



# Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 30-Sep-2020 | Report No: PIDC29833

**BASIC INFORMATION****A. Basic Project Data**

Country Mozambique	Project ID P173518	Parent Project ID (if any)	Project Name Rural and Small Towns Water Security Project (P173518)
Region AFRICA EAST	Estimated Appraisal Date Apr 05, 2021	Estimated Board Date Sep 21, 2021	Practice Area (Lead) Water
Financing Instrument Investment Project Financing	Borrower(s) Ministry of the Public Works, Housing and Water Resources (MOPHRH)	Implementing Agency AIAS	

**Proposed Development Objective(s)**

The objective of the Project is to increase access to sustainably and safely managed water and sanitation services in selected small towns and rural areas of Mozambique.

**PROJECT FINANCING DATA (US\$, Millions)****SUMMARY**

<b>Total Project Cost</b>	150.00
<b>Total Financing</b>	150.00
<b>of which IBRD/IDA</b>	150.00
<b>Financing Gap</b>	0.00

**DETAILS****World Bank Group Financing**

International Development Association (IDA)	150.00
IDA Grant	150.00

Environmental and Social Risk Classification  
Substantial

Concept Review Decision  
Track II-The review did authorize the preparation to



continue

Other Decision (as needed)

## B. Introduction and Context

### Country Context

**1. Despite strong growth in the past 20 years, Mozambique is still one of the world's poorest countries.** GDP growth averaged above 8 percent during the post-war recovery until 2014, making Mozambique the fastest growing non-oil economy in Sub-Saharan Africa (SSA). However, the vulnerability of the growth model was exposed in 2016 when a fall in commodity prices and fiscal, debt and governance crises triggered an economic slowdown. Although the poverty headcount ratio has been declining<sup>1</sup>, the total number of poor has increased since 2000, aggravated by one of the highest fertility rates in SSA.<sup>2</sup> Of a total population of approximately 29 million (2017), nearly 40 percent (11.3 million) are living in poverty, mainly in the northern regions. Access to basic services is low: only one in three households has access to safe water, one in ten to sanitation, and one in four to electricity. Mozambique ranks 180 out of 189 countries in the 2017 Human Development Index (HDI).

**2. Mozambique's economic development has been non-inclusive, driven by Foreign Direct Investment (FDI) in extractive-led / capital-intensive sectors and with limited linkages to the local economy.** The country was one of the largest recipients of FDI inflows in Africa<sup>3</sup> and the extractive sector has been the main driver of economic growth, maintaining double-digit output growth per year. Today, the economy is still dominated by the agriculture sector, which accounts for 25 percent of the GDP, and employs about 70 percent of the population (90 percent in rural areas). The services sector has generated most of the employment growth in the economy, with almost two thirds of jobs created in the formal economy since 2002. Limited FDI linkages to the local economy hindered the country's ability to reduce inequality, which has increased especially in urban areas. With a Gini coefficient at 0.54 in 2014/2015,<sup>4</sup> Mozambique remains among the most unequal countries in SSA.<sup>5</sup>

**3. Economic growth has also recently been disrupted by a series of natural disasters.** Two devastating cyclones hit the country in 2019, destroying physical infrastructure, economic activities and claiming human lives. Around 1.7 million people, especially the rural and urban poor in Sofala, Manica and Zambezia provinces,<sup>6</sup> were affected by Cyclone Idai, while Cyclone Kenneth affected 250,000 people in Cabo Delgado.<sup>7</sup> Both events destroyed and damaged houses, businesses, and core infrastructure with damages and losses amounting to US\$3 billion.<sup>8</sup> This happened while the country was still experiencing fiscal constraints triggered by falling commodity prices and the discovery of US\$1.4 billion in previously undisclosed public debt, with dramatic consequences to the macroeconomic environment.

**4. More recently, the evolving Covid-19 crisis in 2020 has had a large impact on the economy.** The main immediate economic impacts include the postponement of the investment decision for one the most important gas projects<sup>9</sup>, cancelation of all tourism bookings, closing of restaurants, shortages in the supply of food items for informal markets with

<sup>1</sup> The poverty headcount fell from 52.8 percent in 2002/03 to 46 percent in 2014/15.

<sup>2</sup> Children aged 0-14 represented more than 45 percent of the population in 2015. The total fertility rate was of 5.3 children per woman (DHS 2015).

<sup>3</sup> In 2002, FDI inflows stood at US\$347.58 million, but by 2013 they had reached US\$5.9 billion, placing Mozambique above Nigeria as the largest recipient of FDI inflows in Africa in the period (Business Day, 2014).

<sup>4</sup> World Bank, Development Research Group. World Bank Global Development Indicators, 2014.

<sup>5</sup> Mozambique Economic Update, 2018.

<sup>6</sup> World Bank, 2020. Mozambique Economic Update: Mind the Rural Investment Gap.

<sup>7</sup> Government of Mozambique. 2019. Post Disaster Needs Assessment.

<sup>8</sup> Government of Mozambique. 2019. *Ibid*

<sup>9</sup> <https://furtherafrica.com/2020/03/21/coronavirus-gas-slump-delays-exxons-mozambique-plans/>



the closing of borders, and a number of disruptions in export-oriented sectors like agribusiness, fisheries, and coal. Unsafe water and sanitation have exacerbated the impacts of the Covid-19 pandemic, particularly in the education sector, where lack of water and sanitation facilities has prevented school reopening. To support the water sector response to Covid-19, the Government of Mozambique (GoM) has issued instructions to water utilities and service providers to (i) ensure all users remain connected regardless of payment status; (ii) delay water bill payments for all consumers under the social tariff; and (iii) exempt from water payment all users of public and private standpipes. Other sectors impacted include personal services, financial services, construction, transport, energy, and real estate.<sup>10</sup>

5. **Despite the challenging outlook, Mozambique faces a unique transformative opportunity with the discovery of Liquid Natural Gas (LNG) that could make the country the fourth largest exporter of natural gas in the world.**<sup>11</sup> The discovery of large off-shore gas reserves in Northern Mozambique, in the Cabo Delgado province (Palma district) has prompted massive FDI that is projected to raise exports and fiscal revenues significantly by the mid-2020s.<sup>12</sup> The development of the LNG projects in Cabo Delgado has the potential to generate over US\$ 60 billion of direct investment. Mozambique has the chance of creating lasting impact on the economy through the creation of new and better jobs for a wider group of people. It will also create opportunities for private sector to mobilize financing for infrastructures and services.

6. **However, the opportunity to leverage on extractives comes amidst increased social unrest and conflict in Northern Mozambique.** Since 2017, the province of Cabo Delgado has suffered from episodes of violence, linked to Islamic-inspired extremism. Poverty, unemployment, and lack of education have allowed insurgent leaders to exploit feelings of bitterness and marginalization among local communities. Attacks, during which homes and entire villages have been burnt, and men, women and children killed, have now become common and have displaced at least 250,000 people and caused hundreds of deaths.<sup>13</sup> While the investments LNG have created expectations, the population has so far benefited little. Creating opportunities for marginalized communities needs to be a core part of any economic development strategy in these areas.

#### Sectoral and Institutional Context

7. **To achieve Sustainable Development Goal (SDG) 6 by 2030,<sup>14</sup> Mozambique still needs to connect 16.8 million for water and sanitation (and 6.2 million in 4 northern provinces) in next 10 years.** Mozambique has registered a limited progress in improving access to safe water and sanitation over the past decade and failed to reach the Millennium Development Goals of reducing to half the population without access to improved water supply and sanitation facilities. Four decades after independence, only half of the population (49 percent)<sup>15</sup> has access to improved water supply and 40 percent do not have access to sanitation facility<sup>16</sup>, leading to widespread open defecation.<sup>17</sup>

8. **Access to water and sanitation services is also marked by significant spatial inequalities, between cities and rural and small growth centers, and between the South and the North of the country.** While 77% benefit from access to improved water sources in large cities, access rates are less than half that in rural areas (35% access). Access to improved water supply and sanitation services is also geographically inequitable, with access rates decreasing towards the north of the country.<sup>18</sup> The lowest access rates for both water supply and sanitation are found in the Northern provinces of

<sup>10</sup>World Bank Group. forthcoming. Mozambique Country Private Sector Diagnostic (CPSD).

<sup>11</sup> *Idem*

<sup>12</sup> World Bank. forthcoming. Jobs Strategic Note.

<sup>13</sup> UN OCHA. Mozambique Situation Report (update September 10, 2020). Available at: <https://reports.unocha.org/en/country/mozambique/>

<sup>14</sup> achieve universal and equitable access to safe and affordable drinking water for all, and to achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situations by 2030.

<sup>15</sup> INE 2020. Presentation of the Final Results of the Census 2017. Available at: [http://www.ine.gov.mz/iv-rgph-2017/mocambique/apresentacao-resultados-do-censo-2017-1/at\\_download/file](http://www.ine.gov.mz/iv-rgph-2017/mocambique/apresentacao-resultados-do-censo-2017-1/at_download/file)

<sup>16</sup> In 2007, access rates were 35% for access to improved water supply and 15% for access to improved sanitation facilities.

<sup>17</sup> WB 2020. Mozambique's Water Sector Overview [Draft]. Analysis based on data from Census 2017.

<sup>18</sup> *Idem*



Zambezia (water | sanitation: 29.7 percent | 25.1 percent), Nampula (40.3 percent | 24.1 percent), Niassa (38 percent | 26.9 percent) and Cabo Delgado (42.5 percent | 23.3 percent). In addition, the gap in access to water supply at the national level between the poor (the bottom 40 of the income earners - B40) and the wealthier (the top 60 percent of income earners - T60) in Mozambique is 34 percent. In rural areas, the access among the B40 is as low as 22 percent compared to 51 percent among the T60.<sup>19</sup>

9. **As of 2017, small towns represent 15 percent of the total Mozambican population or about 4.2 million people.** This proportion is projected to increase to 18 percent (about 6.9 million people) by 2030. Small towns and rural growth centers play a critical role in promoting economic development in Mozambique. Though significant progress has been made in improving water supply services in the larger cities, small towns are still poorly served as more than half of the systems serving those areas are non-existent or obsolete, given the lack of proper maintenance and investments since independence. The average water supply coverage is estimated at 25 percent, with the majority of people relying on semi-functional water supply systems, hand pumps, or unsafe sources of water. This is far below the desirable coverage level, and well below even the coverage in rural areas (over 35 percent) and large urban centers (over 80 percent). In Nampula, only 2 out of 20 small towns have their systems fully operational, 6 operates with limitations, leaving nearly 716,000 people without access to safely managed water supply services. In Zambezia, 8 out of 17 systems from small towns are fully operational, 3 operates with limitations, leaving nearly 448,000 people without access to safely managed water supply services.

10. **The Ministry of Public Works, Housing, and Water Resources (MOPHRH) has the overall responsibility** of the development of the water sector:

- a. the National Directorate for Water Supply and Sanitation (DNAAS) is the lead water supply and sanitation sub-sector entity, responsible for policy development, sub-sector planning and monitoring, and coordination of investments in the rural space, in synchrony with local Provincial and District Governmental Units;
- b. the Water Supply Asset Holding and Investment Fund (*Fundo de Investimento e Património do Abastecimento de Água* – FIPAG) is the asset holder and operator of the water supply services in the main cities and other strategic locations assigned by the Government;
- c. the Water and Sanitation Infrastructures Administration (AIAS) is responsible for investment planning and implementation in water supply for secondary systems, serving small towns, and for sanitation in the urban space,
- d. the Water Regulatory Authority (*Autoridade Reguladora de Água* – AURA) has the overall responsibility of the regulation of the sector; and
- e. National Directorate for Water Resources Management (DNGRH) oversees planning and coordination of Water Resources Management.

11. **Financing arrangements for water supply in small towns are underdeveloped.** Despite Government recognition of sector needs, the financing framework needs to be strengthened. Although it falls under the same delegated management arrangement, AIAS does not benefit from the ability to mobilize funds through loans, as its establishment decree did not grant financial autonomy in the way it was granted to FIPAG. Therefore, AIAS relies on budget allocations from the central government or on grants from development partners to finance their portfolio of investments. Although recent water supply projects for small towns have included institutional support to promote sustainability of investments, a sustainable financial and service delivery model has not yet been developed to attract private investment to build and expand water supply infrastructure. Scope and framework for private sector participation is not fully developed. Some tested approaches need to be consolidated, and new approaches need assessment, and incentives built in to attract private financing and expertise.

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<sup>19</sup> *Idem*



12. **The existence of a local dynamic private sector offers an important entry-point to improve the management of water supply and sanitation systems, including through improved regulatory oversight.** Due to the absence of government investments, private actors started to supply water to some peri-urban and rural towns, although these services were not always regulated and licensed by competent authorities. Private Water Providers (PWP) have invested almost US\$40 million in the construction of 1,830 private water supply systems, serving nearly 1.8 million people through household connections in Mozambique and directly employing 2,640 people. In small towns (under the responsibility of AIAS), the operation and maintenance of water facilities have been successfully delegated to private operators for more than 10 years. Of the 41 systems owned by AIAS that are currently operational, 32 are operated (or on the way to being operated) by private operators. However, progress has not been uniform. As of September 2019, of the 130 systems (at national level) under the mandate of AIAS since 2009, more than 2/3 (89) were not operational. Many of these systems are now substantially degraded due to lack of maintenance and long-term investments, notably stemming from lack of clarity on financing and incentives for operation, maintenance and rehabilitation by either public or private entities. The fact that 95% of AIAS functioning systems are successfully operated by a range of local private sector operators suggest there is scope to expand and optimize their role in the coverage of small towns where these systems are not operational. This will require a better understanding of the sector investment needs, incentives and regulatory framework needed to unleash the potential for more active private sector participation in order to reach universal access in small towns. In the Northern Provinces of Mozambique, 66 towns (37 for Nampula and Zambezia, and 29 for Cabo Delgado and Niassa) are under the mandate of AIAS, representing a total of around 2.1 million people (1.4 million for Nampula and Zambezia – 0.7 million for Cabo Delgado and Niassa) to be supplied with water.

13. **Delegated systems for private management in small towns struggle to reach financial sustainability and to ensure all households in their service areas are connected.** The last annual regulation report for 2018<sup>20</sup> pointed to the fact that all systems serving small towns do not comply with at least 3 out of 9 indicators monitored. The critical indicator with the lowest performance is the coverage rate, which averages 25 percent, well below the 60 percent reference value. This depicts the difficulties faced by the system operators in extending services to cover the population in their service areas. This low performance is linked to poor performance in the ability to cover operating costs, another critical indicator, which 7 out of 16 systems do not achieve, despite satisfactory collection rates (above 75 percent for the big majority). For the non-revenue water indicator, 9 out of 16 systems were found to be above the 30 percent threshold. The average supply of 13 hours per day was above the reference value of 8 hours, with 14 out of 16 systems in compliance.

14. **Mobilized investments channeled to rural water supply and sanitation are not enough to dramatically improve access to safely managed water supply and sanitation services.** The Action Plan for the Implementation of the Sustainable Development Goals 2015-2030 for the water supply and sanitation sub-sector specifies that an annual investment of around US\$278 million are needed to reach the SDG 6.<sup>21</sup> Two important Government initiatives were conceived to respond to this challenge, namely the National Program for Water Supply and Sanitation in Rural Areas (PRONASAR), and the presidential flagship program PRAVIDA (Water for Life).

- a. **PRONASAR:** the second PRONASAR was approved for implementation between 2019 and 2030 (following the first program implemented between 2010 and 2018), aiming to support the achievement of the universal access Sustainable Development Goal, with a total estimated investment of nearly US\$1.2 billion for both rural water supply and sanitation. The PRONASAR is structured in two main components. First, the water supply component includes actions to: (i) increase service coverage and the range of technological options, (ii) improve planning and monitoring, (iii) expend the management options, and (iv) strengthen the role of the local governments. The sanitation component aims to: (i) increase the

<sup>20</sup> The Annual Service Regulation Report 2018 covers 16 systems from small towns delegated to private managements after their rehabilitation which have submitted data for assessment by the regulator. Slightly less than half of delegated systems reported their performance.

<sup>21</sup> According to the Action Plan for Implementation of the Sustainable Development Goals in the Water Sector in Mozambique, 4.165 billion USD of investments will be needed between 2015 and 2019.



coverage and promote the end of open defecation, (ii) improve the institutional framework and strengthen institutions, (iii) strengthen the role of the local government, and (iv) develop options to promote local investment in sanitation. Program actions will be supported by a joint fund with inputs from the Mozambican Government, bilateral and multilateral agencies.

- b. **PRAVIDA:** the Government of Mozambique (GoM) allocated US\$80 million<sup>22</sup> from capital gains from transaction of gas titles for investments in water supply infrastructure in urban and rural areas. However, unlike PRONASAR, there is no solid project document from a sector wide discussion and published in the Republic's Gazette for this initiative. Instead the program is structured as a list of discrete investments in selected infrastructure and implemented mainly in the Built, Design and Transfer model.

**15. Reliability of water supply systems has been impacted by the infrastructure deficit, limited water availability at the source, climate change and variability.** Existing water supply systems have limited services due to reduced capacity to secure water at the source. This situation has prevented the extension of services to potential customers and has consequently undermined the financial sustainability of the systems. Prolonged drought periods associated with climate variability has contributed to exacerbating problems of water scarcity at the source. Therefore, investments are needed to secure water at the source, upgrading the existing or building new production, treatment and distribution infrastructure in parallel with enhancements in service models.

**16. Despite numerous challenges, there is good momentum for water supply and sanitation service improvement and infrastructure development.** The GoM has developed a consistent program for investments in water supply and sanitation in rural areas, PRONASAR, and the Small Towns Investment Plan (PESA). The first PRAVIDA has signaled GoM readiness to allocate resources for investments in water infrastructure when available. These investments in infrastructure development create an opportunity for complementarity, with the Bank joining on-going efforts and channeling additional resources on improving the management of infrastructure investments, advancing service delivery models, and fostering sustainability, with the aim of delivering safely managed water supply and sanitation services. To better identify and address the bottlenecks which prevent the achievement of the SDG, the Bank is developing a Policy, Institutional and Regulations (PIR) review and a Public Expenditure Review (PER) of the Mozambican water sector. Other development partners have expressed their interest in supporting a joint effort to improve service and sustainability of the systems combined with investments in infrastructures in Nampula and Zambezia provinces, identified by the GoM as priority provinces. These development partners include UNICEF, which is exploring innovative financing approaches (ongoing feasibility assessments), and USAID, which is supporting AIAS to improve contracts to enable private investment.

#### Relationship to CPF

**17. The proposed project would contribute directly to the overall goal of inclusive growth in the World Bank's Country Partnership Framework (CPF) for FY17–FY21.**<sup>23</sup> The CPF recognizes the risks to human development when access to essential basic services is neither equitable nor sustainable. The CPF's Focus Area 2, Investing in Human Capital, explicitly prioritizes reducing the incidence of water and sanitation-related diseases by providing improved access to water and sanitation services to an additional 1.1 million people living in peri-urban areas and small towns (Objective 7). By providing access to improved water supply and sanitation services the Project can help improve hygiene, thereby reducing the prevalence of conditions that contribute to high rates of child stunting, trigger perennial cholera epidemics and chronic diarrhea outbreaks, and high child mortality. By addressing the drivers of public health risks, the project will directly contribute to improving the health service delivery and status (Objective 6) of the poor living in small towns and rural areas. The project will also support Focus Area 1, specifically the strategic objective of improving the business

<sup>22</sup> The GoM launched in October 2018 a 4.8 billion Meticaís program to improve access to 1.7 million people through the construction of 62 water supply systems, 80 scattered sources, 10 thousand household connections and 40 excavated reservoirs.

<sup>23</sup> WBG (2017). International Development Association, International Finance Corporation and Multilateral Investment Guarantee Agency Country Partnership Framework for the Republic of Mozambique for the Period FY17-FY21.



environment for job creation (Objective 3) by developing enabling water infrastructure that will contribute to diversified growth and enhanced productivity in small towns, which are transitional centers of growth.

18. **The project will be calibrated to increase outcome and impact on the ground to mitigate the fragility context.** The World Bank is preparing a Prevention and Resilience Allocation (PRA) eligibility note for Mozambique; this PRA will provide additional financing to the Government to take proactive measures against escalating conflict and violence. The Project will be implemented in an area increasingly fragile due to the conflict in Cabo Delgado, with significant numbers of displaced people.

19. **The proposed project is aligned with the Bank's twin goals of ending extreme poverty and promoting shared prosperity.** Reliable and affordable sources of clean water and sanitation are an essential precondition for a healthy population and robust economic activity, especially in Mozambican context of high WASH-related disease rates and constrained economic activity. The project will reduce exposure to unsafe drinking water, sanitation and hygiene, and lay the technical and institutional foundation for a sustainable future service expansion. This is expected to reduce poverty and boost shared prosperity by reducing health-related costs (direct treatment costs and indirect costs through missed work), reduce negative impacts associated with lower school attendance, due to water- and hygiene-related tasks, and improve economic activity of businesses and in private homes as a result of better access to water and sanitation.

20. **The project also supports the Government Five Year Development Plan (PQG) 2020-2024, approved by the Parliament.** A new Government took office in February 2020, after general elections. The new administration adopted a PQG with a strong emphasis on rural development through the promotion of productive activities in rural areas, and a focus on the central and northern part of the country, particularly in agriculture, forestry, fisheries and tourism. The Government program and medium-term strategy are articulated around three priorities: (i) human capital development and social justice; (ii) boosting economic growth, productivity and job creation; and (iii) strengthening sustainable management of natural resources and the environment. The project will support all three priorities and, more specifically, the strategic objective of promoting the development of infrastructure, including multiple actions to improve access to water supply and sanitation. Furthermore, the project will be able to support the realization of the President's flagship initiative PRAVIDA and will also contribute to the implementation of the PRONASAR 2019-2030 which aims to improve access to improved water and sanitation infrastructure in rural area.

### C. Proposed Development Objective(s)

21. The objective of the Project is to increase access to sustainably and safely managed<sup>24</sup> water and sanitation services in selected small towns and rural areas of Mozambique.

#### Key Results (From PCN)

22. The main outcomes of the project will be: (i) increased access to safely managed water services, and (ii) increased access to safely managed sanitation services in selected small towns and rural areas.

23. Successful achievement of the PDO above will be measured with the following proposed key results indicators:

- a. Number of people provided with access to safely managed water supply services under the project (disaggregated by male and female) [CORE INDICATOR];
- b. Number of people provided with access to safely managed sanitation facilities under the project (disaggregated by male and female) [CORE INDICATOR];

<sup>24</sup> The global indicator selected by UN Member States for monitoring SDG target 6.1 is "proportion of population using safely managed drinking water services". "Safely managed drinking water" is defined as the use of an improved drinking water source which is: (i) located on premises, (ii) available when needed, and (iii) free of fecal and prior chemical contamination. For monitoring SDG target 6.2 is "safely managed sanitation", defined as the use of an improved sanitation facility which is not shared with other households and where: (i) excreta is safely disposed in situ or (ii) excreta is transported and treated off-site.



- c. Number of sustainably functioning water supply systems under performance-based operation;

#### D. Concept Description

24. **The project will address the need for a paradigm shift in the approach to water supply and sanitation in rural areas and small towns.** As countries strive to meet SDGs by 2030, recent evidence suggests that sustainably achieving universal access to basic water and sanitation services will require a renewed emphasis on how to ensure inclusive and affordable last mile service delivery at scale for those who need it the most, rather than focusing on discrete investments in infrastructure as a starting point. Therefore, the project will address the bottlenecks which prevent the scaling up of service and the rapid decline of infrastructure, dedicating part of the resources to drive needed reforms that will improve the sustainability of water supply and sanitation infrastructure. Priority will be given to a reform package with potential to scale up services to achieve SDG6; the project will seek to improve the enabling environment for private sector investment and develop more attractive contract models. To increase financial sustainability, the project will explore the best options to create packages of contiguous systems of different sizes to reduce operational costs and enable cross-subsidies between systems. To improve service delivery, the project will strengthen the role of the local authorities and support the consolidation of the regulatory role in small towns and its extension to rural areas.

25. **The reform package will be accompanied by a package of infrastructure investments across the entire supply chain, which is critical for technical sustainability and quality of services to be provided.** For selected locations of interventions, to prove the viability of proposed models and reforms, the project will invest in infrastructure, starting from securing water at the source to downstream distribution and household connections. Investments in water supply and sanitation infrastructure are critical to boost the sustainability of systems and services which are not viable due to non-existing or dysfunctional infrastructure. It will also contribute to strengthen the resilience of water infrastructure, and improve the management of water resources by investing in essential hydromet services that can improve early warning and reduce the negative impacts of climate change and variability on the systems.

26. **The project will contribute to the expansion of access to safely managed water and sanitation services in the provinces of Nampula and Zambezia;** together, these two provinces have 39 percent of the country's population but have the lowest access rates to water and sanitation<sup>25</sup>, along with the highest poverty rates and the highest number of poor people in the country. Poverty rates were estimated at 65 percent for Nampula and 62 percent for Zambezia in 2015. The decision to invest in these two provinces responds to the Government's request, dated from February 6, 2017. The team proposes to explore during appraisal expanding coverage to Niassa and Cabo Delgado based on assessment of scale of investments needed and maximizing resources for impact (including incentives for sector reform). This project will be designed to have the greatest impact on the ground, to be implemented quickly (e.g., advance with designs during the reform phase, turnkey contract options for rural systems and scattered sources, and by creating packages of systems for bids), and to offer the best value for money which could be replicated and scaled-up in future projects. Lastly, Nampula and Zambezia are also buffer zones for the instability in Cabo Delgado province. As these provinces are receiving an increasing number of internally displaced people, it is important to ensure that they can access basic services, such as water and sanitation. Special attention should be devoted to supporting the humanitarian response to the Internal Displaced Population (IDP). Early attention is key to ensure access to services remains equitable and sustainable for both host and IDP communities, and thus becomes a vehicle to foster trust and accountability of state actors to deliver improved and inclusive services.

27. **The decision over where to intervene will be made** during preparation based on the following criteria: equity, access rate to water and sanitation, poverty, prevalence of water related disease, malnutrition index, girls attendance in schools and other potential indicators with available disaggregated data to lower administrative levels. Priority will be

<sup>25</sup> According to the Census 2017, access to improved water supply services were 40.3% for Nampula and 29.7% for Zambezia in 2017; for sanitation 24.1% in Nampula and 25.1% in Zambezia.



given for systems from small towns under AIAS management considering the lower coverage when comparing to urban areas served by main systems run by FIPAG and rural areas, and also extensive experience of AIAS contracting out Private Operators.

28. **The project is an Investment Project Financing (IPF) with Performance Based Conditions (PBC) of a proposed amount of US\$ 150 million.** The project is expected to last 5 years as of the WBG Board approval date. The use of PBCs will ensure that before the start of physical works, the enabling environment for sustainability, delivery of safely managed services and to increase the engagement of the private sector in operation and maintenance is in place. The amount will be dedicated to: (i) supporting strategic reforms and institutional strengthening, (ii) developing attractive service delivery models including O&M of water supply and sanitation infrastructure, and (iii) investments in infrastructure that make systems both technical and financially feasible and sustainable.

29. To achieve the PDO, the project will finance four components:

#### **Component 1 – Foundations for Sustainability and Institutional Support (US\$20 million)**

30. This component will focus on improving the enabling environment for sustainable water supply and sanitation services. The assessment of the current institutional framework and how to meet SDG 6 will be based, among others, on the following studies currently financed by the WB: (i) a Public Expenditure Review (PER) of the Water Sector, and (ii) an evaluation of the sector's Policies, Institutions and Regulations (PIR).

31. This component will support key activities linked to PBCs, and complemented by Technical Assistance (TA), in order to:

- a. Refine the legal and institutional framework towards more sustainable water supply and sanitation services in small towns and rural areas.
- b. Create an enabling environment to support private sector participation, to delivery sustainable water and sanitation services, including the design, rehabilitation, expansion and maintenance of existing and new systems. Measures can include the adoption of long-term performance-based operation contracts (including Design/Build/Operation) and the reconfiguration and optimization of cluster/packages of systems to make them more financial attractive.
- c. Improve the role of the regulatory agency, AURA, to extend its regulatory role to rural areas and its consolidation in small towns. It will also cover the reviews of contract models, tariff models and form of subsidies for low-income customers, aiming to improve inclusive access to sustainable water supply and sanitation services.
- d. Design and roll-out performance-based financing for private investment to deliver sustainable, resilient and inclusive water and sanitation services (including a strong focus on energy mitigation, flood and drought proofing; and labor opportunities for women and youth).
- e. Establish monitoring systems for service quality at the provincial level – service delivery agreements between provincial governments and service providers (private and communities).

32. An Independent Verification Agent (IVA) will be recruited to evaluate if the PBCs are met; a Results Verification Report (based on paper audit, physical inspection, phone calls to test the accuracy and quality of results claimed) will be produced and used to determine the amount of the eligible disbursement to be made based on the results achieved.

33. This component will also provide Technical Assistance, goods, operational support, capacity building and training of the different implementing agencies to support overall project management and coordination, and to prepare and plan a future package of investments (feasibility and design studies).

#### **Component 2 – Rehabilitation, Construction, and O&M of Water Supply Infrastructure (US\$100 million)**



34. Investments under this component would be carried out under select performance based contracting options. These will include the development of priority infrastructure to increase service coverage and improve operational efficiency of the water distribution systems. This component will support the following key activities:

- a. Secured water sources to enable the expansion of the system to serve the complete universe of potential consumers in target areas and reduce their vulnerability to climate change impacts and fluctuations.
- b. Water supply systems in small towns, including transport from the source, treatment and distribution.
- c. Adjacent rural water supply infrastructure from small systems serving rapid rural growth centers to scattered sources.
- d. Extension of water supply services to fragile communities including IDP from the Cabo Delgado province.

35. This Component will be designed so that parts of investments are linked to successful achievement of Performance-Based Conditions (PBC) defined under Component 1. Disbursements linked indicators will be defined to assess the fulfillment of the PBC.

### Component 3 – Sanitation Improvements (US\$30 million)

36. This component will support increasing access to safely managed sanitation services in targeted small towns and rural areas through investments, public awareness campaigns, and development of financing packages and incentives for families and public institutions (e.g., schools and health centers) to improve their sanitation facilities. The component will finance the design, construction, and supervision of sanitation infrastructure in selected small towns, with a focus on the way the facilities will be managed and operated, exploring PPP arrangements.

The use of Performance-Based Conditions (PBC) will also be explored in this component.

### Component 4 – Contingent Emergency Response (US\$0)

37. Investments under this component will strengthen the Borrower's emergency preparedness and response and can be activated in case a natural disaster affects the country, like Cyclones Idai and Keneth in 2019, or to a crisis like Covid-19.

#### 2. Overall Risk and Explanation

38. **The overall project implementation risk is rated as Substantial**, given Mozambique's volatile political and economic situation, substantial procurement-related risks, the disruptive nature of reforms to the status quo, the risk of political interference, considering the investment to be undertaken, and the technical challenges faced by the project due to weak fiduciary and human resources capacity. In addition, the current COVID-19 pandemic poses a very high risk to all phases and activities under the project. As described below, the main risks identified relate to political and governance, macroeconomic, technical design, institutional capacity for implementation, fiduciary aspects, environmental and social and stakeholders.

39. **An environmental and social risk rating of Substantial has been confirmed at concept stage under the Environmental and Social Framework.** The risk rating may either be adjusted upwards or downwards when more information becomes available and will be evaluated throughout the project life cycle, considering that at this early stage of project preparation, as the exact scope of the project, the locations of the different activities, and the magnitude of interventions required are not yet defined. Overall environmental and social capacity of the Borrower needs to be consolidated and strengthened; a long-term capacity building program aimed and creating and establishing an integrated Environmental and Social Management Systems for water sector agencies would be supported under this project.

40. **A more detailed assessment of these risks, the likelihood of their materializing, potential mitigation measures, and residual risks will be carried out as part of project preparation, which will include institutional, fiduciary and safeguard assessments.** The entire operation will be designed to strengthen key institutional digital capacities and



systems, which will help mitigate many of the related technical, fiduciary, social, and environmental risks. The mitigation strategy will include specific capacity-building actions to strengthen public financial management (PFM), procurement, monitoring and reporting, and citizen engagement, among others. These will be built into the project design and will also include forging strong linkages between the project-financed PBCs and the project-financed TA for digital governance systems strengthening and skill-building activities, as well as the data management platforms for improved accountability.

**41. Climate Change.** Mozambique is vulnerable to climate variability, notably through its effects on water resources, agricultural productivity and food security, forest production, health and exposure to natural disasters. Of particular relevance to this project is the potential impact of climate change on rainfall and water resource availability, with a predicted overall increase, but also more erratic precipitation. Extreme events “such as storms, floods and drought are likely to occur more often” and water resource availability could significantly affect infrastructure performance as well as the socio-economic and health situation of beneficiary populations. This is a critical factor considering that the country has a very low storage capacity of renewable water of about 0.3% to enable the storage of high inflows for later use in dry periods. Based on the climate change screening, carried out to assess risks in greater detail and identify specific mitigation measures, the project will integrate incentives to encourage operators to innovate enhanced climate mitigation and resilience aspects into design and operation of their systems. Special attention will be dedicated to the adoption of energy efficiency measures, including reduction of non-revenue water, and promotion of renewable energy as a backup solution in case of power cuts from the grid, instead of using fossil fuel powered generators to keep systems running. Incentives to upgrade and refine the design of on-site and potential decentralized wastewater treatment facilities to integrate solution for capturing gas emissions and biogas digesters will equally be explored.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

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**APPROVAL**

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