

Project Name Malawi-Urban Water Supply Project (@+)

Region Africa

Sector Water and Sanitation

Project ID MWPE45693

Borrower(s) Government of Malawi

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Environment Category B

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Country and sector background

Close to 1 million people live in Blantyre and Lilongwe, the two primary urban centers in Malawi. The Urban Water Boards (UWB's), parastatal entities, supply water to a combined total of 50,000 customers and have annual revenues of approximately US\$12M (MK600M). Tariff levels are high for the region at roughly US\$0.60 per cubic meter. The UWB's have instituted measures to improve operational efficiency and are performing better than many utilities in the region. Still their financial condition has deteriorated in recent years and their ability to maintain present service levels to existing customers, expand coverage and meet the demands of a growing population, particularly the urban poor, is threatened. Investment is needed for rehabilitation of water supply facilities to reduce the number of service interruptions due to power outages and line breaks, increase pressure in the network and reduce water losses. Water losses and consumption within government institutions are excessive. Service levels to residents living in informal settlements need to be improved and coverage extended. Planning and design for development of additional sources in the longer term needs to be initiated soon to avoid shortages in the future. For Blantyre, an alternative to pumping from Shire River would reduce pumping costs and improve reliability. There is a need to clarify institutional arrangements for provision of sanitation services and to improve comprehensive strategic planning involving municipalities, water suppliers and the various other agencies with responsibilities for sanitation.

Project objectives

The Development Objective of the project is the provision of good quality water supply service that is affordable and sustainable in the two major urban centers in Malawi, Blantyre and Lilongwe. Quality of service will be

improved by rehabilitating and expanding facilities to increase production, expand distribution, reduce the number of service interruptions, reduce pumping costs and mitigate adverse impacts of wastewater discharge. Affordability of service will be maintained/measured by improving efficiency in operations and extending water and sanitation service to a greater number of households, particularly the urban poor. Sustainability will be improved by introducing institutional reforms in accordance with a cost recovery strategy to improve the commercial and financial operations of the service provider(s). Further, sustainability of water resources will be enhanced through protection of existing water sources and planning and design of new water sources to meet future demand.

This project will underpin economic development in Malawi and improve the lives and health of the population. Reliable, safe and affordable water supply is a key ingredient for the success of other commercial and economic reforms in the country.

Project description

The project will have five components:

- 1) Institutional development: to provide a private water supply operator, to support the asset holding company and independent regulator and support HIV/AIDS prevention and mitigation activities.
- 2) Improvements to water supply and sanitation facilities: to rehabilitate and expand water source, treatment, transmission and storage facilities, rehabilitate and extend sewerage to critical areas and rehabilitate and expand water distribution and metering.
- 3) Improvement of water and sanitation service to the urban poor: to extend water supply and distribution in informal settlements and improve sanitation.
- 4) Protection of existing water sources and development planning for the next source: to support protection of catchment areas and plan and design new water sources to meet future demand.
- 5) Sanitation planning: to support development of strategic, coordinated planning with municipalities, the water supply asset holding company and contract operator and other government agencies.

Project financing

A rough estimate places the total project cost at \$70m, of which IDA will finance \$30m. The Government of Malawi will be expected to pay 5-10% of the investment costs and will on-lend funds to the Asset Holding Company, a parastatal which will own the major assets required for water supply. Co-financing with other external support agencies will be sought during project preparation.

Project implementation

The Ministry of Water Development will be the implementing agency. During project preparation a Private Sector Participation (PSP) Options study will be conducted to identify and evaluate alternatives for PSP in the urban water sector in Malawi. The study will include stakeholder consultations,

consensus building activities and a review of existing laws and regulations. Once a private sector option is selected, necessary legal documents will be drafted, amendments to legislation will be made and regulatory capacity will be strengthened. Under the project institutional arrangements will be implemented by the GOM through the appropriate Ministries and/or Commissions identified during project preparation.

A study will be conducted during project preparation to define measures for improving service to the urban poor to be implemented under the project.

Engineering studies will also be conducted during project preparation as a basis for identifying physical works needed to meet demand, improve distribution and maintain service levels. Based on findings of these studies, an environmental management plan will be developed for implementation.

Project sustainability

The sustainability of water and sanitation facilities rests on the following key elements:

Capacity and willingness of GOM to support institutional reforms: during project preparation GOM will be expected to exhibit its continuing commitment to the objectives of the project by implementing measures to ensure timely payment of water bills by government institutions, reduce excessive consumption and water losses within government-owned facilities, and implementing other measures recommended by the PSP Options study and Cost Recovery Strategy to amend legislation, strengthen the governance of the UWB's and improve their financial performance. The project will include support to development of regulatory capacity within the government.

Support and involvement of key stakeholders for development of water supply and sanitation: Studies conducted during project preparation (e.g., the PSP Options study, the assessment of service to the urban poor, engineering studies) will include stakeholder consultations and consensus building activities for selection of the PSP option to be implemented, development of plans for improving service to the poor, assessment of service levels and customers' willingness to pay for water and sanitation service and improvement of catchment protection. In addition, a communications plan will be developed to keep stakeholders informed throughout the process. Lessons learned from past operations in the country/sector

The National Water Development Project, other previous IDA-financed projects and investments by other external support agencies during the last 20 years in Malawi's water sector provide the following lessons: (i) the need for commercial orientation and good governance in Water Boards, (ii) the importance of comprehensive financial planning that links investment planning with customer growth and revenue enhancement, and (iii) the need to address the problem of non-payment and late payment of water bills by government institutions in a systematic manner.

The project also builds on lessons learned from projects that have introduced Private Sector Participation in the water sector throughout the Africa region, including (i) the need to put in place institutional reforms for PSP to underpin the investment program and provide support to development of

regulatory capacity under the project; (ii) the need to select a PSP option carefully, taking into account conditions specific to the country and the expected value-added under different options; and (iii) the need to involve stakeholders in determining the course of institutional reforms, build consensus around selected options and develop a communications plan to keep stakeholders informed throughout the process.

Environmental aspects

The project does not create major environmental issues as it will finance primarily rehabilitation and minor expansion of existing water supply facilities, mitigation of any adverse environmental impact of current and incremental waste water disposal, protection of existing water sources and development planning for future sources. An environmental analysis will be conducted and will be available by project appraisal. Longer term planning of new water sources for Blantyre and Lilongwe will involve substantial environmental issues, which will be addressed according to Bank/GOM policies in the course of planning/designing new sources under the current project and constructing them under a future project. Similarly, if substantial investment is needed for sanitation, a separate project may be prepared to address these issues.

Program Objectives Categories

This project is anticipated to improve the financial and institutional development of the water boards and tariff policies to enable their sustainability, help government to update its longer-term strategy for water resources and support the institutional development in the public and private sectors. By increasing access to affordable, sustainable water by residential and commercial consumers within Malawi's largest urban centers, the project can be expected to support the broader objective of sustained poverty reduction, growth and human development.

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

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Annex

Because this is a Category B project, it may be required that the borrower prepare a separate EA report. If a separate EA report is required, once it is prepared and submitted to the Bank, in accordance with OP 4.01, Environmental Assessment, it will be filed as an annex to the Public Information Document (PID) .

If no separate EA report is required, the PID will not contain an EA annex; the findings and recommendations of the EA will be reflected in the body of the PID.

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