RESTRICTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING
OF
WATER SECTOR INSTITUTIONAL DEVELOPMENT PROJECT
LOAN 4501-ANG
APPROVED ON JULY 31, 2008

TO THE
REPUBLIC OF ANGOLA

May 16, 2012

Urban and Water Unit
Sustainable Development Department
Country Department AFCS2
Africa Region
ABBREVIATIONS AND ACRONYMS

AF    Additional Financing
BP    Bank Policy
DNAAS National Directorate for Water Supply and Sanitation (Direcção Nacional de Abastecimento de Água e Saneamento)
FCMU  Financial Contract Management Unit
ISR   Implementation and Status Report
MINEA Ministry of Energy and Water
MinInt Ministry of Internal Affairs (Ministério do Interior)
MirEX Ministry of External Affairs (Ministério das Relações Exteriores)
MoE   Ministry of Economy
MoF   Ministry of Finance
MoP   Ministry of Planning
OP    Operational Policy
PAD   Project Appraisal Document
PDO   Project Development Objective
PWSU  Provincial Water and Sanitation Utility
WSIDP Water Sector Institutional Development Project

Regional Vice President:         Makhtar Diop
Country Director:                Laurence Clarke
Sector Director:                Jamal Saghir
Acting Sector Manager:          Alexander Bakalian
Task Team Leader:               Luiz Claudio Martins Tavares
### 1. Basic Information

<table>
<thead>
<tr>
<th>Project ID &amp; Name</th>
<th>P096360: AO-Water Sector Institutional Development</th>
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<tr>
<td>Country</td>
<td>Angola</td>
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<tr>
<td>Task Team Leader</td>
<td>Luiz Claudio Martins Tavares</td>
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<tr>
<td>Sector Manager/Director</td>
<td>Alexander Bakalian</td>
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<tr>
<td>Country Director</td>
<td>Laurence Clarke</td>
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### 2. Revised Financing Plan (US$m)

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### 4. Implementing Agency

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### 5. Disbursement Estimates (US$m)

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### 6. Policy Exceptions and Safeguard Policies

- Does the restructured project require any exceptions to Bank policies? N
- Does the restructured project trigger any new safeguard policies? If yes, please select from the checklist below and update ISDS accordingly before submitting the package. Y

“Projects on International Waterways” safeguard policy (OP 7.50)

### 7a. Project Development Objectives/Outcomes

- Original/Current Project Development Objectives/Outcomes
  The project development objective is to strengthen the institutional capacity and efficiency of the Recipient’s agencies in the water sector to improve access and reliability of water service delivery.

### 7b. Revised Project Development Objectives/Outcomes [if applicable]

N/A
ANGOLA
WATER SECTOR INSTITUTIONAL DEVELOPMENT PROJECT
RESTRUCTURING PAPER

A. SUMMARY

1. This Restructuring Paper seeks the approval of the Board for the triggering of the “Projects on International Waterways” safeguard policy (Operational Policy OP 7.50).

2. The PDO of the original project (P096360) and its Additional Financing (AF, P124511) is to “strengthen the institutional capacity and efficiency of Recipient’s agencies in the water sector to improve access to water supply”. The original Project and its AF are classified as Category B under the Bank’s social safeguards policies as planned urban water system rehabilitation and improvements may result in (i) minor environmental impacts; and, (ii) land compensation for losses and damages to property during the construction phase of water works rehabilitation. Therefore, the Environmental Assessment (OP/BP 4.01) and Involuntary Resettlement (OP/BP 4.12) were triggered by the Original Project. At the time of appraisal of the AF the nature and scope of physical investments supported by the additional credit were the same as infrastructure investments under the Original Project and, consequently, no additional safeguards were triggered.

3. As of project appraisal the rehabilitation Luena water supply system included under the original project and its AF did not trigger the “Projects on International Waterways” safeguard policy (OP 7.50). With a capacity of treatment of 200 m³ per hour, the Luena water supply system is divided in the downtown sub-system and the Sangolo sub-system, both abstracting water from the Luena River. Under Component 3 of the Original Project and its AF the project included activities related to the rehabilitation of the down-town intake aiming at guaranteeing its original production capacity. As the project did not provide financing for civil works at either intake neither alter the original intake designs, the project did not involve the use or potential pollution of international waterways and as such it was not necessary to trigger the OP 7.50.

4. Since the original project approval, growing erosion of the land surrounding the downtown sub-system has resulted in significant deterioration of the quality of the water of the Luena River in that area. Under current conditions, the rehabilitation of the downtown sub-system would involve the need for (i) involuntary resettlement due to the requiring rerouting of the pipeline to avoid the erosion area; and, (ii) a high level of treatment due to the turbidity levels in the water. For these reasons, the Angolan government is committed to closing the downtown sub-system once the rehabilitation of the Sangolo sub-system is completed.

5. The rehabilitation of the Sangolo sub-system involves minor civil works within a tributary of the Zambezi River, an international waterway, and as such OP 7.50. “Projects on International Waterways” is triggered. The rehabilitation of Sangolo sub-system will involve the modification of the design of the water intake located at this system to guarantee the original capacity of the Luena water supply system.
B. PROJECT STATUS

6. **Original project.** The World Bank Board of Directors approved a credit in an amount of US$57 million for the Water Sector Institutional Development Project (WSIDP, P096360, CR.4501-ANG) on July 31, 2008. The Project became effective on August 30, 2010 primarily due to reasons external to the project. The principal reasons were: (i) parliamentary elections in September 2008 and the subsequent government re-structuring; (ii) budgetary and fiscal problems in 2008 and 2009 resulting from the international financial crisis and the sharp decline in the price of crude oil; and, (iii) the adoption of a new constitution in 2010 and the subsequent uncertainty within government regarding institutional responsibilities and authorities resulting from the conversion from a parliamentary to a presidential form of government. This delay did not put the PDO at risk as (i) institutional actions not related with works contracts progressed well before the project became effective; (ii) the preparatory work to create water and sanitation utilities in 7 provinces (5 provinces included in the Original Project and 2 in additional provinces following the same principles) was completed and approved by the Ministry of Economy (MoE); and, (iii) the Water Resource Institute was created by the Council of Ministers.

7. **Additional Financing.** The World Bank Board of Directors approved an additional credit (P124511) in an amount of US$120 million to Angola for WSIDP on June 30, 2011. The rationale for continued and further involvement of the Bank in the water supply and sanitation sector in Angola is to: (i) expedite the improvement and expansion of the asset base in the water sector to support the delivery of expanded water services; (ii) support efforts to increase the availability of potable water, mainly to the poor living in the peri-urban areas at reduced prices; and, (iii) promote the financial sustainability of the newly created public water and sanitation utilities by increasing their customer and revenue bases. The AF enables the Government to support improved water supply access by scaling-up the investments in nine cities as originally designed and thus increase the impact of the Original Project as described in the Project Appraisal Document (PAD) approved on July 31, 2008. In the AF Project Paper the Board of Directors approved:

(i) Restructuring the original Project to reflect changes in project development objective and in components 2 and 3.
(ii) Reallocating funds of the original Financing Agreement;
(iii) Adjusting the Project indicators and targets; and,
(iv) Extending the closing date of the original Financing Agreement from June 30, 2016 to June 30, 2019.

8. The Original Project and its AF include four components, as follows:

- **Component 1.** Development of institutions in the water supply and sanitation sub-sector. The objective of this component is to strengthen the institutional framework for the water supply sub-sector at both central and regional levels.
- **Component 2.** Water Resources Management. The objective of this component is to support the strengthening of the institutional framework for the water resources management sub-sector.

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1 The AF has not been signed awaiting approval from the Council of Ministers. Internal procedures for the preparation of documents to be forwarded by the MoP to the Council of Ministers have been met.
- **Component 3.** Rehabilitation of water supply systems. The objective of this component is to support the physical rehabilitation of selected urban water supply systems due to the critical need to reverse many years of inadequate investments and maintenance.

- **Component 4.** Capacity building and change management. The overall objective of this component is to strengthen the ability of government to improve efficiency of water supply in Angola by engaging stakeholders, managing and communicating change, and improving the abilities of individuals to play their parts, especially at management but also at technical levels.

9. **Performance of the Project.** Based on the latest Implementation Status and Results report (ISR #7, January 2012), the rating for the PDO is Satisfactory (S). The Implementation Performance (IP) rating is Moderately-Satisfactory (MS) given that all intermediate outcome indicators are on track to be achieved but due to the delay in effectiveness actual disbursement (at 2.6%) is behind the original disbursement plan². As of January 2012, in line with the indicators and their targets included in the Results Framework the progress of each component is as follows:

- **Component 1. Development of Institutions in the Water Supply and Sanitation Sub-Sector.** The process of creating the Provincial Water and Sanitation Utilities (PWSUs) is evolving satisfactorily. On May 25, 2011, the Ministry of Energy and Water (MINEA) delivered the legal documents, as part of the process of creating the PWSUs, to the Ministry of Economy (MoE) for approval. According to the Results Framework the PWSUs are to be created by mid-2012. The PWSUs for Malange, Bie, Kwanza Norte, Huambo and Uige will be created at the provincial level to benefit from economies of scale and reduce the price of services to reach the poor. In accordance with current legislation PWSUs assets will belong to the Ministry of Finance (MoF) and would then be managed by the Asset Management Unit (to be created) on behalf of MoF.

- **Component 2. Water Resources Management.** The Government approved the creation of the Water Resource Institute on October 1, 2010, within the timeframe detailed in the Results Framework. The establishment of the Institute is delayed due to the lack of a physical site to host the institute. This matter is being diligently followed by MINEA and is expected to be resolved in 2012. During the project’s review mission held in November 2011 it was agreed that a short-term technical consultant within the Project would be contacted to directly support the Water Resource Institute.

- **Component 3. Rehabilitation of Water Supply Systems.** Works for 6 cities (Kuito, Huambo, Lubango, Malange, N'Dalatando, and Uige) were procured during 2011 for about 333 km distribution network and 68,000 household connections. Once signed, the contracts are to be implemented in about 24 months and completed in late 2013. However, the value of the works and supervision packages exceeded the amount of US$5 million allocated in the PAD and Financing Agreement 4501 of February 25, 2010. It is therefore crucial to have the AF Financing Agreement signed in 2012. The AF will scale-up the activities of this component and will allow the rehabilitation of the water supply

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² The delay in effectiveness did not put the PDO at risk as (i) institutional actions not related with works contracts progressed well before the project became effective; (ii) the preparatory work to create water and sanitation utilities in 7 Provinces (5 Provinces included in the original project and 2 in additional Provinces following the same principles) was completed and approved by the Ministry of Economy (MoE); and, (iii) the Water Resource Institute was created by the Council of Ministers in October 1st, 2010.
production and the expansion of the distribution systems through investments in the nine
cities included in the original Project.

- **Component 4. Capacity Building and Change Management.** The Project supports the
  operations of the Financial Contract Management Unit (FCMU) by providing financing
  for local and international consultants, equipment, and necessary operating costs. As of
  November 2011, the FCMU had 21 staff (including 16 experts and 5 administrative
  staff). Despite being staffed according to the WSIDP the FCMU is overloaded with work
  that was not foreseen at appraisal. Accordingly, some actions are needed to maintain the
  quality of work within the FCMU, as follows: (i) avoid transferring processes already
  started from National Directorate for Water Supply and Sanitation (DNAAS) to FCMU;
  (ii) agree with the Ministry of Planning (MoP), Ministry of Internal Affairs (MinInt),
  Ministry of Foreign Affairs (MirEx) on how to obtain visas for international consultants
  to work in Angola in the FCMU (the lack of consultants might lead to delays in project
  implementation and increase project costs); (iii) strengthen the FCMU by hiring
  consultants for two years in the areas of procurement and contracts, financial
  management, environment and engineering, to cope with the increasing demand created
  by new government programs; and, (iv) DNAAS/MINEA must submit to the World Bank
  a standard code for using vehicles purchased under WSIDP for the exclusive use of the
  FCMU.

10. **Safeguards.** The Environmental Assessment (OP/BP 4.01) and Involuntary Resettlement
    (OP/BP 4.12) safeguard policies were triggered under the original project. At the time of
    appraisal of the AF, the nature and scope of physical investments supported by the additional
    credit were the same as the infrastructure investments under the Original Project, and therefore
    no additional safeguards were triggered.

C. **PROPOSED CHANGES**

11. **Safeguards.** This Restructuring Paper seeks the approval of the Board for the triggering
    of the “Projects on International Waterways” safeguard policy (OP 7.50) as the rehabilitation of
    the Sangolo-subsystem will involve the modification of its water intake.

12. **Rehabilitation of Luena water supply system.** With a capacity of treatment of 200 m$^3$
    per hour, the Luena water supply system is divided into two sub-systems: the downtown sub-
    system and the Sangolo, both abstracting water from the Luena River, a tributary of the Zambezi
    River. At project appraisal, the rehabilitation of the Luena water supply system as included under
    the Parent Project and its AF did not trigger the “Projects on International Waterways” Safeguard
    Policy (OP 7.50). As initially designed, the project at Luena did not provide financing for civil
    works at either intake nor did it alter the original intake designs. Therefore, the project did not
    involve any change in the use or potential pollution of the Luena River, and as such it did not
    trigger OP 7.50.

13. **Reasons for changing the project design.** Since the original project approval, growing
    erosion of the land surrounding the downtown sub-system has resulted in significant
    deterioration of the water quality of the Luena River in that area. Under current conditions, the
    rehabilitation of the downtown sub-system would involve the need for: (i) involuntary
    resettlement due to the required rerouting of the pipeline to avoid the erosion area; and (ii) a high
    level of treatment due to the turbidity levels in the water. For these reasons, the Angolan
government is committed to closing the downtown sub-system once the rehabilitation of the Sangolo sub-system is completed.

14. **Reasons for triggering OP/BP 7.50.** The rehabilitation of the Sangolo sub-system involves minor civil works within a tributary of the Zambezi River, an international waterway, and as such OP 7.50 “Projects on International Waterways” is triggered. The rehabilitation of Sangolo sub-system will involve the modification of the design of the water intake located at this system to guarantee the original capacity of the Luena water supply system.

15. **Notification requirement.** OP/BP 7.50 requires, as a general rule, notification of all the riparians of the international waterway of certain types of projects specified in the policy but it also provides some exceptions to such notification requirement, such as the one found under paragraph 7(a) of the policy. Namely, no riparian notification is required for “any ongoing schemes, projects involving additions or alterations that require rehabilitation, construction, or other changes that in the judgment of the Bank: (i) it will not adversely change the quality or quantity of water flows to the other riparians; and (ii) it will not be adversely affected by the other riparians’ possible water use.” On November 22, 2011, the Africa Region Vice President approved the determination made by the Task Team that the WSIDP falls under the exception to the notification requirement under Paragraph 7 (a) of OP 7.50 “Projects on International Waterways”.

16. The rehabilitation of the water intake system at Sangolo in Luena falls under the exception spelled out in Paragraph 7(a) of OP 7.50. The proposed investment at Luena qualifies as a rehabilitation of the existing water intake systems at Sangolo in Luena. The amount of water to be abstracted for the rehabilitated Sangolo sub-system will be the same as the total amount of water to be abstracted by both the downtown sub-system and the Sangolo sub-system. Therefore, the proposed restructuring will not change the quality or quantity of water flows to the other riparian countries. In addition, the rehabilitation of the water intake system at Sangolo will not change the project’s environmental or social risk profile.