I. Introduction and Context

Country Context

Mozambique has seen substantial economic growth since the end of its devastating 15-year-long civil war in 1992. On average between 1993 and 2010, real Gross Domestic Product (GDP) has grown 8 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 investments in large, rapidly expanding extractive industries and related infrastructure investments.

Despite this strong economic growth, Mozambique remains one of the poorest countries in the world, ranking 184th out of 187 countries in the 2011 Human Development Index. Among numerous statistics confirming the country's relative poverty, the World Health Organization (WHO) estimates that approximately 17 percent of under-five deaths in Mozambique were the result of diarrheal diseases, the largest single cause of childhood deaths, and primarily caused by poor water and sanitation.
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.

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 Patrimonio do Abastecimento de Agua, FIPAG) – for the water supply assets of large urban areas, and established an independent water regulator, the Water Regulatory Council (Conselho de Regulacao de Aguas, CRA). All 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 (North, Central and South) autonomous, decentralized, regional operating “companies”, each responsible for water supply in five to seven cities.

The reforms outlined above, combined with significant outside financing, have contributed to service expansion and improvements in Mozambique’s cities. The World Bank has played a key role in contributing to these improvements and expansion. In 2007, it supported a first phase of the Water Services and Institutional Support Project (WASIS) - a US$15 million-equivalent credit and a US$15 million grant from Africa Catalytic Growth Fund 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 scale up investments (including US$37 million from IDA, and US$16.6 million from an Australian trust fund).

The investments in infrastructure and capacity building supported through WASIS have significantly increased levels of service and decreased unaccounted-for-water (UFW) in the target cities. For example, coverage has improved significantly - between 2009 and 2013, connections in the secondary city of Beira grew from less than 20,000 to nearly 49,000, a 145 percent increase; connections in Tete and Moatize increased from 7,700 to over 27,859, a 261 percent increase; and connections in Pemba increased from 8,500 to over 15,000. In addition, between 2009 and 2014, UFW decreased from 31 to 28 percent in Beira, from 49 to 33 percent in Tete and Moatize, and from 38 to 33 percent in Pemba. Furthermore, the utilities performance has been strong - the percentage of bills that are issued based on meter reading are above 97 percent in Beira, 93 percent in Tete and Moatize, and 98 percent in Pemba.

The proposed project complements the first phase of WASIS that is scheduled to close in October 2015 (92 percent of funds have been disbursed or committed). The new project (WASIS II) will support the implementation of the delegated management framework, and priority investments in a set of secondary and tertiary cities that benefited from WASIS. Four systems in central and northern Mozambique have been identified for infrastructure investments in order to provide support to and
facilitate economic growth. These systems support important nodes along strategic economic growth corridors and poles 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 targeted cities are among the largest in the FIPAG service areas, representing approximately 60 percent of treated water sold by FIPAG and covering 54 percent of the population in the service areas.

WASIS II investments are expected to primarily benefit peri-urban areas of the cities, which largely house new arrivals in the city. These areas are both under-served – with residents relying on expensive, 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. Although city-specific poverty rates are not available, provincial-level poverty rates range from 58 percent in Sofala province, which includes the city of Beira, 55 percent in Nampula province, which includes Nacala, to 37 percent in Cabo Delgado, which includes the port supporting the oil and gas companies in Palma, and the tourist city of Pemba.

**Relationship to CAS**

The proposed project will contribute to the achievement of higher level-objectives of the Government of Mozambique and the World Bank. The Government's third Poverty Reduction Action Plan (Plano de Accao para a Reducao da Pobreza Absoluta, PARPA III) (2011-2014) is the operational strategy for the Government's five-year program, and is built on three pillars: (i) increased agricultural and fishery production and productivity, (ii) employment promotion, and (iii) human and social development, which includes increasing access to water and sanitation. The Government of Mozambique is currently preparing their next five-year plan (2015-2019); a key tenet of the plan is the support for growth poles – focused investments in secondary cities benefiting from the growth of natural-resource-based industries, ensuring that core transport, water, and energy infrastructure are sufficient to attract and maintain foreign private investment. The proposed project forms a part of that upcoming strategy and will contribute to the safe drinking water and sanitation MDG, post 2015 targets for WASH.

The World Bank's Country Partnership Strategy (CPS) (2012 – 2015) for Mozambique is fully aligned with PARPA III. The project contributes to the CPS’s two cross-cutting pillars: (i) supporting competitiveness and employment; and (ii) reducing vulnerability and increasing resilience. The CPS also has a foundational objective of strengthening governance and public sector capacity. Support for key infrastructure investments is a core part of the CPS’s support for competitiveness and employment, in particular the provision of water services, and increased access to potable water is included as a CPS outcome indicator. In addition, the project contributes to Pillar 2, as planned investments in water supply infrastructure will be sited and designed to increase resilience by diversifying water supply sources.

This project also contributes to the World Bank's Strategy for Africa by ensuring that key domestic sectors and utilities enable competitiveness and employment; closing the infrastructure deficit, in the water sector, which affects both private-sector competitiveness and the health and welfare of the population - e.g. through lost time and reduced productivity of women and girls, who carry the greatest burden fetching water for their families.
The project will also support the WBG goal of eradicating extreme poverty by extending benefits to poor households. As of today approximately 35 percent of domestic connections in FIPAG consume less than 5 m3 per month (31 liters/per capita/ per day); an additional 30 percent consume between 5 and 10 m3 per month (62 liters/per capita/ per day). These consumption levels are typical of lower-income households (who are unlikely to have in-house conventional connections). These households are the target of activities aimed at extending networks, and connecting households through the provision of subsidies (Component 4). Improved access to water in peri-urban areas will also contribute to better health and quality of life.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

(i) Increase water service coverage in key cities; and

(ii) Strengthen institutional capacity and regulatory frameworks for water supply services in the Regional water utilities in the North and Central Regions of Mozambique.

Key Results (From PCN)

Key indicators to measure progress toward achievement of the PDO include:

(i) Number of people in urban areas provided with access to an improved water source under the project (core indicator).

(ii) Direct project beneficiaries (percentage of whom are female) (core indicator).

(iii) Increased capacity of the water systems.

III. Preliminary Description

Concept Description

The proposed project will finance priority water supply investments in four major systems, serving 6 urban areas: (i) Pemba, (ii) Nacala, (iii) Beira and Dondo, and (iv) Tete and Moatize, and increase the number of water supply connections in a fifth system covering 3 additional urban areas: (v) Chimoio, (vi) Manica and (vii) Gondola. In addition, the project will support the creation of the Regional Water Utilities in the North and Central parts of Mozambique, and enable engineering - design and supervision, project management/auditing, and technical studies and institutional capacity development, including specialized skills (e.g. safeguards and dam safety).

The project is expected to include five components, as follows:

Component 1: Rehabilitation and Expansion of Water Supply Production (US$84.3 million):

Investments will aim to increase the production capacity of four major water systems through rehabilitation or replacement of civil, electrical and mechanical works. Key activities will include expansion and refurbishment of well fields, refurbishment of intakes, expansion and refurbishment of water treatment facilities (all of which currently exist). In addition, it will include the rehabilitation and expansion of transmission infrastructure, including new pipelines along existing corridors, pump stations and associated fittings.
Component 2: Expansion of Water Distribution (US$78.6 million): Investments under this component will include the development of priority infrastructure to increase service coverage and improve operational efficiency of the water distribution system. Investments will include rehabilitation of existing and construction of new distribution centers, including increasing storage with ground reservoirs and pressure through elevated water towers within the existing footprint, water supply network expansion and rehabilitation, installation of district meters and pressure control valves within existing pipelines, and approximately 105,000 new household meters and associated materials for yard type connections. The component will also finance goods and equipment in the target cities related to water supply and utility management (computers, monitoring systems, and office equipment, generators, vehicles, miscellaneous water treatment equipment, etc).

Component 3: Institutional Support (US$14.1 million): The project will also support project engineering, design and supervision, project management, project audits, and various technical studies as needed, as well as assistance to FIPAG in the establishment of independent regional water "companies" that would ultimately be responsible for water supply operations. Furthermore, this component supports the implementation of Environment and Social safeguards and the safety of Nacala dam.

Component 4: Output-Based Connections Subsidies for Low-Income Households (US$6 million): The objective of the component is to increase access to piped-water for low-income households in the project cities and the Maputo Region by providing an output-based subsidy to the utility operator(s). The output-based subsidy would cover the labor cost of installing new connections normally paid by new clients (currently Mtn 2,000 or US$67 equivalent per connection) and would be provided in two phases: (i) after the installation of functioning new yard-connections to eligible households; and (ii) after demonstrating the continuity of water supply service for a period of three months. About 70,000 yard-taps will be subsidized over a six-year period. Tcomponent would also finance an independent verification of the eligibility requirements, provision of the yard-connections, and their functioning prior to payments. The component is a continuation from an ongoing GPOBA project (P104945) in Maputo that has successfully installed about 28,000 subsidized connections. The current GPOBA project is scheduled to close June 30, 2014.

Component 5: Capacity Building and Operational Support to CRA (US$3 million): This component will provide resources for operating expenses and technical assistance to enable CRA to support implementation of existing regulations in the Central and Northern regions of the country over a six-year period. This includes support for the expansion of the regulatory framework and oversight, particularly in the newly created regional “companies,” and reviews of the structure and form of subsidies for low-income customers and of financing the extension of water to the urban poor. The component will also provide goods, operational support, capacity building, training, and technical assistance to CRA. Also, the component will finance the social-economic impact assessment in the project cities.

IV. Safeguard Policies that might apply

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V. Financing (in USD Million)

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VI. Contact point

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