

**Australian Agency for International Development
(AusAID)**

Water and Sanitation Initiative

Mozambique: Additional Support for the World Bank funded Water and
Institutional Support Project (WASIS)

Design Summary and Implementation Document

December 2009

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Abbreviations and Equivalents

AIAS	Administração de Infra-estruturas de Agua e Saneamento
AMU	Asset Management Unit
AUD	Australian Dollar
AusAID	Australian Agency for International Development
AWSP	Africa Water and Sanitation Program
CB	Capacity Building
CFPAS	Centro de Formação Profissional de Aguas e Saneamento / the Professional Training Centre for Water and Sanitation
CRA	Conselho de Regulacao do Abastecimento de Aguas
D&B	Design and Build
DNA	National Directorate for Water
DMF	Delegated Management Framework
FIPAG	Fundo de Investimento e Património do Abastecimento de Agua
FY	Fiscal Year
GOM	Government of Mozambique
ICB	International Competitive Bidding
JMP	WHO/UNICEF Joint Monitoring Program
MCC	Millennium Challenge Corporation
MDG	Millennium Development Goal
M&E	Monitoring and Evaluation
MoF	Ministry of Finance
MoPWH	Ministry of Public Works and Housing
MOU	Memorandum of Understanding
OM&M	Operations, Management and Maintenance
PIA&CB	Project Implementation Assistance & Capacity Building Consultants
PWB	Provincial Water Board
RAP	Resettlement Action Plan
SP	Service Providers
WASH	Water and Sanitation Hygiene
WATSAN	Water and Sanitation
WSI	Water and Sanitation Initiative
TOR	Terms of Reference
WASIS	Water and Institutional Support Project
WB	World Bank

1. Background

1. An AusAid mission undertaken in November 2008 identified that the Government of Mozambique (GOM) is successfully implementing an innovative National Water Development Program with substantial support from multilateral development banks, the Millennium Challenge Corporation (MCC), and bilateral donors.
2. The World Bank (WB) has been involved in the Mozambique water sector for the past 15 years and is the lead development agency. It has completed two projects in support of the national program and is now implementing a third, the Water Services and Institutional Support Project (WASIS), which was approved in August 2007¹. The MCC, which collaborates very closely with the WB, has committed over US\$200 million for infrastructure investments in support of the national water program.
3. In September 2009 AusAID approved a Concept Document for a AUD 61 million Africa Water and Sanitation Program (AWSP) that included an allocation of AUD 17 million for Mozambique. Based on preliminary designs prepared by the National Directorate for Water Affairs (DNA) the WB has prepared a Project Paper in Support of Additional Financing that provides together with the WASIS Project Appraisal Document² the basis for AusAID's appraisal review.

2. The Proposed Program and Rationale

2.1 Country Profile

4. Mozambique has the lowest reported water and sanitation coverage in Eastern and Southern Africa after Ethiopia. The country has had to rise from a very low infrastructure base following the struggle for independence and subsequent civil war. There is very limited technical water sector capacity outside of the key central government institutions and the larger cities. The problems are exacerbated by the country's large size – more than 3,000km from north to south – and poor communications. Administratively there are 10 provinces including the city of Maputo, 124 districts and 43 municipalities - some municipalities are also district centres.

2.2 Sector Issues and Challenges

5. The National Directorate for Water Affairs (DNA) is the central Government body responsible for water and sanitation. DNA reports to the Minister of Public Works and Housing.
6. In 1995, GOM adopted an innovative National Water Sector Policy that is based on a Delegated Management Framework (DMF). The policy requires separation of the ownership, operation and regulation of water supply facilities and services and is being implemented progressively. An asset management company (FIPAG³) was spun off from DNA in 1998 to take over the assets of the largest towns. It is responsible for expanding water supply facilities and for contracting out their operation and maintenance to the private sector. An effective independent regulator (CRA⁴) was also established in 1998 to ensure that the interests of both parties to the service contracts and also the consumers are protected. FIPAG and CRA are now responsible for managing and regulating water supply services for Mozambique's 14 largest cities. A 15 year concession contract has been awarded to a private company to run Maputo's water supply. Interim operating arrangements are in place in the other FIPAG cities to improve the commercial viability of water service delivery so that they can be contracted out in the future.
7. Existing small city and town water supply schemes are at present typically managed and operated by service groups reporting directly to the local district administration or municipality. The education and

¹ WASIS has been designed as a repeater project for the National Water Development Project II to continue long term support to the water sector in Mozambique.

² The Project Paper and Project Appraisal Document are provided in Appendixes A and B.

³ Fundo de Investimento e Património do Abastecimento de Agua (FIPAG)

⁴ Conselho de Regulacao do Abastecimento de Aguas (CRA)

skill level of their staff is generally low. Some agencies have their own bank accounts and are permitted to retain revenue generated from water sales for operation and maintenance.

8. Instead of FIPAG expanding to take over smaller cities and towns water supply systems, a new agency, Administracao de Infra-estruturas de Agua e Saneamento (AIAS), has been established to be the asset management unit (AMU) for these smaller systems. The AIAS is intended to be an interim organisation that will enable commercial operations to be established in small cities and towns. There is potential for the more commercially viable towns to eventually transfer to FIPAG. However, it is expected that several models for operations, management and maintenance will be required, including options such as autonomous public companies and/or municipal water services. Two provincial water boards (PWB) will be established as pilots for the institutional reform supported by WASIS and may manage service providers through subsidised lease agreements. The details of the relationships among AIAS, PWBs and water service providers are being developed under the WASIS project.
9. The new institutional arrangements are expected to be complete and operational by early 2010. The existing WASIS project provides financial and technical support for the establishment of AIAS and PWBs on a pilot basis in at least two the four Northern provinces. It also provides support to enable the water regulator to extend its coverage to small cities and towns in the northern region.
10. CFPAS (Centro de Formacao Profissional de Aguas e Saneamento / the Professional Training Centre for Water and Sanitation) is an independent training and research agency under the Ministry of Housing and Public Works. It was formed to overcome a lack of skills in the water sector. The World Bank's WSP is currently assisting CFPAS to develop a business plan to enhance commercial operations and to become more effective.

2.3 Proposed Program

11. AusAID's support will focus on improving services in smaller cities and towns that up to now have been largely neglected. These towns have a large proportion of poor households and household members. The proposed additional financing provided by AusAID will test the DMF in two towns. Funding will cover both physical investments and institutional support. The former will improve and expand existing water supply systems in each town using Design and Build (D&B) contracts to expedite implementation. Institutional investments will support the establishment of viable water service providers able to operate, manage and maintain the expanded and improved water systems.
12. Pilot towns were selected in collaboration with the DNA based on the following key criteria: (i) priority within GOM investment plan; (ii) consistency with PWB pilots; (iii) viability of physical investments, given time and funding constraints; and (iv) acceptance by local authorities to establish and implement adequate/effective operation and management arrangements. The pilot towns chosen for support are Ilha de Moçambique and Mocimboa de Praia⁵.

Summary of Infrastructure Investments for Ilha de Moçambique

13. The proposed project will improve the existing water system to serve two areas, Ilha de Moçambique and the adjacent mainland settlement of Lumbo. It will deliver 2000m³/d of treated water to an anticipated population of about 36,000 (in 2014), via about 2,500 yard and household connections and 45 communal standpipes. An allowance for commercial and institutional use will also be included. The D&B contract will provide: (i) source improvements including refurbishment of existing wells and pumping facilities and a new well if required; (ii) a new transmission pipe dedicated to supply the island and rehabilitation of the existing transmission pipe to mainland settlement distribution points; (iii) a new 100 m³ elevated storage tank in Lumbo and improvements to existing tanks and to existing cisterns on the island, including associated pumps; and (iv) replacement / extension of existing distribution network and installation of yard connections and community standpipes.

Summary of Infrastructure Investments for Mocimboa da Praia

14. The proposed project will improve the existing water system to serve the town with about 2600m³/d to a population (anticipated in 2014) of about 48,000, via about 3,200 yard and house connections and

⁵ Details of the physical and demographic characteristics of these towns are provided in the Additional Financing Document.

about 93 communal standpipes. The D&B contract will provide: (i) a new regulating weir close to the existing intake site, a new wet well, submersible pumps, a slow sand filter, and associated facilities; (ii) a new transmission pipe; (iv) new ground and elevated storage tanks and associated pumping stations; and (v) an expanded distribution network extending coverage to several presently unserved areas and improving capacity in presently served areas including installation of yard connections and community standpipes.

Institutional Support for Water Supply Pilots

15. Consultancy services will be provided for project implementation assistance (PIA) that will cover design checking and construction supervision and capacity building (CB) for the water service providers in the two project towns. The consultants' tasks in the CB component will be to help develop more efficient service entities to manage, operate and maintain water supply services in a sustainable manner. Attention will be paid to developing a revenue stream to enable adequate maintenance. This will include rehabilitation of office and workshop facilities and the provision of O&M equipment and spare parts for water system maintenance.

Support for Future Improvements

16. This includes the provision of support for management training and the development of strategic sanitation plans for Ilha de Moçambique and Mocimboa da Praia. Training will be delivered by the Brazilian Association of Water Companies through courses in Mozambique and through study tours to Brazil. This will complement a parallel training activity also funded by AusAID being developed outside of the project for water system operators. It will be delivered through CFPAS by the WB's Water and Sanitation Program office in Mozambique (para 10 refers). The strategic sanitation plans will produce action plans for improving sanitation in the two towns. It is envisaged that these will initiate support for sanitation by both government and donors, possibly including AusAID, in the future.

2.4 Linkages with Current Programs

17. All development partners supporting the water sector in Mozambique signed a memorandum of understanding with DNA in 2004, committing to collaborate and coordinate their assistance. The WB is the lead donor agency in the sector and has the most experienced sector staff. It is estimated that the development agencies provide over 90% of annual investment in the sector. The African Development Bank, the World Bank, the Millennium Challenge Corporation, UNICEF and the European Union/European Investment Bank all support programs with significant levels of funding. The first three have well staffed country offices.
18. The Millennium Challenge Corporation (MCC) has a US\$500 million program in Mozambique. It has allocated US\$203 million to the water sector and collaborates very closely with the WB.

2.5 Lessons Learned

19. A number of key lessons learned from previous sector operations in Mozambique and elsewhere have been incorporated into the design of the initiative:
 - The use of Design and Build contracts will expedite implementation. This has been proven on the previous WB projects.
 - A flexible approach to implementation will be adopted that allows adjustments to be made to reflect the actual rate of progress being achieved.
 - A single PIA&CB consultant will be engaged for both towns to maximise efficiency of TA inputs and promote greater exchange of ideas between operating entities and provincial agencies.⁶

2.6 Rationale for AusAID Participation

20. The additional financing will scale-up the WASIS Project's impact and development effectiveness by assisting the GOM to pilot new institutional arrangements following the DMF model for the operation and regulation of water supply systems in smaller cities and towns. This follows a similar approach of

⁶ This is a lesson learned from a number of AusAID funded multi-town water supply and sanitation project initiatives.

testing new arrangements in the largest cities where a pilot in Maputo was quickly followed up by a rapid roll-out to the other large cities in the country. These AusAID funded pilots are also expected to be followed up by investments in other small cities and towns throughout the country. This will support the specific goals of the GOM's own poverty reduction strategy ("PARPA") that has been based on the premise that broad-based economic growth is critical to poverty reduction. It will also contribute towards attainment of the MDGs for water and sanitation.

2.7 AusAID Objectives in Supporting the Activity

21. AusAID's additional funding will help establish an improved institutional and regulatory framework for smaller cities and towns in Mozambique. It will achieve this by piloting the delegated management framework that has been successfully adopted in the larger cities to two towns in Northern Mozambique. Our support will strengthen the organizational and operational capability of the operating entity in each of the towns, including the establishment of a revenue stream that will lead to financial sustainability. An estimated 84,000 people will directly benefit from new and improved water supplies in the two towns.
22. The goal of the activity is in line with the overall goal of AusAID's WSI which is to: *Improve the living standards of the poor by improving their access to more effective and sustainable water and sanitation services thereby contributing to achievement of the MDGs.* It is also in line with the main objectives of the WSI which are to expand coverage and to make services more sustainable by supporting sector reform and capacity building.
23. The expected outcomes are presented in Annex 1 of the WB's Project Paper.

3. Proposed WSI Funding

3.1 Level and Modalities of Funding

24. The project will be managed on AusAID's behalf by the WB. A trust fund will be established with the WB for this purpose. Disbursements for project activities will be made on an ex-post basis using standard WB procedures. The funding allocations are presented in Table 1.

Table 1: Allocation of Additional Financing

Category	USD (million)	AUD (million)	Percentage of Expenditures to be Financed
Works	9.10	11.24	68.6%
Consultants' services	2.35	443.6420	17.7%
Goods	0.24	0.30	1.8%
DNA / AIAS Management / Operating Costs	0.24	0.30	1.8%
Training	0.20	0.25	1.5%
Contingency / Unallocated	1.13	1.40	8.5%
Sub-total	<u>13.26</u>	<u>16.39</u>	<u>100 %</u>
WB Charge for Establishing the Trust Fund	<u>0.035</u>	<u>0.04</u>	
WB Management Fees	<u>0.66</u>	<u>0.82</u>	
Total	<u>13.96</u>	<u>17.25</u>	

4. Implementation Arrangements

25. The additional financing will be implemented using the same management, supervisory and fiduciary arrangements as the WASIS Project. CRA will be responsible for procurement of design and construction services and also for financial management. DNA/AIAS will take the lead on technical matters such as drafting of terms of reference and bidding documents; review of proposals, contracts, and quality control of works, technical assistance, training, and other consultancies supporting the pilot projects. In

planning and implementing the two pilots AIAS/DNA will work closely with the PWBs which will be responsible for managing the water assets at the provincial level.

26. In order to expedite implementation AusAID has engaged consultants to support DNA to prepare design and bid documents for the two selected city water supply systems. The works will be contracted on a D&B basis under International Competitive Bidding (ICB), one contract for each town. The works construction will be supervised by Project Implementation Assistance and Capacity Building consultants (PIA&CB) appointed by DNA/AIAS in accordance with WB standard procurement procedures.

4.1.1 AusAID Role in Partnership

27. The WASIS project is managed by the WB office in Maputo and this will also apply to the additional activities that will be funded by AusAID. AusAID representatives, or specifically engaged consultants, will participate in periodic (expected 6 monthly) monitoring and progress review missions lead by the WB.
28. AusAID resources at Post in Pretoria have recently been increased to amongst other things manage the WATSAN program. An officer will be designated to manage the project. This will involve coordinating with the WB and GOM in Maputo and broader engagement in sector issues. This will enhance the visibility of AusAID's support to GOM.

5. Monitoring Arrangements

29. The results and monitoring framework for the AusAID component (attached as Annex 1 in the WB's Project Paper) presents the overall WASIS Project Development Objective (PDO), that remains unchanged, together with the framework for AusAID's additional financing (sub-component B3).
30. AIAS/DNA will maintain a rolling 12 month work-plan for implementing the pilot schemes. CRA will report to WB quarterly. These reports will cover three main areas related to the pilots including: progress on outcome indicators, progress on procurement, and review of financial operations and status as per standard WB procedures. WB and AusAID will undertake six-monthly reviews of implementation progress with AIAS and CRA.

6. Risks and Risk Management Strategies

31. A summary of risks and management responses is outlined in Table 2.

Table 2: Potential Risks and Mitigation Measures

Potential Risks	Risk Mitigation Measures Incorporated into Project Design	Risk Rating
Government's capacity to carry out reforms for small cities and towns is uncertain	Reforms have been successfully carried out in large urban centres with good results. This track record can be applied to smaller cities & towns. A technical assistance component will support DNA to manage the process and build capacity to enable them to be the driver for reform and implementation of sector policy.	Medium
Sustainability of DMF with respect to smaller cities and towns fails due to: (i) lack of capacity or interest of local operators (ii) affordability of tariffs resulting in reduced numbers of households willing to connect (iii) delays in increasing revenue due to lack of commitment to collect fees or lack of adequate service provision	FIPAG and CRA are experienced and able to support the new entities and additional TA will be provided to support: (i) the creation of AIAS and the Provincial Water Boards to oversee the operations in smaller towns undertaken as pilot projects. (ii) appropriate and optimised WSS system design to reduce household costs. (iii) increased level of awareness raising regarding need for tariffs and cost recovery and support provided to increase capacity of institutions to ensure effective use of local funds.	High
Potential for corrupt practices resulting in cancellation of funding.	Adoption and enforcement of WB anti-corruption procedures and independent technical and financial auditing	Medium

Limited human resources and institutional capacities at provincial and district / municipality levels resulting in potential to delay implementation progress and poor management and O&M of completed facilities.	The WASIS project includes significant capacity building for provincial and district agencies and the additional financing includes specific capacity building for AIAS, PWBs and water service providers through an initiative involving a Brazilian institution / association. AusAID will provide additional funds to WSP to support the national water sector training establishment (CFPAS).	Medium
Government legal instruments and agreements not in place and assets not assigned to AIAS as scheduled resulting delays in award of works contracts or in cancellation of the additional financing	WB and the Donor working closely with relevant Government agencies. Use of design and construction approach already trailed in recent project	Low
Average Risk		Medium

7. Cross-Cutting Issues

7.1 Environmental and Social Safeguards

32. The existing WASIS Project is classified by the WB as Category B since the planned urban water system improvements and expansion may result in minor environmental impacts and compensation payments for losses and damages to property during the construction phase. The Category B rating is maintained for the additional financing as the works are similar in nature to those of the original project. Detailed environmental, social and resettlement safeguard frameworks for the existing WASIS Project have been prepared and approved by the WB. These frameworks will be adopted and applied for assessing and mitigating any and all potentially adverse environmental and social impacts from physical investments supported by the additional financing.
33. A WB safeguard specialist has conducted a thorough assessment of the environmental and social safeguard implications associated with the proposed investments. It was concluded that Cultural Heritage Safeguard policies are triggered by the proposed investments on the island part of the Ilha de Moçambique municipality. To address the requirements of this policy, the DNA/AIAS are preparing a Physical Cultural Resources Management Plan to complement the existing WASIS project safeguard tools so as to mitigate any potentially adverse impacts on the cultural heritage sites and resources on the island.
34. Based on the assessments of potential adverse environmental and social impacts in each town specific Environmental Management Plans (EMPs) and Resettlement Action Plans (RAPs) are being prepared. These will be discussed with stakeholders before construction plans are finalized. RAPs will be implemented before construction begins.

7.2 Gender Aspects

35. A gender analysis and strategy has been prepared for the additional financing component in the two towns incorporating a comprehensive gender strategy matrix with key recommendations for implementing the strategy. The strategy highlights the need for gender considerations to not only address the issue of equity but also the efficiency and sustainability of water and sanitation services. Similarly the strategy takes account of the fact that women's perceptions, needs and priorities in relation to sanitation can be quite different to men's.
36. In line with the strategy, the project plans and capacity building initiatives take due account of the roles of both men and women to participate in project development, implementation, community awareness programs and services management. Equal opportunities will be provided in labour recruitment and training for skilled positions, particularly for local people.
37. Socio-economic and household baseline and completion surveys and key project implementation monitoring indicators will be gender disaggregated and analysed.

7.3 Support for the Disabled, Elderly and Disadvantaged

38. The detailed design phase will ensure that the views of people with disabilities, the elderly and other disadvantaged people are taken into account in the beneficiary consultation process and that provision

is made for their needs. This will include ensuring that communal water facilities are conveniently located for and accessible to disabled and disadvantaged people. The strategic sanitation plans will also take due account of their special needs.