



1. Project Data

Project ID P145578	Project Name MX Oaxaca WSS Sector Modernization	
Country Mexico	Practice Area(Lead) Water	
L/C/TF Number(s) IBRD-83860	Closing Date (Original) 31-Dec-2019	Total Project Cost (USD) 15,054,441.60
Bank Approval Date 06-Jun-2014	Closing Date (Actual) 31-Jan-2021	
	IBRD/IDA (USD)	Grants (USD)
Original Commitment	55,000,000.00	0.00
Revised Commitment	55,000,000.00	0.00
Actual	15,054,441.60	0.00

Prepared by Dileep M. Wagle	Reviewed by Fernando Manibog	ICR Review Coordinator Ramachandra Jammi	Group IEGSD (Unit 4)
---------------------------------------	--	--	--------------------------------

2. Project Objectives and Components

a. Objectives

The Program Development Objective (PDO) was to (i) “support the improvement of the institutional framework of the WSS sector of the Operation Implementing Entity; and (ii) improve the quality and sustainability of water supply service in Selected Urban Areas” (Loan Agreement, June 13, 2014, Schedule 1, p.6). This was identical to the wording of the PDO in the Program Appraisal Document, p.vii, with the exception that the “Operation Implementing Entity” was originally stated as “State of Oaxaca”. The PDO did not change in essence, with this modification.

For the ICRR, the PDO is parsed into the following objectives:



Objective 1 (PDO1): To support the improvement of the institutional framework of the WSS sector of the State of Oaxaca.

Objective 2 (PDO2): To improve (a) the quality and (b) the sustainability of water supply service in selected urban areas.

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

No

c. Components

The program scope, activities, and classification into Results Areas, as defined in the PAD, are given below.

Results Area 1: Modernization of the legal and regulatory framework of the WSS sector in the State: (estimated cost at appraisal US\$4.5 million; actual cost at completion - not reported in the ICR).

The indicative list of activities consisted of preparing revised versions of key legal and regulatory tools of the WSS sector's legal and regulatory framework, to align them with the Government of Oaxaca (GoO)'s vision for modernizing the sector, including (a) a WSS sector law and related regulations, (b) standard regulations for municipal or inter-municipal WSS service provision, (c) amendment of law creating the metropolitan water utility, SAPAO, submitted to Congress, and (d) CEA (the State Water Commission) and SAPAO organizational manuals and internal regulations. The activities under Results Area 1 were however not a prerequisite for the achievement of objectives under other results areas.

Results Area 2: Improvement of water services in Oaxaca Metropolitan Area: (estimated cost at appraisal US\$17 million, of which US\$8.5 million financed through the National Water Commission (CONAGUA)'s APAZU program for water supply and sanitation in urban areas; actual cost at completion - not reported in the ICR).

Program activities financed through CONAGUA's APAZU program were aimed at improving the quality and efficiency of water supply services in a selected service area (San Juan Chapultepec) of Oaxaca Metropolitan Area's water utility (SAPAO), covering 20 percent of SAPAO's total number of connections, serving 50,000 people through *inter alia*: (a) the rehabilitation of boreholes supplying the sector, (b) construction of interconnection between the boreholes and water treatment facility, and with main distribution lines, (c) construction of water treatment facility, (d) construction of transmission line from pumping station to storage tanks, (d) rehabilitation and construction of storage tanks, and (e) carrying out of WSS studies, preparation of bidding documents and works supervision.

Results Area 3: Improvement of water services in secondary towns: (estimated cost at appraisal US\$60 million, of which US\$30 million financed through CONAGUA's APAZU program; actual cost at completion - not reported in the ICR).

Program activities aimed at improving the quality of water supply services and the financial sustainability of the water utilities operating in 18 selected secondary towns located outside the Oaxaca Metropolitan Area. These selected secondary towns were made up of those with a population above 15,000 inhabitants and/or where CEA currently operated the systems. Participating water utilities accounted for about 50 percent of the total State urban population outside of the Oaxaca Metropolitan Area, and totalled some 600,000 beneficiaries. Activities would include (a) rehabilitation and extension of production, storage and



pumping systems, (b) rehabilitation, hydraulic optimization and sectorization of the water network, (c) rehabilitation of water connections, (d) installation of metering and pressure gauges, (e) update of network mapping and commercial systems, (f) improvement of accounting systems, and (g) undertaking WSS studies, preparation of bidding documents and works supervision.

Results Area 4: Improvement of WSS information in rural areas: (estimated cost at appraisal US\$2 million; actual cost at completion - not reported in the ICR).

Program activities consisted of establishing an information system designed to capture the status and sustainability of rural WSS services in the 1,130 localities with populations of between 500 and 2,500 inhabitants throughout the State, through (a) provision of information technology infrastructure and equipment, and carrying out training in the use of their systems, and (b) carrying out of data survey activities.

Technical Assistance (TA) Component:

A TA component, at a cost of US\$10 million, had been included in the program at appraisal. However, this was subsequently cancelled, as it was deemed ineligible for financing due to the Law on Financial Discipline of the Federated Entities and Municipalities. This resulted in a reclassification of the funds of this component to Result Areas 2 & 3.

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

Program cost: The estimated program cost at appraisal was US\$93.5 million.

Financing: IBRD financing for the program amounted to US\$55 million. At completion, actual disbursement was US\$15.05 million.

Borrower contribution: At appraisal, the contribution from the APAZU program of CONAGUA, was planned at US\$38.5 million. At completion, the actual contribution from the borrower was US\$22.37 million.

Dates: The project was approved on June 6, 2014. It failed to become effective on schedule, on account of inconsistencies with existing Mexican legislation. This required a Level 2 restructuring, with changes in the Subsidiary Agreement between BANOBRAS (the Borrower) and the GoO (the Operation Implementing Entity), which was delayed on account of a change in administration of the State (the new administration taking more than a year to review the operation). The Subsidiary Agreement became effective in April 28, 2017, and the Amended Loan Agreement on May 9, 2017. The planned closing date of December 31, 2019 was extended to January 31, 2021. Actual closing took place on that date.

Mid-Term Review (MTR): A Mid-Term Review (MTR) was carried out in September 29, 2020.

Restructurings: The project underwent a Level 2 restructuring, resulting in changes being made to meet operational and fiduciary requirements in the Subsidiary Agreement between the National Bank of Public Works and Services (BANOBRAS) and GoO, to be consistent with the Mexican legislation. The changes included the following:

(i) Cancellation of the TA component (IPF) of the Program, on grounds that it was not deemed eligible for financing by SHCP due to the Law on Financial Discipline of the Federative Entities and Municipalities. Funds in this component were reallocated to Results Areas 2 & 3 of the PforR.



- (ii) A 13-month extension in closing date of the operation, to January 31, 2021, to make up for delays in effectiveness and implementation.
- (iii) Revisions/updates to the operation's Results Framework, DLI Matrix, Program Action Plan and legal covenants.

3. Relevance of Objectives

Rationale

Country and Sector Context: Mexico's economic growth remained flat throughout the two decades prior to appraisal, and significant regional disparities in poverty persisted. Notwithstanding a slight improvement in the GDP growth rate during 2010-12, progress towards poverty reduction remained moderate, so that an estimated 45 percent of the Mexican population lived below the poverty line. The poverty and economic gap between the best and worst performing states had widened during the prior two decades, with extreme poverty ranging from 2 percent in Nuevo Leon and the Federal District (Mexico City) to 32 percent in Chiapas and 23 percent in Oaxaca. As such, reduction of these disparities represented a key development priority for the country, reflected in Mexico's National Development Plan (2013-19), which prioritized the need to achieve greater inclusiveness through reduction in regional income disparities and greater shared prosperity via economic productivity, employment and infrastructure development.

At appraisal, Oaxaca ranked among the poorest states in Mexico, with a per capita income of around US\$2,750 in 2012 – the second lowest among the country's 32 States. Around 62 percent of its 3.8 million inhabitants lived below the national poverty line. In terms of WSS services, Oaxaca also ranked second lowest in the country in terms of drinking water coverage (79 percent) and last in terms of sanitation coverage (71 percent). Water quality was also a problem as only 15 of Oaxaca's 139 treatment plants were considered fully operational. The lack of potable water treatment, plus the intermittent nature of supply, meant that systems in Oaxaca were unable to deliver safe potable water, forcing users to purchase water from trucks, at higher cost.

The WSS institutional framework in the state was characterized by fragmentation, overlapping functions and a lack of policy direction and stewardship for service improvement. WSS service operations were largely subsidized and characterized by inefficiency and poor service. In the area of SAPAO's jurisdiction, tariffs covered only 25 percent of operating costs, and 75 percent in systems in secondary towns. Financing for WSS sector investments was unpredictable, depending mostly on federal programs that did not incentivize improvements in service.

Modernizing the WSS sector was a priority for the Government of Oaxaca (GoO). The state administration, starting a new 6-year term in 2011, had made institutional strengthening and modernization of the sector a priority, as embodied in State Development Plan (2011-16). In 2012, GoO adopted a Strategic Plan for the WSS sector, which set out an investment plan and objectives for the development of the sector. The current Program for Results (PfR) project aims at supporting the GoM to achieve its goals.

Alignment with National/state-level priorities and Country Partnership Strategy/Framework:



The development objectives of the program were aligned with the Federal Government's priorities and the World Bank Group (WBG)'s Country Partnership Strategy (CPS), 2014-19. The operation supported the priorities of the Government of Mexico (GoM), as reflected in the 2019-24 National Development Plan (NDP), which emphasized reduction of poverty and income inequality by reactivating the economy, including development of regional infrastructure programs in the south and south-east. The NDP also prioritized access to safe drinking water and sanitation, especially in States with the most vulnerable populations.

The objectives of the program were also fully consistent with the CPS, which prominently featured water and subnational engagement as one way to address the WBG's twin goals of ending extreme poverty and promoting shared prosperity. The program remained consistent with the WBG's Country Partnership Framework (CPF) for Mexico for FY20-25: in particular with Focus Area C, on "Enabling Sustainable Infrastructure and Climate Action", Objective 6 of which aimed to provide more inclusive and sustainable infrastructure services. It was also consistent with Focus Area B, "Strengthening Institutions for Public Finance, Service Delivery, and Economic Inclusion", which aimed at improving the management of public resources and strengthening institutions to deliver high quality, inclusive social services via the institutional strengthening of WSS services and efficiency in public spending.

Relevance of the PDO: Given the country and sector context, the PDO continues to be relevant in regard to the currently prevailing national/state level and CPF priorities. Oaxaca State ranked third in the country in terms of extreme poverty levels, with nearly 12 percent of the total national population living in extreme poverty, mainly in rural areas. The objectives were pitched at the right level to address the priorities of the GoO, in implementing WSS sector reforms.

Rationale for PforR Support: The PforR was considered an appropriate financial instrument to support the State's WSS sector program, as GoO was strongly interested in (a) improving the efficiency of its WSS program from the technical, fiduciary, environmental and social perspective in one of the poorest-performing sectors in the country at the time, (b) creating financial incentives for results achievement, thereby shifting the focus from expending resources to output/outcome achievement, (c) leveraging CONAGUA financing, using part of the proceeds of the loan as the State counterpart funds required to access CONAGUA financing. The Program design explicitly recognized certain institutional capacity constraints in Oaxaca to implement a results-based approach, as well as BANOBRAS's lack of experience with the PforR financing instrument. However, the instrument was seen as an opportunity to support a comprehensive WSS State reform program spearheaded by a committed State government, making use of an innovative approach which would help the State achieve the needed reforms whilst circumventing the various restrictions on external debt imposed at the Federal level.

Prior Bank involvement in the sector: Since 2011, the Bank had been engaged in supporting the GoO's reform agenda for inclusive growth through a strategic partnership. The GoO and the Bank signed a Memorandum of Understanding (MoU) in June 2011, which included multi-year, multi-sectoral support to the State, combining a package of knowledge, convening and financial services, to support a reform agenda for inclusive growth in the State and for modernizing its public institutions and policies. In 2013, the MoU was renewed for another two years.

Based on the above, and taking into account the institutional capacity constraints to implement the program, relevance of the PDO is rated Substantial.



Rating

Substantial

4. Achievement of Objectives (Efficacy)

Objective 1

Objective

“To support the improvement of the institutional framework of the State of Oaxaca”

Rationale

The Program was intended to support implementation of the GoO’s Strategic Plan for the WSS sector, with emphasis on improving the quality and sustainability of water utilities in the Oaxaca Metropolitan Area and selected urban areas across the State. The expected outcome of the PforR was the creation of a demonstration effect of modernization of the WSS sector and sustainable water services to further develop the sector and scale-up the approach and results.

Theory of Change (ToR)

The objective of modernizing the sector institutional framework would be achieved through the following activities: (i) Submission of the revised State Water & Sanitation Law to State Congress, which was a prerequisite for the revision of the key legal and regulatory tools that needed to be developed (based on the approved law); (ii) Operational tools for measuring performance indicators in the selected sectors of SAPAO and secondary towns; (iii) Establishment of a Rural WSS Information System; and (iv) Successful completion of a Rural & Urban Strategy, and a Public Expenditure Review (PER) for the WSS sector – which was to have been supported under the (subsequently cancelled) TA component.

Towards this end, the following DLRs were identified under Results Area 1, in the context of PDO1:

DLR 1-1(a) New State Water & Sanitation Law submitted to Congress.

DLR 1-2(a) Regulation of State Water and Sanitation Law prepared and published in the Official Gazette of the State of Oaxaca.

DLR 1-2(b) Standard regulation for provision of municipal water and sanitation services prepared.

DLR 1-2(c) Amendment of Law creating SAPAO submitted to Congress.

DLR 1-2(d) CEA’s internal regulation and organizational manual adopted and published in the Official Gazette of the State of Oaxaca.

DLR 1-2(e) SAPAO’s internal regulation and organizational manual adopted and published in the Official Gazette of the State of Oaxaca.

The key assumptions underlying the ToR included: (i) the institutional capacity of the GoO for coordinating program activities, monitoring results, and inter-institutional co-ordination (between SEFIN, CEA and SAPAO) (ii) planning & execution capacity of CEA and SAPAO, (iii) prompt implementation of activities to be financed by APAZU, and (iv) operational/commercial management of SAPAO and other utilities to achieve the service quality and sustainability goals of the Program. As a PforR, the Program also included a Program Action Plan (PAP), and Environmental and Social Management Manual, an Operations Manual, implementation and program management support, and Results-based Verification Protocols & Processes.

Outputs and Outcomes:



The outcome under PDO1 consisted of the implementation of a modernized sector institutional framework to support a comprehensive strategy, and the development of planning tools to consolidate a platform for the GoO to scale up the quality and sustainability of WSS services. Progress towards this goal was measured by three outcome indicators: (i) Key legal and regulatory tools prepared; (ii) Number of utilities decentralized (target set at 7); and (iii) Tools for the WSS sector in place and being used.

In terms of outcomes, PDO1 achieved most of its targets: (i) Key legal and regulatory tools were almost fully achieved and a New State Water and Sanitation Law was submitted to Congress. (ii) Only 1 out of the targeted 7 utilities was decentralized, though 18 out of 18 towns succeeded in developing programs of intervention of immediate impact for the WSS sector, along with mechanisms to measure performance indicators (which however – though developed – were not implemented by the time of Program closing). The Rural and Urban WSS Information System and the Rural and Urban Strategy and Public Expenditure Review for the WSS sector (both, intermediate indicators), which were among the tools to improve the performance of the WSS sector, were not actually put in place. However, as seen from the ToC, these were activities that were to have been funded by the TA component that was cancelled, and can be considered to be non-DLI Program activities.

Table 1 shows the achievement of specific Program results for PDO1 under the relevant Results Areas:

Table 1 – Achievement of Program Results for PDO1

Indicator Name	Target Value	Achieved Value	Achieved (%)	DLR#
Improvement of the institutional framework of the WSS sector	Yes	No		-
Results Area 1: Modernization of the legal and regulatory framework of the WSS sector in the State				
New State Water & Sanitation Law submitted to Congress	Yes	Yes	100%	DLR 1-1(a)
(a) Regulation of State Water and Sanitation Law prepared and published in the Official Gazette of the State of Oaxaca	Yes	No	0%	DLR 1-2(a)
(b) Standard regulation for provision of municipal water and sanitation services prepared	Yes	Yes	100%	DLR 1-2(b)
I Amendment of Law creating SAPAO submitted to Congress	Yes	Yes	100%	DLR 1-2I
(d) CEA’s internal regulation and organizational manual adopted and published in the Official Gazette of the State of Oaxaca	Yes	No	40%	DLR 1-2(d)
(e) SAPAO’s internal regulation and organizational manual adopted and published in the Official Gazette of the State of Oaxaca	Yes	Yes	100%	DLR 1-2(e)
Results Area 3: Improvement of Water Services in secondary towns				



Improvement of information: Number of selected water utilities with an approved program of interventions of immediate impact	18	18	100%	DLI 3-1
Results Area 4: Improvement of WSS information in rural areas				
Improvement of information: Percentage of localities in priority segment with information integrated in Rural WSS System	100%	11.7%	11.7%	DLI 4-1

As seen from the table, the institutional reforms achieved under PDO1 were significant, these instruments increasing the capacity of CEA and SAPAO to manage the sector and provide improved WSS services. Key among these was the development of a set of WSS laws and related regulations for municipal and related WSS service provision, as well as the organizational manuals and internal regulations of these institutions – all of these contributing to the goal of modernizing the State’s institutional framework. Mainstreaming of these legal and regulatory instruments into the WSS sector framework provided an important foundation for longer-term sustainability and strengthening of the governance systems of these institutions. Based on the above, the efficacy of PDO1 is rated **Substantial**.

Rating
 Substantial

Objective 2

Objective

"To improve (a) the quality and (b) the sustainability of water supply service in selected urban areas".

Rationale

Criteria for assessing improvements in water service quality under the Program included: (i) The provision of continuous water service from SAPAO in the San Juan Chapultepec sector of the Oaxaca Metropolitan Area (representing 20 percent of SAPAO’s total number of connections) and (ii) the provision of services with improved continuity in the secondary towns. As regards the sustainability of water supply services under the Program, in Oaxaca Metropolitan Area, this related to utilities providing service whose commercial efficiency equaled or exceeded 90 percent, and - in secondary towns - utilities whose revenues were greater than their operating expenses. Improvements in quality and sustainability under PDO2 would be assessed through a combination of DLIs (for Results Areas 2 and 3), as listed in Section 3 (b), and DLRs – as listed below (under Results Area 2):



DLR 2-1 (i) (a) Preparation of the technical dossiers (*Expendientes Tecnicos*) for the rehabilitation and/or construction of the selected sector’s macro and micro distribution systems.

DLR 2-1 (ii) (b) Construction of the selected sector’s macro distribution

DLR 2-1 (iii) (c) Percentage of active users with continuous service in the selected sector

DLR 2-2 (a) Commercial efficiency in the selected sector

Outputs and Outcomes:

Outcomes achieved under Objective 2 fell short of targets. As regards improvements in the quality of water services, the Program reached some 331,564 direct beneficiaries, or slightly over half the target number of 650,000 people receiving improved services. Inhabitants of Oaxaca Metropolitan Area accounted for 56,279 of these beneficiaries, while the 18 selected secondary towns accounted for 275,285. As regards sustainable services, the Program did not reach commercial efficiency in the selected San Juan Chupultepec sector, and only two water utilities in the selected secondary towns met the target of achieving service revenue greater than their operating expenses.

Table 2 shows the achievement of specific Program results for PDO2 under Results Areas 2 and 3:

Table 2 – Achievement of Program Results for PDO2

Indicator Name	Target Value	Achieved Value	Achieved (%)	DLR#
People in urban areas provided with sustainable and improved water service quality under the Program	650,000	331,564	51%	
Results Area 2: Improvement of Water Services in Oaxaca Metropolitan Area				
Improvement of service quality	Yes	No	60%	DLI 2-1
a . Preparation of the technical dossiers (<i>Expendientes Tecnicos</i>) for the rehabilitation and/or construction of the selected sector’s macro and micro distribution systems	Yes	Yes	100%	DLR 2-1 (i)
a . Construction of the selected sector’s macro distribution	Yes	Yes	100%	DLR 2-1 (ii)
a . Percentage of active users with continuous service in the selected sector	100%	33%	33%	DLI 2-1 (iii)
Commercial efficiency in the selected sector	90%	0%	0%	DLR 2-2 (a)
Percentage of samples tested complying with bacteriological, residual chlorine, iron, manganese, color parameters of the drinking water norm in the selected sector	100%	0%	0%	
Results Area 2: Improvement of water services in secondary towns				



Number of selected water utilities with improved service continuity	18	1	5.56%	DLI 3-2
Number of selected water utilities whose service revenue is greater than their operating expenses	18	2	11%	DLI 3-3

Results Area 2 saw partial achievements, contributing to the achievement of PDO2 (a). According to IVA verification cycles, all technical design documents were prepared, and construction of all three components of the macro-sector distribution of San Juan Chapultepec were built and became operational. SAPAO carried out the construction, rehabilitation and modernization of the distribution system, with extensions of the system to the highest parts of macro-sector area, where only tanker trucks were able to distribute water to meet demand from the residents. The pressure in the networks for delivery of the service also increased with greater efficiency. Substitution of household taps also took place – which was one of the main components of the network where non-revenue water was found. These actions together did substantially benefit the 56,279 inhabitants of the San Martin Mexicapam, Montoya and San Juan Chapultepec agencies, of the Municipality of Oaxaca de Juárez. As regards PDO2 (b), only a third of active users were receiving continuous service. It was moreover not possible to measure commercial efficiency (i.e. income by amount of service billed) at Program closing, on account of the fact that services had just commenced at the time (which also affected the testing of water quality) – hence, this indicator was not met.

As regards the goal of achieving improvement of water services in secondary towns, the number of utilities that achieved improved service was negligible (1 utility out of 18). The goal of improving service sustainability (measured in terms of utility service revenues in excess of operating expenses) was also negligible (2 out of 18).

Based on this, the efficacy of PDO2 is rated **Modest**.

Rating
 Modest

Rationale

Overall Efficacy Rating

5. Efficiency



Efficiency Rating

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

With efficacy rated Modest, but Relevance rated Substantial, the overall outcome rating is assessed as Moderately Unsatisfactory. The Program did make some important contributions to the Improvement of the WSS sector, despite several shortcomings.

a. **Outcome Rating**
 Moderately Unsatisfactory

7. Risk to Development Outcome

Political risks: This risk is assessed as Low. As a marginalized State in Mexico, Oaxaca is a priority region for the Federal Government, which has been providing substantial financial resources to the water sector there. The multi-year Strategic Plan adopted by the State in 2012 continues to be relevant today, and the PforR operation has supported strategic interventions from that Plan. Water will almost certainly be a continuing priority for the State and Federal governments, and the new National Water Plan (2019-24), highlighting access to water and sanitation as a human right, suggests that support to this sector in the most marginalized States will continue in the foreseeable future.

Institutional risks: This risk is assessed as Moderate. Under the PforR, CEA and SAPAO have been strengthened and their technical and managerial capacity to implement provision of service in an efficient and sustainable manner has improved. If a reluctance to embrace the modernization process of the WSS sector does arise in the future, this could affect the development outcome. Participating institutions (not only CEA and



SAPAO, but also relevant municipalities and water utilities) are being encouraged to change the way in which they deliver and regulate services – shifting the focus from the mere construction of infrastructure to service delivery – and this momentum needs to continue in future. In addition, the legal autonomy of service providers will also need to be extended, and water tariffs may need to be increased in due course.

8. Assessment of Bank Performance

a. Quality-at-Entry

The strategic relevance of approach was sound and the Program was well aligned with the priorities of the State government and of CONAGUA for the modernization of the WSS sector in Oaxaca. The design of the Program incorporated financial incentives necessary to link infrastructure outcomes, plus financial and service performance to disbursements, and to expand access to WSS services across the State. The M&E systems and verification protocols were designed at appraisal to incorporate the measurement tools and to strengthen the institutional capacity needed to monitor Program results. However, the Program design did not foresee the legal and fiduciary complications that would arise on account of an inconsistency between the disbursement mechanisms and the Mexican Federal Laws and its regulations, which led to a delay in the effectiveness of the sub-national loan between Oaxaca State and BANOBRAS, and a suspension of activities for nearly two years to process a restructuring of the operation. In this sense, the quality-at-entry fell short of ensuring that the legal and fiduciary framework for the PforR was in place to accommodate the approach at the sub-national level. This eventually impacted the Program's performance, not only on account of the delay but also because the cancelled TA component was important to providing the necessary strategic and oversight support to SAPAO and CEA (and other water utilities) in intermediate cities, ultimately impacting the achievement of planned development outcomes.

Quality-at-Entry Rating

Moderately Unsatisfactory

b. Quality of supervision

The Bank team conducted 13 supervision missions between 2014 and 2021. The ICR reports (p.27) that the team had a good rapport with counterparts, and had a good understanding of the sector issues and conditions surrounding the operation. Additionally, there were no changes in team leadership during the initial four years of the operation and the team made efforts to maintain a good sector dialogue, pressing for action on lagging activities and while simultaneously showing flexibility and adaptability given the implementation challenges faced. During implementation, the Bank provided quality support and strategic advice on the most challenging technical, management issues, along with good coordination with counterparts.



That said, a key shortcoming of the Bank’s approach was the failure to restructure the Program earlier, to reflect the institutional weaknesses and political economy constraints that arose in the initial years of implementation. Also, during restructuring, a re-evaluation of the targets for the proposed for DLRs would have been appropriate. This would be especially helpful for targets relating to PDO2 (improvement of quality and sustainability of WSS services), in particular for those relating to improvements in commercial efficiency – which many of the service providers found difficult to attain. Although advances were made under the various results areas, overall, the full set of results underpinning progress under the Program was substantially delayed. The absence of the TA component impacted the overall performance of the PDO and DLIs dependent on TA support.

Quality of Supervision Rating

Moderately Unsatisfactory

Overall Bank Performance Rating

Moderately Unsatisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

Strengthening of the GoO's M&E system for the WSS sector was a key objective under the project. The quality of M&E systems was originally significantly deficient, especially in the rural areas, where no consistent mechanisms existed to monitor service access and sustainability. The Program helped set up measurement tools to monitor the improvement in service quality and sustainability data in both urban and rural areas. This was accompanied by steps to strengthen the institutional capacity to monitor results and consolidate data at municipal and State level, and for the purposes of the PforR, prepare the proper reporting and monitoring of results-based indicators to request disbursements.

For the PforR, the various DLIs, two PDO indicators and four intermediate indicators had to be tracked and reported annually, providing meaningful metrics for implementing agencies to monitor relevant Program outputs. The verification protocols for the objectives were consistent with Bank procedures, and DLIs were clearly defined, measurable and defined in the Project Operations Manual with detailed sustainability requirements.

b. M&E Implementation

The Program’s results verification was intended to review and validate the fulfillment of disbursement linked indicators. The IVA, a firm specializing in technical audits, hired by the Secretary of Finance, carried out the verification and accreditation of results (ICR, p.24).

c. M&E Utilization



a . M&E Utilization

The verification of results carried out by the IVA provided the basis of which pre-determined disbursements in the matrix of DLIs could take place. The IVA undertook the technical audit of compliance with the DLIs during the four years of Program execution, to qualify CEA and SAPAO access to Program resources. Although the disbursement process suffered significant delays related to the restructuring, the IVA nevertheless performed the verifications from 2017 to 2021, following the protocol established in the Project Operations Manual. On account of the Covid-19 pandemic, and the disruptions resulting, the final verification cycle took place in December 2020.

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

Environmental and Social Safeguards

An Environmental and Social Systems Assessment (ESSA) was prepared, according to OP 9.00, during program preparation (PAD, p.18). The draft ESSA was disclosed to the public in December, 2013, and a public consultation held in January, 2014. The final version of the ESSA was disclosed on the GoO and World Bank websites.

The potential negative environmental impacts associated with the Program ranged from low to moderate at appraisal, being limited to the civil works sites and would be mitigated with standard measures (PAD, p.19). The Program did not contain activities that would involve severe adverse impacts considered to be permanent or cumulative, as defined in OP 9.00, and Program sub-projects would be screened by CEA and SAPAO to ensure compliance. The ICR reports (p.25) that during implementation, CEA Operators, the Program Management Company (PM) and SAPAO successfully implemented the social management strategies that were duly embedded in the Program Action Plan (PAP) and Program Operational Manual (POM). A variety of measures were adopted, including the institutionalization of Social Management and Citizen Engagement activities in SAPAO's operations, social management schemes implemented by CEAS in 8 projects in 6 municipalities, and the hiring by the PM of a Regional Coordinator and a social specialist in each of the five regions covered by the operation. SAPAO and CEA both had a Grievance Redress Mechanism (GRM) in place, with slight differences according to their institutional arrangements.

The Program's environmental risk was raised from Moderate to Substantial at the time of closing, on account of CEA's lack of technical capacity for EHS management. In 2019, CEA hired a company specialized in environmental management to carry out this part of its Program works (implementation of the ESM Framework, training of personnel at all levels in CEA, preparation of environmental compliance reports, etc.). In 2020, the Covid-19 pandemic brought along some previously unforeseen obstacles to supervision and development of activities, affecting suppliers and service providers, whose non-compliance



caused further delays in works and deficiencies in some aspects of EHS. Minor non-compliances were detected but resolved promptly by contractors through implementation of specific action plans.

b. Fiduciary Compliance

Financial Management (FM): The ICR reports (p. 26) that FM compliance was generally moderately satisfactory throughout the implementation period. Moderate shortcomings were observed, mostly in relation to delays in Program budget allocation during the early stages of program implementation.

The Program's interim unaudited financial reports were submitted with minor delays, though deemed acceptable by the Bank. The external financial audits conducted for the Program were generally submitted to the Bank on time and were deemed acceptable. The audit reports as on December 31, 2018 and January 31, 2021, did include qualified opinions, as the independent auditors found constant delays in execution of works under the Program, as well as several incomplete works. These findings were consistent with the low execution and disbursement progress achieved by the Program.

Procurement: The ICR reports (p. 26) that the PforR's procurement design was consistent with the results and selected instruments. During implementation, all procurement processes followed competitive methods, and there were no significant delays in implementation of contracts. Three procurement complaints were resolved per applicable regulation, while no complaints of fraud and corruption were received.

c. Unintended impacts (Positive or Negative)

N/A

d. Other

Gender: The ICR reports (p. 20) that the operation supported the inclusion – both in the legal and institutional frameworks – of incentives for increased female participation in decision-making. This approach was reflected in the POM, the GRM, as well as in the on-going gender strategies put into place by SAPAO and CEA. Additionally, as part of the Program's institutional modernization, activities included mechanisms to increase public participation and civil society engagement in the oversight of WSS operations. This included incentives provided to increase women's participation in water works committees, which – being intended to be fully representative of beneficiaries, successfully achieved 50 percent representation for women.

Poverty Reduction and Shared Responsibility: Given that Oaxaca was the State with the second-lowest GDP per capita in the country, the State was of high priority for Federal Government investment, with access to water being highlighted as a human right. The Program was similarly aligned with the WBG's twin goals of ending extreme poverty by 2030, and promoting shared prosperity among the poorest Mexicans. Operationally, the Program targeted 18 secondary municipalities, where 58 percent of the population lived below the national poverty line, who – for the most part – suffered disproportionately from the lack of quality in the supply of water. The progress made by the Program in improving the quality and



sustainability of water from public networks was likely to confer multiple benefits to this segment of the population.

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Unsatisfactory	Moderately Unsatisfactory	---
Bank Performance	Moderately Unsatisfactory	Moderately Unsatisfactory	---
Quality of M&E	Modest	Substantial	The M&E system put in place was adequate to measure Program results
Quality of ICR		Substantial	---

12. Lessons

The ICR (pgs. 29 to 30) lists a number of lessons from which IEG derives the following lessons that are relevant for similar projects implemented in comparable environments:

- 1. Program design needs to be closely aligned with the client's implementation capacity and readiness:** This was the first PforR to be implemented in Mexico, and only the third in the Latin America (LAC) region. Given the capacity level available to implement such an instrument at the subnational level, as well as the inherent complexity of the institutional arrangements needed to coordinate the fiduciary and financial mechanisms at State and financial levels, the Program would have benefited from a more thorough financial and fiduciary viability assessment to ensure that FM mechanisms and institutional frameworks were in place at appraisal. The key lesson arising is that, for PforR operations, the Bank needs to conduct a more rigorous due diligence process for operations where State-level capacity is uncertain or limited, and secondly, to ensure that on-lending arrangements and policy frameworks are conducive to the proposed instrument, confirmed by appraisal and possibly through a requirement framed as a condition of effectiveness.
- 2. In countries and/or States with limited implementation capacity, inclusion of a Technical Assistance component can play an instrumental role in ensuring the success of the PforR:** The multi-annual TA component originally included in the Oaxaca WSS PforR was important to ensuring strategic and oversight support. The cancellation of the component impacted the achievement of the Program's objectives, especially for those activities designed to support capacity-building and knowledge transfer within beneficiary institutions, such as the Rural WSS Strategy and the WSS Public Expenditure Review.
- 3. For PforR Programs, hiring of an IVA Verification Agent should be an effectiveness condition:** The hiring of the IVA Verification Agent was delayed by two years, on account of the initial delays in signing of operational documents and the need for amendments of the Subsidiary Agreement and the Operational Manual. This impacted the disbursement rate of the Program as no disbursement was able to process without going through a verification cycle by the IVA. Given that disbursements under PforRs are normally linked to the achievement of specific results, which call for independent verification, it would make sense to ensure that the



hiring of an independent agent for this task is made an effectiveness condition, so that delays in disbursement do not take place on this account.

4. A strong commitment of the State and Federal agencies is critical for the successful implementation of a subnational PforR operation. In the case of the Oaxaca WSS PforR operation, the GoO was able to mobilize some funds to meet a portion of the requirements of the cancelled TA component. Likewise, CONAGUA worked closely with the GoO to co-finance sub-projects and infrastructure investments, and to provide critical technical support. Despite facing the negative impacts of natural emergencies, such as earthquakes and the Covid-19 pandemic, the GoO and CONAGUA demonstrated a solid commitment to expedite implementation and meet the DLI targets on time.

13. Assessment Recommended?

Yes

Please explain

The project represents the Bank's first PforR operation in the WSS sector in Mexico. A review of the experience of the Oaxaca WSS Program could provide useful lessons that could guide subsequent PforR operations in the country, in the WSS or other sectors.

14. Comments on Quality of ICR

The ICR is well-written, clear, and candid, and generally complies with the relevant OPCS guidelines (except in regard to length, which may however be justified to some extent by the complexity of the operation). The ICR presents a clear theory of change with a good diagrammatic representation of the results chain from activities to outcomes. The analysis and conclusions are generally supported by evidence. One would however have liked to have seen a proper summary of cost allocations to the various results areas, as well as a summation of these costs at project closing - which would have been relatively easy to provide, since disbursements were clearly linked to results achieved for each of the results areas.

a. Quality of ICR Rating

Substantial