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CARIBBEAN DEVELOPMENT BANK



EXECUTIVE SUMMARY WITH MANAGEMENT RESPONSE

PROJECT COMPLETION VALIDATION REPORT

FIFTH WATER SUPPLY PROJECT - ST. LUCIA

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OFFICE OF INDEPENDENT EVALUATION

FEBRUARY 2013

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EXECUTIVE SUMMARY

1. BASIC PROJECT DATA

Project Title	Fifth Water Supply Project – St. Lucia
Country	St. Lucia
Sector	Power, Energy and Water
Loan No.	25/SFR-OR-STL
Borrower	Government of St. Lucia (GOSL)
Implementing/Executing Agency (EA)	Water and Sewerage Company Incorporated (WASCO)

CARIBBEAN DEVELOPMENT BANK (CDB) LOAN (\$'000)

	<u>Ordinary Capital</u>	<u>Special Funds</u>	
	<u>Resources</u>	<u>Resources</u>	<u>Total</u>
Disbursements (\$ mn)			
Original Loan Amount	2.33	2.21	4.54
Additional Loan	-	0.73	0.73
Total Loan Amount	2.33	2.94	5.27
Disbursed	2.33	2.84	2.84
Cancelled	-	0.93	0.93
			<u>Variance</u>
			<u>(months)</u>
Project Milestones	<u>At Appraisal</u>	<u>Actual</u>	
Board Approval (Original Loan)	May 21, 2001	May 21, 2001	-
Loan Agreement signed	July 30, 2001	December 31, 2001	5.0
Loan Effectiveness ¹	August 30, 2001	September 13, 2002	13.5
Board Approval (Add. Loan)	October 10, 2002	October 10, 2002	-
Loan Agreement signed	January 07, 2003	February 06, 2003	1.0
Loan Effectiveness	April 07, 2003	May 27, 2003	1.7
			<u>Variance</u>
			<u>(months)</u>
CDB Loan	<u>At Appraisal</u>	<u>Actual</u>	
First Disbursement Date	November 30, 2001	September 13, 2002	10.4
Terminal Disbursement Date (TDD)	December 31, 2004	January 13, 2011	72.0
TDD Extensions (number)	-	6	-
			<u>Variance</u>
			<u>(months)</u>
Project Cost and Financing (\$mn)	<u>At Appraisal</u>	<u>Actual</u>	<u>Variance</u>
CDB Loan	5.27	5.18	0.09
World Bank (WB)	2.60	3.00	0.40
Counterpart (GOSL/WASCO)	0.77	1.22	(0.45)
Total	8.64	9.38	(0.74)
Terms	<u>Interest Rate</u>	<u>Repayment</u>	<u>Grace Period</u>
CDB Loan (SFR)	2.5%	22 years	5 years
CDB Loan (OCR)	7.5% variable	22 years	5 years
			<u>Variance</u>
			<u>(months)</u>
Implementation	<u>At Appraisal</u>	<u>Actual</u>	
Start Date	July 31, 2001	January 03, 2002	5.1
Completion Date	December 31, 2004	January 13, 2011	84.3
Implementation Period (years)	3.5	9.3	69.6
Economic Rate of Return (ERR) (%)			
At Appraisal	13.1		
PCR	9.2		

¹ Date conditions to First Disbursement satisfied.

2. PROJECT DESCRIPTION

2.01 At appraisal, it was estimated that 75 per cent (%) of the population of St. Lucia had direct water service connections to their homes; with the balance dependent on public standpipes. Approximately 50% of those with direct water service connections were provided with a reliable 24-hour water supply; and the remainder received water only on specific days and times. WASCO delivered water by truck to provide relief to households without direct connections. The service coverage for sewerage was only 10%. Other challenges included wasteful consumption, measurement and control of unaccounted for water (UFW), and the need to improve water quality reliability. In addition, it was assessed that WASCO lacked an appropriate legal, regulatory and institutional framework and financial capacity to adequately manage the sector and realise service improvements.

2.02 With the construction of new hotels in the north of the island and the doubling of average tariffs in January 2000, WASCO's customers expected and demanded immediate and tangible improvements in WASCO's performance.

2.03 On May 21, 2001, CDB's Board of Directors (BOD) approved a loan to GOSL of 4.541 million (mn) United States dollars (USD) to assist in financing the Fifth Water Supply Project for St. Lucia. Co-financing comprised a WB loan to GOSL of USD2.6 mn, while counterpart financing of USD1.2 mn was provided by GOSL/WASCO. In October 2002, CDB's BOD approved an additional loan to GOSL of USD0.730 mn to cover counterpart financing that WASCO was unable to provide due to financial constraints and anticipated increases in project management costs and contingencies.

2.04 The main components of the project were a study to inform the increased participation by the private sector; upgrading the legal and regulatory framework and operating procedures; capital works to reduce wasteful consumption; reduction in UFW; and improved water quality reliability. The EA was WASCO who implemented the project through a dedicated Project Management Unit (PMU), headed by a Project Coordinator (PC) who was located within WASCO but reported to an oversight ministry/ministries.

PROJECT OBJECTIVES OR EXPECTED OUTCOMES

2.05 Development of an appropriate institutional and regulatory framework for the water and sewage sector and the implementation of critical capital projects and technical assistance interventions to improve the delivery of water and sewage services to meet critical needs.

EVALUATION OF PERFORMANCE AND OVERALL ASSESSMENT

Overall Assessment

2.06 The Project Completion Report (PCR) rated overall performance as *Satisfactory*. The Evaluator, however, rated the overall performance of the project as *Marginally Unsatisfactory* as the Evaluator assigned lower ratings, than the PCR, for Effectiveness and Efficiency.

Relevance

2.07 The PCR rated this criterion as *Highly Satisfactory*. The justification for the rating indicated that the project was identified as a priority for GOSL in CDB's Country Strategy Paper as the unreliable supply of water was a major constraint to economic development. The project was also expected to contribute to improving access, by poor and rural communities, to water and sanitation services. The Evaluator therefore rates this criterion as *Highly Satisfactory*.

Effectiveness

2.08 The PCR rated this criterion as *Satisfactory* as the project had achieved a portion of the expected outcomes. Bulk meters were not installed as intended and data on production levels was not available but the project is estimated to have resulted in improved service coverage. Results of samples analysed also indicated an improvement in water quality reliability. The improvements to the legal and regulatory framework were delayed, but were implemented. The Water Supply and Sewerage Act No. 14 of 2006 was enacted on May 15, 2006. The regulations to legitimise the appropriate regulatory institutions and arrangements were gazetted in December 2008 and the Regulator was established in January 2009. The Grace water treatment plant at Vieux Fort, the raw-water transmission pipeline at Hill 20, and the equipment at the sewage pump stations in Castries were installed, but delayed.

2.09 Increased private sector participation was, however, not achieved; and UFW was not reduced as key equipment to support improvements were procured but not installed. In addition, the study to inform improvements in operational efficiency was completed but the recommendations not implemented. Universal metering was not achieved as only 7,121 meters (59% of amount required) were installed.

2.10 The Evaluator disagrees with the rating of Satisfactory in light of the partial achievement of the planned results and rates this criterion as *Marginally Unsatisfactory*.

Efficiency

2.11 The PCR rated this criterion as *Satisfactory*. The ERR at appraisal and at project completion was estimated at 13% and 9.2%, respectively. The ERR at project completion was therefore below the real social cost of capital used by CDB of 12%. In addition, no substantial unquantifiable benefits identified had accrued to the project. The Evaluator, therefore, rates this criterion as *Marginally Unsatisfactory*.

Sustainability

2.12 The PCR rated this criterion as *Marginally Unsatisfactory* as, at project completion, WASCO was assessed to be insolvent. Also, its institutional capacity had deteriorated due to failure to implement recommendations arising from the studies conducted under the project; high staff turnover and declining staff morale.

2.13 The PCR also notes that there are concerns that some of the meters supplied under the project were of an inferior quality; and the technology selected for the Grace water treatment plant may lead to higher operating and maintenance costs than comparable alternatives.

2.14 The Evaluator concurs with the rating of *Marginally Unsatisfactory*.

Performance of the Borrower and Executing Agency

2.15 The PCR rated the performance of the Borrower and EA as *Unsatisfactory*. The PC performed satisfactorily in the coordination, monitoring and control of the project activities. Overall implementation was, however, delayed by 69 months. WASCO exhibited limited ownership for the project and seemed to have accorded it low priority. WASCO's performance delayed the satisfying of conditions for the CDB and WB loans. The input provided to the PMU by WASCO's Project Engineer was insufficient to resolve technical issues in a timely manner. WASCO did not meet reporting requirements despite repeated requests from CDB and GOSL; and WASCO's management and Board appeared to have given limited attention to the proper management of the organisation. The PCR also noted that poor reporting by WASCO limited CDB's capacity to monitor project performance, in particular, activities related to institutional reform and reduction of UFW.

2.16 The PCR also indicated that while representatives of GOSL regularly participated in CDB-led supervision missions and assisted with resolving implementation difficulties, stronger action should have been taken to ensure WASCO's compliance with loan conditions and more effective management of the organisation.

2.17 On the basis of the foregoing, the Evaluator concurs with the rating of *Unsatisfactory* for the performance of the Borrower and EA.

Performance of CDB

2.18 The PCR rated CDB's performance as *Satisfactory*. The EA was satisfied with the quality of the consultants' terms of reference; the general support and advice provided by CDB during implementation; and the quality and timeliness of missions. The EA, however, noted that CDB and WB should have been more responsive to procurement inquiries during the initial period of implementation; and should have made greater efforts to resolve some of the major implementation problems. In particular, the EA noted that while WASCO was formally designated as the EA, it was never given responsibility for execution and this issue was never addressed by CDB.

2.19 There is evidence of an effective working relationship between GOSL and CDB on the implementation of various project components. CDB also responded to GOSL's need for counterpart funds in a timely manner by providing the additional loan. In terms of project design, the selection of a preferred privatisation model was informed by high-level dialogue between WB, CDB, sector authorities and the water utility, and a review of alternative models. The design also included lessons learned from similar projects. GOSL had also taken a number of actions, before appraisal, which indicated its commitment to improving sector performance.

2.20 The Evaluator also rates this criterion as *Satisfactory*.

**TABLE 1: SUMMARY RATINGS OF CORE EVALUATION CRITERIA
AND OVERALL ASSESSMENT OF PROJECT**

Criteria	PCR		OIE Review		Reason, if any, for Disagreement /Comments
	Score	Rating	Score	Rating	
Relevance	4	Highly Satisfactory	4	Highly Satisfactory	
Effectiveness	3	Satisfactory	2	Marginally Unsatisfactory	The project met some but not all of the planned results.
Efficiency	3	Satisfactory	2	Marginally Unsatisfactory	An ERR of 9.1% for this type of project carries a rating of marginally unsatisfactory in accordance with the Bank's Performance Assessment System
Sustainability	2	Marginally Unsatisfactory	2	Marginally Unsatisfactory	
Overall Assessment	3	Satisfactory	2.5	Marginally Unsatisfactory	The lower ratings of marginally unsatisfactory for Effectiveness and Efficiency by the Evaluator negatively impacted overall project performance assessment.
Borrower and EA Performance		Unsatisfactory		Unsatisfactory	
CDB Performance		Satisfactory		Satisfactory	

Institutional Development Impact

2.21 The PCR rated this criterion as *Unsatisfactory*. The PCR indicated that the studies, financed under the project, provided a comprehensive framework for improving WASCO's service delivery capacity and preparing WASCO's management and employees for the transition to private sector participation. The recommendations were, however, not implemented despite attempts by CDB to influence action. The Evaluator therefore agrees with this rating of *Unsatisfactory*.

LESSONS

2.22 The PCR identified the following lessons learnt:

- (a) Facilitate full project ownership by EAs through appropriate project management arrangements.
- (b) Where necessary, procurement waivers should be sought to facilitate the standardisation of key equipment (e.g. the procurement of meters).
- (c) CDB should be cognisant of the loan conditions of parallel financiers and should not restrict its concerns to CDB's loan conditions.
- (d) For co-financed projects, supervision and reporting arrangements must be well coordinated to enable the funding agencies to facilitate early detection and a coordinated response, by the financing agencies, to implementation.
- (e) Life cycle costs should be used, where appropriate, in making procurement decisions (e.g. selection of technology for the Grace water treatment plan).

2.23 The Evaluator agrees with the above lessons and considers the following additional lessons, cited in WB's Implementation Completion and Results Report, to be useful in the design and implementation of future utility projects with private sector participation components:

- (a) With regard to government projects, which require private sector participation, there should be strong consensus among key stakeholders from the onset to guarantee government leadership and ownership during political change.
- (b) The involvement of the private sector in the management and equity of utilities required broad consensus among the ruling party, the opposition and representatives of civil society.
- (c) Objectives for technical assistance projects, must be achievable and within the control of the project.
- (d) A programmatic approach to support sector reform should be considered.
- (c) All policy-related studies must be discussed with staff, unions and other relevant stakeholders.

COMMENTS ON PROJECT COMPLETION REPORT QUALITY

2.24 The Evaluator rates the quality of the PCR as *Satisfactory*. The PCR contained some data errors but provided detailed information on project design and implementation; and identified lessons learned, which can inform similar future projects.

RECOMMENDATIONS FOR FOLLOW-UP

2.25 No follow-up by the Office of Independent Evaluation is required. The Evaluator does not consider that a Project Performance Audit Report would provide significantly more information or identify other lessons than what is contained in the PCR.

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1.01 There is generally congruence between the PCR and the Validation Report (VR). In the instances where the VR disagrees with the PCR ratings (Cost Efficiency and Efficacy) we accept the VR's lower rating. This was the first PCR prepared by the Economic Infrastructure Division under the new reporting format, and this, to some extent, reflects the then unfamiliarity with the approach.

1.02 More recent PCRs reflect a greater congruence with VR ratings demonstrating a better understanding of the process. Also, the independent borrower assessments are now being carried out using the recently adopted format.

1.03 Both the PCR Team and the evaluators agreed that there were some valuable lessons learned from the Project that would assist the Bank in maximising the impact of its interventions in its Borrowing Member Countries. Several of these are already being incorporated into recent project designs. The PCR Team agrees that additional lessons from the World Bank's Implementation Completion Report could prove useful in the design and implementation of future utility projects with private sector participation.