I. Project Context

Country Context

1. With a Gross National Income (GNI) per capita of US$650 (Atlas method, 2009), Mali is ranked 160th out of 169 countries in the UNDP’s 2010 Human Development Index. About half of the country’s 1.2 million km² area is desert and the population, estimated at 14.5 million in 2009, is primarily concentrated in the southern part of the country which is irrigated by the Niger and Senegal rivers.

2. Gross domestic product (GDP) growth averaged 4.0 percent a year in the period 2005-09 but varied between 1.1 percent and 5.3 percent, reflecting Mali’s vulnerability to climatic conditions and commodity price fluctuations (primarily of cotton, oil and gold). Growth was maintained at 4.5 percent in 2010. Prudent management helped maintain fiscal performance in line with the government program supported by the IMF Extended Credit Facility (ECF). The 2010 debt sustainability analysis (DSA) indicates that Mali remains at a low risk of debt distress.

3. The crisis in the North of the country and recent economic turmoil in neighbouring countries has deeply affected Mali’s economy. In 2010-11, Mali faced increased external uncertainties due to the political crisis in Côte d’Ivoire and the political turmoil in North Africa countries, notably Libya. These crises had already a negative impact on the economy in 2011 due to higher transportation
cost, losses of remittances, and lower exports and foreign direct investment. These factors, combined with the drought, the economy contracted with economic growth reaching only 2.7 percent in 2011. Then, in 2012 with all aforementioned instability, the real GDP growth dropped to -1.5 percent. With limited space for financing, expenditures were also severely cut, and expenditures decreased from 24.8 percent to 20.0 percent of GDP between 2011 and 2012.

4. Since 2012, the political and security situation has strongly deteriorated in the country. In 2012 the Northern regions of Mali were occupied by armed separatist and jihadist groups, and a military coup in March overthrow the elected government and prevented the organization of elections scheduled a month later. Constitutional order was thereafter progressively restored in 2012 with the formation and international recognition of a Transitional Government of National Unity in charge of restoring sovereignty over the entire territory of Mali and organizing fair and transparent national elections. Under the mandate of the UN Security Council, a coalition of foreign troops launched military operations in Northern Mali in support of the Malian army in January 2013. A political roadmap identifying milestones to restore democratic order was also adopted by the Parliament in January 2013. The roadmap underscores that these unprecedented events constitute the worst political and security crisis ever faced by Mali since independence and envisages the establishment of an elected government by mid-2013 and the re-building of trust in the Malian government.

5. Despite instability in the transition period, many international agencies, including the World Bank, International Monetary Fund (IMF), the African Development Bank (AfDB), European Union (EU) and most of bilateral donors have resumed activities since October 2012. The interim Government has committed to fulfilling its legal obligations under its current international agreements with donors and all agreements with the World Bank remain valid and binding.

**Sectoral and institutional Context**

Situation and Perspectives of Water and Sanitation Services

6. Access to Services. The access rate to safe drinking water in Mali was estimated in 2009 at 73 percent of the population (71 percent in rural areas and 77 percent in urban areas, lower in Bamako, the capital city). Since 2001, progress has been made in expanding access, but the challenge remains high to achieve the MDGs targets: 78 percent of the population served in rural areas and 91 percent in urban areas. The population without access to adequate water sources is vulnerable to water-borne diseases and the lack of maintenance and underinvestment put at risk gains made in the expansion of the service. This is evidenced by the large number of rural water systems that are not operational and the insufficient water production and distribution capacity in Bamako, the capital city.

7. According to the WHO/UNICEF Join Monitoring Program (JMP), only 32 percent of households had access in 2009 to improved sanitation services in rural areas, and 45 percent in urban areas.

8. Achieving the MDGs means providing annually access to safe drinking water and improved sanitation services to, respectively, 420,000 and 710,000 additional people until 2015. This would require investing annually US$110M for water supply (excluding large water production infrastructure) and US$30M a year for sanitation, compared to the current planned total
public expenditure of US$93M per year for water and sanitation between 2011 and 2015.

8. Development Challenges. The development of water and sanitation (WSS) sector in Mali faces a number of challenges including:
(a) A high urban population growth rate (5 percent annually) which increases rapidly the water demand compounded by the backlog of investments in water production capacity in urban centers, particularly in Bamako (see paragraph 9 below)
(b) The need to deepen and effectively implement the reform of the urban water sub-sector to ensure financial viability and support the expansion of services
(c) The need to improve the sustainability of rural water services: the breakdown rate of rural water facilities is estimated at 30 percent, and substantial efforts need to be done in order to allow an adequate post-construction agenda.
(d) The lagging access rate to improved sanitation services: investments in sanitation, particularly in rural sanitation, have been insignificant as highlighted by the Public Expenditures Review conducted in 2008.

10. Bamako Water Supply Situation. The development of water supply services in Bamako has been limited since 2003 by an investment backlog which created several bottlenecks in the water system, namely: (i) limited production capacity, 198,000 cubic meters per day against a water demand of 380,000 cubic meters per day, meaning a water supply deficit of 48%. (ii) 80 percent of the water production capacity is located on the left bank of the Niger River, whereas half of the population leave on the right bank; (iii) inadequate capacity of the transmission mains between the two river banks; (iv) limited water storage capacity, particularly in higher-lying areas of the city. These bottlenecks impact on both the availability and quality of the water service as evidenced by:
• the low and uneven development of access through household connections, which benefits only 39% of the population of Bamako (lowest rate among capital cities in the sub-region) and,
• the insufficient pressure in the water distribution networks causing frequent interruptions in the water service delivery, particularly on the right bank where half of the consumers are impacted.

11. Operating Performance. The development of urban water services in Mali has been unable to match urban growth as indicated above. In addition, the operating performance of the sector is weak. With the exception of two indicators (bill collection ratio and staff cost/total revenues), the performance of the urban water in Mali is what is observed in best-managed utilities of the sub-region.

Institutional Setting and Reform of Urban Water Services

12. Legal Framework. The provision of water services throughout the country is governed by a comprehensive legal framework. The Water Service Act of March 15, 2000, amended in August 2010 and complemented by a decree of April 14, 2000, defines the responsibilities for managing urban and rural water services as well as the principles for delivering services, delegating responsibilities (including to private entities), monitoring and controlling the delivery of services. The Water and Electricity Regulatory Act of March 15, 2000, creates an independent regulatory body, the Electricity and Water Regulatory Commission (Commission de régulation de l’électricité et de l’eau, CREE). The regulatory principles of the latter Act are complemented by rules provided in a decree of April 14, 2000 and various CREE guidelines (directives).

13. Past Experience with PPP for Urban Water and Electricity Services. Mali has been one of a few
African countries where a single national utility (Energie du Mali, EDM) managed urban water services jointly with electricity services. The GoM decided in 2000 to privatize EDM by signing two concession contracts (one for water and one for electricity) with a joint venture of SAUR and IPS, two foreign companies selected after international competition. The implementation of the contracts resulted in operating performance improvements, but the expected infrastructure development faced substantial issues generated by discretionary price-setting decisions, lack of agreed regulatory tools and disagreements on the electricity services rate-setting rules. This resulted in an unpredictable financial situation which prevented EDM to mobilize private financing for CAPEX.

14. With the support of the donors, the GoM and EDM attempted in November 2004 to renegotiate the concession contracts arrangements. The negotiations were unsuccessful and SAUR agreed in October 2005 to sell its shares (66 percent of the EDM equity) to its partner, IPS, which in turn resold the shares to the GoM. It was expected then that, after a transition period, the GoM would further reform the institutional setting of urban water and electricity services.

15. Ongoing Reform of the Urban Water Sector. The Government initiated in 2009 a review of the water and electricity sectors, with the assistance of consultants, building on the experience accumulated in the sub-region. In 2010, the GoM took steps towards a new institutional set up of the urban water and electricity services. In October 2010, EDM was restructured and electricity and water services were formally separated. Responsibilities in the management urban water services were further split between two entities, following the affermage model, but without seeking the participation of the private sector. Two new public corporations, namely SOMAPEP (Société Malienne de Patrimoine de l’Eau Potable), a water asset holding company, in charge of assets management and infrastructure development, and SOMAGEP (Société Malienne de Gestion de l’Eau Potable), a water operating company, in charge of delivery of services, were created and became operational in January 2011.

16. SOMAPEP was initially staffed with former employees of EDM and from the MEW. The company strengthened its capacities with the recruitment of key specialized staff and technical assistance (see paragraph 42). SOMAGEP was staffed with former employees of EDM and took over immediately the responsibility of technical operations, while EDM continued for some time to manage commercial/billing services for water customers. SOMAGEP swiftly developed and implemented an action plan to retrieve commercial/billing management, which was completed at the end of the first quarter of 2012. SOMAGEP now carries out the full range of operating responsibilities in the urban water sub-sector, which covers 18 urban centers with about 120,000 service connections.

17. Shift to a Performance-Based Contractual Framework. SOMAPEP, SOMAGEP and the Government agreed to be bound by performance-oriented contractual instruments prepared with the assistance of specialized consultants. The draft contracts were extensively discussed with the Bank team and in a national workshop organized in February 2012. Although both corporations remain public enterprises, the performance contracts are similar to the ones that govern public-private partnerships established in other countries in the sub-region.

18. SOMAGEP’s remuneration thus would be contingent upon achieving quantitative targets for reducing UFW (gradually decreasing by 12 percentage points in 15 years) and maintaining the bill collection rate of private consumers at 98 percent. SOMAGEP would also be bound in the
performance contract annexed to its lease contract, to achieve targets for the quality of the water distributed, deadlines for repairing pipe breaks, renewal of water meters, household connections and distribution pipes, and follow-up of customer complaints. SOMAPEP would be bound in the framework agreement (contrat-plan) annexed to its concession contract, to achieve targets in terms of service coverage, assets rehabilitation and renewal, and efficiency (operating costs per cubic meter produced). Under the contrat-plan, the GoM is also committed to timely approve requests and documents submitted to its review and to ensure timely payment of public agencies water bills. A detailed list of performance indicators binding SOMAPEP and SOMAGEP is provided in paragraph 41 of Annex 3.

19. The GoM has documented in a Letter of Sector Policy (LSP), the urban water policy and strategy, the reform process and its sectoral objectives. The LSP adopted on…. particularly states that, within a reasonable timespan not exceeding two years, the GoM will proceed to an independent assessment of the performances of all actors of the sector reform (SOMAPEP, SOMAGEP and CREE) and evaluate their impact on the coverage and quality of water services. Based on this assessment, the GoM would decide, in consultation with the donors, on the need or not to seek for a private sector participation in the delivery of services.

20. Tariff/Financial Viability. In parallel with the finalization of the contractual arrangements, the GoM and its partners in the sector are finalizing the financial and pricing framework of the urban water sector, including: (i) the adoption of the opening financial statements of SOMAPEP and SOMAGEP, and of their respective business plans; (ii) the adaptation of the financial model of the regulatory authority (CREE) to the new institutional setting and (iii) the initial revenue-sharing of the water tariff between the operator’s price (prix exploitant, Pe) and the assets-holding company’s price (prix patrimoine, Pp).

21. After completion of the above tasks, the financial situation of the sector will be ascertained. Based on this information, the conditions of the financial viability of the services –including the needs for tariff revisions– will be established and incorporated in the performance contract of SOMAGEP and the contrat-plan of SOMAPEP. The Financing Agreement of the proposed project would reflect in a financial covenant the schedule for maintaining or restoring, as needed, the financial viability of the sector.

The Kabala Project

22. The urban water sector reform will be supported by a comprehensive investment program named – the “Kabala Project” – to ensure adequate water supply for Bamako which represents more than 50 percent of the urban water business, and improve access and quality of service in the capital city.

23. The Kabala Project aims to: (i) increase the water production for Bamako by an additional capacity of 144,000 cubic meters per day, to respond to immediate water supply deficits and the medium term water demand (ii), expand the water storage, transmission and distribution capacity and (iii), facilitate access to improved water services through constructing household social connections and public standposts. Eleven donors including IDA, have expressed since 2010 their willingness to participate in the Kabala Project through parallel financing arrangements for a total funding envelop of US$327 million.

24. During a roundtable organized recently in Bamako on April 2013, all donors participating in the
Kabala investment program confirmed their commitment to co-financing the project. They further confirmed their willingness to quickly appraise their respective components, as already been done by AFD (French cooperation), EIB (European Investment Bank) and the AfDB (African Development Bank).

25. Bamako Urban Sanitation. In parallel with the preparation of the Kabala Project, the GoM, through the Ministry of Environment and Sanitation (Ministère de l’Environnement et de l’Assainissement, MES), is planning major improvements of urban sanitation services in Bamako to address inter alia the development gap between water and sanitation services and the additional sanitation needs created by the increased water consumption stemming from the Kabala Project. The city’s Sanitation Master Plan was updated in 2010 and a priority investment program has been identified. The priority investment program aims at providing sewerage services by 2020 to about 55 percent of the population of the right bank of the Niger River (the area covered by the proposed project), which are located in areas that are not suitable for low-cost sanitation solutions (on-site sanitation and condominial sewerage). During the November 2011 donors’ roundtable, various agencies (AfDB, AFD, BOAD and the Islamic Development Bank) expressed intents to provide US $98 million to finance the priority investment program. In addition, the GoM has developed an action plan to provide low-cost sanitation facilities for the remainder of the urban population of the right bank, which would be funded by the national budget.

II. Proposed Development Objectives
The overall objective of the proposed project is to support the GoM’s efforts to increase access to sustainable water services in Bamako.

III. Project Description

Component Name
Component 1 – Water Storage and Transmission
Comments (optional)

Component Name
Component 2 – Water Distribution
Comments (optional)

Component Name
Component 3 – Institutional Strengthening and Capacity Building
Comments (optional)

IV. Financing (in USD Million)

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Project Cost:</td>
<td>81.11</td>
</tr>
<tr>
<td>Total Bank Financing:</td>
<td>70.00</td>
</tr>
<tr>
<td>Financing Gap:</td>
<td>0.00</td>
</tr>
<tr>
<td>For Loans/Credits/Others</td>
<td></td>
</tr>
<tr>
<td>BORROWER/RECIPIENT</td>
<td>11.11</td>
</tr>
</tbody>
</table>
V. Implementation

26. Oversight. The existing Steering Committees of the PROSEA and of the Sector Reform will oversee the implementation of the proposed project.

27. Project Management and Coordination. SOMAPEP, the water assets holding company, will be the executing agency. SOMAPEP will hence be responsible for the management and coordination of the proposed project. No separate project coordination unit is needed. SOMAPEP will: (i) carry out financial management; (ii) prepare annual work plans to be approved by the Steering Committee and the Association; and (iii) ensure monitoring and evaluation (M&E) and reporting, including environmental and social safeguards aspects.

28. Implementation. SOMAPEP will implement all project activities. In line with the lease contract which gives the responsibility of constructing service connections and standposts to SOMAGEP, the social connections and standposts program will be contracted to SOMAGEP, which is better placed to identify potential customers and to ensure the successful execution of the program through an efficient planning and coordination with the design and execution of works. SOMAPEP will implement the institutional strengthening and capacity building component in close coordination with other project stakeholders, particularly CREE for urban water sector reform and the Directorate of Sanitation and Pollution Control (Direction Nationale de l’Assainissement et du Contrôle des Pollutions et des Nuisances, DNACPN) of the MES for safeguard issues.

VI. Safeguard Policies (including public consultation)

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment OP/BP 4.01</td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Natural Habitats OP/BP 4.04</td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Forests OP/BP 4.36</td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Pest Management OP 4.09</td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Physical Cultural Resources OP/BP 4.11</td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Indigenous Peoples OP/BP 4.10</td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Involuntary Resettlement OP/BP 4.12</td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Safety of Dams OP/BP 4.37</td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Projects on International Waterways OP/BP 7.50</td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Projects in Disputed Areas OP/BP 7.60</td>
<td>✗</td>
<td></td>
</tr>
</tbody>
</table>

Comments (optional)

VII. Contact point

World Bank
Contact: Matar Fall
Title: Lead Water and Sanitation Specialist
Tel: 5351+2254 /
Email: mfall@worldbank.org

Borrower/Client/Recipient
Name:
Contact:
Title:
Tel:
Email:

Implementing Agencies
Name: Société Malienne de Patrimoine de l’Eau Potable (SOMAPEP Sa.)
Contact: Mr. Adama Tiémoko Diarra
Title: Directeur Général, SOMAPEP
Tel: 22320220043
Email: Atdiarra56@yahoo.fr

VIII. For more information contact:
The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop