

**PROJECT INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

Report No.: PIDA53280

<b>Project Name</b>	Water Service & Institutional Support II (P149377)
<b>Region</b>	AFRICA
<b>Country</b>	Mozambique
<b>Sector(s)</b>	Water supply (100%)
<b>Theme(s)</b>	Urban services and housing for the poor (100%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P149377
<b>Borrower(s)</b>	Government of Mozambique
<b>Implementing Agency</b>	Ministry of Economy and Finance
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared/Updated</b>	12-Feb-2016
<b>Date PID Approved/Disclosed</b>	16-Feb-2016
<b>Estimated Date of Appraisal Completion</b>	29-Feb-2016
<b>Estimated Date of Board Approval</b>	29-Mar-2016
<b>Appraisal Review Decision (from Decision Note)</b>	

**I. Project Context**

**Country Context**

Mozambique has seen substantial economic growth since the end of its devastating 15-year-long civil war in 1992. Between 1993 and 2013, real Gross Domestic Product (GDP) growth averaged 7.4 percent annually. The early years of this growth was the result of post-conflict investment in infrastructure and agriculture. More recently, this growth has been the result of high foreign direct investment in large, rapidly expanding extractive industries and related infrastructure investments, with limited linkages to local economies.

Despite this strong economic growth, Mozambique remains one of the poorest countries in the world, ranking 178 out of 187 countries in the 2013 Human Development Index. Poverty has fallen only slightly, from 56 percent in 2003, to 52 percent in 2009. Nearly 60 percent of the population lives on less than US\$ 1.25 per day (2008). Among numerous other statistics confirming the country's relative poverty, inadequate water supply and sanitation results in regular cholera outbreaks (on average 7,500 cases per year), widespread diarrheal disease (on average 715,000 reported cases per year), high child mortality (108 per 1,000 live births) and stunting in children under five (43 percent). The burden of water- and sanitation-related diseases is heavier in some of Mozambique's principal cities, with 20 percent of cholera cases and 6 percent of diarrheal cases in

the last five years, concentrated in the cities of Pemba, Tete and Beira. The World Health Organization (WHO) estimates that approximately 17 percent of under-five deaths in Mozambique are the result of diarrheal diseases, the largest single cause of childhood deaths.

### **Sectoral and institutional Context**

Urban water supply in Mozambique has improved dramatically over the past decade. The Government began to undertake serious water policy reforms in 1998, when it first set out its policy of a delegated management framework. Under the policy, water supply assets remain the property of the Government, to be managed by a state-owned asset holding company, while water supply systems are operated under contract by independent providers, on a commercial basis.

The reform process has been guided by the Government's water sector policy, including the delegated management framework, and has involved the creation of an institutional landscape that promotes: (a) a clear separation of functions (policy, investments, operation and service regulation), (b) autonomy, local/regional accountability and efficiency in service delivery, and (c) full cost recovery and financial sustainability. The long-term, strategic objectives of the sector reforms are to achieve universal coverage, to support independence through enabling self-financing or private-sector financing of investments, and to create robust institutional structures and supporting mechanisms that respond to local demands for sustainable water service delivery.

Under the first phase of these reforms, the Government established an asset holding company – the Water Supply Asset Holding and Investment Fund (Fundo de Investimento e Património do Abastecimento de Água, [FIPAG]) – for the water supply assets of large urban areas, and established an independent water regulator, the Water Regulatory Council (Conselho de Regulação de Águas, CRA). Most large secondary and tertiary city water systems are currently operated by FIPAG.

In November 2011, an update of the water supply policy and strategy was approved by the Council of Ministers. The strategy envisages 80 percent service coverage for the urban population by 2025, reaffirms the delegated management framework, promotes commercial sustainability in the operational regions of FIPAG, and supports local private-sector involvement in water supply operations and capacity building. Under the proposed Project, FIPAG will establish three autonomous, decentralized, regional utilities (North, Central and South), each responsible for water supply in five to seven cities.

It is within this strategic sector context that WASIS II project has been defined. The proposed institutional activities and infrastructure investments will support the long-term objectives of the reform process, particularly through increasing water service coverage in key cities and strengthening institutional capacity and regulatory frameworks for water supply services in the northern, southern, and central Regions of Mozambique. Furthermore, the proposed investments aim to leverage wider economic benefits by focusing on growth poles, or strategic cities that are active centers of trade and commerce along important development corridors. In addition, the project will take full advantage of opportunities to reduce extreme poverty, by working within some of the poorest provinces in Mozambique and extending piped water services to predominantly low-income households in peri-urban areas. This will be supported by specific activities, including targeted payments to remove connection barriers for eligible households, technical assistance to refine pro-poor water tariff structures, and the development and mainstreaming of citizen-

engagement and gender-inclusive policies and procedures.

The World Bank has played a key role in supporting the reforms outlined above and in financing key capital investments. In 1998, the World Bank financed the first National Water Development Project (NWDP), and later financed its follow-on, the NWDP II. These projects focused investments in the five major cities of Maputo, Beira, Nampula, Quelimane, and Pemba and began support for the delegated management framework. NWDP I and II were followed in 2007 by the World Bank's support for the first phase of WASIS – a US\$15 million-equivalent IDA credit and US\$15 million Africa Catalytic Growth Fund grant targeting selected investments in rehabilitation and expansion of networks in the water supply systems serving the cities of Beira, Quelimane, Nampula, and Pemba. Successful implementation of the project during the first two years helped to attract additional financing to support scaling up of investments, including US\$37 million from IDA and US\$16.6 million from an Australian trust fund.

The above investments in infrastructure and capacity building have significantly increased levels of service and decreased non-revenue water (NRW) in the target cities. For example, coverage has improved significantly – between 2009 and 2014, connections in the secondary city of Beira grew from fewer than 20,000 to nearly 52,800, a 164 percent increase; connections in Tete and Moatize increased from 7,700 to over 30,800, a 300 percent increase; and connections in Pemba increased from 8,500 to around 14,800, a 74 percent increase. In addition, between 2009 and 2014, NRW decreased from 49 to 42 percent in Tete and Moatize and from 38 to 29 percent in Pemba. Furthermore, operational performance and customer service has improved – the percentage of bills that are issued based on meter reading are now above 98 percent in Beira, 94.3 percent in Tete and Moatize, and 75 percent in Pemba.

Despite these impressive achievements, piped water coverage remains below national targets, in particular in the peri-urban areas of Mozambique's fastest-growing secondary cities. Three strategic systems in central and northern Mozambique have been identified for infrastructure investments in order to provide support to and facilitate economic growth and to provide a platform for the next phase of institutional reforms. These systems support important nodes along strategic economic growth corridors that have received significant investment in natural-resource exploitation and agricultural production. Rapid development in these areas has led to a population influx (largely to urban areas), as well as commercial development, thereby increasing the demand on existing water infrastructure and services.

The identified cities are among the largest in the FIPAG service areas, representing approximately 60 percent of treated water sold directly by FIPAG and covering 54 percent of the population in the service areas. Under the limited funding of WASIS I, investments focused on urgent rehabilitation of production capacity and expansion of the distribution network in the target cities. However, as pressure on the systems builds, they face challenges regarding service. In 2014, in Tete/Moatize (which on average supplies water about 20 hours per day), 60 percent of people are connected; in Pemba (with about 6 hours per day of supply), 46 percent are connected; and in Beira/Dondo (with only about 14 hours per day of supply), 45 percent are connected. In addition to growing demand and a limited tertiary network, these systems are currently under stress due to incomplete water production and distribution infrastructure.

The proposed WASIS II investments focus on expanding water production, transmission and distribution facilities. Also, through network expansion, are expected to substantially benefit peri-

urban areas of the cities, which largely house new arrivals. These areas are both underserved – with residents relying on expensive (up to MZN1,000 per m<sup>3</sup>) trucked-in water and/or untreated water from locally dug wells or local rivers – and rapidly growing – as they absorb migrants from the surrounding countryside. Given the profile of most new migrants to these cities, these service improvements are likely to primarily benefit the poorer residents of the target cities. Furthermore, the proposed cities represent the major urban and service centers in some of the poorest provinces of Mozambique: Tete, Sofala, and Cabo Delgado provinces, with poverty rates of 58.7 percent, 58.0 percent and 45.1 percent, respectively.

## II. Proposed Development Objectives

- (i) Increase water service coverage in key cities;
- (ii) strengthen the institutional and regulatory capacity for water supply services in the Northern, Central and Southern regions of Mozambique; and
- (iii) Support the recipient to respond promptly and effectively to an eligible crisis or emergency.

## III. Project Description

### Component Name

Component 1: Rehabilitation and Expansion of Water Supply Production and Distribution

### Comments (optional)

Component 1 includes two subcomponents. Subcomponent 1.a aims to increase production capacity in the systems serving Pemba, Beira and Dondo, and Tete and Moatize, including the expansion and refurbishment of wellfields, an existing intake, water treatment facilities, transmission infrastructure, pump stations, and associated fittings. Subcomponent 1.b will increase service coverage in the water distribution systems serving the same cities, including the construction and rehabilitation of distribution centers and water supply networks, the provision of equipment, including installation of district meters, pressure control valves, and telemetry systems, and provision of approximately 60,000 new household meters and associated materials for domestic connections.

### Component Name

Component 2: Institutional Support

### Comments (optional)

Component 2 will support the decentralization of FIPAG operations by supporting three regional utilities in the north, central, and southern regions of the country. This will include the supply of commercial systems focusing on billing and commercial management and customer service policies and procedures, establishment of corporate governance structures, policies and procedures, and asset management systems and indirect NRW-reduction programs. This component will also support project management, supervision for contracts under Component 1, audits, training, and various technical studies as needed, as well as technical assistance to FIPAG for the implementation of environmental and social safeguards.

### Component Name

Component 3: Output-Based Payments for Low-Income-Household Connections

### Comments (optional)

Component 3 will increase access to piped-water connections for low-income households in the cities of the central and northern regions of the recipient and in the Maputo region by providing output-based payments to the regional utilities to support the provision of water services to the poor

by facilitating the uptake of connections for low-income households through grant payments to reimburse the costs of eligible connections. This component will also support FIPAG to structure tariffs and establish other mechanisms to improve poverty targeting for low-income customers to ensure sustainability of the proposed interventions, including related studies and hiring of the independent verification agent.

#### **Component Name**

Component 4: Contingent Emergency Response (Zero-budget)

#### **Comments (optional)**

This component will support potential disaster-recovery needs in FIPAG water systems by providing immediate response to an eligible crisis or emergency, as needed. This will include supply of critical parts and equipment, minor civil works rehabilitation, supply of fuel, rent of generators, and rapid transportation of chemicals and critical parts by express mechanisms.

#### **Component Name**

Component 5: Capacity Building and Operational Support to CRA

#### **Comments (optional)**

This component will expand quality-of-service and financial regulatory mechanisms for urban water supply in Mozambique, including through the: (a) carrying out of impact evaluation activities to measure the outcomes of the project; (b) scaling up of the information and communication technology (ICT) based platform for customer complaints and support for recourse mechanisms (RECO) and rollout thereof within Mozambique; (c) creation of local regulatory mechanisms to monitor and enforce parameters of local regulation, including the establishment of the local regulatory commissions (Comissoes Regulatorias Locais [CORALs]) and carrying out of training of community representatives and focal points; and (d) review of subsidies for low-income customers.

#### **IV. Financing (in USD Million)**

Total Project Cost:	146.00	Total Bank Financing:	90.00
Financing Gap:	56.00		
<b>For Loans/Credits/Others</b>			<b>Amount</b>
BORROWER/RECIPIENT			0.00
International Development Association (IDA)			90.00
Total			90.00

#### **V. Implementation**

Institutional and implementation arrangements will follow the successful arrangements of WASIS I, which closed on October 31, 2015. Components 1, 2, and 4 of the project will be implemented by FIPAG, the asset-holding agency responsible for investments in urban water supply in the largest cities in the country. FIPAG, with support from an independent verification agent, will also manage Component 3, but the connections (for which eligible costs will be reimbursed under this program) will be made by the regional utilities. Component 5 will be implemented by CRA, the water regulator.

#### **VI. Safeguard Policies (including public consultation)**

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>
Environmental Assessment OP/BP 4.01	<b>x</b>	

Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50	x	
Projects in Disputed Areas OP/BP 7.60		x

**Comments (optional)**

**VII. Contact point**

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