



## 1. Project Data

**Project ID**

P119694

**Project Name**

PA Metro Water and Sanitation Improvemen

**Country**

Panama

**Practice Area(Lead)**

Water

**L/C/TF Number(s)**

IBRD-78770

**Closing Date (Original)**

30-Sep-2015

**Total Project Cost (USD)**

55,000,000.00

**Bank Approval Date**

18-May-2010

**Closing Date (Actual)**

30-Jun-2017

**IBRD/IDA (USD)**
**Grants (USD)**

Original Commitment

40,000,000.00

0.00

Revised Commitment

24,550,669.12

0.00

Actual

24,550,669.12

0.00

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## 2. Project Objectives and Components

### a. Objectives

The objective of the project was "to assist the Borrower in increasing the quality, coverage and efficiency of its water supply and sanitation services in the lower income neighborhoods of selected areas of Panama Metropolitan Region (PMR)" (Schedule 1, Loan Agreement page 6).

The statement was consistent in both the Project Appraisal Document (PAD) and the Loan Agreement.



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

No

**c. Will a split evaluation be undertaken?**

No

**d. Components**

**Component 1:** Water Supply and Sanitation Service (WSS) Improvements in Lower Income Neighborhoods (Appraisal Estimate US\$30.0 million, Actual US\$7.9 million)

Following the design of WSS solutions based on a participatory approach, the provision of support, including therein civil works and technical services, in relation to:

- The development of a WSS master plan for selected areas of PMR, including all pertinent studies and assessments needed in that respect.
- The underlying assessment for, researching about, and ensuing development of, a proposal for adapting the National Water and Sewer Agency (IDAAN) commercial practices and technical procedures to lower income areas and the carrying out of assessments and studies to determine constraints to lower income household sanitation connection rates.
- The preparation of engineering designs and related bidding documents for the commissioning of works in accordance with the implementation strategy set forth in the WSS master plan.

**Component 2:** Modernization of Water Supply and Sanitation System in the National Water and Sewer Agency's (IDAAN's) Colon Business Unit (Appraisal Estimate US\$20.0 million, Actual Cost US\$16.5 million)

Improving the efficiency and quality of WSS services in IDAAN's business unit of Colon through the provision of support in relation to:

- Increasing access to WSS infrastructure for about 7000 households in Colon.
- Improving existing WSS systems and urban drainage through, inter alia: (a) the rehabilitation of the Sabanitas water treatment plant; (b) the carrying out of studies leading to the design of adequate hydraulic solutions that subsequently allow the carrying out of works needed in respect of WSS system and urban drainage; (c) the development of a comprehensive master plan for integral sanitation and drainage systems.
- Enhancing commercial and operational efficiency, including through, inter alia: (a) the carrying out of pertinent studies and the implementation of related works and acquisition of related goods to ensure a reduction in water losses; (b) the strengthening of all of IDAAN's commercial life cycle activities in order to increase revenue collection, including through inter alia, maintenance of an updated customer billing database, meter installation campaigns, billing process enhancement, development of strategies to secure customer payment and improvement in customer services and clientele satisfaction, including, in connection therewith, the modernization of selected IDAAN's facilities, workshops and customer service centers.



- The management of water demand, through, *inter alia*, the carrying out of: (a) repair and retro-fitting of domiciliary installations; and (b) communication activities linked with demand management.
- The design and subsequent implementation of IDAAN's Colon Unit business communication strategy to raise customer awareness of IDAAN's social action policies.

**Component 3:** Institutional Strengthening and Project Management (Appraisal Estimate US\$5.0 million, Actual Cost US\$5.5 million)

Provision of support pertinent to ensure, *inter alia*, the carrying out of:

- Institutional strengthening activities through, *inter alia*: (a) the establishment and operation of a monitoring and information system for monitoring and evaluation activities and sound data collection processes to feed information pertinent to IDAAN's decision making; (b) the building of capacity in sector operational best practices and management enhancement for selected IDAAN staff and management personnel.
- Project management, monitoring, reporting, auditing and evaluation activities, including, *inter alia*, in respect of the implementation of Involuntary Resettlement Framework, Indigenous Peoples Planning Framework and Environmental Policy Framework, and the provision of training and capacity building in relation to said activities.

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

**Project Cost:** Total appraisal estimate: US\$55.0 million; actual cost US\$29.9 million

**Project Financing:** IBRD Specific Investment Lending (SIL)

SIL Original appraisal estimate US\$40.0 million; actual disbursement US\$24.5 million

**Borrower contribution:** Original appraisal estimate US\$15.0 million; actual disbursement US\$5.4 million

**Key Dates:**

Approval: 18 May 2010

Effectiveness: 9 August 2011

Restructurings:

- 4 April 2012 (modification of loan agreement to allow hiring of external fiduciary agent to accelerate implementation),
- 29 September 2015 (cancellation of US\$ 15.0 million of the loan amount, extension of the project closing date, funds reallocation among disbursement categories, and revision of results framework),
- 9 November 2015 (funds reallocation among disbursement categories)

Project Closing: 30 June 2017 (original date 30 September 2015)



### 3. Relevance of Objectives & Design

#### a. Relevance of Objectives

The project directly supported the Government of Panama's (GoP) 2010-2014 strategic plan as well as the achievement of GoP's *metas imperdonables* ("no excuse" goals) Water Supply and Sanitation goals. Project design and Appraisal coincided with the election of President Ricardo Martinelli. The Martinelli Administration promised significant infrastructure investments and adopted a US\$13.6 billion strategic investment program for 2010 to 2014 aimed at reducing poverty and supporting economic growth. The program included almost US\$1 billion for WSS improvements. His administration established a series of *metas imperdonables* to measure progress transparently.

The GoP requested support from the World Bank, the Andean Development Corporation (CAF) and the Inter-American Development Bank (IADB) in its effort to extend access to water supply and sanitation (WSS) services, to strengthen and modernize IDAAN (Instituto de Acueductos y Alcantarillados Nacionales) and to reach the *metas imperdonables*. The World Bank was prepared to support the GoP in extending coverage to low-income neighborhoods thanks to the experience gained and the activities developed under the World Bank-financed "Panama Water Supply and Sanitation in Low-Income Communities Project" (ICR pages 2-3). At the time of Appraisal, a new Country Partnership Strategy (CPS) was being developed. The project directly supported the FY2011-2014 CPS's second pillar, "Greater Opportunities for All: Access to Water and Sanitation, Basic Health and Nutrition." Although the project was not anticipated in the 2007 CPS, the project also supported two of its pillars: (i) to reduce poverty and inequality; and (ii) to develop human capital. At the project's close this project continued to be a key part of the Bank's Country Partnership Framework (CPF) for Panama (2015-2021) as "Objective 5: Improve access to water and sanitation services". The CPF (paragraph 86) also mentions this project's objective to deliver improved access and more capable institutions able to ensure reliability and financial sustainability of service provision.

#### Rating

Substantial

#### b. Relevance of Design

The project's results framework in the PAD (Annex 3) was not helpful in explaining the project's design because it was no more than a listing of objectives and indicators. It was therefore not clear what institutions were to be involved in achieving the project's outcomes. The description of the project's components included references to master plans, pertinent studies, development of proposals, increasing access to WSS infrastructure, increased revenue collection, and management of water demand and hence provided more information on the project's activities. There was, however, very little information on how the project's activities were designed to transform inputs into intermediate outcomes and final outcomes. This shortcoming may have undermined the project's implementation from the start. The ICR (paragraph 39) referred to the restructuring of the results framework but the changes were focused on changes in the indicators and not on the structure of the framework



According to the ICR (paragraph 19), the project's design was "conservative in respect to institutional modernization activities", given IDAAN's limited capacity. IDAAN was implementing a Bank project for the first time and its institutional capacity building was carried forward from a previous Bank project. As per the ICR, during the design phase, the GoP demonstrated commitment to the project and the sector. The project was the result of a direct request to the World Bank from the GoP and formed part of the GoP's plan to transform the WSS sector. However, the significant bottlenecks were faced by the project from outset related to contracting, implementation arrangements, and project roll out.

**Rating**  
Modest

#### 4. Achievement of Objectives (Efficacy)

##### **Objective 1**

##### **Objective**

Assist the Borrower in increasing the quality, coverage and efficiency of its water supply and sanitation services in the lower income neighborhoods of selected areas of Panama Metropolitan Region (PMR).

##### **Rationale**

The project did not improve the quality, coverage or efficiency of water supply or sanitation services in Panama City's Metropolitan Region (PMR). Therefore, according to the evidence and narrative provided in the ICR, the project's outcome in Panama City's Metropolitan Region (PMR) was negligible. Although four works packages were begun under the project, none of the works reached a level of completion that permitted the population to see benefits (ICR paragraph 57). There was no information on achievements available in lower income neighborhoods in the PMR.

Regarding Colon, the ICR reports that the project made some progress towards achieving the objective of improving the quality, coverage and efficiency of WSS services - reporting that the quality of water supply service improved by increasing continuity (percentage of time in a 16 hour day during which the average water delivery pressure was above 14 pounds per square inch) from 13 percent to 71 percent (ICR, paragraph 55), which fell short of the target of 98 percent (ICR Table 2). The project extended piped water service to 2,115 households (just over one percent of Colon's population, as reported in paragraph 55 of the ICR). The one percent increase was not a significant achievement. Nevertheless, in terms of rehabilitated household water connections, the reported achievement was 12,500 households against a target of 10,500 households. In the circumstances these were substantial results. The ICR also reports improvements in the operational and commercial efficiency of IDAAN's Colon regional office.

Despite explanations received from the Bank project team IEG found no evidence in the ICR regarding the efficacy of water supply improvement in lower income neighborhoods in Colon. The efficacy of improving the quality and coverage of water supply services in Panama city and Colon was rated negligible. Hence, overall, the efficacy of water supply investments in lower income neighborhoods was



negligible. The question of the efficiency of water supply services will be addressed in Section 5 of this Review.

With respect to sanitation services the ICR stated in paragraph 59 that "the project supported the development of a Storm water and Drainage Master Plan for Colon that is currently being implemented by Ministry of Public Works" using its own resources. The ICR elaborates adding that "implementation of part of the Plan under the Renovation Project will improve the quality of sanitation service in Colon in the future" but it concludes that "Although there were no concrete gains on the quality or coverage of sanitation services, the Colon Business Unit's commercial efficiency gains improved the overall efficiency of sanitation services in Colon". Finally, paragraph 59 also states that the "project did not result in any improvement in sanitation services in Panama City's Metropolitan Region". Hence, this Review concluded the efficacy of improved quality and coverage of sanitation services in Panama City and Colon was also rated negligible. The question of the efficiency of sanitation services will be pursued further in the next section.

**Rating**  
Negligible

## 5. Efficiency

During appraisal, benefits were expected from interventions in both Panama City and Colon, as well as from institutional strengthening activities in the National Water and Sewer Agency (IDAAN). The ICR presents the economic and financial analysis of the project at appraisal and as estimated at the project's close for Colon only in the ICR in Table 4. The analysis at the project's close was for water supply services only because there were no improvements in water supply or sanitation services in Panama City's Metropolitan Region, and no improvements in sanitation services in Colon.

**Efficiency of Investments Water Supply.** The internal rate of return (IRR) for the project estimated at appraisal for Panama City was 25% and for Colon 43% (ICR, Table 4). At the project's close, since none of the expected benefits in Panama City were achieved, none were estimated, and hence no IRR was reported for PMR in the ICR. On the other hand, for Colon, where limited benefits for water supply investments were achieved the ICR estimated an IRR of 23% (ICR, Table 4) based on "savings of operating costs from reductions in non-revenue water and customers' benefits resulting from water supply and quality improvement and decrease in rationing" as documented in the ICR along with a financial and sensitivity analysis in the ICR (Annex 3, paragraphs 11 to 27). Since the efficiency of this project's investments in water supply and sanitation in Panama City was arguably negligible and the efficiency of investments in water supply services in Colon were substantial, but negligible for sanitation, overall efficiency of investments in water supplies and sanitation, is rated by this Review as modest.

**Efficiency of water and sewer agency.** The assessment of the efficiency of IDAAN in Annex 3 of the ICR



is not good news for the institution. While IDAAN's operational and financial indicators at appraisal showed "poor performance" (Annex 3, paragraph 28) with water losses between 40 and 60 percent, its situation at the project's close was not much better. The ICR indicated that in 2016 IDAAN's "Balance Sheet shows that even though IDAAN's capital structure appears to be sound, as it consists of 86 percent capital and 16 percent liabilities, the debt has increased threefold. In 2010, liabilities were 57 percent of revenues, and by 2016 they were 30 percent higher than revenues. In 2016, liabilities to assets ratio was twice as much compared to 2010" (Annex 3, paragraph 35). Annex 3 also noted that water losses in 2016 were estimated at 25 percent at the then current water tariffs. On the other hand the ICR's main text (paragraph 68) stated that IDAAN's "overall water losses remained at levels as high as 47 percent, labor productivity decreased 12 percent, from 4.1 to 4.6 employees per 1,000 connections, and cost recovery went from 76 percent to 67 percent". It is clear that as an institution, IDAAN's efficiency had, according to a number of indicators, deteriorated significantly during implementation.

**Efficiency of project administration and implementation.** The cost of administration, implementation and institution building at appraisal was 9.1% but at the project's close it was 18.4%. While the ICR does not mention this considerable increase in the proportion of various overhead costs to total costs, it does mention that the "project suffered significant delays due to administrative inefficiencies in the development of terms of reference, the approval of plans, contract management and the roll out of the Enterprise Resource Planning System among other activities" (paragraph 69).

Apart from the substantial efficiency of investments in water supply services in Colon, the project did not achieve any reasonable level of efficiency in its water supply or sanitation investments or in the project's administration and implementation costs, nor in the important institution responsible for WSS services in Panama. The project's overall efficiency is therefore rated negligible.

## Efficiency Rating

Negligible

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 <input type="checkbox"/> Not Applicable
ICR Estimate		0	0 <input type="checkbox"/> Not Applicable

\* Refers to percent of total project cost for which ERR/FRR was calculated.

## 6. Outcome





The project encountered substantial difficulties achieving outcomes as described in detail in the Implementation section of the ICR (paragraphs 28-30) ranging from inadequate implementation arrangements, low performance of key contractors, and issues with IDAAN's capacity. Despite the substantial relevance of objectives, the project's design was rated modest, efficacy was rated negligible and the combined efficiency of investments and the institution responsible for water supplies and sanitation was also rated negligible indicating major shortcomings in the project's achievements. Hence the project's overall outcome is rated as unsatisfactory.

**a. Outcome Rating**

Unsatisfactory

## **7. Rationale for Risk to Development Outcome Rating**

The risk to the development outcome is high. The ICR mentions that the decision to not move forward with the Metro Agua II project just before the completion of this project (Metro Agua I) significantly increased the sustainability risks for the project's development outcomes. Additionally, the Colon Business Unit is highly dependent on IDAAN's central offices and has limited resources (both financial and human) to maintain the service quality gains achieved under Component 2 (ICR paragraph 74).

**a. Risk to Development Outcome Rating**

High

## **8. Assessment of Bank Performance**

**a. Quality-at-Entry**

The project's risk assessment in the PAD showed that the Bank's project appraisal team was well aware of IDAAN's capacity limitations in many aspects of the project's management. The team therefore included the formation of a staffed external project implementation unit (EPU) as a condition of effectiveness for the project along with the hiring of a technical advisor as loan covenant (paragraph 75) in order to strengthen project implementation capacity. Yet, the appraisal team underestimated several project risks, particularly those associated with the hybrid implementation arrangements and the lack of a clear line of responsibility at IDAAN. The hybrid approach of having a high-level EPU coordinating implementation with IDAAN's various and arguably weak departments diluted overall accountability for the implementation of the project (ICR, paragraph 75). In light of these significant shortcomings, the Bank's performance in terms of the project's quality at entry is rated moderately unsatisfactory.





### **Quality-at-Entry Rating**

Moderately Unsatisfactory

#### **b. Quality of supervision**

The Bank project team encouraged the use of a performance based contract in Colon, which was innovative for its time, and was combined with a grant from the Bank's Public Private Infrastructure Advisory Facility (PPIAF). However, overall the project met with serious implementation and project management issues, as well as problematic contracts (ICR paragraph 76) to which the Bank issued no objections. In addition, as also noted in paragraph 76 of the ICR, "Despite the serious implementation and project management issues, the supervision team maintained relatively high ratings for the project for the majority of implementation". In light of these unrealistic ratings assigned by supervision missions during the project's implementation (thus misinforming Bank management) the quality of Bank supervision had major shortcomings and is therefore rated unsatisfactory.

### **Quality of Supervision Rating**

Unsatisfactory

### **Overall Bank Performance Rating**

Unsatisfactory

## **9. Assessment of Borrower Performance**

#### **a. Government Performance**

Project implementation took place over the course of two presidential administrations, both of which prioritized water supply and sanitation, and the Ministry of Finance provided adequate counterpart budget (ICR paragraph 78). However, some shortcomings resulted from inefficient administrative procedures, especially in relation to approval of construction plans. For example, IDAAN's engineering department took over a year to approve key construction designs generated by the EPU. However, this was impacted by the hybrid implementation arrangements and project quality-at-entry (see section 8.a above), hence overall government performance is rated moderately satisfactory.

### **Government Performance Rating**

Moderately Unsatisfactory

#### **b. Implementing Agency Performance**

The coordination between the EPU and IDAAN's departments was weak overall. The hybrid approach of having a high-level EPU coordinating implementation with IDAAN's various departments diluted overall accountability for the successful implementation of the project (ICR paragraph 75). For example, the rollout of the ERP throughout IDAAN was not coordinated with the EPU, limiting the capacity of the EPU to make payments (ICR paragraph 79), resulting in significant delays and limiting overall implementation. Thus "the EPU faced a significant learning curve and challenges in coordinating implementation with IDAAN's central departments", and the performance of this implementation arrangement was rated moderately satisfactory.



### **Implementing Agency Performance Rating**

Moderately Unsatisfactory

### **Overall Borrower Performance Rating**

Moderately Unsatisfactory

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

### **a. M&E Design**

The ICR notes in paragraph 38 that the original PDO indicators faced shortcomings in that the PAD did not define what constituted a lower income neighborhood, and there was no PDO level indicator for efficiency (part of the PDO).

The implementation arrangements for M&E of the project consisted of the external project unit (EPU) that was responsible for collecting data and submitting semiannual project reports on the project's contracts, procurement, disbursement, financial status, outputs, beneficiaries and other relevant information. The M&E design also foresaw carrying out an ex-post evaluation survey to confirm final beneficiary numbers

### **b. M&E Implementation**

The project implementation unit, namely the external project unit (EPU) was expected to monitor and report on the project implementation. But, as noted in the ICR (paragraphs 30 and 41), the EPU was inexperienced and did not update the M&E framework until 2015 which was two years after the mid-term review and the year in which the project was originally supposed to close. As the ICR noted, "Several key indicators were also designed to be collected at completion. The supervision firms, especially the firm hired to oversee implementation of the performance based contracts (PBC), played a key role in collecting data on project progress" (paragraph 41). The PBC supervision firm also carried out satisfaction surveys in the benefitting communities.

### **c. M&E Utilization**

As mentioned above, M&E was critical to the success of the performance based contracts in Colon (Component 2). On the other hand, Components 1 and 3 indicators were not used systematically, given the low level of implementation (ICR, paragraph 42). The indicators for Component 2 were utilized to calculate the results-based payments to the consortium and to help IDAAN's Colon Business Unit determine the optimal operational strategy for the water network as well as awareness-building for better service delivery. Through M&E, the consortium and IDAAN also became aware of various factors outside their control that impacted the overall operational efficiency of the system. For example, the Panama Canal Authority (ACP, the main institution producing and selling drinking water to IDAAN) exercised complete control over the water flow from the Mount Hope water treatment plant to the system, limited the ability of the contractor and IDAAN



to achieve the target set for continuity of water supply at acceptable pressure (ICR paragraph 42).

## **M&E Quality Rating**

Modest

## **11. Other Issues**

### **a. Safeguards**

**Environmental Safeguards:** The project was categorized as level B and a partial Environmental Assessment was carried out in accordance with Operational Policy (OP) 4.01. The project was expected to enhance wastewater management and thus improve environmental health in public spaces. According to the ICR, "Potential negative impacts of the project included minor construction inconveniences and issues related to the capacity of the existing WWTPs to receive the additional wastewater". The project finished with a Moderately Unsatisfactory Environmental Safeguards compliance rating because (according to the ICR) the institution managing the project (IDAAN and the EPU) struggled to find a qualified specialist. Consequently, bidding processes began, and contracts were awarded without environmental management plans (paragraph 44). □□

**Social Safeguards:** With respect to social safeguards the ICR (paragraph 46) noted that although the exact location of the interventions had yet to be determined at design, the Involuntary Resettlement (OP 4.12) and Indigenous Peoples (OP 4.10) safeguards were triggered given the nature of the works and the likely presence of indigenous communities in the targeted areas. IDAAN prepared and disclosed an Involuntary Resettlement Framework (IRF) as well as an Indigenous People's Planning Framework (IPPF). In compliance with OP 4.10, IDAAN developed and applied an Indigenous Peoples Plan in three Guna communities in Colon. No resettlement took place over the course of the Project, but IDAAN had to purchase five terrains to carry out part of the works under Component One. However, by the time of project closing, the acquisition of these terrains had still not been completed (ICR paragraph 47).

### **b. Fiduciary Compliance**

**Financial management (FM):** According to the ICR (paragraph 48), IDAAN faced a significant learning curve in building its capacity to comply with Bank policy. At the outset of the project, financial issues were managed via IDAAN's Financial Department. The Bank task team advised IDAAN's problems were related to the dependence of the EPU on IDAAN's Central Departments - as discussed in paragraph 30 of the ICR, which highlighted the capacity and accountability issues of IDAAN namely that "the Project experienced delays as a result of IDAAN's unclear internal procedures and allocation of responsibilities. Moreover, coordination between the newly created EPU and IDAAN's central departments was weak, and the hybrid approach of having a high-level EPU coordinating implementation with IDAAN's various departments diluted overall accountability for the successful implementation of the Project".



**Procurement:** The project faced several issues with timely procurement as described in the ICR (paragraph 48-49). Challenges were associated with the use of fiduciary agent, as well as the back and forth between IDAAN and the EPU.

### c. Unintended impacts (Positive or Negative)

NA

### d. Other

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## 12. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Unsatisfactory	Unsatisfactory	---
Risk to Development Outcome	High	High	---
Bank Performance	Moderately Unsatisfactory	Unsatisfactory	Quality at Entry was rated moderately unsatisfactory and Quality of Supervision was rated unsatisfactory. In line with the OPCS/IEG harmonized guidelines the rating for Bank performance was rated unsatisfactory because overall outcome was rated unsatisfactory.
Borrower Performance	Moderately Unsatisfactory	Moderately Unsatisfactory	---
Quality of ICR		Substantial	---

### Note

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 ICR listed four lessons from the project of which three were regarded by IEG as potentially relevant to



other Bank-assisted projects. The three lessons in the ICR are re-arranged and presented below with some editing to emphasize their applicability beyond this project.

**1. High risk, transformational engagements with new clients require a willingness to take major steps to ensure the efficiency of existing implementing institutions over a significant period of time.** This project took a conservative, “pilot project” approach to strengthening an existing institution for project implementation assuming that the existing institution would mature and that a follow-up operation would be able to harness the existing implementing institution for a future more ambitious project. However, in this case IDAAN’s existing institutional weaknesses were chronic and not corrected which limited the effectiveness of the current project, negatively affecting the will of the GoP and the World Bank Country Management Unit (CMU) to support a follow-up project and ultimately, threatening the sustainability of this project’s outcome.

**2. The establishment of PIU to work with the institution responsible for the overall implementation of the project will not work unless clear lines of responsibility and accountability are established among the two.** In this project, the PIU’s lack of autonomy from IDAAN resulted in limited implementation and significant delays. IDAAN’s structural weaknesses essentially became project weaknesses which the PIU could not resolve.

**3. PBCs enable low capacity utilities to test innovative methods to transform the “way of doing business.”** For utilities that are fully occupied maintaining the status quo, the performance based contracts (PBC) model offers a solution to test and lay the groundwork for new methods of doing business. In the case of IDAAN, the PBC offered a method to not only rapidly improve service continuity in Colon but also shift the focus within the Colon Business Unit from infrastructure development to service enhancement. The PBC provided the Colon Unit with a concrete example of service-focused operation as well as the tools necessary (including key network data and a sectorization strategy) to “leapfrog” into this way of doing business.

IEG’s review of the project situation suggests the following additional lesson:

- **Timely and close monitoring and supervision of the project and honest reporting to Bank management on the project’s performance would pre-empt issues facing a project as they arise.** This is an oft repeated lesson but one that is particularly relevant for this project given the successive over-rating of the project’s performance by a series of Bank supervision missions.

#### 14. Assessment Recommended?

No

#### 15. Comments on Quality of ICR

The ICR was candid and presented interesting information such as a detailed account of the situation on the ground in Colon (e.g. paragraph 20 describing why Colon was chosen as a particular focus for this project), and there are detailed annexes (e.g. Annexes 2, 3, 8). The economic analysis of the water supply services was comprehensive. The financial analysis of IDAAN was important, well done and relevant. However the quality of the text was uneven. For example, the ICR’s summary of evidence of the impact of the project on



lower income neighborhoods was unclear, and the assessment of the efficacy and efficiency of sanitation in the two project areas was scattered among a number of paragraphs and lacked coherence. Finally, most of the lessons were useful and applicable to other Bank-assisted projects.

Overall the ICR quality was substantial.

**a. Quality of ICR Rating**

Substantial