I. Project Context

Country Context

Guinea-Bissau is one of the most fragile countries in sub-Saharan Africa. Political instability has plagued the country for the past 30 years. Between its independence in 1974 and 2013, Guinea-Bissau has faced 17 coup d'état attempts, a considerable number of them replacing the heads of state. Between 2000 and 2009 alone, eight Prime-Ministers were appointed to lead different Governments. The internal instability, often associated with problems in the political and military structure of the country, has had devastating effects on the economy. War related losses in the late 1990s alone depleted about one third of Guinea-Bissau's Gross Domestic Product (GDP). Concerns about the effects of political unrest are more acute due to reports about an increase in drug trafficking. More recently, a military coup d'état in April 2012 halted a period of reforms, paralyzed public institutions, suspended international support, and adversely impacted economic activity.

Guinea-Bissau is also one of the poorest countries in sub-Saharan Africa. Since 2002, the poverty rate has increased from 65 percent to an estimated 70 percent in 2010, while the rate of extreme poverty has increased from 21 to 33 percent during the same period. These are among the highest rates of poverty and extreme poverty in the world. With an estimated 1.69 million inhabitants, the
population is young—about 60 percent is under 25 years old—and is growing at over 2 percent per year. GDP per capita is estimated at US$ 539. Guinea-Bissau ranks 176th out of 186 countries on the 2013 UNDP Human Development Index. Economic growth has been disappointing for the last fifteen years. Average GDP growth over the period 2000-2012 was 2.6 percent per year, barely enough to compensate for the population growth. In the period between 2008 and 2011, GDP growth rates improved to 3.7 percent per year, reflecting increased political stability and better macroeconomic management. Following the coup in April 2012 and unstable cashew marketing campaigns, GDP growth was negative 1.5 percent in 2012 and is expected to recover to just 0.5 percent in 2013.

At the heart of the country's poor economic and social performance is a vicious cycle of political, economic and institutional gridlock that has locked the country in a low-equilibrium fragility and development trap. Political instability, often marked by military interventions and violence, along with weak governance, has prevented the formation of stable and accountable institutions, and has resulted in an unfavorable environment for private investment that limits the country's growth potential. In turn, low growth has translated into a lack of buoyancy in state revenues, resulting in the frequent inability of successive governments to provide essential public services and infrastructure. Guinea-Bissau is not likely to reach any of the Millennium Development Goals by 2015, and is likely to fall short without a substantial infusion of donor support to prevent further deterioration of the current situation.

The April 2012 military coup has had a severe adverse economic and social impact on the population of Guinea-Bissau, especially its poorest segments. It has paralyzed public institutions and severely affected economic activities, particularly the storage and export of cashews, which is the country's main export and the mainstay of the agricultural sector. This, in turn, has affected industrial activity and the construction sector. The consequent fall in domestic revenues, coupled with a withdrawal of international assistance, has caused a severe deterioration of the country's fiscal situation — together with a decline in aggregate demand. The delivery of basic services has been considerably reduced.

Following a broad and inclusive dialogue process facilitated by the international community, an inclusive government was formed on June 6, 2013. The new “government of national unity” includes representatives from all political parties in Guinea-Bissau. The main parties have agreed to a transition roadmap, with both presidential and legislatives elections scheduled to take place on April 13, 2014.

Water and electricity services have deteriorated significantly in the last two years and resulted in cholera incidents in 2013. The persistently critical situation of the water and electricity public utility in Guinea-Bissau has been exacerbated by the political crisis and is further undermining the well-being of the population and economic development. The collapse of the electricity and water services has had consequences on health, with the resurgence of cholera outbreaks, and put a heavy burden on households and businesses, which have to find alternative and costly solutions to meet their basic needs. With a population of about 430,000, there are less than 10,000 water connections and only about 26,000 electrified households, but supply of both services faces significant shortages on a regular basis.

Guinea-Bissau is considered a Fragile State as per the Bank's harmonized list of Fragile and Conflict-affected Countries (FCS) — at 2.6, the harmonized average Country Policy and Institutional
Assessment (CPIA) of Guinea-Bissau is far below the cut-off point of 3.2 for fragile states. The 2012 coup has deepened the fragility of the country. As mentioned above, social indicators have subsequently deteriorated, including access to water and electricity, with dramatic consequences for the most vulnerable, including women and children. The prolonged situation of shortage of electricity has impacted water availability with dire consequences for the health situation. Immediate action is needed to prevent a humanitarian crisis and further deterioration of living conditions of the population.

The inclusive transition government's response to the crisis has focused on the roadmap to restore the constitutional order, and on preparing and implementing an Emergency Plan for Education, Health and Food Security. The international community and donors, acknowledging progress made in respect of the roadmap, are re-engaging gradually, but, for most of them, strategies and programs remain to be formulated. If the full flow of development assistance restarts after the elections, the donor conference, proposed to be hosted by the new Government and supported by the World Bank Group (WBG), will provide a platform and framework for donor coordination.

The situation in Guinea Bissau calls for the international community, including the WBG, to work together to protect the poor and facilitate economic recovery during this delicate transition. The WBG has been closely monitoring the situation in Guinea Bissau since the coup and has been adjusting its engagement accordingly. Under OP 7.30, Dealings with De Facto Governments, the Bank resumed disbursements for the ongoing portfolio in December 2012, and implementation is satisfactory. A reassessment of OP 7.30 in June 2013 noted the substantial progress made by the Transitional Government. While remaining under OP 7.30, given the urgency of helping to mitigate the impact on the poor and facilitate the transition in an uncertain political environment, the WBG Senior Management has decided to step up support in Guinea Bissau, including the preparation of a two-year Interim Strategy Note (ISN) to guide the WBG engagement.

The proposed operation is processed under emergency procedures, which are vital to the rapid and effective implementation of the proposed activities. Upgrading water and electricity services in Bissau, the capital city that regroups 25 percent of the country population, is an urgent need to avoid a further deterioration of living conditions and to enable the expansion of service delivery and opportunities for economic growth. In the short term, improving water quality and quantity through targeted emergency investments is possible and necessary to address the health risks. Access to safe water using social connections and community service points will be developed, to alleviate the burden of the poorer strata of the urban population. The country's power supply will remain dependent on oil-based generation for the next three years at least, and the challenge is to secure lower-cost heavy fuel oil (HFO) use, rather than the more expensive diesel oil (DDO) currently utilized, and to re-establish revenue collection so that the utility may generate more sustainable revenues. The proposed operation will be complementary to the on-going Emergency Electricity and Water Rehabilitation Project (EERWP) which has provided additional power generation capacity and some water storage capacity with technical assistance to the public water and electricity utility (Electricidade e Águas da Guiné Bissau, EAGB).

**Sectoral and institutional Context**

**Situation of Water and Electricity Services**

The access of the urban population to electricity and water is low by regional standards and the lack
of reliability of public supply makes the services erratic and unsafe. It is estimated that 58 percent of Bissau’s population has (intermittent) access to electricity supplied by EAGB through about 26,700 service connections. Most of the large electricity consumers such as enterprises and international organizations, and about 800 to 1,000 households use their own diesel-based electricity generators or are supplied by individual producers and distributors of electricity, who charge three to four times EAGB’s tariff. This is costly to the fragile economy of Guinea-Bissau in terms of competitiveness and has a negative environmental impact as small diesel generators are more costly and less energy efficient than larger utility-run plants. Only 31 percent of the population of Bissau has (intermittent) access to the water distributed by EAGB, through about 9,600 household service connections and 127 standposts. The remainder of the population is supplied mostly with unsafe water through shallow dug wells and informal suppliers. The quality of EAGB’s water itself is questionable, as the frequent interruptions of power supply and the insufficient water pressure create opportunities of bacteriological contamination of the piped water, particularly in the rainy season.

Water service in Bissau is poor, although the water resources are abundant and inexpensive. Water production costs could be among the lowest in the sub-region. Bissau stands on abundant groundwater resources of good quality, which do not require chemical treatment. The deep aquifer (on average, water may be found at 200 m, but the dynamic level of water that determines the pumping head is only 40 m) may be tapped at will through boreholes sustaining high yields. Therefore, the water production costs (investment costs as well as operating costs) are not an obstacle to the development of access. The only limiting factors have been the absence of financial resources and, above all, the insufficient and unreliable power supply.

However, the institutional and legal framework of the electricity and water sectors in Guinea-Bissau is incomplete and ineffective. EAGB was established in 1983 to deliver electricity and water services throughout the country. The scope of services was later modified by a Water Act of 1992, which gave responsibilities of rural water services to the General Directorate of Hydraulic Resources (DGRH) and two Electricity Acts of 2007, which reorganized the electricity sector. Most of the sectoral legislation is not actually effective, pending the issuance of complementary decrees and regulations. Since its creation, EAGB has confined its activities to the capital city, Bissau. In addition, EAGB’s legal status no longer complies with the legislation of the Organization for the Harmonization of Business Law in Africa (Organisation pour l'Harmonisation en Afrique du Droit des Affaires, OHADA) that governs public enterprises in the West African Economic and Monetary Union (WAEMU) and the exact ownership of many EAGB’s assets remains to be ascertained.

The precarious condition of production and distribution facilities is compounded by the weaknesses of the maintenance and the insufficient cash generated by EAGB. A summary assessment of the condition of EAGB’s facilities is given in Annex 2. The rated power of EAGB’s most recent generators is 11 megawatts (MW), of which only 5 MW are available, due to breakdowns and frequent overload incidents created by the poor condition of protection equipment. In addition, despite high electricity tariffs (on average CFAF [200] per kWh, equivalent to US$0.40 per kWh), cost recovery is deficient and curtails fuel and maintenance expenditures. Periodic maintenance is often deferred and EAGB purchases only 60 percent of the fuel quantities required for the continuous operation of the functioning generators. The high technical and commercial network losses (about 45 percent) and the costly use of DDO instead of HFO – the latter being also less prone to pilfering and embezzlement than DDO – further increases fuel costs. The situation is similar in water services. Only 55 percent of the design production capacity is available and
unaccounted-for water (UFW) is likely as high as 50 percent. Some progress has been recently achieved in customer management, following the introduction of pre-payment electricity meters (see below paragraph 20), but 12 percent of electricity customers (including most of the largest) and 30 percent of water customers are not metered at all.

Sector Development Challenges

Since 1998, EAGB has been caught in a vicious circle of bad service delivery, lack of maintenance, financial shortfall and investment backlog. The above-mentioned critical situation of EAGB has persisted since the end of the 1998 internal conflict. It reflects structural and organizational shortcomings, as well as deficiencies in technical and management capacities. The company has continuously operated in an emergency mode, with sporadic rehabilitation in lieu of maintenance and a few infusions of cash.

EAGB’s deficiencies in information and communication create an environment adverse to accountability. The lack of financial information and of reliable monitoring of operating performances hampered the design of serious reforms, while the communication with staff and customers has been non-existent. Clients may still react favorably to the perspective of a better service, as demonstrated by the success of pre-payment meters, but are particularly disappointed by the unpredictability of service interruptions, as EAGB has been unable to set up and publicly disclose a load shedding program schedule. As importantly, EAGB’s shortcomings in producing information and in communicating with stakeholders translate into a severe lack of accountability.

The country's fragility prevented reform attempts and constrained external support. After a first unsuccessful experience with private sector participation (PSP) in the delivery of water and electricity services, several attempts to reform the sectoral institutional framework were initiated by the Government over the period 1998-2005. They could not be implemented, due to the political and social conflicts in the country. For the same reasons, efforts to address the investment backlog with the support of donors frequently aborted or were substantially delayed. Whereas the electricity and water sectors usually attract diverse and abundant external public financing in West African countries, IDA and the West African Development Bank (BOAD) are the only active donors in the electricity sector and the water sector has not received any significant external financing for a long time.

Sector recovery and development strategy

The Government formulated a strategy in 2010 that recognized the country's challenges and constraints and proposed a phased approach to the recovery and development of the electricity and water sectors. In a first phase, priority would be given to: (i) increasing electricity generation capacity, which would also help improving and developing water services in Bissau; and (ii) enhancing EAGB’s operational performance, in particular commercial management, through the introduction of pre-payment meters and technical assistance. In the second phase, the strategy’s focus would shift to restructuring EAGB and setting up a new sector organization including PSP, the transformation of EAGB, and the implementation of a social plan for its employees. Instead of undertaking all actions in parallel, as in the previous reform attempts, sector restructuring and PSP would be implemented after the emergency needs of the sector are taken care of and after EAGB starts to break out of its current low performance trap. An additional consideration that played into the phasing was the medium-term perspective of a substantial reduction in the cost of power that
was expected from the connection of Guinea-Bissau to the hydropower-fed regional OMVG grid by 2018.

Two IDA-funded operations helped formulate and start to implement the Government's strategy. The Multi-sector Infrastructure Rehabilitation Project (MIRP, approved on June 15, 2006 for US $15 million equivalent and to be closed on March 31, 2014) focused on developing sector investment programs, improving EAGB’s commercial management and tariff policy, and rehabilitating a few water distribution networks. The MIRP did not initially include rehabilitation or expansion of EAGB’s power plants, which were expected to be replaced by a medium-term lease of 15 MW of private power capacity. The latter scheme failed to materialize, as only 3.5 MW were actually mobilized, at conditions that were not sustainable by EAGB. The MIRP was restructured and an Emergency Electricity and Water Rehabilitation Project (EEWRP) was subsequently approved on July 23, 2010 for US$12.7 million equivalent (closing date: June 30, 2015) to: (i) provide additional power capacity (5 MW, HFO-fired plant) and water storage (700 m3 elevated tank); (ii) continue improvements of commercial management; and (iii) provide technical assistance for enhanced operational management of EAGB.

The outcome of both operations has been helpful, but a lot remains to be done. Without the EEWRP, there would be no longer any public power supply in Bissau. The project has also financed since 2012 a permanent technical assistance to the operations of the power plant, which improved their sustainability. EAGB’s commercial management is benefiting from: (i) support from the National Electricity Utility of Senegal (Société Nationale d’Electricité du Sénégal, SENELEC), which carried out a customer enumeration and is installing a new commercial software; and (ii) a program of pre-payment meters, which were highly popular with electricity clients (16,200 meters have been installed). A management firm was contracted in December 2013 to provide technical assistance for 12 months to EAGB. It is already giving solid ground to the preparation of this project and will also pave the way for all the donors for their interventions and support to the sector and EAGB, in particular after the elections. In addition, the two ongoing projects provided resources in term of studies for the future development and reform of the sectors, namely the electricity and water tariff study, the restructuring study of EAGB human resources (social plan), EAGB’s financial and legal reform study and the Energy Master Plan.

Apart from IDA, the West African Development Bank (BOAD) is the only external partner currently active in the electricity sector of Guinea-Bissau and none is active in the water sector. BOAD, in its capacity of managing agency of the Energy Development Fund (Fonds de Développement de l'Énergie, FDE) extended a loan of CFAF 13,705 million (US$27.41 million equivalent), to finance the construction of a 15 MW HFO-fired power plant. The loan was signed on June 29, 2012 and is effective. However, the power plant is not expected to start operating before the end of 2017. There are currently no ongoing donor-financed water supply projects focusing on Bissau and none is being contemplated at this juncture.

II. Proposed Development Objectives

The overall objective of the proposed project is: (i) to restore and increase the access of the population of Bissau to safe water and to improve the quality of water services; and (ii) to improve the reliability of electricity supply to the population of Bissau.

III. Project Description

Component Name
1. Water supply
Comments (optional)

Component Name
2. Electricity supply
Comments (optional)

Component Name
3. Support to project implementation and EAGB
Comments (optional)

IV. Financing (in USD Million)

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<th>Total Bank Financing: 22.50</th>
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V. Implementation
The proposed operation will reproduce the implementation arrangements of the MIRP and EEWRP. The Government agreed that the Project Implementation Unit (PIU) of the ongoing projects will continue to take care of fiduciary, safeguards and monitoring aspects of the proposed project and also to ensure compliance of the project with the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006, in coordination with the relevant Government ministries. The mandate of the existing PIU will be modified accordingly, no later than one month after the Effective Date. The Ministry of Economy and Regional Integration (MERI) will oversee the PIU and EAGB. The PIU is properly staffed with regard to sector and fiduciary aspects and its handling of the ongoing projects has been efficient and proactive. The financial management (FM) and procurement assessments carried out during project appraisal found that the PIU’s FM and procurement systems are adequate and capable of supporting the implementation of the Project in accordance with the requirements of OP/BP 10.00. The PIU will receive additional specific support consisting of a safeguards specialist that has been recruited and will be funded under the proposed project. The PIU will also be supported by the Environmental Impact Evaluation Unit (Célula de Avaliação de Impacte Ambiental, CAIA), which will help validate the implementation of environmental and social safeguards measures of the project.

VI. Safeguard Policies (including public consultation)

<table>
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<tr>
<th>Safeguard Policies Triggered by the Project</th>
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| Environmental Assessment OP/BP 4.01 | × |
| Natural Habitats OP/BP 4.04 | × |
| Forests OP/BP 4.36 | × |
| Pest Management OP 4.09 | × |
| Physical Cultural Resources OP/BP 4.11 | × |
| Indigenous Peoples OP/BP 4.10 | × |
| Involuntary Resettlement OP/BP 4.12 | × |
| Safety of Dams OP/BP 4.37 | × |
| Projects on International Waterways OP/BP 7.50 | × |
| Projects in Disputed Areas OP/BP 7.60 | × |

**Comments (optional)**

**VII. Contact point**

**World Bank**

Contact:  Madio Fall  
Title:  Sr Water & Sanitation Spec.  
Tel:  5331+3409 /  
Email:  mfall2@worldbank.org

**Borrower/Client/Recipient**

Name:  Ministry of Economic and Regional Integration  
Contact:  H.E. Soares Sambu  
Title:  Minister  
Tel:  2456663396  
Email:  sosambu58@hotmail.com

**Implementing Agencies**

Name:  PIU  
Contact:  Luiz Alberto Cruz Gomes  
Title:  Project Coordinator  
Tel:  245668885  
Email:  pmri@orange-bissau.com

**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