

IEG ICR Review

Independent Evaluation Group

1. Project Data:		Date Posted :	07/19/2006	
PROJ ID:	P064064		Appraisal	Actual
Project Name:	Mine Township Services Project	Project Costs (US\$M)	38.0	41.0
Country:	Zambia	Loan/Credit (US\$M)	37.7	40.2
Sector(s):	Board: WS - Water supply (46%), Sewerage (39%), Solid waste management (14%), Health (1%)	Cofinancing (US\$M)		
L/C Number:	C3386			
		Board Approval (FY)		0
Partners involved :		Closing Date	12/31/2004	12/31/2005
Evaluator:	Panel Reviewer :	Division Manager :	Division:	
Keith Robert A. Oblitas	Kris Hallberg	Alain A. Barbu	IEGSG	

2. Project Objectives and Components

a. Objectives

To facilitate the completion of the privatization of Zambia Consolidated Copper Mines (ZCCM) by supporting the provision of efficient and reliable water supply services, wastewater services and solid waste management in five townships. And, specifically:

1. Introducing a performance based management contract that promotes private sector participation and commercialization.
2. Rehabilitating selected existing assets, undertaking necessary improvements, and introducing new maintenance systems.
3. Introducing cost reduction measures, a policy of cost recovery and demand management mechanisms .
4. Developing a longer term strategy to integrate the management of water, waste water and solid waste in the mine townships with those of the corresponding municipal townships in preparing options for enhanced sustainability .

b. Components (or Key Conditions in the case of Adjustment Loans):

A. A management contract and support to the implementing agency Asset Holding Company Mining and Municipal Services (AHC-MMS), and rehabilitation works through:

A (i) A **performance based Management Contract** with a private operator (Expected cost at appraisal US\$6.4 million; actual cost at completion US\$6.5 million) to manage operations and maintenance (O&M) and rehabilitation and collect user fees which were handed over to the AHC-MMS.

A (ii) **Production costs support and start -up funds** (Expected cost US\$7.6 million; actual cost US\$9.1 million) to finance equipment for the establishment of AHC-MMS and initial O&M of water and sanitation infrastructure .

A (iii) **Rehabilitation and repair funds** (Expected cost US\$19.2 million; actual cost US\$22.6 million) for works to improve water and sanitation systems .

A (iv) **Technical assistance support to AHC -MMS** (Expected cost US\$2.0 million; actual cost US\$2.0 million) to build the capacity of AHC-MMS through training and technical assistance, and to conduct a water resources management study.

B. HIV/AIDS (Expected cost US\$0.2 million; actual costs US\$0.2 million), An information dissemination and awareness program for workers, their families and the general community .

C. Support for preparation of permanent arrangements for urban services (Expected cost US\$2.6 million; actual cost US\$0.6 million) through a study of private sector options for water supply and sanitation, a solid waste management study, and project preparation of an Urban Development Project .

c. Comments on Project Cost, Financing, Borrower Contribution, and Dates

There was a one-year extension of the project period . In dollar terms the Credit increased due to the appreciation of

the SDR.

3. Relevance of Objectives & Design :

The relevance of the Mine Township Services Project was **Substantial**. Copper production is Zambia's largest foreign exchange earner and it was necessary to provide reliable and safe water and sanitation services to the townships providing labor for the copper mines. Potential private partners had advised the Government that such services were essential in order to attract their participation. More broadly, the Government's Public Services Reforms program aimed at making the delivery of public services more efficient and sustainable, with greater involvement of the private sector. The 1993-2003 CAS had "increasing access to basic services and direct poverty interventions" as one of its three strategic thrusts.

The project's design supported these overall objectives, targeting improvements in infrastructure, management of facilities and enhanced revenues, while studying management options for the future. The small HIV/AIDS component tackled a critical health hazard. The decision to use a private operator helped improve efficiency and is likely to have been more effective than a government managed program. However, a design shortfall was that the exit strategy was only partly considered at the time of project design.

It should, nevertheless, be recognized that there was, to a certain extent, a trade-off between expeditious project preparation (considered necessary for the rapid implementation of the strategic goal of privatizing the mining industry) and achieving a clear, agreed and up-front exit strategy for the WSS program. In the event, the priority was given to rapid project preparation, but this did have consequences regarding the development of the longer term strategy (Section 9, Lesson 1).

4. Achievement of Objectives (Efficacy) :

The overall efficacy of the project was **Substantial**.

The project's overarching goal - to facilitate the privatization of Zambia's copper mining sector through providing efficient and reliable water supply and sanitation (WSS) services - was **Substantially** achieved. Much better WSS services were provided through the project (refer to Objective 2) and the copper mining sector was privatized, an achievement for which an improved WSS service was a necessary accompaniment.

Objective 1 - to introduce a management contract that promotes private sector participation and commercialization - had **Substantial** efficacy. A private operator was contracted, and this facilitated significantly improved performance of the WSS systems and an increase in revenues to about 90 percent of O&M costs. While a positive cash flow sufficient to attract private investment in WSS services was not achieved, the strong focus on commercial objectives brought AHC-MMS to a much higher level of operational efficiency, with reachable prospects for further improvement to commercial viability.

Objective 2 - rehabilitating and improving the existing WSS systems and introducing new maintenance systems - had **High** achievement, and all of the related monitorable indicators were achieved. Amongst the improvements in performance were: unaccounted for water (UfW) fell from 58 to 26 percent, constancy of water supply increased from 13.5 hours/day to 17 hours, solid waste collection reached nearly 100 percent, all sewerage was treated, billings rose by 54 percent and the collection ratio improved from 55 percent to 82 percent.

Objective 3 - to introduce cost reduction, a policy of cost recovery and demand management - had **Substantial** achievement. Energy, chemicals and labor costs were reduced by about 25 percent, the principle of full cost recovery was established and revenues were improved to 90 percent of O&M costs.

Objective 4 - to develop a long-term strategy to integrate WSS between the mine townships and adjacent municipalities - is rated **Modest**. Studies were carried out, but a comprehensive longer-term strategy was only partially developed, and Government commitment was weak, especially regarding private sector participation.

(While not formally included in the project Development Objectives, the HIV/AIDS program was successful, with participation in the awareness program nearly five times the appraisal target.)

5. Efficiency :

Although performance indicators such as UfW improved by more than assumed at appraisal, the costs of rehabilitation were about 50 percent higher than the appraisal estimate. The recalculated ERR in the ICR is 12 percent, about the same as estimated at appraisal and probably only slightly above the opportunity cost of capital (the OCC is not specified in the ICR). This could be considered a modest ERR. However, improved WSS systems were necessary to achieve privatization of the copper sector. Thus, the project served a larger goal, with larger

benefits. In this broader perspective, efficiency could be considered **Substantial**.

6. M&E Design, Implementation, & Utilization:

A MIS system was established in AHC-MMS. This monitored all of the project's monitorable indicators and other performance indicators as well as financial, procurement and physical implementation status. The ICR has been able to cite data for all monitorable indicators, indicating that monitoring was systematic. Reporting was regular, tracking both project progress and utility operational and business indicators.

7. Other (Safeguards, Fiduciary, Unintended Impacts--Positive & Negative):

No such issues are reported in the ICR

8. Ratings:	ICR	ICR Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Institutional Dev.:	Modest	Modest	
Sustainability:	Likely	Non-evaluable	The effectiveness of the recently combined AHC-MMS and NWSC is still to be determined.
Bank Performance:	Satisfactory	Satisfactory	
Borrower Perf.:	Satisfactory	Satisfactory	Government performance was weak in a number of respects: inadequate effort to develop an exit strategy, slow provision of counterpart funds, and a one year delay in reappointing members of the regulatory agency. However, the implementing agency AHC-MMS and the private operator performed well and most project objectives were achieved.
Quality of ICR:		Exemplary	

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.
- ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

9. Lessons:

The project's main lessons relate to the vision, planning and preparation for institutional development subsequent to the project period - i.e. the "Exit Strategy" (Lessons 2 and 3 are derived from the ICR lessons):

- 1. Project design should be within an overall longer -term perspective for a sector's development.** The project was seen as a "transitional" project and the water supply and sanitation improvements had strategic importance as necessary in order to attract private interests to Zambia's copper mining sector, for which privatization was a strategic priority. In this situation, preparing the project without a clear exit strategy for after the project was probably justified, but involved risks. The exit strategy was to be prepared during the project, but, in the event, a clear path forward with stakeholder consensus only partially emerged. If time had been less pressing, a better approach would have been to devise and agree on the longer term objectives and institutional structures before or during project preparation.
- 2. (if the exit strategy had to be prepared during project implementation) the process /roadmap for determining the exit strategy should be clearly defined, key stakeholders should be involved throughout the process, the implementing agency should be given an appropriately strong mandate, and the Bank should be closely associated with the process and development of the strategy.** This process for preparing the exit strategy should be agreed and the mechanisms to take the process forward should be detailed out as part of project preparation and design.
- 3. Clearly defined tariff setting mechanisms and regulatory approvals are a key part of a utility commercialization program.** Tariff adjustment mechanisms and rules for regulatory interventions and approvals should be as clearly determined and as predictable as possible for the utilities and their customers. A long-term tariff adjustment formula should be considered, using clear and automatic adjustment criteria which could be reviewed on a three to five year cycle. The features of the mechanisms should be designed to maximally protect from political interventions.

10. Assessment Recommended? Yes No

11. Comments on Quality of ICR:

Exemplary. The ICR is concise yet informative. The text is complete, discusses the issues well, and is backed by facts and numbers. The lessons are particularly thoughtful and practical and are clearly presented .