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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT PAPER

ON A

PROPOSED ADDITIONAL IDA GRANT

IN THE AMOUNT OF SDR119.8 MILLION
(US\$166 MILLION EQUIVALENT)

TO THE

DEMOCRATIC REPUBLIC OF CONGO

FOR THE

URBAN WATER SUPPLY PROJECT

FEBRUARY 3, 2016

Water Global Practice
Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective December 31, 2015)

Currency Unit = Congolese Franc (CF)
CF 925 = US\$1
US\$1.3857 = SDR 1

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AF	Additional Financing
AfDB	African Development Bank
CAS	Country Assistance Strategy
COPIREP	Steering Committee for the Reform of State-Owned Enterprises (<i>Comité de Pilotage de la Réforme des Entreprises du Portefeuille de l'État</i>)
DA	Designated Account
DCI	Ductile Cast Iron
DN	Nominal Diameter (<i>diamètre nominal</i>)
DRC	The Democratic Republic of Congo
EDP	Electronic Data Processing
EIRR	Economic Internal Rate of Return
EOPT	End-of-Project Target
ERP	Enterprise Resource Planning
ESMF	Environmental and Social Management Framework
ESMP	Environmental and Social Management Plan
FA	Financial Agreement
FM	Financial Management
GRS	Grievance Redress Service
IFR	Interim Financial Report
IO	Public Institutions (<i>Instances Officielles</i>)
km	kilometer
LSC	Local Steering Committee
m ³	Cubic meter
MC	Management Contract
M&E	Monitoring and Evaluation
MP	Ministry of Portfolio
O&M	Operation and Maintenance
NRW	Non-Revenue Water
PAD	Project Appraisal Document
PIM	Project Implementation Manual
PIU	Project Implementation Unit
PDO	Project Development Objective
PEHD	Polyethylene High-Density

PSP	Private Sector Participation
REGIDESO	The State Water Utility (<i>Régie de Distribution d'Eau de la République Démocratique du Congo</i>)
SC	Services Contract
SP	Services Provider
SPA	Settlement and Payment Agreement
SRP	Staff Restructuring Plan
SYSCOHADA	Accounting System of the Organization for the Harmonization of Business Law in Africa
UWS	Urban Water Supply
UWSP	Urban Water Supply Project
WTP	Water Treatment Plant

Regional Vice President:	Makhtar Diop
Country Director:	Ahmadou Moustapha Ndiaye
Senior Global Practice Director:	Jennifer J. Sara
Practice Manager/Manager:	Alexander E. Bakalian
Task Team Leader:	Madio Fall

DEMOCRATIC REPUBLIC OF CONGO

URBAN WATER SUPPLY PROJECT ADDITIONAL FINANCING

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ADDITIONAL FINANCING DATA SHEET

Congo, Democratic Republic of

DRC Urban Water Supply Project Additional Financing (P155266)

AFRICA

GWA07

Basic Information – Parent							
Parent Project ID:	P091092			Original EA Category:	B - Partial Assessment		
Current Closing Date:	15-Mar-2016						
Basic Information – Additional Financing (AF)							
Project ID:	P155266			Additional Financing Type (from AUS):	Scale Up		
Regional Vice President:	Makhtar Diop			Proposed EA Category:	B - Partial Assessment		
Country Director:	Ahmadou Moustapha Ndiaye			Expected Effectiveness Date:	31-May-2016		
Senior Global Practice Director:	Jennifer J. Sara			Expected Closing Date:	31-Dec-2018		
Practice Manager/Manager:	Alexander E. Bakalian			Report No:	PAD1542		
Team Leader(s):	Madio Fall						
Borrower							
Organization Name	Contact	Title	Telephone	Email			
Ministry of Finance	Henri Yav Mulang	Minister of State in charge of Finance	+243825852240	l@minfinrdc.com			
Project Financing Data - Parent (DRC Urban Water Supply Project-P091092) (in USD Million)							
Key Dates							
Project	Ln/Cr/TF	Status	Approval Date	Signing Date	Effectiveness Date	Original Closing Date	Revised Closing Date
P091092	IDA-H4350	Effective	18-Dec-2008	19-Jan-2009	03-Nov-2009	31-Mar-2014	15-Mar-2016
P091092	TF-92105	Closed	09-Jun-2008	13-Jun-2008	13-Jun-2008	30-Jun-2009	30-Jun-2009
Disbursements							

Project	Ln/Cr/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed
P091092	IDA-H4350	Effective	SDR	127.5	127.5	0.00	124.21	3.29	97.42
P091092	TF-92105	Closed	USD	0.08	0.07	0.01	0.07	0.00	100.00
Project Financing Data - Additional Financing DRC Urban Water Supply Project Additional Financing (P155266)(in USD Million)									
<input type="checkbox"/>	Loan	<input type="checkbox"/>	Grant	<input checked="" type="checkbox"/>	IDA Grant				
<input type="checkbox"/>	Credit	<input type="checkbox"/>	Guarantee	<input type="checkbox"/>	Other				
Total Project Cost:		166.00		Total Bank Financing:		166.00			
Financing Gap:		0.00							
Financing Source – Additional Financing (AF)								Amount	
BORROWER/RECIPIENT								0.00	
IDA Grant								166.00	
Total								166.00	
Policy Waivers									
Does the project depart from the CAS in content or in other significant respects?							No		
Explanation									
Does the project require any policy waiver(s)?							No		
Explanation									
Team Composition									
Bank Staff									
Name		Role		Title		Specialization		Unit	
Madio Fall		Team Leader (ADM Responsible)		Senior Water & Sanitation Specialist				GWADR	
Pierre Francois-Xavier Boulenger		Team Member		Senior Water & Sanitation Specialist		Water Supply		GWADR	
Isabella Micali Drossos		Counsel		Senior Counsel		Legal		LEGAM	

Faly Diallo	Team Member	Finance Officer	Financial Operations	WFAFO
Richard Verspyck	Water & Sanitation Specialist	Consultant	Economics and Finance	GWADR
Ernestina Attafuah	Team Member	Senior Program Assistant		GWADR
Aissata Zerbo	Team Member	Senior Procurement Specialist	Procurement	GGODR
Lanssina Traore	Procurement Specialist	Senior Procurement Specialist	Procurement	GGODR
Bella Lelouma Diallo	Financial Management Specialist	Senior Financial Management Specialist	Financial Management	GGODR
Lucienne M. M'Baipor	Safeguards Specialist	Senior Social Development Specialist	Safeguards	GSURR
Abdoulaye Gadiere	Environmental Specialist	Senior Environmental Specialist	Safeguards	GENDR
Christelle Tandundu Epuza	Team Member	Team Assistant		AFCC2
Holiniaina Ranivohariniony	Social Specialist	Consultant	Citizen Engagement	GGO13
Francine KOHO TAKOY	Team Member	Team Assistant		AFCC2
Sylvie Ngo-Bodog	Team Member	Senior Program Assistant		GWADR

Locations

Country	First Administrative Division	Location	Planned	Actual	Comments
Congo, Democratic Republic of	Province de Kinshasa	Kinshasa	X		
Congo, Democratic Republic of	Province du Haut-Katanga	Lubumbashi	X		
Congo, Democratic Republic of	Province du Bas-Congo	Matadi	X		
Congo,	Province du Maniema	Kindu	X		

Democratic Republic of					
Institutional Data					
Parent (DRC Urban Water Supply Project-P091092)					
Practice Area (Lead)					
Water					
Contributing Practice Areas					
Cross Cutting Topics					
[] Climate Change					
[] Fragile, Conflict & Violence					
[] Gender					
[] Jobs					
[X] Public Private Partnership					
Sectors / Climate Change					
Sector (Maximum 5 and total % must equal 100)					
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %	
Water, sanitation and flood protection	Water supply	95			
Public Administration, Law, and Justice	Public administration- Water, sanitation and flood protection	5			
Total		100			
Themes					
Theme (Maximum 5 and total % must equal 100)					
Major theme	Theme	%			
Urban development	Urban services and housing for the poor	76			
Public sector governance	Other public sector governance	24			
Total		100			
Additional Financing DRC Urban Water Supply Project Additional Financing (P155266)					

Practice Area (Lead)				
Water				
Contributing Practice Areas				
Cross Cutting Topics				
[] Climate Change				
[] Fragile, Conflict & Violence				
[] Gender				
[] Jobs				
[X] Public Private Partnership				
Sectors / Climate Change				
Sector (Maximum 5 and total % must equal 100)				
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Water, sanitation and flood protection	Water supply	95		
Public Administration, Law, and Justice	Public administration- Water, sanitation and flood protection	5		
Total		100		
Themes				
Theme (Maximum 5 and total % must equal 100)				
Major theme	Theme	%		
Urban development	Urban services and housing for the poor	90		
Public sector governance	Other public sector governance	10		
Total		100		

I. Introduction

1. This Project Paper seeks the approval of the Executive Directors to (a) provide an additional grant to the Democratic Republic of Congo (DRC) in the amount of SDR119.8 million (US\$166 million equivalent) for the Urban Water Supply Project (Grant No. D1020) and (b) restructure the original project (UWSP, P091092, Grant No. H4350 (referred to as the original project)).

2. The proposed Additional Financing (AF) will help finance the costs associated with scaled-up activities to enhance the impact of a well-performing project. The proposal also includes a Level 1 restructuring, which will involve an extension of the project closing date and a revision of the project development objective (PDO) and the Results Framework.

3. The activities proposed to be funded under the AF are aligned with the current PDO *to increase sustainable access to water in selected urban areas and to improve the efficiency of the Project Implementing Entity (Régie de Distribution d'Eau de la République Démocratique du Congo, REGIDESO)*. The Government requested to add one city (Kindu) to the initial list of targeted cities (Kinshasa, Lubumbashi and Matadi). The PDO will be slightly amended to clarify the intrinsic linkage between the sustainability of the water services and the sustainability of the utility that delivers them, as follows: to increase access to sustainable water services in selected urban areas, and to improve the operational performances and viability of the Project Implementing Entity. This change acknowledges that sustainability is related to many aspects: the reliability and continuity of services at the consumer level is conditioned by the effectiveness of REGIDESO's technical and commercial management, and eventually by its financial viability. The proposed AF triggers a new Safeguards policy, namely OP 7.50, *Projects on International Waterways*, with respect to which the Government has taken appropriate actions.

4. The AF will enhance the impact of the original project by (a) providing access to improved water services to approximately 1,395,000 additional people, increasing the project outcome target by 116 percent; (b) improving equity and quality in the delivery of water services to the urban population of the targeted cities through the rehabilitation and expansion of the water facilities; and (c) improving the governance and operational performances of REGIDESO through the extension of the ongoing arrangements for private sector participation (PSP) in the delivery of services, the improvement of maintenance and staff productivity, and effective and proactive monitoring of the quality of water services. An implementation period of three years will be required to complete the proposed activities and achieve the PDO.

5. All activities will be financed entirely by the proposed additional grant. No co-funding, from the Government, multilateral or bilateral agencies is foreseen.

II. Background and Rationale for Additional Financing in the Amount of US\$166 million

Country and Sector Context

6. ***DRC is one of the largest countries in Africa, with a population estimated at 75 million in 2014, 40 percent of which lives in urban areas.*** The country is endowed with vast mineral wealth and huge water resources, and has the potential to be one of the richest countries in the

African continent and a driver for African growth. However, decades of conflicts and bad governance have left it chronically unstable, vulnerable, lacking infrastructure and social services, and falling far short of its economic potential. As a result, DRC remains one of the poorest countries in the world and was ranked 186 out of 187 countries in the 2014 Human Development Index report and more than 63 percent of its population is considered poor. Since 2009, progress has been made through political and economic reforms. In July 2010, the country met the Highly Indebted Poor Countries Completion Point, resulting in the reduction of its debt stock by roughly US\$12 billion. The economic reforms brought hyperinflation under control, and laid the foundations for strong growth. In spite of a 2009 slowdown to 2.8 percent prompted by the global financial crisis, the gross domestic product growth improved significantly starting in 2010 and has since remained solid at above seven percent. This performance was driven mainly by the extractive industries' strong performance. Public investments have also helped spur growth. Inflation fell from 53.4 percent in 2009 to less than ten percent in 2010 and remained around one percent since 2013. Since 2006, the country has been implementing a poverty reduction strategy that was renewed in 2012.

7. ***Urban water services in DRC were severely affected by the country crisis and the operational performance of REGIDESO declined considerably, due to the combined effects of war, lack of investment and maintenance, and the suspension of aid.*** Water services totally ceased to function in more than 30 of the 94 urban centers supplied by REGIDESO, and many neighborhoods of the remainder, including the capital city, Kinshasa, faced long-lasting service interruptions. The dearth of REGIDESO services led a number of communities to install autonomous water networks, particularly in peri-urban areas of major cities, but those efforts were insufficient to avoid the decline of the coverage rate of urban water supply (UWS) services, which fell from 68 percent in 1990 to 35 percent in 2006. Whereas REGIDESO was in the 1980s one of the best-performing African water utilities, later all its performance indicators (non-revenue water [NRW], collection rate, and staff productivity) strongly deteriorated, half of the service connections became inactive, and the water sales decreased markedly.

8. ***After the resumption of external assistance in 2001, the focus of support interventions gradually shifted from emergency to development and sector reform.*** Many external partners, including the African Development Bank (AfDB), the Arab Bank for the Economic Development of Africa, Belgium, the European Union, France, Germany, Japan, the Netherlands, the Republic of Korea, the United Kingdom, IDA¹, and various international non-governmental organizations intervened to finance post-conflict activities to restore urban water services in DRC. These interventions were implemented outside of REGIDESO by ad hoc project implementation units (PIU), and often supported the development of community-managed autonomous water networks. After 2006, the Government, through the Ministry of Portfolio (MP) and the Steering Committee for the Reform of State-Owned Enterprises (*Comité de pilotage de la réforme des entreprises du portefeuille de l'État*, COPIREP), developed a strategy to revitalize and reform the most important public enterprises, including REGIDESO. The Government requested further IDA assistance for restoring and developing urban water services and helping implement a reform of the UWS sector. The reform envisioned the

¹ IDA financed the expansion of water production capacity in Kinshasa through the Emergency Multi-Sector Rehabilitation and Reconstruction Project (P057296, approved on August 6, 2002), and urban water supply in peri-urban areas with the Emergency Urban and Social Rehabilitation Project (P104497, approved on March 29, 2007).

introduction of PSP in the management of services, which had to be preceded by the corporatization and financial restructuring of REGIDESO, and accompanied by substantial investments in the rehabilitation and expansion of urban water facilities. As the new IDA-financed operation was prepared, a consensus emerged on the selection of the PSP option that would be suitable to the country and sector context, namely a management contract (MC) and the need to concentrate investments in the capital city, Kinshasa, and two major cities (Lubumbashi and Matadi), which regrouped about 75 percent of REGIDESO's activities.

Original Project Features and Performances

9. ***The IDA grant of SDR 127.5 million (US\$190 million equivalent) for DRC UWSP was approved on December 18, 2008***². The Financing Agreement and the Project Agreement were signed on January 19, 2009 and became effective on November 3, 2009. The above-mentioned original PDO were to be achieved by (a) increasing access to water supply services, mainly through household connections and standposts; (b) introducing PSP in the management of services; (c) improving productivity; and (d) improving the financial and commercial management and the financial position of REGIDESO. The project comprised two components:

- ***Component A: Improving and expanding water supply services in Kinshasa, Lubumbashi and Matadi (US\$101.6 million)***. This component, which is implemented by REGIDESO through an internal PIU, comprises the following activities: (i) the rehabilitation and expansion of production facilities in Lubumbashi and Matadi; (ii) the rehabilitation of seven pumping stations (all cities); (iii) the rehabilitation of two water storage tanks and the construction of three storage tanks in Lubumbashi; (iv) the rehabilitation of about 650 km of distribution pipes and of 110,000 household connections (all cities); (v) the construction of 41,000 household connections and 400 standposts (all cities); and (vi) the provision and installation of 275,000 water meters (all cities).
- ***Component B: Support to sector reform, capacity building and improved governance (US\$88.4 million)***, including the financing of: (i) a MC with a private operator and related audits; (ii) a repair, replacement and rehabilitation fund to be managed by the private operator; (iii) a staff restructuring plan (SRP) for REGIDESO; (iv) a communication program; (v) capacity building activities for sector actors³, including support to gender mainstreaming, citizen engagement and project management; (vi) public information campaigns, workshops and consultations with men and women to improve governance in the water sector; (vii) a program for the reduction and control of water consumption by public institutions (*instances officielles*, IO); (viii) sanitation strategies and programs in Matadi and Lubumbashi; and (ix) monitoring and evaluation, supervision of works and audits. The first and third sub-components are implemented by the COPIREP and the other sub-components by REGIDESO through its PIU.

² The project was also supported by a PPIAF grant (TF-92105) in the amount of US\$70,000, which was approved on June 9, 2008 and closed on June 30, 2009.

³ REGIDESO and its PIU, the ministry in charge of Water, the MP and the COPIREP.

10. **Following three years in problem-project status, the project was restructured (Level 2) on July 18, 2012.** The project experienced a slow start, with delays in producing detailed design studies and bidding documents for works, as well as the safeguard documents required before

Box 1. The Services Contract

Under the SC, the services provider (SP): (a) fills in senior management positions in REGIDESO (financial director, human resources director and deputy director of development and rehabilitation); (b) prepares a global diagnostic study and action plan for improving REGIDESO's organization, and an Electronic Data Processing (EDP) Master Plan; (c) prepares action plans for improving maintenance (production facilities, leakage control and repair, planning of network and connections renewal), commercial management (customer enumeration, metering) and human resources management (assessment of medium-term staff needs); and (d) provides training and transfers know-how.

The SP (a joint venture of *Sénégalaise des Eaux*, the Senegalese private operator, and its parent company, ERANOVE) was selected after competitive bidding. The SC was signed on December 27, 2012 and the SP team's intervention started in March 2013. An external auditor was recruited by the COPIREP to monitor the execution of the SC and the Performances Contract.

To date, the SP has: (a) proposed a new organization chart that is being implemented; (b) upgraded REGIDESO's financial management and controls and its management information system, and enabled the preparation of reliable and comprehensive financial statements; (c) produced the diagnostic study and helped REGIDESO procure an enterprise resource planning (ERP) software to integrate all functions; (d) prepared the above-mentioned action plans and developed procedures; and (e) prepared rehabilitation programs and assisted REGIDESO in implementing water supply projects.

The restoration of an adequate level of REGIDESO's operating performances is now contingent on the effective field implementation of the action plans and the continuation of the SC beyond the current closing date of the original project, with a particular focus on maintenance and customer

works execution. The project also faced a major setback in May 2010, when the bidding for an MC failed to attract professional operators. In April 2012, the disbursement rate only amounted to 15.5 percent, whereas 63.7 percent of the project life had lapsed. The PIU and the COPIREP worked actively with the Bank team to accelerate physical implementation and explore new sector reform options with the assistance of consultants. The major bottlenecks in the implementation of the infrastructure component were removed in 2012 and it was agreed to reproduce the objectives and targets of the MC in a performance contract between the Government and REGIDESO, whereas a three-year Services Contract (SC) will aim at helping REGIDESO to reach its objectives under the performance contract (see box 1 for a brief description of the SC and its current outcome).

11. The change of the PSP option was formalized in the July 2012 project restructuring. The restructuring also included a streamlining of the Results Framework, a reallocation of

grant proceeds and the postponement of the closing date from March 31, 2014 to December 31, 2015. Another Level 2 restructuring, including a further postponement of the closing date to March 15, 2016 and a reallocation of funds was made on October 27, 2015 to align the closing date with the contractual end of the SC.

12. *The project has been rated “Satisfactory” and/or “Moderately Satisfactory” on both Development Objective and the Implementation Progress since the July 2012 restructuring.* The following table lists all the outcome indicators and the intermediate indicators related to access and REGIDESO’s operational performances, as reported by the PIU at the end of November 2015.

Indicator	Unit	Baseline	Current value	Target value	Comments
Outcome Indicators					
People in urban areas provided with access to improved water sources under the project	Number	0	1,653,000	1,205,000	137% of the end-of-project target (EOPT)
Percentage of annual REGIDESO operation and maintenance (O&M) costs covered by revenues	%	88.0	101.2	104	97% of the EOPT
Selected Intermediate Indicators					
Length of the secondary and tertiary water network constructed under the project	km	0	785	651	121% of the EOPT
Improved community water points constructed or rehabilitated under the project	Number	0	405	400	101 % of the EOPT
New piped household water connections resulting from the project intervention	Number	0	42,382	41,000	103% of the EOPT (ongoing activity)
NRW	%	45	43	29	Limited progress
Inactive connections	%	36	33	29	Ongoing activity
Metered water connections	%	33	53	90	Ongoing activity
Collection rate	%	73	67	97	No progress (unreliable baseline)
Staff per 1,000 active connections	Number	17.7	11.3	9.6	Substantial reduction of staff, which, however, is not reflected in labor costs
Share of labor costs in operating costs	%	40	41	27	Progress, but substantial payment arrears
Share of IO in total billing	%	42	22	20	Progress, but substantial payment arrears

The DO rating endorsed the progress registered by the outcome indicators. The intermediate indicators regarding REGIDESO’s performance, particularly the commercial indicators (NRW, collection rate, metering and inactive connections) are still lagging. The completion of the ongoing activities will substantially improve the metering ratio⁴.

13. All grant funds are committed and the disbursement rate amounts to 97.4 percent. The current status of all activities financed under the original project is given in the appendix to annex 2. Procurement and financial management (FM) and environment and social safeguards are rated **Satisfactory**. The project implementation complied with key covenants with regard to safeguards, audits, reporting, and the specific covenants regarding the Staff Restructuring Plan and the financial restructuring of REGIDESO.

Rationale for the Additional Financing

14. In requesting the AF, the Government was driven by three key considerations:

- (a) The need for restoring and expanding access to urban water services, in the face of the country’s ever-growing urbanization (more than 5 percent annually), and of the social

⁴ As the pace of execution of these activities is accelerating, it is expected that a total of 47,000 social connections will be constructed by March 15, 2016 and that the metering ratio will then amount to 60 percent.

tensions arising from unmet expectations of improvement of living conditions (including water supply) in the aftermath of war

- (b) The recognition that efforts to improve REGIDESO's performances have to be prolonged to enable their impact to fully materialize, and that the improvement of the quality of water services is a key factor of the social acceptability of the sector reform, including the enforcement of sound billing and collection procedures
- (c) The recognition that the achievements of the original project create opportunities to enhance its development impact.

15. ***The implementation performance record of the original project justifies scaling-up activities to enhance the development impact of the project.*** The substantial progress registered in increasing access to water services and the proven implementation capacity of the PIU open opportunities to scale-up the ongoing social connections and standposts programs.

16. ***The sustained improvement of REGIDESO performances will require an extension of the PSP arrangements.*** To achieve significant improvements, the original project design relied on a five-year MC, with a private partner vested in all management responsibilities, whereas the SC, under which the SP has limited responsibilities, started in March 2013. To date, the SP has upgraded the reliability and transparency of REGIDESO's FM system and produced the SC deliverables (diagnostic studies, the master plan and action plans). The continuation of services will enable the implementation of the various action plans, all the more as sector actors agreed, after a review of the perspectives of sector reform that took place in a July 2015 workshop, that the SC remains the most realistic PSP option in the medium-term.

17. ***Improving the quality and availability of services is of prime importance for the social acceptability of REGIDESO's reform.*** The availability and quality of water services remain problematic in many urban areas, which, for decades, have not received any service or an intermittent and insufficient service at best, and the coexistence of aging and deteriorated facilities with new ones hampers the technical operations of REGIDESO. The experience of reforms in other African countries demonstrates that there is no example of utility performance improvements in billing, collection and ultimately financial viability without improvement of the quality of services and of customer satisfaction.

AF's Response to Access, Sustainability and Social Challenges

18. The AF will address the access challenges in the UWS sector that derives from the strong urban population growth and the current conditions of water services by (i) creating additional production capacity; (ii) eliminating bottlenecks in water storage and transmission; and (iii) restoring services in areas deprived of water by the deteriorated conditions of their distribution networks and the insufficient water pressure; and (iv) providing affordable access to services to all population strata.

19. The AF will help address the sustainability challenges facing REGIDESO through (i) the continuation of PSP arrangements that will facilitate the implementation of the various action plans prepared by the SP to improve REGIDESO's management information system, maintenance policies, customer management and human resources management; (ii) the

provision of funds for spot maintenance and repair activities; and (iii) supporting REGIDESO in setting up real-time monitoring of its technical operations and obtaining feedback on the quality of services. The scope of the SC will be modified to focus on the field implementation of the action plans and in view of the findings of the external assessment of the contract that is being prepared. A detailed presentation of the various facets of sustainability and how the AF activities will address and monitor them is provided in paragraph 7 of annex 2.

20. The AF will also seek to manage social tensions, promote social inclusion and foster accountability through citizen engagement. In that respect, three major priorities are proposed for the AF (a) increase the beneficiaries' access to information regarding their rights and responsibilities concerning their access to water; (b) develop beneficiary feedback mechanism during project implementation, which is very relevant as the project has clearly identifiable beneficiaries and provide the different types of beneficiaries – including marginalized groups and women – the opportunity to voice their feedback; and (c) mitigate mistrust and foster the accountability of REGIDESO and the local steering committees (LSCs) toward citizens through enhanced transparency and interface for dialogues among the different stakeholders.

Summary Description of AF Activities

21. The activities financed by the proposed AF will be consistent with the components of the original project, as summarized below and as detailed in annex 2 and annex 3. The additional activities are regrouped under the sub-components of the original project.

Component A. Improving and expanding water supply services (US\$132.28 million). Under this component, the AF will finance the following:

A.1 Kinshasa: the construction of a new water treatment plant (WTP) (capacity: 110,000 m³ per day), the rehabilitation and expansion of water transmission, storage and distribution facilities, the rehabilitation of 5,000 service connections, the construction of 25,000 social connections, and the supply of 140,000 water meters and ancillary equipment

A.2 Lubumbashi: the rehabilitation and expansion of water pumping and distribution facilities, the rehabilitation of 5,000 service connections and the construction of 15,000 social connections

A.3 Matadi: the rehabilitation and expansion of water production and distribution facilities, the rehabilitation of 1,500 service connections and the construction of 5,000 social connections

A.4 Kindu: the construction of a new WTP (capacity: 500 m³ per hour), the rehabilitation and expansion of water transmission, storage and distribution facilities, and the construction of 1,000 social connections and 50 standposts

Component B. Support to sector reform, capacity building and improved governance (US\$33.72 million). Under this component, the AF will finance the following:

B.1 Services Contract: three-year continuation of the SC and related audits

B.2 Repair, Replacement and Rehabilitation Fund: support to the rehabilitation of water production and distribution facilities

B.3 Staff Improvement Plan: support to the development of the staff optimization plan

B.4 Communication Program: support to the implementation of the communication action plan

B.5 Strengthening of Capacities: institutional support to the MP and the ministry in charge of water; rehabilitation of training centers and support to training activities; institutional, financial and technical studies for REGIDESO; assistance to the implementation of REGIDESO's EDP Master Plan; and support to project management

B.6 Improved Governance in the Water Sector: customer satisfaction surveys, establishment of a call center in Kinshasa, and support to monitoring citizen engagement

B.7 Reduction and Control of Water Consumption (IO): no additional activity

B.8 Sanitation Strategies: support to the definition of the institutional framework of the urban sanitation sector

B.9 Monitoring and Evaluation (M&E), Works Supervision and Audits: support to the implementation of the Environmental and Social Management Plan (ESMP) and to M&E, impact evaluation studies, design studies and works supervision, and financial and technical audits.

Consistency with the Country Assistance Strategy and Bank Poverty Goals

22. The proposed AF is consistent with the Country Assistance Strategy (CAS). The current CAS, covering the period FY13 – FY16, was adopted in April 2013 and aims to help the Government address the challenges of stabilization and peace consolidation and assist in the implementation of DRC's second Poverty Reduction Strategy Paper. A Performance and Learning Review has been prepared, which proposes to extend the CAS period to end-FY17 to implement emerging World Bank Group activities and the remaining CAS deliveries and prepare the Strategic Country Diagnostic that will inform the Country Partnership Framework in FY17. The proposed activities are fully aligned with the first and third pillars of the CAS aiming respectively at (a) increasing state effectiveness and improving good governance and (b) improving social services delivery and increasing human development indicators. It is also in alignment with the gender cross cutting theme targeting a reduction in disparity in education and promoting gender sensitive inclusion in policy and decision-making bodies at the local and community levels. The proposed AF activities will help enable all population strata to gain affordable access to safe water by providing water connections at subsidized costs and by restoring services in formerly served areas. The proposed AF will thus contribute to reduce social tensions, which were exacerbated by the deterioration of urban water services that persisted over decades.

23. ***The AF is the preferred financing mechanism***, because it will (a) capitalize on the current effective implementation arrangements and the capacities of the existing PIU which have generated satisfactory results under the ongoing project; (b) save time associated with the project preparation process while maintaining the positive momentum of the results achieved to-date; (c) complement the timely and effective interventions of other development partners; and (d) ensure continuity of ongoing sector reforms together with sustained improvement of REGIDESO's performance through an extension of the ongoing PSP arrangements pending the adoption of a new reform option.

III. Proposed Changes

Summary of Proposed Changes

The changes associated with the AF and project restructuring comprise modifications to the original (a) PDO formulation; (b) scope of activities; (c) Results Framework; and (d) closing date.

The PDO will be amended to clarify the linkage between the sustainability of water services and the sustainability of the utility that delivers the services.

The proposed AF will finance activities to maximize the development impact of the original project by (i) constructing water production, storage and pumping facilities and primary distribution networks to enable the resumption of water service in areas where the service has been interrupted for a long time; (ii) providing access to water services through social water connections and standposts in unserved areas; and (iii) strengthening the sustainability of the water supply services and REGIDESO through the continuation of REGIDESO's SC, helping improve staff efficiency and support to rehabilitation.

A new safeguard policy (OP/BP 7.50 (Projects on International Waterways)) is triggered by the construction of water production facilities in Kinshasa that will use water of the Congo River.

The Results Framework will be adjusted to take into account the impact of the proposed AF activities and to streamline the list of indicators.

Change in Implementing Agency	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
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Change in Project's Development Objectives	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
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Change in Results Framework	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
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Change in Safeguard Policies Triggered	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
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Change of EA category	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
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Other Changes to Safeguards	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
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Change in Legal Covenants	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
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Change in Loan Closing Date(s)	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
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Cancellations Proposed	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
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Change in Disbursement Arrangements	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
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Reallocation between Disbursement Categories	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
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Change in Disbursement Estimates	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
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Change to Components and Cost	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
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Change in Institutional Arrangements	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
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Change in Financial Management	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
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Change in Procurement	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
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Change in Implementation Schedule	Yes [X] No []
Other Change(s)	Yes [] No [X]

Development Objective/Results

Project's Development Objectives

Original PDO
 The PDO is to increase sustainable access to water in selected urban areas, and to improve the efficiency of the Project Implementing Entity

Change in Project's Development Objectives

Explanation:
 The PDO will be amended to clarify the linkage between the sustainability of water services and the sustainability of the utility that delivers the services.

Proposed New PDO - Additional Financing (AF)

The revised PDO is to increase access to sustainable water services in selected urban areas, and to improve the operational performances and viability of the Project Implementing Entity.

Change in Results Framework

Explanation:
 The EOPT of several current outcome and output indicators will be adjusted to reflect the impact of AF activities. In addition:
 (a) new intermediate indicators will monitor citizen's engagement, the increase of water production capacity and the Government's performance in paying the water bills of public institutions, which is critical for the restoration of REGIDESO's financial viability and
 (b) the list of intermediate indicators will be streamlined to avoid redundancies and limit the number of indicators

Compliance

Change in Safeguard Policies Triggered

Explanation:
 In addition to the policies triggered under the parent project (OP/PB 4.01 and OP/PB 4.12), OP/BP 7.50 (Projects on International Waterways) would be triggered by the construction of water production facilities in Kinshasa that would use water of the Congo River. On July 7, 2015, the Government accordingly notified the riparian countries of the Congo River.

Current and Proposed Safeguard Policies Triggered:	Current(from Current Parent ISDS)	Proposed(from Additional Financing ISDS)
Environmental Assessment (OP) (BP 4.01)	Yes	Yes
Natural Habitats (OP) (BP 4.04)	No	No
Forests (OP) (BP 4.36)	No	No
Pest Management (OP 4.09)	No	No
Physical Cultural Resources (OP) (BP 4.11)	No	Yes

Indigenous Peoples (OP) (BP 4.10)	No	No
Involuntary Resettlement (OP) (BP 4.12)	Yes	Yes
Safety of Dams (OP) (BP 4.37)	No	No
Projects on International Waterways (OP) (BP 7.50)	No	Yes
Projects in Disputed Areas (OP) (BP 7.60)	No	No

Covenants - Additional Financing (DRC Urban Water Supply Project Additional Financing - P155266)

Source of Funds	Finance Agreement Reference	Description of Covenants	Date Due	Recurrent	Frequency	Action
IDA	Sch 2; Section I.C.1	No later than three months from the Effective Date, the Recipient shall: (a) with support of COPIREP execute the Services Contract with the Services Provider in accordance with the provisions of Section III of the Schedule to the Project Agreement	August 31, 2016	<input type="checkbox"/>		New
IDA	Sch 2; Section I.C.3	The Recipient shall (a) no later than twelve months from the Effective Date amend the Performance Contract under terms and conditions satisfactory to the Association and thereafter maintain at all times during the implementation of the Project said Performance Contract	May 31, 2017	<input type="checkbox"/>		New
IDA	Sch 2; Section I.C.4	The Recipient shall no later than three months from the Effective Date enter into a Settlement and Payment Contract with the Project Implementing Entity under terms and conditions satisfactory to the Association and thereafter maintain at all times during the	August 31, 2016	<input type="checkbox"/>		New

		implementation of the Project said Settlement and Payment Contract.			
IDA	Sch 2; Section I.D.1	The Recipient shall: (a) no later than twenty four months from the Effective Date, submit to the Association the Tariffs Structure and Costs Recovery Plan; and (b) promptly thereafter take all necessary governmental actions required for its due implementation, including all actions to be taken within public administrations and public enterprises at the central or local level, including its publication and the carrying out of a communication strategy.	May 31, 2018	<input type="checkbox"/>	Revised
IDA	Sch 2; Section I.F.1	No later than one year before the Closing Date, the Recipient shall prepare and submit to the Association for its review, the Urban Water Sector Reform Plan and following an exchange of views with the Association, adopt said plan thereafter within 6 months.	December 31, 2017	<input type="checkbox"/>	Revised
Conditions					
Source of Fund					
IDA	Subsidiary Agreement		Effectiveness		
Description of Condition					
The Subsidiary Agreement entered into between the Ministry of Finance of the Recipient and the Project Implementing Entity has been amended, in accordance with terms and conditions satisfactory to the Association, to cover the execution of the additional activities to be carried out under the Project.					
Source of Fund					
IDA	Subsidiary Agreement		Effectiveness		
Description of Condition					
The amendment to the Subsidiary Agreement has been duly authorized or ratified by the Recipient and					

the Project Implementing Entity and is legally binding upon the Recipient and the Project Implementing Entity in accordance with its terms.

Risk

Risk Category	Rating (H, S, M, L)
1. Political and Governance	High
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Substantial
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Moderate
8. Stakeholders	Substantial
9. Other	
OVERALL	High

Finance

Loan Closing Date - Additional Financing (DRC Urban Water Supply Project Additional Financing - P155266)

Source of Funds	Proposed Additional Financing Loan Closing Date
IDA Grant	31-Dec-2018

Loan Closing Date(s) - Parent (DRC Urban Water Supply Project - P091092)

Explanation:

The closing date of the original project will be modified to avoid interruptions in funding activities that will continue under the AF, particularly the SC and project management and be aligned with the proposed closing date of the AF.

Ln/Cr/TF	Status	Original Closing Date	Current Closing Date	Proposed Closing Date	Previous Closing Date(s)
IDA-H4350	Effective	31-Mar-2014	15-Mar-2016	31-Dec-2018	31-Mar-2014, 31-Dec-2015, 15-Mar-2016
TF-92105	Closed	30-Jun-2009	30-Jun-2009		28-Dec-2009

Change in Disbursement Arrangements

Explanation:

The original grant's funds were allocated to five different disbursement categories, to which were attached specific disbursement conditions. These conditions have been met and are no longer required under the AF. The AF's disbursement categories will thus be merged into a single category.

A separate Designated Account will be established for the AF activities.

Change in Disbursement Estimates (including all sources of Financing)

Explanation:

To reflect the inclusion of the AF.

Expected Disbursements (in USD Million)(including all Sources of Financing)

Fiscal Year	2016	2017	2018	2019
Annual	180	55.00	70.00	51.00
Cumulative	180	235.00	305.00	356.00

Allocations - Additional Financing (DRC Urban Water Supply Project Additional Financing - P155266)

Source of Fund	Currency	Category of Expenditure	Allocation Proposed	Disbursement % (Type Total) Proposed
IDA	SDR	(1) Goods, works and consultants' services, Training and Operating Costs under Parts A and B of the Project	119,800,000.00	100.00

Total: 119,800,000.00

Components

Change to Components and Cost

Explanation:

The denomination of the project components will be modified to better reflect their purpose, and additional activities will be introduced under the AF. The detailed description and costs of the additional activities are given in Annexes 3 and 4. The cost of Components A and B will increase by US\$132.28 million and US\$33.72 million, respectively, to reflect the additional activities.

Current Component Name	Proposed Component Name	Current Cost (US\$M)	Proposed Cost (US\$M)	Action
Water supply services in major urban centers	Improvement and expansion of water supply services in targeted cities.	125.57	257.85	Revised
Sector reform, capacity building and improved governance	Sector reform, capacity building, improved governance and project management	64.43	98.15	Revised
Total:		190.00	356.00	

Costs adjusted following the reallocations that were made in July 2012 and October 2015.

Other Change(s)

Change in Procurement

Explanation:

The current Guidelines (“Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers”, dated January 2011 and revised July 2014, and “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers”, dated January 2011 and revised July 2014) will apply and replace the Guidelines referred to in the FA of Grant H4350 (Guidelines dated May 2004 and revised October 2006). An updated procurement plan, including updated thresholds for applicable procurement methods and prior reviews, was agreed at negotiations.

Change in Implementation Schedule

Explanation:

Implementation schedule will be amended to reflect the additional activities for 2016-2018.

IV. Appraisal Summary**Economic and Financial Analysis**

Explanation:

Economic Analysis

Rationale for Public Sector Intervention. All urban water sector actors agree that PSP is key to improving the sector governance and the delivery of services. They also recognize that the country context and the persisting challenges facing the restoration of adequate services strongly limit the sector’s attractiveness for potential private partners, as demonstrated by the unsuccessful bidding of the MC. A pragmatic roadmap to the sector reform, the implementation of which will be supported by the AF, was formulated during the July 2015 workshop. The roadmap contemplates (a) the continuation of the SC (focusing on commercial and technical management) until 2018; (b) the updating of the performances contract; and (c) a review of reform options beyond 2018, including the assessment of options of decentralization of the delivery of services.

World Bank’s Value Added. The Bank’s dialogue with REGIDESO and the Government has been instrumental in piloting the reform of the UWS sector under the original project. The Bank is now the sole external partner helping REGIDESO to improve its operational performances and is in a position to help DRC meet the challenges of the development of urban water services. Value added will also be high at the implementation stage, with a Bank team highly knowledgeable about the sector challenges and the supervision of large water investments.

Cost-Benefit Analysis. The cost-benefit analysis of the Project Appraisal Document (PAD) has been updated to assess the economic internal rate of return (EIRR) and the net present value (NPV) of the overall project (original project and AF). The PAD methodology remains the same, and the PAD assumptions have been updated to reflect the outcome of actual implementation. Project benefits include the increased water consumption, the consumer surplus accruing to beneficiaries shifting from other water sources to water service connections or standposts, and the cost savings resulting from performance improvements. Project costs include investment costs, incremental operating costs, and renewal costs. The results of the updated analysis, together with the results of the PAD analysis of the original project, are summarized in table 2.

Table 2. Results of Economic Analysis

	Unit	Original Project and Results	Original Project and AF (Updated Results)
NPV @12%:	US\$ M	132.0	20.9 ⁵
EIRR	%	41.0	13.7

The results of the updated analysis are satisfactory. The lower value of the updated EIRR, compared to the original project, is attributable to the fact that the original project contemplated a greater and swifter reduction of REGIDESO's operating costs under the MC than what has been currently achieved under the SC. Cost savings identified in the PAD amounted to about half of the incremental benefits.

Financial Analysis

Financial Information. The SP's involvement improved the transparency and reliability of REGIDESO's FM. The latter, which used to be overwhelmed by the uncontrolled power left to regional departments, was unified and the revenue and expenditure flows are centralized and under control. Accounting now follows the accounting system of the Organization for the Harmonization of Business Law in Africa (SYSCOHADA), which is applied in most countries of West and Central Africa. The auditors gave a clean opinion on 2014 financial statements. This substantial progress should be reinforced by the implementation of the ERP software that was recently acquired by REGIDESO, which will enable full integration of FM with the management of human resources, assets, customers and maintenance activities.

Financial Restructuring of REGIDESO. The financial restructuring of REGIDESO, including the inventory of assets and liabilities and the compensation of cross-debts between REGIDESO, the Government and other parastatals, was carried out under the corporatization process applied to public enterprises. REGIDESO's net equity and working capital have been restored, as shown in table 5.4 of annex 5.

Current Financial Situation. The operating results of REGIDESO have substantially improved since 2009 and particularly since the arrival of the SP, as shown in table 3.

Table 3. REGIDESO: Selected Financial Data and Indicators (CF Million)

Year	2009	2012	2013	2014
Operating revenues	121,336	138,273	141,864	162,884
Cash operating expenditures	161,883	120,250	127,436	130,146
<i>o/w Labor costs</i>	31,875	45,497	50,736	50,871
Operating costs	188,589	170,435	180,621	173,792
Operating loss	-67,252	-32,162	-38,758	-10,908
Indicators:				
Operating ratio	64.3%	81.1%	78.5%	93.7%
Customers receivables (months)	20.9	9.9	12.5	14.1

However, two important elements strongly hamper the restoration of REGIDESO's financial viability. First, although the SRP was satisfactorily carried out and led to a reduction of the number of employees by 456 people, the financial benefits were largely offset by uncontrolled increases of the remaining staff's remuneration. Second, after the financial restructuring and the 2012 settlement of public arrears on water bills, the Government annually paid less than 10 percent of its water bills. The public arrears amounted in October 2015 to CF 84,881 M (equivalent to more than three years of public bills).

⁵ For the sake of comparison, the discount rate is the rate used in the PAD analysis (12 percent). Using the current recommended rate for sustainable development projects (6 percent), the NPV of the overall project (original project and AF) will amount to US\$226.8 million.

Addressing Payment Arrears on Public Water Bills. Following instructions of the Prime Minister, the MP, the Ministry of Finance and REGIDESO are currently working on the public arrears issue and are preparing a Settlement and Payment Agreement (SPA) including (a) an exchange of cross-debts between REGIDESO and the Government; (b) arrangements to settle the remaining balance of unpaid water bills; (c) the reduction of beneficiaries of public water for domestic use; (d) an action plan to reduce wastage in public water consumption; and (e) improved mechanisms for budgeting and paying current water consumption.

The AF will support actions to control REGIDESO’s staff costs and improve staff productivity. In addition, the adoption and execution of the SPA will be monitored and covenanted in the FA.

Financial Perspectives. Pending the preparation of the financial model, REGIDESO carried out medium-term financial forecasts, which are summarized in table 4.

Table 4 – Medium-Term Financial Forecasts: Selected Data and Indicators (CF Million)

Year	2015	2016	2017	2018
Operating revenues	162,151	196,588	211,820	236,555
Cash operating expenditures	142,927	158,065	168,976	178,517
<i>o/w Staff costs</i>	51,442	53,947	56,787	59,660
Operating costs	167,269	193,233	210,442	221,341
Operating income	-5,117	3,355	1,378	15,215
Net income	-8,188	1,198	209	9,197
Net cash	-3,097	-4,096	-5,104	1,899
Indicators:				
Operating ratio	96.9%	101.7%	100.7%	106.9%
Share of labor costs in cash operating expenditures	36.0%	34.1%	33.6%	33.4%
Customers receivables (months):	17.5	11.4	10.7	10.7

The above results show (a) that REGIDESO will achieve financial equilibrium in 2018, with a positive net cash position and full coverage of O&M costs and (b) a substantial improvement of the short-term assets and liabilities, resulting from the improvement of commercial management and the SPA.

Technical Analysis

Explanation:

The water investment program supported by the AF originates from a priority investment program designed by REGIDESO with the assistance of the SP to restore water services in critical areas of the targeted cities and to maximize the impact of the facilities built under the original project. The proposed rehabilitation and expansion of water production facilities, feeder pipes, storage and pumping facilities, and the rehabilitation of distribution networks and service connections is designed to improve the quantity of water available to existing customers and the quality of service. The proposed continuation of the social connections and standposts programs will be carried out in parallel with the expansion of secondary and tertiary networks. REGIDESO and the SP have demonstrated their capacity to implement these programs and manage expansion works in close coordination with the identification of connection beneficiaries, which will be facilitated by the results of the ongoing enumeration of REGIDESO customers. No major technical issues are expected from the AF since technologies considered for water supply systems are proven and well established.

Readiness. Activities scheduled in the first 18 months will be ready by the time of effectiveness. The design study of the WTP in Kinshasa has been completed and a consultant is being selected to prepare the bidding

documents. The detailed design studies of the Kinshasa rehabilitation investments are also available. The design studies of the investments proposed in Lubumbashi, Matadi and Kindu are being prepared under the financing of the original project.

Social Analysis (Gender and Citizen Engagement)

Explanation:

Social Inclusion. The project will continue to rely on pro-poor policies for developing access, including social water connections and public standposts programs. In addition, the proposed AF will seek to reduce the access bias within settlements where water services have been interrupted for a very long time, particularly in the western part of Kinshasa.

Citizen Engagement. Specific communication programs have been developed at the local level to enhance communication on the project's results on the ground and REGIDESO is currently collecting exhaustive opinions of the urban population on the quality and availability of water services, as part of the ongoing customer satisfaction survey, which will help target social connection programs and water network extensions. To mainstream citizen engagement, the AF will also comprise additional activities that will ensure a voice for stakeholders through beneficiary feedback and increase accountability of the service providers towards the beneficiaries. Citizen engagement will be monitored by (a) the percentage of beneficiaries who know at least two of their responsibilities regarding their access to water (from the beneficiary feedback through SMS), and (b) the percentage of satisfactory complaints resolution by REGIDESO (from customer satisfaction surveys).

Gender. The AF will review current gender issues emerging from sex disaggregated beneficiary assessments and provide training to REGIDESO staff on gender mainstreaming in utility operations and policy. The quality assessment tools will be applied in a gender sensitive manner, which together with the assessments, will allow the provider to understand the unique gender gaps, issues and priority responses for the UWS sector.

Environmental Analysis (including Safeguards)

Explanation:

Environmental Impact. There are no significant or irreversible adverse impacts that are expected from the implementation of activities that will be financed under the proposed AF. Most of the adverse environmental and social impacts associated with these investments will be small-scale and site-specific. Hence, they will be manageable at an acceptable level.

Safeguard Policies and Instruments. In addition to the policies triggered under the original project (OP/PB 4.01 and OP/BP 4.12), OP/BP 7.50 (Projects on International Waterways) will be triggered by the construction of water production facilities in Kinshasa that will use water of the Congo River. On July 7, 2015, the Government therefore notified the riparian countries of the Congo River – through the International Commission of the Congo-Ubangi-Sangha Basin – of the details of the proposed AF. The existing safeguards documents have been updated to reflect the AF activities. The updated Environmental and Social Management Framework (ESMF) was disclosed in country and at the Bank InfoShop on December 9, 2015. The updated Resettlement Policy Framework (RPF) was disclosed in country on December 8, 2015 and at the Bank InfoShop on December 9, 2015.

The framework approach was complied with during the original project's implementation. Screening of sub-projects took place to ensure proper identification and mitigation of any adverse impacts. In addition, limited Environmental and Social Impact Assessments, Resettlement Action Plans were regularly developed before the commencement of works on the ground. As the location of the new constructions are

not yet determined, the framework approach will continue to apply under the AF. Whenever the preliminary engineering studies are completed, an ESIA and a RAP will be prepared, submitted to the Bank for approval and disclosed afterwards.

During the original project works' phase, a monthly environmental and social report was regularly produced by the PIU, which hosts two senior environmental specialists. Moreover, the Bank's safeguard specialists were part of supervision field missions to verify that the project was implemented in full compliance with safeguard policies. These practices will continue during the AF.

Risk

Explanation:

The overall risk of the Project remains High, in view of the High Political and Governance risk environment in DRC, which also negatively affects the collection of revenues generated by the water billed to IO and jeopardizes the financial viability of REGIDESO. The latter will be mitigated with a specific covenant.

The risks at the project level have been re-assessed, in view of the implementation experience of the original project and are as follows:

- (a) Sector Strategies and Policies: Although the Government's commitment to the sector reform remains strong, the sector's attractiveness for PSP options that would be more ambitious than the current SC remains questionable, and the risks remain Substantial.
- (b) Technical Design: The satisfactory outcome of the bidding of waterworks under the original project demonstrated that there is an adequate level of competition for major contracts in DRC and that the risk associated with technical design has decreased from Substantial to Moderate.
- (c) Institutional Capacity for Implementation and Sustainability: Although the implementation capacities have substantially increased, the risks related to sustainability remain Substantial and will be mitigated by the continuation of the PSP arrangements.
- (d) Fiduciary: The rating is improved from High to Substantial, in view of the satisfactory implementation performance in procurement and FM.
- (e) Environmental and Social: The execution of the ESMP has been satisfactory and the risk remains Moderate.
- (f) Stakeholders: This risk will remain Substantial, as long as customers do not perceive significant improvements of the delivery and quality of water supply services.

V. World Bank Grievance Redress

Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 1: Revised Results Framework and Monitoring Indicators

DRC: Urban Water Supply Project - Additional Financing (P155266)

A. Summary of Results Framework Changes

Revisions to the Results Framework			Comments/ Rationale for Change
PDO			
<i>PAD</i>	<i>Current</i>	<i>Proposed</i>	
To increase sustainable access to water in selected urban areas and to improve the efficiency of the Project Implementing Entity	To increase sustainable access to water in selected urban areas and to improve the efficiency of the Project Implementing Entity	To increase access to sustainable water services in selected urban areas, and to improve the operational performances and viability of the Project Implementing Entity	The PDO is slightly amended to clarify the intrinsic linkage between the sustainability of the water services and the sustainability of the utility that delivers them
PDO indicators			
	<i>Current</i>	<i>Proposed change*</i>	
Percentage of population in the targeted cities with access to potable water.	People in urban areas provided with access to “Improved Water Sources” under the project	People provided with access to “improved water sources” under the project (number) Change in the EOPT value: increased from 1,205,000 to 2,600,000 people.	Outcome impact of the AF
Operating cost coverage ratio in utilities targeted by the project	Operating cost coverage ratio in utilities targeted by the project	No change	
Intermediate Results indicators			
	<i>Current (PAD)</i>	<i>Proposed change*</i>	
Km of secondary and tertiary water distribution network constructed.	Secondary and tertiary water networks constructed	Change in the EOPT value: increased from 651 km to 1,390 km	Impact of the AF activities
Number of additional functioning stand posts.	Improved community water points constructed or rehabilitated under the project	Change in the EOPT value: increased from 400 to 450 additional community water points	Impact of the AF activities
Number of additional household connections,	New piped household water connections that are resulting from the project intervention	Change in the EOPT value: increased from 41,000 to 87,000 water connections	Impact of the AF activities

Revisions to the Results Framework			Comments/ Rationale for Change
	Piped household water connections that are benefiting from rehabilitation works undertaken by the project	No change	
	Direct project beneficiaries	Change in the EOPT value: increased from 1,205,000 to 2,600,000 people	Outcome impact of the AF
	Direct female project beneficiaries	Change in measurement: from percentage to number	In accordance with definition of core corporate indicator
		(New) Citizen engagement: Satisfactory complaints resolution by REGIDESO	Introduction of core corporate indicator
		(New) Citizen engagement: Surveyed beneficiaries who know at least two of their responsibilities regarding their access to water	Introduction of core corporate indicator
A five-year Management Contract, is bid, signed and under implementation	The Services Contract is bid for, signed and under implementation	No change	No change (contract extended under the AF)
	Number of water utilities that the project is supporting	No change	
	Number of other water service providers that the project is supporting	No change	
Preparation of water sanitation strategies and program in project cities	Preparation of sanitation strategies and programs	Change in the EOPT value: increased from 3 to 4	Impact of the AF activities
	Availability rate of production plants	No change	
Percentage of non-revenue water.	Non-revenue water in targeted cities	No change	
Rate of inactive connections per city.	Inactive connections in targeted cities	No change	
Metering rate per city	Metered connections in targeted cities	No change	
Bill collection rate from private connections.	Bill collection rate from private connections in targeted cities	No change	
Number of staff/1,000 active connections	Number of staff per 1,000 active connections	No change	

Revisions to the Results Framework			Comments/ Rationale for Change
Rate of labor costs vs operational costs.	Rate of labor costs vs operational costs	Change of wording Share of labor costs in O&M costs	
Submission of previous years' audit reports to clients by May 15 of following year.	Submission of the previous year's audit reports to clients by May 15 of the following year	No change	
Public customers (" <i>Instances Officielles</i> ") share in total water billing.	Public customers (" <i>Instances Officielles</i> ") share in total water billing	Change of wording Share of public institutions in total billing	Continuation of the SC under the AF
	Proportion of volumes owed by IO in total volumes owed	Proposed for deletion	To be dropped to limit the number of indicators.
		(New) Payment arrears on water bills of IO	Monitoring of critical element of sustainability, which is subject to a financial covenant under the AF
Index of network losses	Dropped at project restructuring		
Qualitative Staff Management, including: (a) capacity building strategy, (b) evaluation system for managers, (c) reward and recognition program, and the ability to recruit and dismiss staff	Dropped at project restructuring		

B. Revised Framework Matrix

PDO Level Results Indicators	Core	Status†	Unit of Measurement	Baseline Original Project	Progress To Date (November 2015)	Cumulative Target Values			Frequency	Data Source/ Methodology	Responsibility for Data Collection
						2016	2017	2018			
People provided with access to “improved water resources” under the project – urban (number)	<input checked="" type="checkbox"/>	R	Number	-	1,653,060	1,681,500	2,100,000	2,600,000	Annually	No. connections x 30 + No. standposts x 300	REGIDESO-IU
Operating cost coverage ratio in utilities targeted by the project	<input type="checkbox"/>	C	Percent	88.0	101.2	102	103	104	Annually	Audited financial statements	REGIDESO

†Status codes: C=continued; D=dropped; N=new; R=revised

Intermediate Results Indicators	Core	Status†	Unit of Measurement	Baseline Original Project	Progress To Date (November 2015)	Target Values			Frequency	Data Source/ Methodology	Responsibility for Data Collection
						2016	2017	2018			
New piped household water connections that are resulting from the project intervention	<input checked="" type="checkbox"/>	R	Number	-	42,382	52,000	70,000	87,000	Annually	Progress reports	REGIDESO-IU
Piped household water connections that are benefiting from rehabilitation works undertaken by the project	<input checked="" type="checkbox"/>	R	Number	-	89,879	95,000	105,000	110,000	Annually	Progress reports	REGIDESO-IU
Improved community water points constructed or rehabilitated under the project	<input checked="" type="checkbox"/>	R	Number	-	405	405	405	450	Annually	Progress reports	REGIDESO-IU
Secondary and tertiary water networks constructed under the project	<input type="checkbox"/>	R	km	-	785	785	1,000	1,390	Annually	Progress reports	REGIDESO-IU
Direct project beneficiaries	<input checked="" type="checkbox"/>	R	Number	-	1,653,060	1,681,500	2,100,000	2,600,000	Annually	No. connections x 30 + No. standposts x 300	REGIDESO-IU
Direct female project beneficiaries	<input checked="" type="checkbox"/>	R	Number	-	826,530	840,750	1,050,000	1,300,000	Annually	Computed from above	REGIDESO-IU
Citizen engagement: satisfactory complaints resolution by REGIDESO	<input checked="" type="checkbox"/>	N	Percent	26	-	36	36	56	Every 2 years	Customer satisfaction surveys	REGIDESO-IU
Citizen engagement: surveyed	<input checked="" type="checkbox"/>	N	Percent	-	-	35	55	75	Every six	SMS Feedback	REGIDESO-IU

Intermediate Results Indicators	Core	Status	Unit of Measurement	Baseline Original Project	Progress To Date (November 2015)	Target Values			Frequency	Data Source/ Methodology	Responsibility for Data Collection
						2016	2017	2018			
beneficiaries who know at least two of their responsibilities regarding their access to water									months		
Services contract is bid for, signed and under implementation	<input type="checkbox"/>	C	Y/N	N	Y	Y	Y	Y	Annually		COPIREP
Number of water utilities that the project is supporting	<input checked="" type="checkbox"/>	C	Number	-	1	1	1	1	Annually		
Number of other water service providers that the project is supporting	<input checked="" type="checkbox"/>	C	Number	-	0	0	0	0	Annually		
Preparation of water sanitation strategies and programs	<input type="checkbox"/>	R	Number	1	3	3	3	4	Annually	Progress reports	REGIDESO-IU
Water production capacity installed under the project	<input type="checkbox"/>	N	m ³ /day	-	64,000	64,000	64,000	179,000	Annually	Progress reports	REGIDESO-IU
Availability rate of water production plants	<input type="checkbox"/>	C	Percent	87.6	96	96	96	94	Annually	REGIDESO activity reports and performance audit reports	REGIDESO and performance auditors
Non-revenue water in targeted cities	<input type="checkbox"/>	R	Percent	45	43	40	35	29	Annually	REGIDESO activity reports and performance audit reports	REGIDESO and performance auditors
Inactive connections in targeted cities	<input type="checkbox"/>	R	Percent	36	33	32	31	20	Annually	REGIDESO activity reports and performance audit reports	REGIDESO and performance auditors
Metered connections in targeted cities	<input type="checkbox"/>	C	Percent	33	53	60	72	90	Annually	REGIDESO activity reports and performance audit reports	REGIDESO and performance auditors
Bill collection from private connections in targeted cities	<input type="checkbox"/>	C	Percent	73	67	80	97	97	Annually	REGIDESO activity reports and performance audit reports	REGIDESO and performance auditors

Intermediate Results Indicators	Core	Status†	Unit of Measurement	Baseline Original Project	Progress To Date (November 2015)	Target Values			Frequency	Data Source/ Methodology	Responsibility for Data Collection
						2016	2017	2018			
Number of staff per 1,000 active connections	<input type="checkbox"/>	C	Number	17.7	11.3	10.5	10.0	9.6	Annually	REGIDESO activity reports and performance audit reports	REGIDESO and performance auditors
Share of labor costs in O&M costs	<input type="checkbox"/>	C	Percent	40	41	40	40	27	Annually	REGIDESO activity reports and performance audit reports	REGIDESO and performance auditors
Submission of previous year's audit reports to clients by May 15 of following year	<input type="checkbox"/>	C	Yes/No	No	Yes	Yes	Yes	Yes	Annually	Audited financial statements	REGIDESO
Share of IO in total billing	<input type="checkbox"/>	C	Percent	42	22	21	21	20	Annually	REGIDESO activity reports and performance audit reports	REGIDESO and performance auditors
Proportion of volumes consumed by IO in total water consumption	<input type="checkbox"/>	D									
Payment arrears on water bills of IO	<input type="checkbox"/>	N	Months of billing	-	34.4	22.0	12.0	6.0	Annually	Audited financial statements	REGIDESO

†Status codes: C=continued; D=dropped; N=new; R=revised

Annex 2: Detailed Description of Additional Activities

DRC: Urban Water Supply Project - Additional Financing (P155266)

1. This annex reviews how the existing challenges facing urban water services and the PDO will be addressed by the proposed AF and then provides a detailed description of the activities financed under the AF.

Access and Sustainability Challenges

2. Urban water services in DRC had been dramatically affected by the country crisis and the operational performance of REGIDESO declined considerably from 1990 to 2009, due to the combined effects of war, lack of investment and maintenance, and the suspension of aid. As a result, the rate of water supply services coverage in urban areas fell from 68 percent in 1990 to 35 percent in 2006. The number of active connections and the volume of water sold decreased markedly and all performance indicators (NRW, collection rate and staff productivity) strongly deteriorated. In 2008, the original project aimed at addressing the most pressing challenges of the UWS sector by focusing on the development of infrastructure in three target cities that represented 75 percent of REGIDESO's activities and by supporting the institutional reform of the sector and the introduction of PSP.

3. The original project helped more than 1,650,000 people gain access to improved water services and introduce PSP in the UWS sector with the SC signed in December 2012. Still, the development and sustainability of water services faces enduring challenges:

- The strong urban population growth generates a water demand that quickly overcomes the creation of additional supply capacity; water production deficits are compounded by bottlenecks in water storage and transmission.
- The restoration of water service in areas where the service has been interrupted for a long time requires investment expenditures that largely exceed REGIDESO's capacities of rehabilitation, particularly in Kinshasa.
- Even though the SC helped improve FM, the sustained improvement of REGIDESO's billing and collection performances is eventually contingent on customers' perception of improvements in the quality and quantity of services.
- A consensus has emerged on the fact that, in the medium-term, the UWS sector exhibits a limited potential for PSP options that would be more ambitious than the current SC.

4. In 2015, the sector actors (REGIDESO, the COPIREP and the Government) agreed to address the above challenges by

- (a) Designing a priority investment program to (i) create additional production capacity; (ii) eliminate bottlenecks; and (iii) restore services in areas deprived of water by the deteriorated conditions of their distribution networks and the insufficient water pressure and
- (b) Supporting further improvements of the quality and sustainability of services by (i) extending the duration of the SC and strengthening the effectiveness of the

performance contract and (ii) restoring maintenance and rehabilitation capacities within REGIDESO.

Relationship between Additional Activities, the PDO, and Challenges

5. In line with the PDO, the proposed AF will help scale up the results of the original project in developing access to sustainable water services by (a) continuing to support programs for constructing social water connections and public standposts, and by restoring services to populations that were deprived of water and (b) supporting efforts to improve REGIDESO’s operational performances and viability, particularly through the continuation of PSP arrangements. The AF will also seek to manage social tensions, promote social inclusion, and foster accountability through citizen engagement. The AF’s responses to these challenges are discussed below.

6. *Response to Access Challenges.* The AF activities will address the above-mentioned access challenges. Water services will be restored through the creation/rehabilitation of water production facilities (in Kinshasa, Matadi and Kindu), and the elimination of bottlenecks in storage, pumping and transmission (Kinshasa, Lubumbashi and Kindu). The construction of water transmission mains will make the water produced by the recently built/rehabilitated facilities available to the water distribution networks. The construction of additional water storage tanks combined with new pumping stations will improve water pressure in the distribution networks. The development of access will be pursued through the expansion of the secondary and tertiary water distribution networks and the construction of social connections and standposts in all targeted cities.

7. *Response to Sustainability Challenges.* The AF activities will also address the sustainability challenges. Table 2.1 summarizes the various aspects of sustainability, the current issues and how the AF will address and monitor them. The continuation of the SC will facilitate the implementation of the various action plans prepared by the SP to improve REGIDESO’s management information system, maintenance policies, commercial management and human resources management. The scope of the SC will be amended to focus on the field implementation of the action plans, and to take into account the SC’s external assessment that is being prepared. The AF will make funds available for spot repairs and rehabilitation activities that will be managed by the SP. In addition, the AF will help REGIDESO set up real-time monitoring of its technical operations and obtain feedback on the quality of services.

Table 2.1. AF’s Response to Sustainability Challenges

	Issues	AF Response	Monitoring
Client’s standpoint			
Reliability and continuity of service	Service interruptions, insufficient water quantity and water pressure	Increase of production capacity and elimination of bottlenecks in transmission, storage and distribution	<i>Percentage of inactive connections</i> † <i>Additional production capacity installed</i> † <i>Progress reports</i>
	Defective service connections	Rehabilitation programs	<i>Number of rehabilitated connections</i> †
	Inadequate response to complaints	Establishment of call center	<i>Client satisfaction</i> †

	Issues	AF Response	Monitoring
REGIDESO's standpoint			
Technical sustainability			
	Inadequate maintenance policies and procedures	Implementation of maintenance action plan prepared by the SP	Reports on execution of the SC
	Inadequate funding of maintenance and repair programs	Financing of Maintenance, Repair and Rehabilitation Fund	Fund disbursements
	Inadequate information on spot maintenance issues	Establishment of call center	Client satisfaction surveys
Customer Management			
	Low billing efficiency (technical and commercial water losses)	<i>Technical losses:</i> Rehabilitation of distribution networks Installation of meters Implementation of maintenance action plan <i>Commercial losses:</i> Implementation of customer management action plan prepared by the SP and of ERP software	<i>NRW</i> † <i>Metering ratio</i> † Reports on execution of the SC Reports on execution of the SC
	Low collection rate on private bills	Implementation of customer management action plan	<i>Collection rate (private customers)</i> † Reports on execution of the SC
Financial sustainability			
	Low staff productivity and excessive labor costs Unpaid water bills of public institutions	Implementation of staff improvement plan Financial covenant	<i>Share of labor costs in operating costs</i> † <i>Arrears on public water bills</i> † <i>Operating ratio</i> †

Note † Project's monitoring indicator

8. *Response to Social Challenges.* The AF activities will help mainstream citizen engagement by providing support to the following:

- (a) The implementation of the communication action plan to increase the beneficiary's access to information regarding their rights and responsibilities concerning their access to water
- (b) The use of Text Message (SMS) to collect beneficiary feedback and give project beneficiaries the opportunity to voice their opinions. This tool has been chosen for the sake of anonymity and objectivity. Two types of surveys will be conducted to measure the extent to which beneficiaries know their responsibilities regarding their access to water and to collect the beneficiaries' opinions
- (c) The broader customer satisfaction surveys

- (d) The dissemination of actions taken by the service providers in response to the beneficiary feedback
- (e) The implementation of public consultations, particularly in the event of potential economic loss or involuntary resettlements.

Detailed Project Activities

9. The final selection of activities was completed during appraisal to fit the financial envelope allocated to the AF.

Component A – Improvement and expansion of water supply services in targeted cities (US\$132.28 M). This component will comprise the following activities:

A. 1 Kinshasa – US\$98.06 M:

- (a) Restoration of water services in Kinshasa-West through (i) the construction of a water treatment plant (capacity: 110,000 m³ per day); (ii) the rehabilitation and reinforcement of feeder pipes (length: 21 km; nominal diameter (DN) 250 to 800 mm); and (iii) the rehabilitation and expansion of distribution networks (230 km) and the rehabilitation of 5,000 service connections
- (b) Development of access with (i) the construction of distribution networks in Kasavubu, Salongo North and South, and Makala/Elengesa; (ii) the commissioning of the Makala water storage tank (12,000 m³); and (iii) the supply and installation of 25,000 social connections
- (c) Supply of materials for the installation of 155,000 water meters and supply of master meters and 140,000 DN15-40 water meters

A. 2 Lubumbashi – US\$18.30 M:

- (a) Restoration of water services through (i) the rehabilitation of Kimilolo I and II pumping stations; (ii) the rehabilitation of distribution networks (115 km) and the rehabilitation of 5,000 service connections in Cité de Karavia, Kamalondo, Ruashi, Katuba I and III, Kenya and Upemba
- (b) Development of access through (i) the reinforcement and expansion of distribution networks (300 km) in CRAA, Luano, Hewabora, Kamisepe, Kisanga, Golf, Route Likasi/Péage, Joli Site, Kamasaka, Golf Tshiamalale, Kinsevere and Kalebuka and (ii) the supply and installation of 15,000 social connections

A.3 Matadi – US\$8.40 M:

- (a) Restoration of water services through (i) the rehabilitation of the Fleuve WTP (ii) the rehabilitation of distribution networks (45 km) and the rehabilitation of 1,500 service connections
- (b) Development of access with the supply and installation of 5,000 social connections

A.4 Kindu – US\$7.52 M:

- (a) Restoration of water services through (i) the supply and installation of a water treatment package unit with a capacity of 500 m³ per hour and (ii) the construction of a 1,000 m³ elevated storage tank with connecting pipe
- (b) Development of access through (i) the reinforcement and expansion of distribution networks; (ii) the supply and installation of 1,000 social connections and (iii) the construction of 50 standposts and tertiary networks (50 km).

Component B – Support to sector reform, capacity building, improved governance and project management (US\$33.72 M). This component will comprise the following activities:

B.1 Services Contract and Performance Contract - (US\$8.04 M):

- (a) Three-year extension of the SC
- (b) Semestrial audits of the SC and the performance contract over three years.

B.2 Repair, Replacement and Rehabilitation Fund - US\$2.00 M: This sub-component will provide funds for the purchase of equipment and materials required for maintenance, repairs and replacement activities.

B.3 Staff Improvement Plan - US\$0.60 M: this subcomponent will support the implementation of REGIDESO's staff improvement plan.

B.4 Communication Program - US\$1.50 M: this subcomponent will support the implementation of REGIDESO's communication action plan.

B.5 Institution Building and Strengthening of Capacities - US\$13.86 M

- (a) Institutional support to the MP and the Ministry of Energy and Water Resources
- (b) Training support including the rehabilitation and equipment of REGIDESO training centers (Kinshasa and Lubumbashi), and support to the implementation of the annual training plans of REGIDESO
- (c) Study of the next round of the sector reform, including the impact of decentralization on the institutional framework
- (d) Support to REGIDESO upgrading, including (i) assistance to the implementation of the EDP Master Plan; (ii) preparation of a financial model of REGIDESO; and (iii) a water tariff study
- (e) Water supply master plan studies in four cities
- (f) Miscellaneous technical studies (for the preparation of a follow-up project)
- (g) Support to incremental operating costs and technical assistance for the COPIREP
- (h) Support to operating costs and equipment of the PIU

B.6 Improved Governance in the Water Sector - US\$1.43 M

- (a) Customer satisfaction surveys
- (b) Support to the installation of the operations control platform in Kinshasa
- (c) Support to the monitoring of citizen engagement

B.7 Reduction and Control of Water Consumption (IO): no additional activity

B.8 Sanitation Strategies - US\$0.20 M: this subcomponent will finance a study of the institutional framework of the urban sanitation sector.

B.9 Monitoring and Evaluation (M&E), Works Supervision and Audits - US\$6.09 M:

- (a) Support to the implementation of the ESMP
- (b) Impact evaluation studies
- (c) Support to M&E activities
- (d) Design studies and supervision of works
- (e) Technical and financial audits over 2016-2018 and at project completion.

Appendix to Annex 2

Status of the Activities Financed under the Original Project

Project Components	Costs (SDR M)			Activity/Output Indicator from the PAD	Current Status
	Original Allocation	Revised Allocation	Current Disbursements		
A.1 Kinshasa A.2 Lubumbashi A.3 Matadi	57.70	83.69	83.90	Construction of water production facilities Construction of 651 km of distribution pipes Construction of 41,000 service connections and 400 standposts Rehabilitation of 110,000 service connections Supply of 275,000 water meters	Water production capacity increased by 64,000 m ³ /day 785 km of pipes constructed 42,382 service connections and 405 standposts constructed 89,879 connections rehabilitated 275,000 meters supplied
B.1 Management Contract	11.10	6.71	5.14	Financing of a 5-year MC and related audits	3-year Services Contract being implemented (end of contract: March 2016)
B2. Repair, Replacement and Rehabilitation Fund	4.70	6.57	6.81	Fund managed by the private operator	All supplies completed, including chemicals, equipment and ERP software
B.3 Severance Program	21.00	8.35	8.10	Design and implementation of REGIDESO's Staff Retrenchment Plan (no quantitative target)	SRP completed. Reduction of 10% of REGIDESO staff (456 employees)
B.4 Communication Program	17.50	21.31	19.75	Strengthening of REGIDESO's communication team Information campaigns on utility governance and billing Communication plan on hygiene, health and HIV	All activities have been completed
B.5 Capacity Building for Ministries, REGIDESO and the COPIREP				Training of and technical assistance to sector actors Support to project management (operating costs, consultants and equipment for the PIU and the COPIREP)	All activities have been completed, excepted the tariff study and the financial modeling of REGIDESO Procurement of equipment completed; recurrent activities nearing completion
B.6 Improved Governance in the Water Sector				REGIDESO website Customer satisfaction surveys	All activities have been completed
B.7 Implementation of an Action Plan to Reduce and Control Water Consumption by Public Institutions (IO)				Review and upgrading of billing/payment procedures Verification of eligible customers Diagnostic studies and rehabilitation of plumbing installations of major consumers	All activities have been completed, excepted the rehabilitation works

B.8 Sanitation Studies				Sanitation strategies and action plans for Lubumbashi and Matadi	Two strategic sanitation plans completed
B.9 Monitoring and Evaluation, Supervision of Works and Audits					All activities have been implemented and are nearing completion
Project Preparation Advance	0.90	0.83	0.51		
Unallocated	14.60	0.04	0.00		
	127.50	127.50	124.21		

Annex 3: Detailed Costs of Additional Activities

DRC: Urban Water Supply Project - Additional Financing (P155266)

N°	Component	Quantity	Unit	Unit Price (USD)	Total Cost (USD)
A	IMPROVEMENT AND EXPANSION OF WATER SUPPLY SERVICES IN TARGETED CITIES				132,281,000
A.1	Kinshasa Water Supply				98,056,000
1.1	Expansion of Water Production Capacity (110,000 m³ per day)				47,200,000
1.1.1	Civil works for raw water intake	1	Lump sum	3,000,000	3,000,000
1.1.2	Pier	1	Lump sum	1,500,000	1,500,000
1.1.3	Supply and installation of equipment for raw water intake	1	Lump sum	2,500,000	2,500,000
1.1.4	Intake pipe DN 1400	2,500	Meter	1,500	3,750,000
1.1.5	Electric line intake	1	Lump sum	1,500,000	1,500,000
1.1.6	Site preparation and studies	1	Lump sum	2,000,000	2,000,000
1.1.7	Headworks and flash mixer	1	Lump sum	1,300,000	1,300,000
1.1.8	Clarifiers	1	Lump sum	5,000,000	5,000,000
1.1.9	Filters and treated water storage tank	1	Lump sum	7,000,000	7,000,000
1.1.10	Pumping station (civil works and equipment)	1	Lump sum	3,000,000	3,000,000
1.1.11	Storage, preparation and injection of chemicals (civil works and equipment)	1	Lump sum	3,000,000	3,000,000
1.1.12	Operations building	1	Lump sum	1,000,000	1,000,000
1.1.13	Electric line (water treatment and pumping)	1	Lump sum	2,000,000	2,000,000
1.1.14	Ancillary works	1	Lump sum	2,000,000	2,000,000
1.1.15	Disposal of wastewater and sludge	1	Lump sum	4,500,000	4,500,000
1.1.16	Chlorination (civil works)	1	Lump sum	700,000	700,000
1.1.17	Chlorination (equipment)	1	Lump sum	450,000	450,000
1.1.18	Testing and operational start-up	1	Lump sum	3,000,000	3,000,000
1.2	Rehabilitation and reinforcement of feeder pipes in Kinshasa-West (21 km DN 250 to 800 mm)				11,746,000
1.2.1	Rehabilitation of DN 800 ductile cast iron (DCI) pipe Kikwit	2,000	Meter	800	1,600,000
1.2.2	Rehabilitation of DN 250 steel pipe Gombele-CNPP	1,100	Meter	350	385,000
1.2.3	Supply and installation of DN 280 polyethylene high-density (PEHD) pipe avenue Ndjoko	1,300	Meter	170	221,000
1.2.4	Supply and installation of DN 900 DCI transmission pipe Ozone-Météo	4,200	Meter	1,200	5,040,000
1.2.5	Supply and installation of DN 500 DCI transmission pipe Météo-Djelo Binza	4,200	Meter	500	2,100,000
1.2.6	Reinforcement and extension of primary network pipes DN 300 to 500	8,000	Meter	300	2,400,000
1.3	Rehabilitation and extension of distribution networks and service connections				8,550,000
1.3.1	Secondary networks PEHD DN 110 to 280	30,000	Meter	90	2,700,000
1.3.2	Tertiary networks DN 63 to 90	200,000	Meter	20	4,000,000
1.3.3	Rehabilitation of service connections	5,000	Number	370	1,850,000
1.4	Supply and laying of PEHD pipes DE 75 to 210 with connections to existing networks in Kasavubu, Salongo North and South, and Makala/Elengesa	1	Lump sum	800,000	800,000
1.5	Makala storage tank and pumping station				600,000

N°	Component	Quantity	Unit	Unit Price (USD)	Total Cost (USD)
1.5.1	Commissioning of Makala storage tank (12,000 m ³)	1	Lump sum	600,000	600,000
1.6	Construction of social connections				9,250,000
1.6.1	Construction of social connections				
1.6.1.a	Supplies	25,000	Number	300	7,500,000
1.6.1.b	Installation	25,000	Number	70	1,750,000
1.7	Materials for installation of 155,000 water meters				7,110,000
1.7.1	Valves, fittings and anti-fraud equipment	155,000	Kit	40	6,200,000
1.7.2	Galvanized iron pipes	270,000	Meter	3	810,000
1.7.3	Tools	1	Lump sum	100,000	100,000
1.8	Supply of water meters				5,100,000
1.8.1	DN 15 to 40 meters	140,000	Number	35	4,900,000
1.8.2	Master meters	400	Number	500	200,000
1.9	Meter Installation Program				7,700,000
1.9.1	Kits for rehabilitation of connections with meter installation	110,000	Number	70	7,700,000
A.2	Lubumbashi Water Supply				18,300,000
2.1	Rehabilitation of pumping stations				1,100,000
2.1.1	Replacement of surge protection equipment at Kimilolo I	1	Lump sum	100,000	100,000
2.1.2	Rehabilitation of Kimilolo II pumping station				1,000,000
2.1.2 a	Replacement of electrical and electro-mechanical equipment	1	Lump sum	800,000	800,000
2.1.2 b	Rehabilitation of valves and fittings	1	Lump sum	100,000	100,000
2.1.2 c	Rehabilitation of surge protection equipment	1	Lump sum	100,000	100,000
2.2	Rehabilitation of distribution networks and service connections at Cité de Karavia, Kamalondo, Ruashi, Katuba I and III, Kenya and Upemba				4,450,000
2.2.1	Secondary networks PEHD DN 110 to 280	15,000	Meter	40	600,000
2.2.2	Tertiary networks DN 63 to 90	100,000	Meter	20	2,000,000
2.2.3	Rehabilitation of service connections	5,000	Number	370	1,850,000
2.3	Rehabilitation and extension of distribution networks at CRAA, Luano, Hewabora, Kamisepe, Kisanga, Golf, Route Likasi/Péage, Joli Site, Kamasaka, Golf Tshiamalale, Kinsevere and Kalebuka				7,200,000
2.3.1	Secondary networks PEHD DN 110 to 280	60,000	Meter	40	2,400,000
2.3.2	Tertiary networks DN 63 to 90	240,000	Meter	20	4,800,000
2.4	Construction of social connections				5,550,000
2.4.1	Construction of social connections	15,000	Number	370	5,550,000
A.3	Matadi Water Supply				8,405,000
3.1	Rehabilitation of the Fleuve WTP	1	Lump sum	1,800,000	1,800,000
3.2	Construction of social connections				1,850,000
3.2.1	Construction of social connections	5,000	Number	370	1,850,000
3.3	Rehabilitation and extension of distribution networks and service connections				4,755,000
3.3.1	Secondary networks PEHD DN 110 to 280	15,000	Meter	130	1,950,000
3.3.2	Tertiary networks DN 63 to 90	30,000	Meter	75	2,250,000
3.3.3	Rehabilitation of service connections	1,500	Number	370	555,000
A.4	Kindu Water Supply				7,520,000
4.1	Expansion of Water Production Capacity				3,000,000
4.1.1	Water intake	1	Number	500,000	500,000
4.1.2	Supply and installation of a water treatment package unit (500 m ³)	1	Number	2,000,000	2,000,000

N°	Component	Quantity	Unit	Unit Price (USD)	Total Cost (USD)
	per hour)				
4.1.3	Construction of a 250 m ³ water storage tank and of a pumping station	1	Number	200,000	200,000
4.1.4	Supply and installation of 300 kVA diesel generators	2	Number	150,000	300,000
4.2	Supply and laying of a discharge pipe and construction of an elevated storage tank				2,500,000
4.2.1	Discharge pipe DN 350	5,000	Meter	300	1,500,000
4.2.2	Water storage tank 1,000 m ³	1	Lump sum	1,000,000	1,000,000
4.3	Rehabilitation and extension of distribution network and construction of service connections and standposts				2,020,000
4.3.1	Rehabilitation and extension of the distribution network	1		500,000	500,000
4.3.2	Construction of social connections	1,000	Number	370	370,000
4.3.3	Construction and equipment of standposts	50	Number	3,000	150,000
4.3.4	Tertiary distribution pipes for standposts	50,000	Meter	20	1,000,000
B	SUPPORT TO SECTOR REFORM, CAPACITY BUILDING, IMPROVED GOVERNANCE AND PROJECT MANAGEMENT				33,719,000
B.1	Services Contract and Performance Contract				8,040,000
1.1	Extension of Services Contract	3	Year	2,500,000	7,500,000
1.2	Technical and financial audits of Services Contract and Performance Contract	3	Year	180,000	540,000
B.2	Repair, Replacement and Rehabilitation Fund				2,000,000
B.3	Staff Improvement Plan				600,000
3.1	Study of the implementation of REGIDESO's staff improvement plan	1	Lump sum	600,000	600,000
B.4	Communication Program				1,500,000
4.1	Support to the implementation of the communication action plan	1	Lump sum	1,500,000	1,500,000
B.5	Capacity Building and Project Management				13,860,000
5.1	Institutional support to the Ministry of Portfolio and the Ministry of Energy and Water Resources	1	Lump sum	300,000	300,000
5.2	Rehabilitation and equipment of REGIDESO training centers (Kinshasa and Lubumbashi)	1	Lump sum	500,000	500,000
5.3	Support to the implementation of the training plans	3	Number	300,000	900,000
5.4	Financial model of REGIDESO	1	Lump sum	200,000	200,000
5.5	Water tariff study	1	Lump sum	500,000	500,000
5.6	Master plan studies in four cities	4	Number	300,000	1,200,000
5.7	Study of the next round of sector institutional reform	1	Lump sum	600,000	600,000
5.8	Assistance to the implementation of the EDP Master Plan	1	Lump sum	500,000	500,000
5.9	Miscellaneous technical studies (follow-up project)	1	Number	1,500,000	1,500,000
5.10	Operating costs of the COPIREP	3	Number	120,000	360,000
5.11	Technical assistance for the COPIREP	3	Number	50,000	150,000
5.12	Operating costs of the PIU	3	Number	2,300,000	6,900,000
5.13	Equipment for the PIU				250,000
B.6	Improved Governance in the Water Sector				1,429,000
6.1	Customer satisfaction surveys	2	Number	250,000	500,000
6.2	Support to the installation of the operations control platform in Kinshasa	1	Lump sum	500,000	500,000
6.3	Citizen engagement activities	1	Lump sum	429,000	429,000
B.7	Reduction and Control of Water Consumption (IO)				0

N°	Component	Quantity	Unit	Unit Price (USD)	Total Cost (USD)
	Memorandum Item				
B.8	Sanitation Strategies and Programs				200,000
8.1	Study of institutional framework of the urban sanitation sector				200,000
B.9	M&E, Supervision of Works and Audits				6,090,000
9.1	Support to the implementation of the ESMP	1	Lump sum	500,000	500,000
9.2	Impact evaluation studies (UWSP and AF)	2	Number	150,000	300,000
9.3	Support to M&E	1	Lump sum	50,000	50,000
9.4	Design studies and works supervision				4,800,000
9.5	Technical audits	2	Number	100,000	200,000
9.6	Financial audits	3	Number	80,000	240,000
TOTAL					166,000,000

Annex 4: Implementation Arrangements

DRC: Urban Water Supply Project - Additional Financing (P155266)

1. **The implementation arrangements under the AF will remain unchanged.** The following gives an update on the existing implementation arrangements, and provides updated information on fiduciary aspects and monitoring and evaluation.
2. REGIDESO's PIU will remain responsible for general coordination, financial management, planning and reporting activities, and monitoring of the execution of the ESMP. The COPIREP will continue to implement activities related to the institutional reform (including the SC) and to the optimization of REGIDESO's staff, under the agreement signed between the COPIREP and REGIDESO. The implementing and coordinating performance of the PIU was satisfactory under the original project. The Project Implementation Manual was updated and approved by the Bank on December 15, 2015 to include the new activities under the AF.
3. **PIU Staffing.** The PIU was previously responsible for implementing both the original project and a parallel AfDB-financed project. The latter closed in June 2015 and a new PIU's organization chart and staffing plan were proposed during the pre-appraisal mission to adjust to the AF workload (see appendix to this annex). The staffing plan was finalized and agreed upon at appraisal.
4. **Oversight.** The Interministerial Steering Committee set up under the original project will continue to make overall decisions on project implementation as well as review the annual program of project's activities, review progress made on a regular basis, and assess the quality of project implementation. The implementation of the AF will also rely on the Local Steering Committees (LSCs) that were set up in each target city to oversee day-to-day project implementation and provide feedback at the local level. An LSC will be created in Kindu⁶. The Government will ensure that both the Interministerial Steering Committee and the LSCs include women as members.
5. **Financial Management.** The current FM system will be maintained throughout the implementation of the project. The project has submitted on time the quarterly unaudited Interim Financial Reports (IFRs) as well as the annual audit reports which were certified by the auditor. It is expected that these reports will continue to be submitted on time for the new additional funds. The project's accounting software and the format of the IFR of the original project have been updated to include the new elements introduced under the AF.
6. **Disbursement arrangements.** The original grant's funds were allocated to five different disbursement categories, to which were attached specific disbursement conditions. These conditions have been met and are no longer required under the AF. The AF's disbursement categories would thus be merged into a single category.

⁶ The LSCs comprise representatives of the beneficiary provinces and cities, REGIDESO, Ministries of Energy, Finance, Budget, and Planning, and representatives of local groups.

7. The grant would finance 100 percent of eligible expenditures. A new designated account (DA) will be established in a commercial bank acceptable to IDA. The ceiling of the DA will be set at US\$ 14.5 million, which represents six months of forecasted project expenditures to be paid from the DA. Advances to the DA will be made against withdrawal applications supported by Statements of Expenditures and other documents as specified in the Disbursement Letter. All supporting documents will be retained by the project team and readily accessible for review by periodic IDA implementation support missions and external auditors. The current disbursement methods (Advance, Reimbursement, Direct Payment and Special Commitment) will continue to be used under this additional financing. The option to disburse against submission of quarterly unaudited IFRs could be considered at any time subject to both the quality and timeliness of the IFRs submitted to the Bank, as well as the overall FM arrangements as assessed in due course. In this case, the DA ceiling would be equal to the cash forecast for two quarters as provided in the quarterly unaudited IFRs.

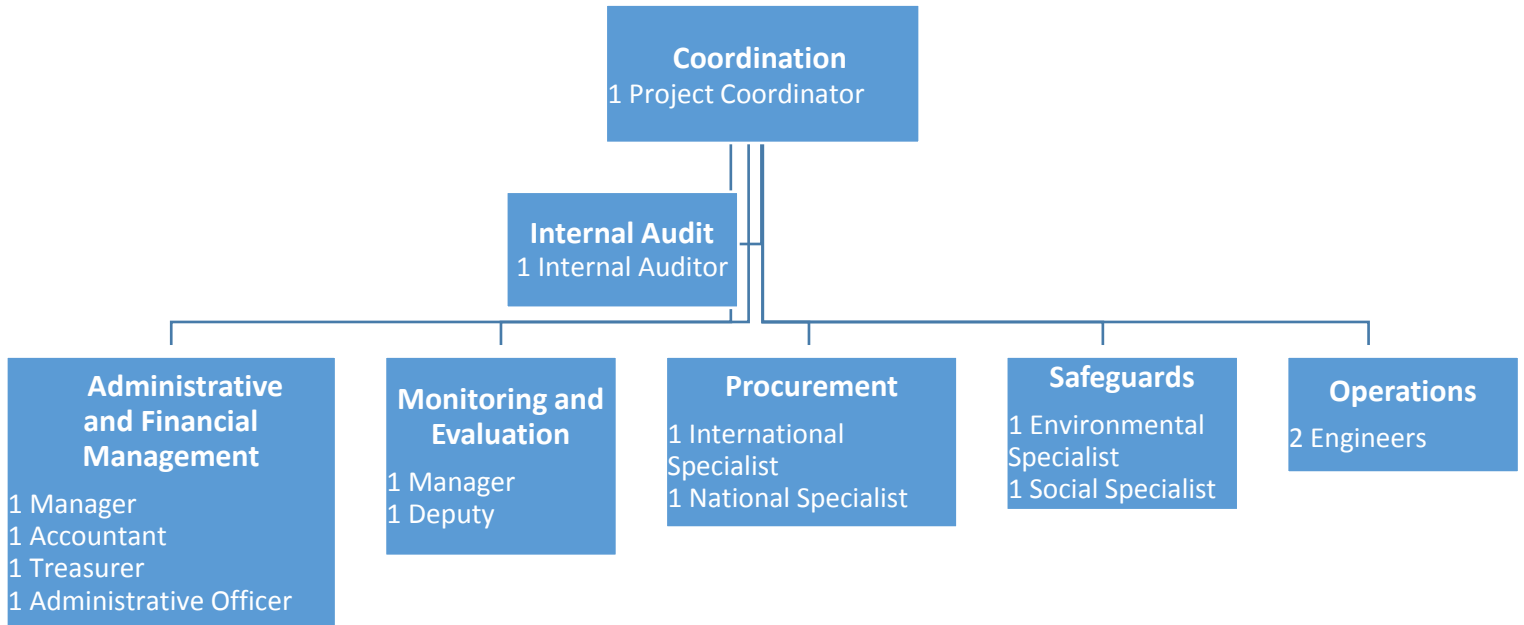
8. **Procurement.** The procurement arrangements of the original project will continue to apply as follows:

- The PIU will manage the procurement of all activities under Component A (Water Supply and Sanitation Infrastructure).
- The COPIREP will continue to manage the procurement of activities related to sub-component B1 (Institutional Reform) and B3 (Staff Optimization); the PIU will manage the procurement of all other activities under Component B.

9. The Procurement Plan of the AF has been prepared on the basis of the current Guidelines and was reviewed during project appraisal and agreed at negotiations.

10. **Monitoring and Evaluation.** The M&E arrangements of the original project will continue to apply. REGIDESO's management information system improved markedly under the original project, as more reliable data were produced by the SP and were further checked and validated by the technical auditor.

Appendix to Annex 4
PIU: Organization Chart and Staffing Plan



Annex 5: Updated Economic and Financial Analysis
DRC: Urban Water Supply Project - Additional Financing (P155266)

1. The Economic Analysis section of this annex aims to update the cost-benefit analysis carried out for the original project by taking into account (a) the actual implementation, to date, of the original project and (b) the impact of the activities proposed in the AF.
2. The Financial Analysis section aims to (a) assess the outcome of the original project with regard to the FM of REGIDESO and its financial situation and (b) assess the impact of the AF's activities on the financial position of REGIDESO.
3. These assessments show that (a) the original project and the AF generate satisfactory EIRRs, even though all the cost savings expected from the sector reform as contemplated in the PAD have not yet materialized; (b) REGIDESO's financial restructuring has been completed and the reliability of its FM has substantially improved; and (c) independently of the improvement of operational performances, the restoration of REGIDESO's financial viability is contingent on the Government's commitment to effectively comply with its obligation to pay the water bills of public users.

Economic Analysis

4. **Methodology and Scope.** The cost-benefit analysis has been updated to assess the EIRR and the NPV of all activities carried out under the original project and the proposed AF. The PAD methodology remains the same. Project benefits include the increased water consumption, the consumer surplus accruing to beneficiaries shifting from other water sources to water service connections or standposts, and cost savings that result from the improvement of operational performances. Project costs include capital costs (100 percent of the costs of activities under the original project and the AF), incremental operating costs (energy and chemicals costs, commercial costs linked to the new customers and maintenance costs) and renewal costs.
5. **Update of Basic Assumptions.** The basic assumptions of the PAD are updated to reflect the outcome of the parent project with regard to the current values of per capita consumption, average water revenues (for REGIDESO) and prices (at the consumer level), and operating costs, as in table 5.1.

Table 5.1 – Water Consumption, Prices and Operating Costs

Water Consumption and Prices				
	No. of People Served	Consumption (lpcd)	Average Revenue (CF/m ³)	Average Price (CF/m ³)
With project				
Ordinary connections			665	
Social connections	30	40	458	458
Standposts	300	15	266	500
Without project				
Standposts		15		500
Vendors		10		1000

Operating Costs				
	Kinshasa	Lubumbashi	Matadi	Kindu
Energy consumption				
kWh/m ³ produced	0.405	0.304	1.000	0.437
CF/m ³ produced	63.6	47.7	156.9	68.6
Chemicals				
CF/m ³ produced	15.7	5.0	24.3	14.4
Commercial costs		CF 6,000/connection		
Maintenance costs		0.5% of capital costs		

Source: REGIDESO/SP and Bank estimates

6. Table 5.2 shows that the actual operating performances of REGIDESO are also significantly different from the PAD assumptions. The latter were based on the expectation that the MC would be effective in 2010 and would enable a swift improvement of performances. Actually, the MC was replaced by an SC that became effective three years later and under which the private partner cannot unilaterally carry out internal corporate changes and management decisions.

Table 5.2 - REGIDESO: Actual and Expected Values of Operating Indicators

Indicators	2010	2011	2012	2013	2014	2015
NRW (%):						
PAD	42	39	36	33	29	29
Actual			42	44	43	40
Metering Rate (%):						
PAD	57	70	76	82	88	88
Actual			32	29	36	48
Inactive Connections (%):						
PAD	37	30	26	23	20	20
Actual			35	36	34	34

Source: PAD and Implementation Status and Results Reports (data validated by SP from 2013 onwards)

7. **Results.** The results of the updated analysis, together with the results of the PAD analysis of the original project, are summarized in table 5.3. For the sake of comparison, the discount rate is the rate used in the PAD analysis (12 percent).

Table 5.3 -Results of the Updated Economic Analysis

	Unit	Original Project & Results	Original Project and AF (updated results)
NPV @12%	US\$ M	132.0	20.9
EIRR	%	41.0	13.7

Using the current recommended rate for sustainable development projects (6 percent), the NPV of the overall project (original project and AF) will amount to US\$226.8 million.

8. The EIRR and the NPV of the overall project (original project and AF) are significantly lower than the PAD estimates for the original project. This decrease is not driven by the additional activities. It is linked to the actual pace of implementation of the sector reform under the original project and is mostly attributable to a sharp decrease of the cost savings that were expected from the improvement of REGIDESO's performances under the MC. Part of these cost savings will take place under the SC, but with a substantial delay and to a lesser extent. The overall results remain, however, satisfactory.

Financial Analysis

Outcome of the Original Project

9. *Corporatization and Financial Restructuring.* The original roadmap of the reform of the UWS sector set up the corporatization of REGIDESO and its financial restructuring as preconditions to PSP. Both actions were completed. REGIDESO's legal status was actually modified and transformed in a commercial company on December 23, 2010. REGIDESO's financial restructuring was carried out in the context of a global restructuring of public enterprises led by the MP and the COPIREP. It was initiated in 2010 with an inventory of fixed assets and a reevaluation of the company's equity capital, followed in 2012-2013 by a comprehensive settlement of cross-debts (including arrears on water bills, suppliers, taxes and on-lent debt) between REGIDESO, other parastatals and the Government. REGIDESO's equity and working capital have been restored, as shown in table 5.4.

Table 5.4 - Impact of Financial Restructuring (CF Million)

Year	2009	2012	2013	2014
Net Equity	-60,818	630,926	709,158	698,865
Working Capital	-134,317	-92,869	20,778	29,051

Source: REGIDESO Financial Statements

10. *Impact of the Services Contract.* The intervention of the SP has improved the transparency and reliability of REGIDESO's FM. The latter, which used to be overwhelmed by the uncontrolled power left to regional departments, was unified and the revenue and expenditure flows are centralized and under control. Accounting now follows the SYSCOHADA system applied in most countries of West and Central Africa and the auditors gave a clean opinion on 2014 financial statements. This substantial progress should be reinforced by the implementation of the ERP software that was recently acquired by REGIDESO, which will enable to fully integrate FM with the management of human resources, assets, customers and maintenance activities.

11. *Current Financial Situation.* The operating results of REGIDESO have substantially improved since 2009 and particularly since the arrival of the SP, as shown in table 5.5. However, two important elements severely hamper the restoration of REGIDESO's financial viability. First, although the SRP was satisfactorily carried out and led to a reduction of the number of employees by 450 people, the financial benefits were largely offset by uncontrolled increases of the remaining staff's remuneration. Second, after the financial restructuring and the 2012 cross-debt settlement, the Government paid less than 10 percent of its water bills annually.

Table 5.5 - REGIDESO: Selected Financial Data and Indicators (CF Million)

Year	2009	2012	2013	2014	Variation 2009-2014
Operating revenues	121,336	138,273	141,864	162,884	+34%
Cash operating expenditures	161,883	120,250	127,436	130,146	-20%
<i>o/w: Labor costs</i>	31,875	45,497	50,736	50,871	+60%
<i>Energy</i>	11,548	16,647	17,373	15,725	+36%
<i>Chemicals</i>	5,561	7,541	9,106	6,252	+12%
Operating costs	188,589	170,435	180,621	173,792	-8%
Operating loss	-67,252	-32,162	-38,758	-10,908	-84%
Net loss	-95,416	-32,743	-40,570	-11,403	-88%
Net cash	7,632	-4,464	-3,868	88	
Indicators:					
Working ratio	133.4%	87.0%	89.8%	79.9%	
Operating ratio	64.3%	81.1%	78.5%	93.7%	
Customers receivables (months):	20.9	9.9	12.5	14.1	-33%
• <i>Private customers</i>	6.5	9.6	8.7	8.6	+32%
• <i>IO</i>	59.6	11.1	25.5	34.4	-42%
Suppliers payables (months)	35.7	40.5	8.1	8.0	-78%

Source: REGIDESO Financial Statements

12. The public arrears on water bills amounted in October 2015 to CF 84,881 M (equivalent to more than three years of billing). The improvement of the working ratio since 2009 should not hide the fact that the cash shortage has a negative impact on maintenance expenditures and the sustainability of facilities.

13. *Water Tariffs.* On May 20, 2015 The Government approved a revision of REGIDESO's tariffs (the previous revision took place in May 2010). REGIDESO's tariffs are set in US dollars. The tariff schedule is provided in the appendix to this annex. The current level of water rates, with a weighted average value of US\$0.82 per m³, is comparable to the rates observed in the sub-region. In normal operating conditions (with regard to billing and collection), the current water rates should enable REGIDESO to cover its operating costs⁷. A water tariff study will be financed under the AF and will focus on the efficiency and equity of the tariff structure. The revision of the tariff structure is covenanted in the FA.

Financial Perspectives

14. The extension of the SC and the implementation of the proposed activities of the AF under Component B will help improve customer management and maintenance policies and support actions to control staff costs. However, the restoration of REGIDESO's financial viability is eventually contingent upon the Government's regular payment of the water bills of public institutions, which should be monitored and covenanted in the FA.

15. *Addressing Payment Arrears on Public Water Bills.* Following the instructions of the Prime Minister, the MP, the Ministry of Finance and REGIDESO are currently working on the public arrears issue and are preparing an agreement including (a) an exchange of cross-debts

⁷ The abundant water resources of DRC and the proximity of water production facilities to the consumers should generate a substantial advantage in production costs to REGIDESO, when compared to West African utilities (again in normal operating conditions).

between REGIDESO and the Government; (b) arrangements to settle the remaining balance of unpaid water bills; (c) the reduction of beneficiaries of public water for domestic use; (d) an action plan to reduce wastage in public water consumption; and (e) improved mechanisms for budgeting and paying current water consumption. The FA will thus include covenants on the adoption and execution of this agreement.

16. *Financial Forecasts and Modeling.* Sub-component B.5 of the AF will help prepare a financial model of REGIDESO, which will be used as a tool for rate-setting and optimizing investment selection and financing. Pending the preparation of the financial model, REGIDESO carried out medium-term financial forecasts, which are summarized in table 5.6.

Table 5.6 – Medium-Term Financial Forecasts: Selected Data and Indicators (CF Million)

Year	2015	2016	2017	2018
Operating revenues	162,151	196,588	211,820	236,555
Cash operating expenditures	142,927	158,065	168,976	178,517
<i>o/w Staff costs</i>	51,442	53,947	56,787	59,660
Operating costs	167,269	193,233	210,442	221,341
Operating income	-5,117	3,355	1,378	15,215
Net income	-8,188	1,198	209	9,197
Net equity	690,677	691,875	692,084	701,281
Working capital	62,932	113,940	134,047	168,938
Net cash	-3,097	-4,096	-5,104	1,899
Indicators:				
Working ratio	88.1%	80.4%	79.8%	75.5%
Operating ratio	96.9%	101.7%	100.7%	106.9%
Share of labor costs	36.0%	34.1%	33.6%	33.4%
Customers receivables (months):	17.5	11.4	10.7	10.7
Suppliers payables (months)	9.9	2.8	2.8	2.8

Source: REGIDESO

17. The above results show (a) that REGIDESO will achieve financial equilibrium in 2018, with a positive net cash position and full coverage of O&M costs and (b) a substantial improvement of the short-term assets and liabilities, resulting from the improvement of commercial management and the settlement and payment agreement.

18. The financial impact of the water supply components of the original project and of the additional activities can be measured by the Financial Internal Rate of Return (FIRR). The financial cash-flow stream is derived from the economic cash-flows by eliminating the benefits that do not accrue to REGIDESO (consumer surplus) and taking into account the actual revenue collection. The FIRR is estimated at 9.2 percent. The PAD did not include an FIRR estimate.

Appendix to Annex 5
REGIDESO: Water Tariffs (as of May 20, 2015)

Category	US\$/m ³	CF/m ³
Domestic		
0 to 10 m ³ / month	0.29	266
11 to 25 m ³ / month	0.52	477
26 to 40 m ³ / month	0.66	606
More than 40 m ³ /month	0.76	698
Intermediate		
Social	1.37	1,258
Agro-pastoral	1.53	1,405
Other	1.62	1,487
Standposts		
Single Tranche	0.29	266
Commercial		
0 to 100 m ³ / month	2.62	2,405
101 to 500 m ³ / month	3.14	2,883
More than 500 m ³ /month	3.68	3,378
Industrial		
Gecamines	1.11	1,019
SNCC	1.24	1,138
Breweries	3.71	3,406
Other	4.69	4,305
IO		
Single Tranche	1.05	964
Average Tariff	0.82	753