I. Introduction and Context

Country Context

1. Angola has achieved remarkable growth after emerging from its 27-year civil war. Strong progress has been made in economic management and public finance, infrastructure development, and expansion of key services. Gross Domestic Product (GDP) grew at an average annual rate of 11 percent between 2002 and 2011. Sustained investment in oil and gas sectors yielded a steady stream of resource revenues which were used to rehabilitate transport, energy, and social infrastructure.

2. The fast economic growth seen in previous years is now slowing due to the decline in global oil prices and a contraction in domestic oil production. In 2014, GDP growth was estimated at 4.4 percent. Growth is expected to pick up moderately to 5.3 percent in 2015 as oil production rebounds with the resolution of maintenance problems in oil fields. Growth is also driven by an increase in public investments in the non-oil sectors. This includes, among others, rehabilitation of
roads, increase in energy production by completion of power plants, and development of new irrigation systems to enhance agricultural productivity. The average inflation rate is projected to be about 7 percent by end of 2015. While macroeconomic prospects in the medium term are challenging due to declining oil prices, macroeconomic management and commitment to reforms have been favorable.

3. While reasonable progress has been made toward achievement of the Millennium Development Goals (MDGs), Angola is not likely to meet the MDGs by 2015. Despite the positive progress made in poverty reduction, primary education, and gender equality since 2002, progress in other key social indicators remains limited. For example, life expectancy at birth is only about 51 years. Maternal mortality is 450 out of 100,000 births, which is the highest in Sub-Sahara Africa. Malnutrition is also acute, with 30 percent of children under five years of age suffering from stunting; 16 percent are under-weight. Furthermore, Angola ranks 148 out of 187 countries in the 2013 Human Development Index. Despite the relatively high GDP per capita (US$5,170 in 2013), about 37 percent of the population still lives below the national poverty line and without access to basic services, in particular water supply.

4. Rapid population growth, in particular in urban areas, imposes an additional challenge. Angola's population was estimated to be 24.3 million in 2014, with an average annual growth rate of 3.3 percent. The urban population represents about 60 percent of the total population, with annual growth of about 5 percent.

Sectoral and Institutional Context

5. After emerging from a devastating 27-year civil war in 2002, the water supply sector was dilapidated. The lack of investment, rehabilitation, and service expansion, compounded by the protracted civil war, resulted in low levels of access and poor quality services. As of 2001 only 27 percent of the national population had access to improved drinking water sources. In urban areas 42 percent of the population had access to improved drinking water sources.

6. Since the end of the war, Angola has made progress towards increasing access to improved water services. Between 2006 and 2011, national access to improved drinking water sources increased from 49.1 to 51 percent. In urban areas, there was a significant increase in access to improved drinking water sources – from 58 in 2006 to 73.7 percent in 2011 – driven mainly by expansion of standposts. However, access to water through yard-taps or household connections remains low, at 33.9 percent. In addition, there are wide disparities in access to improved water sources among urban areas, in particular provincial capital cities. For instance, in the cities included as part of the proposed project, access to an improved drinking water source ranges from 5 to 60 percent.

7. In addition to improving access, the Government has emphasized the institutional development of the water supply sector and has committed to establishing the necessary policy and legal framework. Right after the end of the civil war the Water Law (2002) was enacted, mandating the need for cost-recovery tariffs and professionalization of service delivery, and devolving the responsibility for service provision to provincial governments. In 2008, the Government approved Vision 2025, which includes goals for the water sector, including universal access to water supply in urban areas by 2025. Building on Vision 2025, the 2013-2017 National Development Plan and the 2013-2017 Energy and Water Sector Action Plan identified as a key priority the strengthening of urban water supply, in particular in provincial capitals, with special emphasis on expansion of water
systems. With this aim, in 2013 and 2014 eight Provincial Water and Sanitation Utilities (PWSUs) were created as a first step toward independent service providers. In addition, there is an on-going process to introduce performance-based management contracts in a number of these utilities. Currently, 15 provincial capitals have developed water master plans to address physical and institutional requirements. However, the implementation of the policy and legal framework is still in process, in particular to guarantee the harmonization of the investment program with policy and legal mandates.

8. The strengthening of service delivery is also supported by efforts to put in place water resources management mechanisms. The National Strategic Plan for Water (2003) highlighted the need to identify and quantify water uses; characterize water resources; and create a water balance of water availability and uses. With this objective, the Government of Angola (GoA) created the National Institute for Water Resources (INRH) in 2012. The INRH is gradually becoming operational.

9. The institutional consolidation of the water supply sector needs further development. Clear separation of the policy, regulatory, and service delivery functions is needed to boost sector expansion and promote the sustainability of investments. Indeed, there is an on-going process to create a national asset holding company (Instituto Nacional de Agua Potavel e Saneamento, INAS) responsible for capital investment and rehabilitation of urban water systems, which will create a clear separation between policy making and investment. A regulatory agency for water supply is in the process of being established. Several PWSUs still need to be established. For the recently created PWSUs, internal management strengthening is needed, along with support for improving their operational and financial performance. The INRH needs to become fully operational in order to be able to provide necessary data for adequate water resource planning, as well as develop additional river basin plans.

10. Despite recent investments by the GoA, supported by several development partners, urban water supply systems still require substantial investment. Most bulk and household connections are not metered, which challenges production planning and loss reduction initiatives, which in turn challenge the financial sustainability of the systems. In those few cities where there is a billing system in place, collection ratios are lower than 60 percent of the billing. The water departments and utilities are generally over staffed, and often the skills required are not in line with the systems’ requirements.

11. Substantial investment programs are required in provincial capital cities. Most of the existing water supply systems in provincial capital cities date from colonial times and are therefore in need of significant expansion and rehabilitation. In some provincial capital cities The World Bank has contributed to the expansion and/or rehabilitation of water supply systems under the Emergency Multisector Recovery Project I and II (P083333 and P095229) and the Water Sector Institutional Development Project I (WSIDP I, P096360). However, production is inadequate to meet increasing water demand stemming from rapid urban growth and growing industrial and commercial sectors. Production and distribution mains need to be expanded and sized-up accordingly, while rehabilitation works are needed to reduce technical water losses. Whereas the number of water connections are on the rise, thanks to significant budget allocations from government and several development partners, fast-tracking the pace at which connections are installed are due to achieve Vision 2025. Currently, the GoA and donor allocations to provincial capitals fall short of needs.
12. The investment programs need to be accompanied by support to improve the operational and financial performance of the provincial systems' operators. Tariffs, which are decided by provincial governors, have recently been adjusted in some capital cities but they are still too low to cover operational costs. Significant operational subsidies are required from provincial governments, which are often provided in the form of chemicals and staff paid by the governor's budget.

13. The World Bank, other development partners, and bi-laterals are supporting government's efforts in provinces. Since becoming effective in 2010, the World Bank-supported WSIDP I has been key to helping the GoA put in place institutional and infrastructure foundations in seven provincial capital cities: Huambo (Huambo province), Kuito (Bie province), Lubango (Huila province), Luena (Moxico province), Malanje (Malange province), N'Dalatando (Cuanza Norte province), and Uige (Uige province). The proposed project aims to continue this support in the current cities and an additional two (Namibe, Namibe province and Dundo, Lunda Norte province). The African Development Bank (AfDB) has been financing support since 2011 in Sumbe (Cuanza Sul province) and has recently approved a new project (Institutional Support for the Sustainability of Urban Water Supply and Sanitation Service Delivery, approved by AfDB Board of Directors, April 1, 2015) comprising investments in Sumbe and technical assistance for the creation and implementation of PWSUs in Cabinda, Cunene, Lunda Sul, Bengo, and Cuanza Sul provinces. The European Union supports institutional capacity development focusing on human resource development and water quality monitoring. UNICEF supports GoA's effort in the areas of policy and strategy and capacity building. Norway has a program of institutional support for the water and energy sectors. The Kingdom of Spain provided until recently support for human resource strengthening and commercial capacity for managing provincial water systems. The Governments of China and Brazil have provided credit to the GoA for infrastructure investments.

**Relationship to CAS**

14. The proposed project in fully aligned with the Country Partnership Strategy (CPS) for FY14 - FY16, in particular with its Second Pillar and the Foundation Plank. The focus of the CPS’s Second Pillar is on enhancing the quality of service delivery to improve the quality of life of the population. In addition, the Foundation Plank of the CPS revolves around building human and institutional capacity approaching the levels common in the middle-income countries.

15. The proposed World Bank Water Sector Institutional Development Project II (WSIDP II) continues, scales up, and consolidates the support provided by the WSIDP I (P096360) and its additional finance (AF, P124511), which has been fundamental to the GoA's institutional efforts and investments to improve the water supply sector.

16. The WSIDP II is scheduled to become effective in February, 2017. The implementation of the first phase of new activities under WSIDP II, including necessary preparatory works and procurement activities, will coincide with the completion of the majority of on-going contracts under WSIDP I. This, in turn, will allow for continuity of sector support without overstretching the implementation capacity of the Financial and Contract Management Unit (FCMU) under MINEA.

**II. Proposed Development Objective(s)**

Proposed Development Objective(s) (From PCN)
The Project Development Objective is to strengthen the institutional capacity of water sector agencies and increase water service coverage in target cities.

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) Percentage of Provincial Water and Sanitation Utilities (PWSU) achieving financial performance targets.
(iii) Number of water utilities supported by the project (core indicators).

III. Preliminary Description

Concept Description

19. The proposed project will finance strategic institutional development activities and priority water supply investments in targeted provincial cities of Kuito-Cunje, Huambo, Lubango, Namibe, N’dalatando-Villa De Lucala, Malange, Uige, Dundo, and Luena (seven of these cities were included under WSIDP I). The project seeks to harness the momentum created under WSIDP I and will deepen and expand the development impacts of that project. The WSIDP II will include activities designed to strengthen water sector institutions, including regulatory capacity, utility operations and water resource management. The proposed institutional interventions will be coupled with infrastructure investments to address key physical challenges and constraints. Water supply infrastructure investments will focus on increasing the capacity of systems and expand water service coverage, predominately in under-served, low-income peri-urban areas.

20. The proposed project has been designed in coordination with the Government’s water sector infrastructure investment program and is strategically aligned with AfDB’s water sector projects.

21. The project is expected to include four components, as follows:

22. Component 1: Water Supply Institutional Strengthening and Capacity Development (US $55.0 million). The objective of this Component is to strengthen the institutional framework for the water supply sub-sector at central and provincial levels. To achieve this objective the Component will finance activities designed to support the PWSUs, the regulator, and the asset management entity – supporting the creation of an enabling environment for sustainable water service delivery.

23. The World Bank will finance technical assistance (TA) to provide critical start-up support for the recently created PWSUs. The intention of the TA is to establish effective organizational structures, improve operating systems, and develop institutional capacity through the transfer of knowledge and skills to enhance service delivery and improve efficiency. The proposed Component I will finance technical assistance, management contracts, goods, capacity building/training, and equipment in the project cities related to water supply and utility management.

24. Regulatory support will include creation and expansion of the sector regulatory framework for oversight of water service quality and tariffs, particularly for the newly created PWSUs. In particular, the regulator will be supported to establish tariff application and review procedures and appropriate mechanisms (i.e. social tariffs) to promote access, whilst maintaining a balance to ensure affordability of water bills for low-income customers and financial sustainability of the
PWSUs. This Component will also provide goods, operational support, capacity building/training, and technical assistance to the regulator.

25. This Component will finance activities to support institutional capacity development of INAS, the asset management entity responsible for the assets of all urban water supply systems that involve water treatment facilities on behalf of the GoA. This Component will finance activities designed to improve the institutional capacity of INAS to fulfill its mandate, including to mobilize, plan, and manage dedicated funds; plan and oversee the execution of investments; promote public-private partnerships for the development and delivery of services; and strengthen performance-based contracting systems. This Component will also provide goods, operational support, capacity building/training, and technical assistance to INAS.

26. Component 2: Water Resource Management (US$12.5 million). The objective of this Component is to support the strengthening of the institutional framework for water resources management. This Component will focus on completing activities that will not be implemented as planned under WSIDP I due to cost overruns. Key activities will include: (1) strengthening and support to INRH; (2) development of systems for water resource monitoring and management; and (3) finance for two new river basin plans. Specific activities include analysis of infrastructure investment requirements; preparation of two new river basin management plans; development of policy and monitoring frameworks; and installation of hydrometric stations and monitoring systems. This Component will provide goods, works, operational support, capacity building/training, and technical assistance to the INRH.

27. Component 3: Rehabilitation and Expansion of Water Supply Production and Distribution (US$274.0 million, including contingencies). The objective of this Component is to support the PWSUs in the development of priority infrastructure to expand system capacity, increase service coverage and service quality, and improve the operating efficiency of the production and distribution systems in targeted cities. The proposed investments have been selected to build upon the works implemented through the WSIDP I, and complement the Government's and AfDB’s water sector investments. Whilst improving utilities' operations is an important element of the WSIDP II, service coverage within the selected systems is low (on average less than 34 percent), and therefore proposed interventions under the project focus substantially on necessary infrastructure investments to expand systems. Through project implementation, coverage is expected to increase to as high as 75 percent in some of the project cities. A project baseline and specific targets for service coverage expansion will be developed for each city during project preparation and closely monitored during implementation. Specific activities to be financed are further defined below:

28. Sub-component 3a - Rehabilitation and Expansion of Production Facilities (US$65.5 million, including contingencies). Investments will include civil, electrical and mechanical works to improve water production in targeted cities where required to support expanding service coverage. Key activities will include expansion and refurbishment of well fields and intake facilities and expansion and refurbishment of water treatment facilities. Also, it will include construction of clear-water storage tanks and the rehabilitation and expansion of transmission infrastructure, including new pipelines, pump stations, telemetry/SCADA, and associated fittings.

29. Sub-component 3b - Rehabilitation and Expansion of Distribution Systems (US$208.5 million, including contingencies). Investments under this sub-component will include the development of priority infrastructure to increase service coverage and improve operational
efficiency of the water distribution systems in selected cities. Investments will include rehabilitation of existing and construction of new distribution centers, including increasing storage with ground tanks and pressure through elevated water towers, water supply network expansion and rehabilitation, installation of district meters and pressure control valves within existing pipelines, telemetry, and approximately 155,000 new household meters and associated materials for connections (primarily for yardtaps) – directly benefiting some 930,000 people. Network investments (estimated to be around 1,145 km of pipeline) will be predominantly directed towards expanding coverage to underserved low-income peri-urban areas (mostly with un-paved roads). These investments will have substantial development impacts by providing services to the poor. In addition, they complement WSIDP I-supported network rehabilitation of the urban centers in the targeted cities, which was critical for supporting sustainability of services and economic growth and development within the provincial cities.

30. Component 4: Management and Engineering Support (US$38.5 million). This Component includes support for engineering studies; design and supervision of works and performance contracts; project management; project audits; project monitoring and evaluation; implementation of environmental and social safeguards; economic and financial reviews of investments; support for community consultation and communication activities; and development of various other technical studies such as the Luanda Water Master Plan. This Component will partially finance the operations of the Ministry of Energy and Water (MINEA) Project Implementation Unit – the FCMU – which manages implementation of all projects in the sector regardless of the financing source. A training budget will also be provided to support capacity-building activities at the national and provincial levels. This Component will verify the technical feasibility of integrating the existing "Sistema Integrado Sectorial de Agua e Saneamento -SISAS" with IBNET.

IV. Safeguard Policies that might apply

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V. Financing (in USD Million)

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