

PPIAF Assistance in Mozambique

Since 2000 PPIAF has funded 12 activities in Mozambique worth \$3.5 million. The energy sector has been the biggest beneficiary with five activities, followed by three multi-sector activities, three water sector activities, and one transportation sector activity.

Technical Assistance for Support to Private Participation in Infrastructure

The massive urban growth rate of Maputo over the past three decades presented an enormous challenge to the delivery of infrastructure services, housing, and employment. The huge influx of migrants has overwhelmed the original infrastructure systems and resulted in deficiencies in urban services, such as deteriorated roads, inadequate supplies of potable water, poor drainage and domestic sanitation, and erosion of the natural habitat, particularly the vulnerable coastal zone.

It is against this background that the City of Maputo requested PPIAF funding in 2005 to help facilitate the operation of municipal services in Maputo through public-private partnerships (PPPs). The activity assessed the existing policy, legal, and regulatory frameworks for involving the private sector in municipal services, including those large- and small-scale service providers entering into PPPs. The final report made recommendations to develop a framework to facilitate the PPP process and a capacity building program that would create the required capability to develop PPPs. In 2006 Maputo's Municipal Council (Conselho Municipal de Maputo (CMM)), approved the report's recommendations to develop a legal framework for PPPs, and as a result of PPIAF's support, a PPP unit was set up within the municipality in February 2007.

In 2006 the beneficiary requested follow-up assistance from PPIAF to help the CMM to implement the capacity building program recommended in the original PPIAF-funded report. The activity produced two manuals to help the PPP unit implement PPP projects, and provided intensive on-the-job training that included assistance in the identification and preparation of two pilot PPP projects (Xipamanine Market and parking meters). A municipal ordinance on PPPs was also drafted under this activity.

A third tranche of PPIAF support provided the technical assistance necessary for the Municipal Council to manage its ongoing PPP processes and undertake more complex stages of its PPPs program. This activity included: an examination of previous projects, processes, and the proposed project pipeline; various technical studies and advisory services; recommendations of a range of options for consideration for more complex private participation in infrastructure opportunities.

Working with experts and technical assistance providers ensured further on-the-job training experience for the Maputo's PPP team to enable them to draft concessions, contracts, terms of reference, and other project documents. PPIAF's support complemented the World Bank-supported Maputo Municipal Development Program—a ten-year development program of the City Council.

As a result of the three phases of PPIAF support to Maputo, a total of 26 PPPs have been concluded or are under preparation, resulting in \$48.98 million in investments as of 2009. The PPPs include public parking lots, sanitation blocks, markets, and public parks.



Results of PPIAF's Activities in Mozambique in Support of Private Participation in Infrastructure

Category	Outputs
Enabling environment reform	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> • Maputo City PPP Manuals, 2007 • PPP Staff Terms of Reference, 2007 • Municipal PPPs in Urbanization: The Case of Maputo, 2009
<i>Plans/strategies prepared</i>	<ul style="list-style-type: none"> • Maputo Framework for PPPs, 2006 • Final Report on Strategies for Investment Promotion and Mobilization of Funds, 2009 • Final Report on the Internal Organization of the Department of PPPs, 2009 • Terms of Reference for the Development of a General Plan for Urbanization, 2009
<i>Policies prepared or legal or regulatory changes recommended</i>	<ul style="list-style-type: none"> • Maputo Municipal Ordinance on PPPs, 2007
Project cycle-related assistance	
<i>Transactions support</i>	<ul style="list-style-type: none"> • Two pilot PPP projects developed: Xipamanine Market and parking meters, 2007
Capacity and awareness building	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> • PPP Regional Training Workshop for Maputo Municipality Staff, 2007 • Two dissemination workshops, 2009

Category	Outcomes
Enabling environment reform	
<i>Institutions created/strengthened</i>	<ul style="list-style-type: none"> • A PPP unit was set up within the Maputo Municipality, February 2007. It was also strengthened through subsequent PPIAF activities.

<i>Plans/strategies adopted</i>	<ul style="list-style-type: none"> Legal and regulatory framework for private sector investment in municipal services approved by Maputo Municipal Council, 2006
Project cycle-related assistance	
<i>Transactions facilitated</i>	<ul style="list-style-type: none"> Xipamanine Market and parking meters pilot projects
Capacity and awareness building	
<i>Technical capacity enhanced</i>	<ul style="list-style-type: none"> Maputo PPP unit staff trained on pilot project implementation, 2007

Category	Impacts
<i>Additional private investment in the sector</i>	<ul style="list-style-type: none"> \$48.98 million in private investments, 2012

Technical Assistance for Mozambique's Energy Sector

In 2000 PPIAF supported a study on private sector participation in the energy sector in Mozambique. The study assessed options for private investment in the energy sector, especially by small-scale providers, to increase access of poor households to energy sources. The study also assessed the capacity of domestic private firms to participate in the sector and reviewed households' willingness to become paying customers.

The study recommended an output-based approach to develop private, independent electricity suppliers. The PPIAF report was endorsed by the Economic Council, which reports to Cabinet, and subsequently led to technical assistance from the Global Partnership on Output-Based Aid (GPOBA) to help design and develop an output-based subsidy scheme for a rural electrification pilot concession. The private sector operators in rural areas were part of the output-based subsidy program that was implemented in the context of the World Bank's Energy Reform and Access Project in Mozambique. The pilot concession was awarded to a consortium of ElectroTec (Mozambique), Rural Maintenance Ltd., and Siemens (South Africa). The concession was intended to serve up to 18,000 people in the north of Inhambane province through approximately 3,000 new subsidized connections, but was eventually cancelled by the government,

In 2007 further PPIAF support helped build the capacity of state-owned Electricidade de Mozambique (EDM)'s legal department through an independent review of procurement policies and practices as carried out by EDM. The consultant recommended an action plan to more effectively carry out negotiations and the drafting of legal documents.

There are two ongoing PPIAF-supported activities in the energy sector. The first is on supporting legal and financial advisory services for the CESUL power transmission system project, which will form the backbone of Mozambique's national grid. The other activity, recently approved in 2011, will support the development of a gas sector master plan.

Results of PPIAF's Activities in Mozambique's Energy Sector

Category	Outputs
Enabling environment reform	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> Independent review of procurement policies and practices as carried out by EDM and an action plan of next steps, 2007

<i>Plans/strategies prepared</i>	<ul style="list-style-type: none"> Mozambique Private Sector Participation in the Energy Sector (Strategy Development Report) Part One, Part Two, 2003
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Category	Outcomes
Enabling environment reform	
<i>Institutions created or strengthened</i>	<ul style="list-style-type: none"> Capacity of Electricidade de Mozambique in contract negotiations, 2007
<i>Plans/strategies adopted</i>	<ul style="list-style-type: none"> Agreement by national and local governments on a strategy for private sector participation in energy, and structuring of the first investment for private entities to enter the electricity sector, 2003
Project cycle-related assistance	
<i>Transactions facilitated</i>	<ul style="list-style-type: none"> Inhambane concession project, which was later cancelled by the government, 2004

Technical Assistance for Mozambique's Water Sector

In 2007 PPIAF supported Fundo de Investimento e Património do Abastecimento de Água (FIPAG), Mozambique's water asset holding entity, to document their successful experience in implementing a delegated management model with private sector participation. The case study on FIPAG also covered the critical role of the water regulatory agency, Conselho de Regulação do Abastecimento de Água (CRA), which implements the regulatory framework and has been instrumental in the positive outcome for the urban water sector of Mozambique

The comprehensive institutional reform for the development, delivery, and regulation of urban water supply services in large cities in Mozambique began in 1998. The new framework, known as the Delegated Management Framework, was inaugurated with the creation of two autonomous public bodies: an asset management agency (FIPAG) and an independent regulator (CRA). Delegated management of urban water supply services in Mozambique encountered a string of difficulties soon after it was introduced in 1999, but in 2007 the case study revealed that most problems had been overcome and the foundations for sustainability had been established. The government's strong commitment, the soundness of the institutional reform, and the quality of sector leadership can be credited for these positive results. Donor support for investments and institutional development were also important.

Some key lessons learned from this activity include:

- *Baseline data, management of risks and accountability:* The difficulties experienced early in the original contracts demonstrated the importance of producing reliable audited baseline data before private operators are asked to accept significant financial risks, and the need to allow for corrections after operations begin.
- *Small service areas:* Bundling of service areas that have large disparities in size, risks and profitability may be justified and can create economies of scale and scope, but safeguards need to be put in place to ensure that the operator will dedicate sufficient resources to smaller service areas.
- *Credible and stable institutions:* Despite challenges, the reforms in Mozambique were sustained thanks to the firm commitment of the government to the reform and effective consultation with stakeholders.

In 2010 FIPAG appointed the International Finance Corporation (IFC) as its lead transaction advisor for support in developing strategic options for furthering the involvement of private industry in the water sector, and for assisting in executing ensuing transactions. At the IFC's request, PPIAF supported the

due diligence phase that led to the submission of a PPP strategy report to the client, which recommended alternative approaches to regionalizing and managing water supply assets in the country.

The final recommendations included the option to retender services in the Greater Maputo area under an improved affermage contract upon expiry of the existing contract with Aguas de Mozambique, which was majority held by Aguas de Portugal. Based on due diligence at the time, a modified PPP arrangement and new tender process reflecting good international practice could have addressed several of the flaws identified by the parties at the time.

In the end, the government of Mozambique decided not to pursue a retendering option and decided to instead negotiate an extension of an existing twinning arrangement with Vitens-Evides International, a Dutch water utility joint venture.

Results of PPIAF's Activities in Mozambique's Water Sector

Category	Outputs
Enabling environment reform	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> • "Delegated Management of Urban Water Supply Services in Mozambique" case study, June 2009 • Private Sector Participation Options for the Water Sector in Mozambique, 2010
Capacity and awareness building	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> • Urban water sector stakeholder workshop to disseminate findings of the "Delegated Management of Urban Water Supply Services in Mozambique" case study, 2009
<i>Knowledge products disseminated</i>	<ul style="list-style-type: none"> • Case study on Urban Water Supply Services in Mozambique June 2009

Category	Outcomes
Enabling environment reform	
<i>Institutions created or strengthened</i>	<ul style="list-style-type: none"> • Case study and related workshop helped provide better understanding on the delegated management model and the regulatory framework for the urban water sector, its experience, and key lessons learned among the broader water sector, 2009

Technical Assistance for Mozambique's Transport Sector

In 2006 the government of Mozambique sought PPIAF support for the National Road Authority to prepare and procure a pilot performance-based management and maintenance contract for roads in Mozambique.

Performance-based management and maintenance contracts are a new concept designed to increase the efficiency and effectiveness of road maintenance operations. They should ensure that the physical condition of the roads under contract is adequate for the need of road users, over the entire period of the contract, which is normally several years. This type of contract significantly expands the role of the private sector from the simple execution of works to the management and conservation of road assets.

Under the PPIAF activity, technical missions were undertaken to prepare the pilot projects on approximately 600 km of unpaved roads in the Gaza and Maputo Provinces between November 2006 and June 2007. The bidding documents and a technical report were also drafted with PPIAF support and were submitted in October 2007. The project provided for the initial rehabilitation of the roads, followed by their maintenance over a total contract period of five years.

The National Road Authority intended to proceed with the pilot project in Maputo Province, but this was conditional on the availability of funding. In early 2009 it was accepted that funding would not be forthcoming and, given the time elapsed, it was decided to suspend preparation of the pilot projects.

Results of PPIAF's Activities in Mozambique's Transport Sector

Category	Outputs
Enabling environment reform	
<i>Transactions support</i>	<ul style="list-style-type: none"> • Preparation of two pilot projects on approximately 600 km of unpaved roads in Gaza and Maputo Provinces, including draft bidding documents and a technical report, 2007
Capacity and awareness building	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> • Transport sector stakeholders workshop, 2006