specify)	<input type="radio"/> H	<input checked="" type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA

The "other" item is related to the DATU capacity to manage a project, which increased through the project.

Annex 6. Ratings of Bank and Borrower Performance

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HU=Highly Unsatisfactory)

6.1 Bank performance

Rating

- | | | | | |
|---|-----------------------------|----------------------------|---------------------------------------|-----------------------------|
| <input checked="" type="checkbox"/> Lending | <input type="checkbox"/> HS | <input type="checkbox"/> S | <input checked="" type="checkbox"/> U | <input type="checkbox"/> HU |
| <input checked="" type="checkbox"/> Supervision | <input type="checkbox"/> HS | <input type="checkbox"/> S | <input checked="" type="checkbox"/> U | <input type="checkbox"/> HU |
| <input checked="" type="checkbox"/> Overall | <input type="checkbox"/> HS | <input type="checkbox"/> S | <input checked="" type="checkbox"/> U | <input type="checkbox"/> HU |

6.2 Borrower performance

Rating

- | | | | | |
|---|-----------------------------|---------------------------------------|---------------------------------------|-----------------------------|
| <input checked="" type="checkbox"/> Preparation | <input type="checkbox"/> HS | <input checked="" type="checkbox"/> S | <input type="checkbox"/> U | <input type="checkbox"/> HU |
| <input checked="" type="checkbox"/> Government implementation performance | <input type="checkbox"/> HS | <input type="checkbox"/> S | <input checked="" type="checkbox"/> U | <input type="checkbox"/> HU |
| <input checked="" type="checkbox"/> Implementation agency performance | <input type="checkbox"/> HS | <input type="checkbox"/> S | <input checked="" type="checkbox"/> U | <input type="checkbox"/> HU |
| <input checked="" type="checkbox"/> Overall | <input type="checkbox"/> HS | <input type="checkbox"/> S | <input checked="" type="checkbox"/> U | <input type="checkbox"/> HU |

Marginally satisfactory and *marginally unsatisfactory* ratings used in the text of the report are translated here as *satisfactory* and *unsatisfactory*, respectively.

The performance of the main implementing agency, SONEG/SEG was unsatisfactory and the one of DATU and DNH was satisfactory

Annex 7. List of Supporting Documents

- Bank's back to office reports and aide memoires
- Borrower completion Report
- DATU's completion report
- Financial audit reports

Additional Annex 8. Borrower's Summary Report on Project Completion

5. Evaluation of the Project's impact

5.1. General comments on the Project

a) Urban water supply component

The actions outlined in the evaluation report, namely: the rehabilitation program, the increase of storage capacity, the expansion of distribution networks, and the supply of equipment for the construction of new connections, were all carried out with financing from IDA, SONEG (*Société Nationale des Eaux de Guinée*) [National water company of Guinea] and/or SEG (*Service des Eaux de Guinée*) (Guinea water services).

However, because works to increase production levels were not carried out (follow-up works to the pipes for untreated and treated water and the third treatment plant) for which financing had been promised by other donors who had expressed their intention to help finance the project, IDA-financed works, including the new reservoirs and the primary, secondary, and tertiary distribution networks, were not commissioned. Thus, the people living in the areas covered by the new distribution networks have not yet seen any improvement in their social or sanitary conditions. When the Yessouloun III water treatment plant becomes operational, the newly constructed networks will help people save time, particularly women and children, thereby providing them with greater access to education and job opportunities.

b) Water resource management component

The project's context and justification correspond perfectly to the current issues related to water resource management in the country. However, its implementation took longer than anticipated, due to the project team's lack of familiarity with disbursement procedures, and the slow pace at which the implementing regulations of the water code were adopted and enacted.

c) Sanitation component

As the first large-scale intervention dealing with wastewater treatment, the project, during its design stage, practically sought to lay the foundations for the sustainable development of the sanitation sector, namely, the establishment of services tailored to the local socioeconomic conditions and institutions capable of ensuring the sustainability of benefits. The project helped to reaffirm the ability of the Ministry of Urban Planning and Housing (MUH) to assume responsibility for complex projects. Training and technical assistance provided during the project helped MUH officials, staff from small- and medium-sized enterprises (SMEs), and craftsmen in the sector to enhance their qualifications.

However, the project's design could have been a complete success, had the following activities been timely carried out:

(a) Allocation of resources for logistics acquisition and the operating cost of the component. This happened one year after the credit Agreement became effective and significantly contributed to improve the project's performance.

(b) A proper assessment of the civil engineering works and the correct estimate of their cost. As the

assessment of the existing network concluded that there was a need to construct new facilities, sufficient time and effort were devoted to the identification of new technical options and the search for the related financial resources, thereby extending the time required for the project's implementation.

(c) The reimbursement of expenses to national officials responsible for implementing the project who were able to achieve better results despite difficult work conditions.

5.2 Contribution by the government and households to the project and its acceptance by the population

a) Urban water supply

In addition to the installation of connections, the government's contribution to the implementation of the urban water supply component included:

- provision of land on which storage facilities were constructed; and
- payment of duties and taxes outlined in the public procurement code and applied to the various contracts that were concluded.

SONEG/SEG has financed in local currency portions of the various costs for the civil engineering works not covered by IDA financing. No major problems were encountered during implementation of the component.

a) The water resource management component

This component included:

- facilitation of the access to the facilities and services;
- local staff participation of to the studies with the consultants; and
- payment of GNF 1.2 million to the study budget.

The major difficulties encountered related primarily to noncompliance with the procedures for setting up counterpart funds.

Project activities were greatly appreciated and supported by the population, given that they addressed their concerns in the areas of water management, protection, and conservation of water resources. The populations were particularly grateful for the information and awareness-building component of the water code and its proposed implementing regulations.

c) Sanitation component

The Project was implemented in an unfavorable economic environment marked by the uncontrolled increase of construction materials costs since 2003, following the sharp increase in the price of petroleum products, and the difficulty in mobilizing government budgetary resources and financial contribution from the poor population who have benefited from autonomous sanitation works.

Despite this economic constraint and difficulties with approval of the project's operational documents, the government satisfactorily created, in general terms, the conditions for the successful achievement of the targeted objectives and continuation of actions to sustain and maximize project benefits. This was specifically accomplished through:

- political commitment to improving sanitation services for the largest number of Guinean people in accordance with the provisions of a national poverty reduction strategy approved by the traditional

donors to developing countries, and in line with the objectives established by the international community for the sustainable development of our societies.

- financial commitment to the project amounting to the equivalent of US\$ 2.94 million and payment of all its contributions to the financing of operations undertaken.

However, beyond these resources mobilized by households under the most difficult economic conditions, the acceptance of the project is measured by numerous requests that the citizens continue to submit requests to the MUH for an extension of facilities to their neighborhoods and the heartfelt gratitude they have expressed to employees of the contractors responsible for the implementation of the contract works.

5.3 Project successes and challenges

(a) Urban water supply component

The urban water supply component of the Third Water and Sanitation Project was a complete success because all IDA-financed actions were fully implemented. When the works were completed, there was a balance remaining on Credit 017-GUI. Under the basic agreement obtained from the Bank, the balance was used to finance additional works identified by SEG to consolidate the overall physical results of the component. These additional works concerned the partial rehabilitation of the Yessouloun 1 and 2 plants, catchments in Kakoulima, boreholes in Kakimbo, and minor rehabilitation work to the reservoirs in Aviation, Kaloum and to a dilapidated section of the 700 mm DN pipe used to transport treated water between Enta and the Aviation reservoir.

The challenge to overcome is the construction of the third Yessouloun treatment plant (Yessouloun III), follow-up works to the pipes for untreated and treated water. The major constraint concerns the increase in water production, which would permit to commission all the facilities constructed under the project.

(b) Water resource management component

The project's success will depend on the following:

With regard to the Government:

- Enact as soon as possible the three (3) draft implementing decrees to the water code in order to inspire a greater level of confidence among the development partners and complete the process of strengthening the legislative and regulatory framework of the water sector;
- Monitor the project implementing agencies to ensure compliance with the disbursement rules and procedures outlined by the development partners;
- Carry out the measures and provisions necessary to conduct information and awareness-building campaigns on the water code and its implementing regulations; and
- Submit a request to IDA for the financing of the Fourth Water Project that will include all actions not carried out under the third project.

With regard to the World Bank:

- Simplify disbursement procedures and reduce the steps involved in order to build project disbursement capacity;
- Adopt 100 percent IDA-financing mechanisms for projects, in light of the difficulties the government faces in securing counterpart funds;
- Provision of US\$ 80,000 for the *Direction Nationale de l'Hydraulique* (National Hydraulics

Directorate) to conduct and complete information and awareness-building campaigns, and establish water resources protection areas nation-wide;

- Ensure that the experimental implementation of the water fund is successful, provide IDA technical and financial assistance by establishing a pilot watershed committee (Konkouré and Niger watershed committees) at an estimated cost of US\$ 650,000;
- Provide technical and financial assistance to the government for the preparation and implementation of the Fourth Water Project in Guinea;
- Ensure the involvement of all the ministerial departments concerned in the water resource steering committee;
- Mobilize and promote the active participation of all stakeholders in a national seminar for dialogue and awareness-building on the integrated management of water resources;
- Monitor the volume and quality of presentations made as well as the relevance of the recommendations of the seminar;
- Promote the effective participation of national experts at all stages of project implementation ;
- Assess the various components of water resource management;
- Develop all draft implementing regulations to the water code (laws, decrees, orders, regulations, and forms);
- Publish 5,000 copies of the water code, and
- Strengthen the response capabilities of the National Water Directorate by training some 30 officials overseas and in Guinea, and by acquiring logistical, computer, and scientific tools.

The project's shortcomings are as follows:

- Poor management of funds resulting in the temporary cessation of project activities;
- Under-evaluation of the cost of the project in relation to the scope of activities;
- Difficulties in securing and disbursing counterpart funds;
- Highly complicated procedures for the disbursement of IDA funds, which significantly reduced the project's disbursement capacity;
- Too slow pace observed with regard to the adoption and enactment of the implementing regulations. Of the five (5) main regulations drafted since 1999, only two (2) have been enacted to date. As a result, the legal and regulatory framework is still inadequate, despite large-scale investments;
- Return of the remaining IDA funds despite the justified needs of the project's activities;
- Limited dissemination to the targeted public of the provisions of the water code and its implementing regulations. The information and awareness-building campaign was carried out in the natural region of Maritime Guinea only.

c) Sanitation component

The major challenges and constraints faced are as follows:

- Difficult physical conditions at the Conakry site, a cramped area formed by an outcrop of very hard rock;
- Difficulties in constructing a waste water treatment plant covering 15 hectares, and a sewer network covering 70 kilometers on this cramped site that accommodates all the central administrations and the port through which almost all the country's trade with other countries passes;
- The specific conditions regarding use of land plots in Kaloum;
- Lack of resources when compared to the most realistic objectives of the project;

- Lengthy delays by government with regard to approving dossiers;
- Major delays in mobilizing counterpart funds;
- Large debt service arrears owed by the government to the donor;
- The need for companies to replace the practice of making payments in foreign exchange for the percentage of their contracts that are payable in foreign exchange overseas, with a system where payments of a portion of this amount in another currency are made in Conakry;
- Delays in transfers made in local currency from Washington through the Central bank of the Republic of Guinea; and
- Delays in payment caused by the late processing of certain requests for the withdrawal of funds following the relocation of a section of the payment services of World Bank's country office in Johannesburg.

Thanks to subsequent assistance from the Bank's project team and the active participation of companies, consulting firms, and other administrations in addressing the difficulties encountered, the MUH was often able to find solutions or make appropriate recommendations.

6. Evaluation of the World Bank by the MUH and the MHE (Ministry of Hydraulics and Energy)

Overall, the MUH and the MHE were pleased with the Bank's work. The opportunity provided by the Donor through amendments to the Loan Agreements and the reallocation of resources facilitated the necessary project modifications, which had come to light during its actual implementation.

The restructuring of the sanitation component coupled with the allocation of the Supplemental Credit for the sanitation component and its ongoing monitoring by the Bank, specifically during supervisory missions, *ad hoc* inspections of the sites carried out by the resident mission, to the project management team, and to the departments concerned facilitated its sound implementation. Thus, the allocation of a supplement credit, which amount exceeded the initial credit two years before the closing date of the project confirm the fact that it was impossible to identify all the problems during the project preparation, and justifies the three years "of delay" in its implementation.

The various supervision missions were timely useful opportunities to enhance activities and measures taken, often in advance, with a view to tackling past and future problems. The on-line service set up by the end of the project allowing DATU (*Direction Nationale d'Aménagement du territoire et de l'urbanisme*) [Directorate of land development and urban planning] to monitor in real time the processing of disbursement requests has improved the management of the 3566-0 GUI Supplemental Credit.

7. Project Findings and recommendations

The main findings from the project are as follows:

- There were difficulties obtaining counterpart funds allocated to the project;
- The process to enact the implementing regulations to the water code was slow;
- The procedures for IDA disbursement were long and complex;
- The project had limited disbursement capacity;
- The project benefited from support from the people through the information and awareness-building campaigns on the water code and its implementing regulations;
- The administration of water rights has started to be organized.

