



<b>1. Project Data :</b>
<b>OEDID:</b> L3331
<b>Project ID:</b> P006646
<b>Project Name:</b> Second Valparaiso Water Supply and Sewerage Project
<b>Country:</b> Chile
<b>Sector:</b> Other Water Supply & Sanitation
<b>L/C Number:</b> L 3331-CH
<b>Partners involved :</b> OECF (Japan)
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<b>Date Posted:</b> 06/29/1998

## **2. Project Objectives, Financing, Costs and Components :**

**Objectives:** To: (i) improve sanitary conditions of streams, beaches and marine environment in Greater Valparaiso; (ii) optimise operation of existing water supply system and improve water supply conditions in the area by reducing water losses, creating uniform service pressure, and improving the water quality; and (iii) increase ESVAL's (Valparaiso WS&S company) operational efficiency and capacity to implement the development program.

**Components:** The project included: (i) sewerage and pollution control (50 km of trunks sewers, 10 km of secondary sewers, 4 pumping stations, and two preliminary treatment plants); (ii) water supply for Greater Valparaiso (new wells, 11 km of transmission mains, 2 treatment plants, 13 km of distribution pipes, and 15 storage reservoirs); (iii) institutional improvements (consumer surveys, technical co-operation with other companies, staff training, a development plan, and office and O&M equipment); and (iv) consulting services for engineering and supervision of works, monitoring of marine environment, and feasibility studies for the northern and southern parts of the region.

**Costs:** (i) appraisal estimate US\$ 141.5 million equivalent; and (ii) revised estimate US\$310.0 million (of which some US\$158.0 million was spent by the time of loan cancellation, see below).

**Financing:** (i) Bank loan of US\$50.0 million, of which US\$16.8 million was cancelled, -- ESVAL requested this cancellation six months before the scheduled project completion date; and (ii) cofinancing by OECF of US\$39.0 million (equivalent) of which only US\$1.4 million was disbursed.

*Note:* The loan was modified twice; *in May 1993*, to reflect OECF co-financing of the ESVAL's investment program (e.g. inclusion of the Aconcagua Valley system), and *in November 1994*, to reallocate loan proceeds to also cover the supply of materials under various works contracts.

## **3. Achievement of Relevant Objectives :**

*Physical objectives:* Project implementation faced serious delays due to major contract disputes, engineering issues related to one main collector sewer, and mobilization problems with the OECF funded works. About 30% of the water system sub-components and most of the sewerage sub-components were completed, with one notable exception for the problematic main collector, still under construction.

*Institutional objectives:* Consumer survey, environmental monitoring study (partially), and the procurement of O&M equipment were completed.

## **4. Significant Achievements :**

Despite other project implementation problems, ESVAL's technical and financial indicators have remained at or above appraisal targets and its operational performance is satisfactory. It is noteworthy to

mention the positive achievements in areas such as water conservation (including unaccounted-for water), staffing, accounts receivable, and return on assets, all showing improvements during project implementation.

#### 5. Significant Shortcomings :

*Physical:* 70% of the designed water system was not implemented. The borrower incurred procurement problems, difficulties with municipalities in the service area, and technical problems (in using trench-less technology for construction of collector sewers). These problems caused delays, disputes with contractors, and significant cost over runs. *Institutional:* important technical cooperation and staff training activities were not implemented at all.

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome :</b>	Unsatisfactory	Unsatisfactory	
<b>Institutional Dev .:</b>	Partial	Modest	
<b>Sustainability :</b>	Likely	Likely	After loan closing, the progress on unfinished components has been good, technical and financial indicators are satisfactory, and its overall O&M performance shows a positive trend .
<b>Bank Performance :</b>	Satisfactory	Unsatisfactory	Although project appraisal was largely satisfactory, supervision was spotty and failed to deal with major issues in a timely manner.
<b>Borrower Perf .:</b>	Satisfactory	Unsatisfactory	Implementation was generally poor, some studies and staff training were left incomplete, and critical staff changes weakened the management.
<b>Quality of ICR :</b>		Satisfactory	

#### 7. Lessons of Broad Applicability :

- This project reinforces the case for importance of sound preparation of all components prior to project appraisal . In addition, an approach for tackling the risks in a complex project as this one should be agreed upon at the outset .
- When a project gets into serious problems early in its implementation, a comprehensive review (e.g. at mid-term) should be carried out to determine the most feasible course of action, including radical curtailment of the project scope or cancellation of the loan as an ultimate solution .

8. Audit Recommended? ☐ Yes ☒ No

#### 9. Comments on Quality of ICR :

The ICR provides the information necessary for an assessment and rating of the project . The supporting tables are adequately detailed. The ICR is, however, a bit long (see ICR guidelines), but details on future operations are missing.