1. Country Background: Situated on the West African coast, Guinea-Bissau is a small country both in terms of land mass with 36,125 km², which includes some 30 islands forming the Bijagos archipelago, and in terms of population, with an estimated one million inhabitants. It is one of the poorest countries in the world with a per capita income of roughly US$250 (1995 dollars). Other social indicators reflect a dismal picture of pervasive poverty. They include a life expectancy of 39 years at birth, the lowest in the world; an under-five year mortality rate of 138 per 1000 live births (40% higher than the Sub-Saharan African average); a fertility rate of about six; and an adult literacy rate of 36%. About 80% of the population lives in rural areas, most making a living from subsistence farming. The agriculture sector accounts for almost 45% of GDP producing mainly export crops, 80% of which are cashews. Guinea-Bissau is in the midst of a radical transition. After 20 years of single party rule, Guinea-Bissau came under the rule of a democratically elected government in the fall of 1994, for the first time since independence in 1974. On the economic side, progress towards building a market-based economy has shown promise in recent years, although much remains to be done to dismantle a well entrenched command economy.

2. Sector Background: The urban environment of Bissau is handicapped by severely deteriorated urban services. These include water shortages and insufficient electrical energy. Although the urban environment encompasses a number of other subsectors also, ranging from street structure, traffic regulations, air quality, fire protection, etc., the water and energy sectors have the most direct impact on the livelihood and well being of urban dwellers, especially the poor.

3. Water Supply. The capital city of Bissau inherited a
reasonably well-organized system of water supply infrastructure
from the colonial period, which covers the center of Bissau and
some limited extensions in the urban fringes. However, the
distribution network was built more than 30 years ago and has not
been significantly rehabilitated. It is estimated that in 1992, of
the over 200,000 people living in the capital city of Bissau, less
than 20,000 inhabitants had direct access to drinking water through
private connections, while another 25,000 obtained safe water from
50 public standpipes. For the remainder, water supplies were either
unreliable, unsafe or distant. In the absence of meters, daily
water production in Bissau is estimated to be around 17,000 m³,
with a total storage capacity of 1,180 m³ which is insufficient to
satisfy daily peak demand. Approximately 70% of the total quantity
pumped is lost through leakage. Although pumped water is of good
chemical and bacteriological quality, it is distributed without any
treatment and thus does not protect consumers against accidental
water contamination. In areas without pumped water supply, the
population draws highly contaminated water from shallow wells.

4. Power Sector. The Electricity and Water Company of Guinea
Bissau (EAGB) is in charge of electricity supply and distribution
in Bissau. Peak demand for electricity is estimated to be about
15MW but the available units in EAGB have the capacity to produce
11.8MW, i.e. about 2/3 of total demand. Production depends on
maintenance of the units and steady supplies of spare parts, and,
missing these, EAGB in May 1996 was able to produce a mere 6.85MW.
This rate of production not only reflects the inefficiency of the
system, but is also unable to meet daily average demand for
electricity, let alone demand during peak times. The consequences
are frequent black-outs or load shedding, which can last from
several hours to many days. Customer dissatisfaction with the
service only serves to exacerbate already existing problems of
revenue collection, with the result that EAGB is currently facing a
severe cash flow crisis. The inefficiency of the power sector has
disrupted economic activity to the point where many businesses are
forced to secure their own generating capacity at high economic
cost. It has also had a direct negative impact on the water sector-
the irregularity of water supply in Bissau is in large part due to
frequent power cuts which disrupt pumping of water on a regular basis.

5. Project Objectives: Specific project objectives are three:
(i) to carry out institutional reform in the water and electricity
sector with a view to: a) encouraging competition and private sector
participation by reducing the government’s involvement in these
sectors and introducing under open competitive bidding a
lease/concession contract with private management; and b) ensuring
efficient consumer and producer behavior by introducing commercial
pricing under incentive regulation; (ii) to provide reliable and
potable water supply in Bissau and secondary centers on a
sustainable basis through cost recovery; (iii) to enable the power
sector to supply an economic and reliable supply of electricity to
the largest number of people, and thus support the conditions for
sustainable economic growth.

6. Project Description: The proposed operation has three components:
(a) Institutional Reform and Capacity Building. This component will provide financing for (i) establishing a holding/management company (Societe Nationale de Patrimoine, or SNP, for management of the assets of the water and energy sectors; (ii) setting up arrangements for a lease/concession contract for the water and energy utility with a private operator; (iii) institutional and capacity building to assist MEIRN in monitoring and regulating the water sector.

(b) Urban Water Supply. This component comprises (i) rehabilitation and extension of the primary and secondary water supply network in Bissau and in selected secondary cities (Bafata, Gabu and Bolama) with the replacement of about 7 kms of old asbestos pipelines and installation of 13 kms of new PVC pipelines; (ii) rehabilitation and extension of the tertiary water supply network in Bissau and in selected secondary cities with the replacement of about 14.5 kms of old asbestos pipelines and installation of 10 kms of new PVC pipelines; (iii) rehabilitation of 1000 existing connections in Bissau and installation of about 1000 new connections, all old and new connections equipped with meters; (iv) rehabilitation of 76 public standpipes and installation of 20 new ones; and (v) the construction of two reservoirs for Bissau.

(c) Energy. This component comprises (i) rehabilitation and expansion of the electricity generating capacity and distribution network in Bissau in accordance with a least-cost expansion program; (ii) support the implementation of autonomous power generation and distribution systems in small secondary cities of Bafata, Gabu, Canchungo and Farim, with the participation of private sector and municipalities; (iii) installation of meters, storage tanks, and safety equipment (iv) environmental clean-up of the oil spill behind EAGB plant; and (v) financing of a social and reserve fund to pay for compensation for redundant workers and for government arrears for water and electricity bills.

7. Financing: The total cost of the project is estimated at US$23 million (net of taxes). The proposed IDA Credit will finance US$15 million of the total project costs. The Government of Guinea Bissau will provide US$1 million equivalent and the remaining US$7 million will be covered by cofinancing from other donors. The financing arrangements will be agreed upon by IDA before negotiations which have been scheduled for October 1997. Should the required funding not materialize, the project would be scaled back accordingly.

8. Implementation: The SNP will be in charge of overall project management, including project monitoring, writing up of progress reports and financial management of the special account. It will be responsible for the supervision of the activities of the private operator as well as management of debt service for the sector. SNP will prepare, review, and evaluate bid documents, award and sign contracts, supervise works and coordinate with other donors.. Control of the SNP will be a posteriori, such that project execution will not be hampered by bureaucratic control. The private
operator will be responsible for the day-to-day operations at the utility and will report to SNP. Technical assistance will be provided primarily to SNP to monitor performance of the private operator of the water and electricity utility, to manage investments in the sector and for debt service.

9. Sustainability: The proposed project would address the current weak institutional set-up of EAGB as it stands by establishing a holding/management company (SNP) to manage the assets and planning aspects of the sector and by signing a lease/concession contract with a private operator for the commercial operations of the water and electricity utility company. By dividing responsibilities in this sector and giving the private sector the flexibility needed to make the utility company more profitable, the project will contribute to making the water and energy sector in the country more efficient and sustainable. Agreements with the private operator for the utility will include important measures aimed at achieving financial equilibrium in the sector, including tariff adjustments, new investments, reductions in leakage and losses, and performance standards. On the water side, the focus on involving communities to set up the tariff structure and for the maintenance and use of the facilities is expected to help ensure the sustainability of the provision of safe affordable water to a larger proportion of the population in urban and peri-urban areas.

10. Lessons Learned from Past Operations in the Country/Sector: The key problems that have been highlighted in the implementation of relevant Bank projects in Guinea Bissau are the following: (i) the need for the Project Coordination Unit to have full authority and responsibility to carry out its tasks, and the importance of having high-level representation from the other ministries and institutions involved in the project in order to resolve conflicts; (ii) the need to have Government commitment to policy changes up front before the project becomes effective; (iii) counterpart funding cannot be assumed--the availability of counterpart funds has been a recurrent and persistent problem; (iv) only guaranteed donor's support, based on firm commitment, should be counted in the financing plan; (v) financing of operations and maintenance of any infrastructure built or rehabilitated, and financing for continuity of any services initiated under the project needs to be discussed with the Government and firm assurances sought of their continued financing through concrete mechanisms such as special funds (e.g. the Road Fund); (vi) the selection of works and cost evaluations needs to be done carefully during appraisal and later substitution should be avoided. The Portfolio Improvement Program Review of Oil & Gas Operations concludes that the problems the on-going Energy Project in Guinea Bissau has faced are largely the result of "design deficiency" in that (i) it overestimated government commitment to reforms (specially privatization of DICOL and Guinée Gas) and failed to lay the foundations to ensure adequate progress with reforms; and (ii) it failed to resolve the Government debt arrears problem with EIB which led to the cancellation of the EIB cofinancing agreed upon for the project. These were compounded with inadequate supervision by Bank staff and a tendency to regard
disbursement conditions as satisfied when they in fact were not. These lessons have been incorporated in the design of the proposed project.

11. Poverty Category: The project is a poverty-targeted intervention. It would improve access to affordable safe drinking water and energy in targeted areas of Bissau and secondary cities. Employment would be generated through works to be carried out by local contractors.

12. Environmental Aspects: The environmental category proposed is "A". An Environmental Impact Assessment was carried out and was cleared by IDA in November 1996. Since the project will concentrate on the provision of potable water to a large segment of the population of Bissau, its impact is expected to be beneficial to the environment of the capital city. Additional thermal power generation capacity installed under the project will be of very limited capacity on an existing site. A program of environmental mitigating measures for both the water and power components has been worked out, and combined with the Urban Environment Monitoring Plan (being developed with financing from a PPF), will ensure that environmental standards are maintained and that the project is carried out in an environmentally sustainable manner.

13. Program Objective Category. The project will help to: (a) reduce poverty by improving public health through safe and reliable water and energy supply for the poor in Bissau and secondary cities and by creating employment; (b) encourage private sector participation in managing water, and power; and (c) protect the environment by strengthening future water resources management and financial viability of the water and energy utility company.

14. Project Benefits: The key benefits of the proposed project would be the following: (a) on the poverty and health side, the project would improve the quality and the access to safe water of urban and peri-urban dwellers, specially the poor; (b) on the economic side, it would provide for the demands of commercial and industrial users, allowing for better development of urban areas as centers of economic growth, as well as increase time savings for women and children, particularly among the poor, which would translate into greater opportunities for education and employment; (c) on the financial side, the project would improve the viability of private provision of water and electricity; (d) on the environment side, it would provide for implementation of mitigating measures, and clear up the environmentally hazardous oil spill behind EAGB’s power plant.

15. The project would support IDA’s efforts to better integrate poverty issues in the design of urban and peri-urban investments. In the water component, systematic community participation would be encouraged at neighborhood levels to gauge the actual demand of users, particularly women, who are usually the main water carriers in low-income neighborhoods. The energy component would improve the provision and expand the distribution of electricity, as well as provide the basis for general economic growth in the urban areas. Employment opportunities would be created during rehabilitation and
expansion of the water supply system as most of the civil works will be carried out by local contractors and/or subcontractors. A mere 18 percent of the urban population in Guinea-Bissau (and only a quarter of the total population) have access to safe drinking water. In addition to the non-quantifiable, direct and indirect benefits mentioned above, the proposed project would ensure access to safe water for 150,000 people and access to energy to 250,000 people.

16. Project Risks: There are three main risks. First is the possibility of political and social opposition to the restructuring of the utility company. Although the Government has demonstrated its commitment to this reform by proposing in a letter of sector policy to transfer the management of EAGB to a lease/concession contract with a private operator, to mitigate this risk further, a workshop was organized with EDI in March 1997 to discuss the implications and consequences of the institutional reform with all the stakeholders involved, including users. Second, in past projects, there have been problems with counterpart funding from Government that have significantly delayed project execution. To ensure against such a risk, this project will reduce the contribution demanded from government from the standard 10% to 5%. In addition, the Government will be required to deposit funds into a special account on a quarterly basis so that the availability of counterpart funding can be monitored more carefully. Third, on the water side, implementation might be slowed down due to opposition to discontinuing the practice of providing free water at the standpipes. The pace at which communities would be mobilized and sensitized to participate in the process, and their willingness to pay for water services, would be increased through a time bound action plan to introduce cost-recovery through water vendors at the metered standpipes and through the systematic use of beneficiary assessments and an extensive community participation program involving mayors, NGOs and community leaders.

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Note: This is information on an evolving project. Certain components may not necessarily be included in the final project.

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