



1. Project Data :
OEDID: L3102
Project ID: P006407
Project Name: Water Sector Project in the State of Sao Paulo
Country: Brazil
Sector: Urban Water Supply
L/C Number: Ln. 3102-BR
Partners involved :
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2. Project Objectives, Financing, Costs and Components :

Goals/Objectives: To: (i) optimize allocation of resources through better investment planning and marginal cost pricing, thus increasing SABESP's (Sao Paulo's water company) efficiency and financial health, and supporting Government's decentralization efforts; (ii) improve environmental and health conditions in Sao Paulo's urban areas by extending water supply service and waste water disposal; and (iii) develop new strategies to improve SABESP's ability to implement projects with high social importance.

Components: The following were the principal components: (i) construction of water supply schemes (to increase raw water supply and improve water treatment installations in the metropolitan Region), 2,000 km of water mains, storage reservoirs, and about 200,000 water connections, as well as improvements to water systems in 50 medium sized cities; (ii) construction of interceptor sewers, pumping stations, and sewage treatment in Sao Jose dos Campos, and construction/extension of sewage system in 19 cities and 50 small towns; and (iii) technical assistance for institutional development (to reduce unaccounted-for water and improve operational and commercial systems), a program to finance investments for municipal waste water pollution, and staff training.

Costs: (i) appraisal estimate US\$646.0 million; and (ii) actual US\$ 623.5 million.

Financing: loan of US \$280.0 million (equivalent) which was fully disbursed.

3. Achievement of Relevant Objectives :

Much of the stated project objectives were met. Physical components were installed under a slightly modified plan. SABESP's physical productivity increased as did financial efficiency, and environmental and health conditions improved. The economic rate of return (7%) was lower than anticipated (12%) at appraisal.

4. Significant Achievements :

Construction of water transmission and distribution pipelines exceeded projections. Similar results were achieved in improving water systems in medium cities and small towns, in construction of interceptors and sewage pumping stations, and expanding sewage systems in 19 cities and 50 small towns.

5. Significant Shortcomings :

The project was delayed three years (due initially to loan effectiveness issues and later to procurement problems), and some institutional goals were not met; most importantly, marginal cost pricing was not adopted. Unaccounted-for water increased from the pre-project level of 25% to over 40%, accounts

receivables increased, and tariff increases were delayed .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Marginally Satisfactory	Some policy and IDI goals were not met, and the project achieved lower than expected ERR.
Institutional Dev .:	Partial	Modest	
Sustainability :	Likely	Uncertain	Financial situation is weakened by the current pricing policy, and operational effectiveness was not improved .
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

7. Lessons of Broad Applicability :

The ICR presents many project-specific lessons that should have broader application (in areas such as sequencing of investments, realism of projections, and bundling of procurements) for project preparation and implementation in other countries as well. The following may also be noted: to ensure that IDI objectives are met, firm government commitment should be sought by securing agreement on key institutional steps as conditions of loan negotiations .

8. Audit Recommended? ☒ Yes ☐ No

Why? The project provides an interesting case for a complex and large scale program for policy reform, IDI, and physical investments from which important lessons be could learned .

9. Comments on Quality of ICR :

The ICR is satisfactory, presents key information accurately, and provides a sound basis for project rating . It is, however, a bit long (see ICR guidelines) and the Aide-Memoire and Borrower's contribution are missing. The plan of future operations is limited to general principles and does not cover monitorable operational indicators.