2. Project Objectives and Components:

a. Objectives:

According to the Development Credit Agreement (Schedule 2, page 19) the objectives of the Project were to:
(a) Secure the delivery of basic electricity and water services in N'Djamena and selected urban centers;
(b) Reduce the cost of providing electricity and water by improving the technical, financial and environmental performance of Societe Tchadienne d'Eau et d'Electricite (STEE); and
(c) Increase private sector participation in the Borrower’s electricity and water sectors.

The project development objectives in the Project Appraisal Document (page 2) were to:
(a) Secure the delivery of basic electricity and water supply services and prevent the collapse of the system particularly in N'Djamena;
(b) Reduce the costs of electricity and water supply services; and
(c) Support increased private sector participation in the sectors.

The review uses the project development objectives in the Development Credit Agreement.

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

No

c. Components:

The project components were aimed at sustaining the infrastructure systems that were projected to collapse if the chronic low levels of investments and maintenance were to continue. There were four components:

A. Rehabilitation and Expansion of Urban Electricity Production, Transmission, and Distribution Systems
(Planned: US$29.7 million, Actual: US$12.1 million – Bank Finance was US$29.2 million at appraisal). This
component aimed to provide resources to maintain and in some cases increase the delivery of electricity services in N'Djamena and in six of the smaller urban centers of Moundou, Sarh, Abeche, Doba, Fay-Largeau, and Bongor. This component included five sub-components: (i) Rehabilitation and expansion of urban electricity production facilities and transmission systems in N'Djamena, Moundou, Sarh, Abeche, Doba, Bongor and Faya-Largeau; (ii) Rehabilitation and extension of electricity distribution networks of N'Djamena, Moundou, Sahur, Abeche, Doba, Bongor and Faya-Largeau; (iii) Rehabilitation of selected street lighting facilities in N'Djamena; (iv) Acquisition of spare parts, equipments and tools; and (v) implementation studies carried out in the context of project preparation to be financed retroactively.

**B. Rehabilitation and Expansion of Urban Water Supply Systems** *(Planned: US$7.4 million, Actual: US$7.7 million – Bank Finance was US$7.3 million at appraisal).* This component aimed to provide resources to maintain the delivery of water services in N'Djamena and in the eight smaller urban centers serviced by STEE. This component included three sub-components: (i) Rehabilitation and expansion of the urban water supply facilities and distribution systems in N'Djamena and in the eight smaller urban centers of Moundou, Sarh, Abeche, Doba, Fay-Largeau, Doba, Bongor and Faya-Largeau; (ii) Rehabilitation of customer water connection and meters and acquisition of spare parts, equipments, and tools; and (iii) Implementation studies for monitoring of water losses to assess water losses and propose solutions.

**C. Improvement in the Technical, Financial, and Environmental Performance of STEE and Personal Safety Standards** *(Planned: US$8.9 million, Actual: US$14.5 million – Bank Finance was US$8.9 million at appraisal).* This component aimed at providing resources to ensure continued improvement in the technical, financial, and environmental and safety performance of the utility. This component included four sub-components: (i) Improvement in the technical and financial performance of STEE through the acquisition of a commercial management system, an overhaul of STEE’s office equipment and the purchase of operational vehicles; (ii) Payment of the fees and expenses of STEE’s management contractor; (iii) Purchase of petroleum and chemical products for treatment of drinking water; and (iv) Implementation of environmental and personnel safety measures by STEE.

**D. Preparatory Activities for the Second Phase of the Investment Program and Project Oversight** *(Planned: US$2.8 million, Actual US$1.5 million – Bank Finance was US$2.7 million at appraisal).* This component aimed at providing resources to finance the cost of the Project Monitoring and Oversight Committee (CTSPU) and of STEE (and the Management Contractor) required to prepare the Second Phase of the Investment Program for the electricity and water sectors (post completion of this project) in Chad. This component included two sub-components: (i) Preparatory activities required to prepare the second phase of the investment program (to be implemented by STEE); and (ii) Strengthening the operational capacity of CTSPU and preparatory activities required to prepare the second phase of the investment program.

Physical and Price Contingencies of US$4.9 million and Refund of Project Preparation Facilities (PPF) of US$2.0 million were additionally included in the project cost as appraisal.

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

- **Project Cost:** The cost of the project was initially estimated at US$55.7 million equivalent. While the project underwent two extensions, the project cost was not changed. At the project's extended closing date on December 2010, only US$37.8 million equivalent had been disbursed. The balance of US$27.9 million equivalent of the credit was cancelled and recommitted as additional financing to the water component of the ongoing Chad Urban Development Project (P072030) pursuant to Investment Lending Reform approved by the Bank in October 2009.

- **Financing:** The project was expected to be financed jointly by IDA and the Government of Chad. In July 2004, the component involving the installation of new generating capacity in N'Djamena was excluded from Bank financing (without prior consultation with the Bank) and additional funding was appropriated from the Islamic Development Bank (IsDB). The ICR did not report the amount IsDB financed for this component.

- **Borrower Contribution:** At appraisal the Borrower planned to contribute US$0.9 million equivalent but at project closing no amount was reported to have been contributed by the Borrower.

- **Dates:** Project implementation was delayed due both to external factors like conflicts and sanctions, and to internal factors like limited capacity of STEE to implement a wide ranging and complex project and the lack of commitment of the government to implement serious but demanding reforms that would have put STEE on the path to recovery. The project was first extended in March 2005 for two years with the aim to allow the Government of Chad (GoC) for project restructuring, resulting from the implementation delays noted earlier. Due to political and security situation in Chad, and because STEE focus on overwhelming operational constraints and the frequent changes in leadership at the ministry and STEE levels, the project restructuring could not be
completed, and the revised closing date of March 31, 2007 was lapsed. The ICR also states that Bank’s lenient assessment of the Government’s commitment and of project implementation risks were additional reasons for the failure in the restructuring effort. Eventually, in November 2010 the Country Director approved the exceptional retroactive extension of the closing date from March 2007 to December 2010 to settle outstanding debt to providers of goods and services rendered before the closing date.

3. Relevance of Objectives & Design:

a. Relevance of Objectives:

Relevance of Objectives - Substantial

- At appraisal, the project objectives were relevant to the Country Assistance Strategy (CAS) in effect at the time. That 2003 CAS’ second objective was “enhancing non-oil economic opportunities while reducing sources of vulnerability, notably for the poor, in part by creating a conducive macroeconomic framework and alleviating infrastructure constraints.” (CAS 2003 page 1) This objective included (i) increase in the reliability and availability of electricity and energy, (ii) increase in production and consumption of drinkable water.
- At project closing, the project objectives were also consistent with the Bank’s Interim Strategy Note (ISN) for June 2010 to June 2012. The project objectives directly responded to the ISN’s “Axis 2: Improving Livelihoods and Access to Key Social Services”, which included support to the water sector focusing on the completion of urgent investments in water production and distribution facilities aimed to increase access to water supply in the major urban centers in Chad (N’Djamena and Abéché). This Axis 2 also included support to address structural issues in the water sector - potentially improving its financial sustainability – and assistance to the GoC in the establishment of the new utility. However, the ISN did not specifically mention electricity sector in its objectives.
- The project objectives lack clarity, however: (i) the meaning of the phrase “secure the delivery” is ambiguous and “basic service” is not defined, (ii) it is not made clear how improvement of environmental performance of Societe Tchadienne d’Eau et d’Electricite (STEE) would reduce the cost of electricity and water, and (iii) increasing private sector participation is generally perceived as a means toward achieving an objective but not a goal in itself.

b. Relevance of Design:

Relevance of Design - Modest

- The project's results framework incorporates a relatively clear causal chain between the project activities and the first project objective of securing the delivery of basic electricity and water services. Rehabilitation and expansion of power production facilities, power transmission system, power distribution system, water supply facilities, and water distribution systems, as well as the other associated activities, directly contribute to secure the delivery of electricity and water.
- The second objective of reducing the cost of electricity and water was expected to be achieved through improving the technical, financial, and environmental performance improvements, but this review identified no components that would support reduction in costs through improving the environmental performance of STEE. Technical and financial aspects were supported by certain project components, including rehabilitation/installation of electricity production facilities, transmission system, electricity distribution, water supply facilities, distribution systems, a commercial management system, and the hiring of a private operator through a management contract. The PAD assumed that the electricity cost would be reduced predominantly by low-cost fuel coming from Chad’s Sedigi oil field; however, this benefit was outside the project, as no project components were designed to source cheap oil from Sedigi.
- The project was not well designed to achieve the third objective of increasing private sector participation in the Borrower’s electricity and water sectors. The only component corresponding to this objective was the engagement of external expertise to design and apply the project's regulatory framework including the establishment of the regulatory institutions for the electricity and water sectors, as the private operator for STEE had already been selected at the time of project effectiveness. Linkage between the other project components and the third objective was quite weak.

4. Achievement of Objectives (Efficacy):

Secure the delivery of basic electricity and water services in N’Djamena and selected urban centers - Modest

Outputs:

For the electricity sector, four new diesel units and spare parts were purchased, rehabilitation was done for Sarh, Abeche, and Bongor power stations, as well as for NDjamena secondary centers’ distribution networks. As a result:
Electricity generation capacity increased by 12.2 MW or 95% from 12.8 MW in 2002 to 25 MW in 2007, 11% more than the project target of 22.5 MW (that was to have been achieved by 2004). Number of electricity connection increased by 6,227 or 38% from 16,224 in 2002 to 22,451 in 2006, 30% above the 2004 target of 17,324 connections. According to the ICR, this was due to the strong demand for electricity connections. But since the generation side did not keep pace (and because of the increasing technical and non-technical losses as described below), electricity supply remains insufficient for extending this basic service to the a large customer base which is still waiting to be connected.

Technical and non-technical losses increased to 32%, not only failing to achieve the target of 24% but worsening compared to the baseline of 29%. Most of the losses were resulting from lack of metering.

For the water sector, diesel sets and spare parts were purchased to increase the reliability of water pumping stations, rehabilitation was done for some production facilities and distribution networks. In addition, a warehouse, wellhead in two pumping stations, and meter testing lab were constructed. As a result:

- Number of water connection increased by 7,915 or 39% from 20,503 in 2002 to 28,418 in 2006, 34% above the target value of 21,200 for 2004. According to the ICR, this was also due to the high demand for water connections. However, due to limited water production volume (and high non-revenue water as described below), supply could not meet the demand through the new connections.
- Number of operational water wells increased by 24 or 126% from 19 in 2002 to 43 in 2006, or 65% above the 2004 target of 26 wells.
- Technical and non-technical losses increased to 42%, not only failing to achieve the target of 20% but worsening compared to the baseline of 30%. This was primarily because the project did not replace the 30 year old pipes with asbestos cement. As the boreholes with pumps increased, so did the pressure in the water system, leading to leakage and water losses.

Outcomes:

- There is no evidence that the increased number of connections led to meeting the “basic” service delivery standards, or whether they led to “securing” delivery of electricity and water services in N’Djamena and selected urban centers.
- The ICR did not report any indicators related to the quality, reliability, affordability, or sustainability of services, including whether the project improved (i) the number of hours or days of interruption in the distribution of electricity service and water supply; (ii) average time to correct problems; (iii) number of connections without meters or with damaged meters for both electricity and water.
- The ICR described the achievement at project closing as “power generation and distribution, as well as production and distribution of water, are not providing reliable and quality service” (page iv).
- It is unlikely that the benefits to the customers have increased primarily because of the worsening efficiency indicators which point to the increased wastage or illegal use of critical infrastructure services before they even reached the paying consumers.

While the project may have prevented the infrastructure systems from totally collapsing, as feared at appraisal, there is weak evidence that point to clear improvements in outcomes. The achievement of this first objective is therefore rated as modest.

Reduce the cost of providing electricity and water by improving the technical, financial and environmental performance of STEE - Negligible

Outputs:

- In addition to the outputs related to the technical performance of the utility described above under the efficacy assessment of the first objective, the following outputs were produced.
  - A commercial management system was purchased and installed. The system included a software of commercial management and computers and accessories.
  - The management contractor's fees were paid (until the contract was terminated and the operator left).
  - Petroleum and chemical products were purchased for both electricity and water.
  - Environmental and personnel safety measures were implemented by STEE.

Outcomes:

- The objective was expected to be achieved partly through the management contract with the private operator, but the termination of this contract led to poor outcomes as described below.
- As elaborated above, technical and non-technical losses for both electricity and water have worsened significantly.
- There is no information that describes the financial performance of STEE, other than the weak institutional and
managerial capacity which implies the poor financial health of STEE.

- Environmental performance of STEE was not observed and there is no evidence or discussion that links the project activities with environmental performance or its impact on reduced cost of providing electricity and water.
- Instead of reducing the cost of electricity generation as intended, the project actually increase it. It rose from 119 FCFA/kWh in 2002 to 199 FCFA/kWh in 2006. The target value was designed assuming that a cheaper fuel source would be secured by the development of Sedigi oil field. However, this did not materialize during the project life. On the contrary, the price of diesel increased in Chad reflecting international market prices, which caused significant increase in the electricity cost. The ICR did not report electricity cost impact solely due to the project components without fuel cost change.
- The ICR did not provide data on cost reduction (or otherwise) of water provision.
- The increase in technical and non-technical losses implies that the costs did not decrease but increased.

Without evidence showing that the project reduced the cost of providing electricity or water, the efficacy of this second objective is rated as negligible.

Increase private sector participation in the Borrower’s electricity and water sectors - Negligible

Outputs:

- The Government and the national electricity and water utility, STEE had contracted with the private consortium of Vivendi-Dietsmann in 2000 to initially manage and then take full technical and financial responsibility for the electricity and water supply services. However, this contract was terminated in April 2004.
- The ICR provided no information that would point to the strengthening of the regulatory environment for the electricity and water supply sectors. It is unclear whether all the enabling decrees were enacted or whether the necessary regulatory institutions were established.

Outcomes:

Due to the early demise of Vivendi-Dietsmann, as private operator, and no subsequent involvement of private companies to the project, this review concludes that private sector participation actually decreased, instead of increasing as the project promised. Also, the project’s planned regulatory environment for private sector participation was not established. Accordingly, the outcome of this objective is rated as negligible.

5. Efficiency:

The ex-ante cost benefit analysis (PAD, page 15) at appraisal confirmed that Chad would derive sustainable economic benefits from the proposed project. For the base case scenario the appraisal ERR was estimated to be 29.1%, and the net present value (NPV) at a 10% discount rate to be US$45.1 million. Under the worst case scenario for that estimate where fuel cost would increase significantly up to FCFA 300/liter, the project ERR remained a robust 11.3%.

The ex-post economic analysis (ICR, page 14) was conducted, adjusting to reflect (i) actual levels of electricity and water sold; (ii) the increased technical and non technical losses; and (iii) the increased cost of fuel due to unavailability of cheap fuel from the Sedigi oil field. The assumptions used for the ERR calculation at ICR stage, however, are significantly different from the assumptions used at appraisal:

- The PAD assumed 15 years plant operation life, whereas ICR assumed 24-26 years.
- 20MW new power plant was financed by the IsDB instead of the Bank. While the benefit of this additional plant was included in the calculation, the investment cost was not. Accordingly, both ERR and NPV were distorted and significantly higher in the ICR.
- The ICR assumed the project would generate economic benefit of the water production from 2002, while the PAD had assumed that this would only be after 2004.

If the above factors are taken into account, both ERR and NPV would be substantially lower than the results presented in the ICR (ERR of 29% and NPV of US$6.4 million). Besides, the economic benefits are difficult to quantify in the absence of sufficient evidence of the quality and level of electricity and water services achieved under this project (see efficacy assessment in section 4). There was about a four and a half year delay in project closing, partly due to the conflict situation in the country. Efficiency is rated as modest.

a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the
6. Outcome:
Relevance of objectives was substantial and relevance of design was modest. The first objective of securing the delivery of basic electricity and water services in N’Djamena and selected urban centers was modest, while the achievement of the two remaining objectives was negligible. With efficiency rated modest, overall outcome is assessed as unsatisfactory.

a. Outcome Rating: Unsatisfactory

7. Rationale for Risk to Development Outcome Rating:

Government Ownership/Commitment
- The Government perpetuated instability of the STEE. The ICR points out that the Government lacked a policy or a strategy for the sector (page 18). The Government failed to comply fully and in a timely manner with its key obligations such as bill payments and budget transfers. And it has not shown its full commitment to source the cheap oil from Doba. Taken together, these factors raise concerns about Government ownership of the approach espoused by this project into the future.

Institutional Risk
- The sustainability of the infrastructure investment is conditioned by the financial and institutional capability of the utility managing the assets and the related services. However, after the departure of the private operator in 2004, STEE, the national utility underwent frequent rotation of general managers. The chances that its weak institutional capacity will be rectified in the short to medium term are not great.

Political Risk
- Since its independence, Chad has suffered from instability and conflict arising from tensions between different religious and ethnic factions, as well as interference from neighboring states. Political risk in Chad is therefore very high.

Financial Risk
- ICR implies that STEE’s financial health has not improved particularly because of the high fuel costs and worsening efficiency performance of the utility. These conditions are unlikely to change in the short run.
- There is no evidence that government subsidies or sufficient tariff revenues currently needed to assure the delivery of critical electricity and water infrastructure services will continue. Chad’s water sector also has problems with governance. Without financial sustainability of the power and water sector, the STEE would not be able to allocate sufficient funds to operate and maintain its infrastructure facilities.

Because of the above high risks associated with institutional, financial, and political sustainability, the risk of development outcome is rated high.

a. Risk to Development Outcome Rating: High

8. Assessment of Bank Performance:
a. Quality at entry:
- Strategic relevance and approach: The Bank appropriately identified the urgent need to prevent the collapse of the electricity and water supply sectors. Lessons were identified from Bank involvement in other sectors in Chad as well as experience in other countries. While the Bank correctly identified the importance
of fundamental sector reform as a basis to ensure financial sustainability of the power and water supply sectors, no concrete measure with regards to revenue generation/tariff collection was introduced in the project. The objective of cost reduction was included in principle, but without sufficient attention to the necessary components to reduce technical and non-technical losses, for instance.

- **Formulation of objectives and project design:** The Bank did not formulate the objectives clearly or designed the project appropriately. The objective of increasing private sector participation was inappropriate as the use of the private sector would have been an input or the means for achieving the first two objectives. The meaning of “secure the delivery” and "basic service" were not defined at appraisal, the causal linkage between the environmental performance of the utility and reduction in the cost of electricity and water were not explained.

- **Capacity assessment of the government and implementing agency:** The project design which comprised of fourteen sub-components translated into a very heavy implementation task and it was too ambitious given the high risk country context, poor capacity of the sector agencies, and the lack of familiarity with Bank procedures. The implementation time frame (of just two years) was not realistic, the prevailing circumstances in Chad. The Bank had failed to carry out a proper capacity assessment at project appraisal to ensure that the activities could be implemented as scheduled and with the necessary quality control.

- **Risk Assessments:** The project failed to take into account the risk that the private operator would discontinue its operation and it did not realize that private sector participation would have been premature for Chad's water and electricity sectors because of its poor regulatory environment and governance problems. The ICR reported “The private operator was supposed to strengthen the systems of STEE in many areas but it was clearly overwhelmed by the magnitude of the required changes, the hostility of the social environment and the governance issues. Furthermore the assessment of risks failed to take into account the particularly strained relationship between the government and the private management team and its consequences on the project and the utility.” (ICR page 16)

**Quality-at-Entry Rating:** Unsatisfactory

**b. Quality of supervision:**

- **ICR’s assessment of supervision:** With respect to the Bank’s overall supervision, the ICR reported “The Bank led an intensive supervision and hand-holding effort throughout the life of the project with, on average, three full-fledged supervision missions per year, complemented by more focused supervision interventions (on FM, procurement, or sector related technical issues). Also the team was forthright and candid in pointing out issues and putting forward solutions... such as preparing a restructuring proposal and a road map for getting STEE and the electricity and water sectors out of their current crisis and improving the chances of achieving what remained achievable, namely implementation of the infrastructure components.” (ICR pages16-17). With regards to safeguards compliance, the Bank made an effort to gather the information on the Farcha power station which was dropped by the Government and taken up by another project funded by another donor. The Borrower also perceived the Bank’s regular supervision missions as instrumental in correcting deviations.

- **Politically accommodating:** The ICR also states that the inherent importance of the project was clearly overshadowed by the dialogue around the issues of the Chad-Cameroon Pipeline project. Except for specific sector issues (procurement of fuel and containerized diesel generators), the Bank generally chose a “softer and politically accommodating” stance, which was damaging its credibility and ability to influence the agreed course of action to reform the sector.

- **Lack of proactive remedies by the Bank:** The Bank did not propose suspending disbursements despite the Government's multiple breaches of project covenants, such as the departure of the private operator, dismantling of the PIU, or the unilateral exclusion of a project component without ensuring that appropriate safeguards would be ensured when funded by a different donor. The Bank planned for project restructuring after the departure of the private operator. Such a restructuring would have included the redesign of the project. While the Bank made some efforts in this direction, a formal restructuring never materialized. This was partly because of the conflict situation in Chad, as described in the next section 9. But it was also because the Bank did not have a clear policy on how to deal with such situations. According to the ICR the Bank took this approach in the view of the larger implications on the whole Bank Chad relationship and especially to the Bank engagement in the broader issue of poverty reduction through the use of oil revenues generated by the export of crude oil from Doba field. Evidence is noted in the ICR on the weak supervision of the environmental and social safeguards, and serious non-compliance of fiduciary obligations.
9. Assessment of Borrower Performance:

a. Government Performance:

- **Lack of clear direction:** The ICR reported “There was a lack of sector policy or strategy and therefore any sense of direction for the sector” (page 18). GoC also perpetuated the instability of STEE with frequent management changes.

- **Weak support to private sector participation:** From the start, the public-private partnership was undermined by the inability of the GoC to pay its bills and operating subsidies to STEE. This directly impacted the private operator’s performance, as it did not have sufficient funds to purchase fuel and to conduct appropriate maintenance of the infrastructure.

- **Lack of Government commitment:** GoC’s negotiations with the oil consortium to build the topping plant in the Doba field to deliver cheaper fuel to STEE were not led forcefully, though the electricity sector required this cheap fuel urgently to lower the cost of supply. The Bank was willing to finance technical assistance to support the GoC in its negotiations with the oil consortium to construct a topping plant on the Doba oil field to produce cheaper fuel for the power sector. But the matter was not treated by the authorities as a priority and the plant was not constructed. Lack of Government commitment was also demonstrated by its reluctance to put in place the required fiduciary, implementation, and monitoring systems.

- **Weak compliance with Bank’s conditions for restructuring:** In April 2007, the Bank requested five actions, (i) payment by the government of all outstanding bills including operational subsidies and arrears to STEE; (ii) conclusion of negotiations between the government and Esso on the roles and responsibilities for the implementation arrangements and a timetable for the Doha topping plant to secure a regular least-cost fuel supply to STEE; (iii) signature of an operation and maintenance contract with the contractor of the Farcha power plant; (iv) signature of a two-year strategic partnership contract with an experienced firm to address strategic planning, fiduciary, procurement, and human resources issues in STEE; and (v) completion of all measures to operationalize the project implementation unit. Of these five, GoC made an effort to implement three (i, iv, and v) by September 2007. As a result, preparation of a restructuring package for the project was initiated. However, the relationship between the Bank and the GoC entered a state of flux until the retroactive extension was finally granted in 2010.

- **Safeguards:** Despite of the Bank’s repeated requests to disclose safeguards compliance with respect to the Farcha power station, the government and STEE did not provided any information or assurance that the resettlement and environmental components have been carried out in accordance with relevant Bank policies.

- **Fiduciary aspects:** Despite the Bank’s repeated comments on the inadequacy of the financial management arrangements and proposed action plans, GoC did not act on improving the systems. Audits had serious qualifications including the absence of project accounting, weak internal controls, and misuse of funds.

**Government Performance Rating**

Highly Unsatisfactory

b. Implementing Agency Performance:

- **Poor capability to implement project components:** The STEE suffered from serious institutional weaknesses and capacity constraints which were initially masked by the management contract with the private operator. However, they became bare at the departure of the private operator, after which the performance of the STEE deteriorated further still General managers in the STEE were changed frequently, and sufficient time was not given to them to think or plan beyond the short-term. Moreover, not all of them were qualified to run a company.

- **Disbanding the PIU:** The ICR reported that the STEE disbanded the project implementation unit (PIU) and
the PIU staff were reassigned to other tasks in different units in STEE. This led to loss of project momentum and much of its expertise (ICR page 18).

- **Fiduciary aspects:** Despite the Bank’s repeated comments on the inadequacy of the financial management arrangements and proposed action plans, STEE did not act on improving the systems. Audits had serious qualifications including the absence of project accounting and weak internal controls.

- **Safeguards:** Despite of the Bank’s repeated requests to disclose safeguards compliance with respect to the Farcha power station, the government and STEE did not provided any information or assurance that the resettlement and environmental component were being carried out in accordance with relevant Bank policies.

**Implementing Agency Performance Rating:** Highly Unsatisfactory

**Overall Borrower Performance Rating:** Highly Unsatisfactory

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

#### a. M&E Design:

A results framework was in place at project initiation, and baseline and target values were defined in the PAD. However, following deficiencies were observed in the design of the M&E system:

1. The target of the cost reduction in electricity depended upon an exogenous factor, the procurement of cheap oil, that was beyond the control of the project. No specific target attributable purely to the project components was defined.
2. The project had no indicator to measure cost reduction in water supply that it intended to achieve.
3. An indicator to measure the achievement of the third objective of increasing private sector participation (e.g. support increased private sector participation in the sectors) was vaguely defined and hard to measure.

#### b. M&E Implementation:

- Important performance indicators were not reported by the ICR and are presumed not to have been monitored during implementation. They included:
  1. Interruption in the distribution of electricity and water in day/year
  2. Average response time to correct problems in the electricity and water services.
  3. Number of connections without meters or with damaged meters for both electricity and water.
  4. Strengthening the regulatory environment for the electricity and water supply sectors. Enacting all the enabling decrees and establishing the regulatory institutions.

- According to the ICR: “The poor performance of STEE and the ultimate demise of the management contract put the whole system of gathering and reporting information into disarray. However, the supervision team was able to tap into STEE’s data to measure the achievement of major indicators particularly those related to the infrastructure components.” (page 10-11) These facts imply a systematic M&E system was not in place during implementation, mainly because of weak capacity of the implementing agency.

#### c. M&E Utilization:

The ICR stated “The M&E indicators were instrumental in pointing out deficiencies in the implementation progress and in designing the January 2004 road map for the electricity and water sectors as well as scenarios for project restructuring.” (page 11) But the utilization of the M&E is likely to have been limited as the design was flawed and implementation was neglected as described above.

**M&E Quality Rating:** Negligible

### 11. Other Issues

#### a. Safeguards:

**Environment:**
The project was classified as environmental category B. As a result, a full Environmental and Social assessment was conducted as per OP 4.01. The ICR reported that the country’s difficult situation (armed conflict taking place in N'Djamena between government and rebel forces, closing of the Bank's office, suspension of mission travel, etc.) along with its severely strained relations with the Bank, especially in FY06, made supervision impossible and covenant compliance difficult.

After the Farcha power station was dropped from the Bank’s funding, no information about environmental compliance with relevant Bank policies were reported by the STEE. The ICR states on the other hand that adequate attention was given to pollution concerns associated with hydrocarbon transport and storage issues.

Other than the above, the ICR did not provide much detail on the assessment of environmental safeguards during implementation, and it was not clear whether the project was implemented in accordance with the Bank’s policies.

Social:

- When originally prepared, the project included the need to resettle 131 people who had settled illegally on the site to construct the Farcha new power station. Consultations were held with the residents and the GoC prepared an abbreviated resettlement action plan, which was subsequently accepted by the Bank. However, in July 2004, without consulting the Bank, the GoC and the STEE dropped a new power plant component from the Bank financing. Yet, the credit agreement was not formally amended, so that the environmental obligations associated with this component remained. Para 32 of the ICR states that "it appears that the affected people have been resettled, but the Bank was unable to obtain the cooperation of the government or STEE in securing information to determine the levels of compensation these people may have received or the condition of the affected population after relocation”.

b. Fiduciary Compliance:

Financial Management:

- All financial management missions reported weaknesses of the STEE's financial management. The audited financial statement received by the Bank contained major qualifications including the absence of project accounting, weak internal controls, and STEE vehicles inappropriately requisitioned by the GoC. Irrespective of Bank requests and recommendations by the Bank to remedy these shortcomings, neither the GoC nor the STEE reported that they had taken any action.

According to the ICR “the Bank chose not to take remedial action, (but) the Financial Management situation of STEE was closely monitored.” (page 11)

Procurement and Disbursement:

- The cost of vehicles, which were requisitioned by the GoC, was subsequently reimbursed by the GoC at the strong insistence of the Bank. No other discussion was provided in the ICR on procurement under the project.

C. Unintended Impacts (positive or negative):

No

d. Other:

<table>
<thead>
<tr>
<th>12. Ratings:</th>
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<th>IEG Review</th>
<th>Reason for Disagreement /Comments</th>
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<td><strong>Outcome:</strong></td>
<td>Unsatisfactory</td>
<td>Unsatisfactory</td>
<td></td>
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<tr>
<td><strong>Risk to Development Outcome:</strong></td>
<td>High</td>
<td>High</td>
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<tr>
<td><strong>Bank Performance:</strong></td>
<td>Unsatisfactory</td>
<td>Unsatisfactory</td>
<td>GoC did not show sufficient commitment or support to the project from the start and through project implementation. Despite the Bank's repeated comments on the inadequacy</td>
</tr>
<tr>
<td><strong>Borrower Performance:</strong></td>
<td>Unsatisfactory</td>
<td>Highly Unsatisfactory</td>
<td></td>
</tr>
</tbody>
</table>

Ratings: ICR IEG Review Reason for Disagreement /Comments
of the financial management arrangements and proposed action plans, and despite the Bank’s repeated requests to disclose details of safeguards compliance, these were not forthcoming.

| Quality of ICR | Satisfactory |

**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:**
The following lessons are taken from the ICR with some adaptation.

- Design the project to accommodate the fragile and conflict affected context: Unrealistic and ambitious project objectives and a complicated project design that do not fully take into account a fragile political environment lead to a negligible efficacy. In this case the project promised cost reduction and private sector participation in water and electricity supply without sufficiently assessing the capacity of the sector, the risks involved, and putting in place measures to mitigate these risks. With four components and fourteen sub-components, project implementation requirements exceeded the capabilities of the utility and the government. Just two years to complete the delivery of all components and to achieve three distinct objectives was quite unrealistic.

- Ensure that an enabling environment is in place before pursuing private sector participation: Legal/regulatory/policy reforms should be the first step on the road to improved infrastructure service provision through an eventual private participation. Without an enabling environment in place, it is difficult to attract private operators, and it is also hard to retain them especially in fragile states where political risks are high.

- Have a clear policy on how to enforce remedies when covenants are breached: Whenever there is a tension within the Bank between the achievement of project objectives and the need not to jeopardize the wider dialogue with the Government, the rules of engagement should be clearly defined both internally and with the Government as to what the Bank is trying to achieve without compromising either objective. In the case of this project, it would have been incumbent on the Bank to convey to the authorities that either a suspension of project restructuring at the time of private operator’s departure would not be interpreted as a sanction, but as a necessary administrative measure, required by Bank rules and procedures.

**14. Assessment Recommended?**  ○ Yes  ● No

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

The ICR was candid. However, it was not clear which components were completed, there were discrepancies between the main body and Annex 7 (the Borrower's ICR and/or Comments on Draft ICR), which were not explained, the economic analysis could have been stronger, and procurement should have been discussed.

**Quality of ICR Rating:** Satisfactory