



RESTRUCTURING PAPER  
ON A  
PROPOSED PROJECT RESTRUCTURING  
OF  
GREATER MAPUTO WATER SUPPLY EXPANSION PROJECT  
APPROVED ON JULY 25, 2013  
TO  
THE REPUBLIC OF MOZAMBIQUE

WATER GLOBAL PRACTICE

AFRICA REGION

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## ABBREVIATIONS AND ACRONYMS

CRA	Water Regulatory Council ( <i>Conselho de Regulação de Águas</i> ) (now AURA)
FIPAG	Water Supply Asset Holding and Investment Fund ( <i>Fundo de Investimento e Património do Abastecimento de Água</i> )
ESIA	Environmental and Social Impact Assessment
ESMF	Environmental and Social Management Framework
ESMP	Environmental and Social Management Plan
FM	Financial Management
GMA	Greater Maputo Area
IFR	Interim Financial Report
MITADER	Ministry of Land, Environment and Rural Development ( <i>Ministério da Terra, Ambiente e Desenvolvimento Rural</i> ).
PDO	Project Development Objectives
RAP	Resettlement Action Plan
SDR	Special Drawing Rights



**BASIC DATA**

**Product Information**

Project ID P125120	Financing Instrument Investment Project Financing
Original EA Category Full Assessment (A)	Current EA Category Full Assessment (A)
Approval Date 25-Jul-2013	Current Closing Date 30-Sep-2019

**Organizations**

Borrower Government of the Republic of Mozambique	Responsible Agency Water Supply Investment Fund (FIPAG),CRA (Water Regulatory Council)
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**Project Development Objective (PDO)**

Original PDO

The project development objective (PDO) is to increase access to clean water for residents in the Greater Maputo Area.

**Summary Status of Financing**

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
IDA-52900	25-Jul-2013	31-Jan-2014	29-Jul-2014	30-Sep-2019	178.00	90.30	74.10

**Policy Waiver(s)**

Does this restructuring trigger the need for any policy waiver(s)?

No



## I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

1. The proposed restructuring is to extend the project closing date by 18 months from September 30, 2019 to March 31, 2021, to allow for the achievement of the project development objective (PDO). This would be the first extension of closing date for this project. Achieving the PDO would enhance the Mozambican Government's capacity to provide reliable water supply access to the largest urban and most industrialized region of the country, thus contributing to the country's overall socioeconomic development.

2. **Project Description.** The project consists of investments that will increase the overall water production capacity in the Greater Maputo Area (GMA) by 50 percent or 60,000 cubic meters, introducing a new water production source (the Corumana Dam) to the GMA as well as extend the distribution network to benefit about 100,000 households with access to reliable water supply services. The project is fully financed by IDA through an SDR 118.8 million (US\$ 165 million equivalent) credit to the Government of Mozambique and on-lent to FIPAG on the same terms and conditions, converted to Metical at disbursement rates. Parallel financing of Euro 29.2 million is being provided through a grant from the financing facility of the Government of the Netherlands (ORIO) to finance distribution mains, reservoirs, and networks, and approximately 20,000 household connections. FIPAG is also implementing additional investments with Euro 6.3 million financing from the French Development Agency (AFD) to support the drought emergency response and improve the resilience of the network.

3. **Overall progress** towards the achievement of the development objectives as well as implementation progress are rated moderately satisfactory. The original project funding was reduced by about US\$13 million (from US\$178 million to US\$165 million) due to the Special Drawing Rights (SDR) exchange rate fluctuation. This funding shortfall has not impacted overall implementation as some of the works contracts were below the original cost estimates, particularly for the construction of the Sábie water treatment plant. Disbursements stand at 54.4 percent of available project funds and commitments represent 87 percent of available funding. The remaining 13 percent of project funds are at advanced stages of procurement (primary network and connection materials). The project suffered implementation delays in the procurement process for the Sábie water treatment plant because of a complaint logged into the recommendation of award to the lowest offer and the dispute made by the lowest bidder. The complaint was made by the second lowest bidder. Government took long to address the complaint in a satisfactory manner and, by the time the complaint was resolved, the second lowest bidder was no longer interested in executing the contract, leading to the cancellation of the initial procurement process about 20 months after it was originally launched. In addition, investments in the distribution network were delayed because of the drought that affected the GMA in 2016, 2017 and 2018, given the lack of water availability to service new water connections.

4. **Component A** - Investment in Water Supply Network System (US\$111 million). Construction of the Sábie water treatment plant started on December 26, 2018. Progress stands at 25 percent, and the works are expected to be concluded by August 31, 2020, followed by 6 months of assisted operation. The 98 km transmission pipeline is constructed, and installation of power lines stands at 81 percent progress with a completion date of October 2019. The transmission line contractor is implementing the interface management plan which includes the maintenance of the pipes and equipment installed, as well as facilitation of the connections to the infrastructure and equipment to be constructed and installed by the Sábie water treatment plant contractor.

5. **Component B** - Investment in Water Supply Distribution System (US\$33.5 million). Construction of 300 km of secondary and tertiary distribution network is progressing well, with Lot 1 comprising 150 km for Intaka neighborhood, at 30 percent progress and Lot 2 at 35 percent physical progress. Delays in the contracting of these lots stem from the need to ensure these contracts would be fully funded given the exchange rate losses and unknown cost of the Sábie water treatment plant contract until it was awarded in the second half of 2018. The network construction works will be completed by September 2020. To date Water Supply Asset Holding and Investment Fund (*Fundo de Investimento e*



*Património do Abastecimento de Água* – FIPAG) has installed 33,000 out of the 100,000 target new connections to the existing system. These connections have mostly benefited the peri-urban residents covered by the Maxaquene, Laulane and Matola distribution centers. Procurement of the remaining household connections and meters is underway, and works on these additional connections are expected to commence in the first semester of 2020, therefore ensuring that adequate water resources will be available to the new connections.

6. **Component C** - Technical Assistance to FIPAG (US\$16 million). This component finances consultancy services and technical assistance for the design and supervision of works, as well as safeguards implementation. There are three main consultants currently supervising the water supply production, transmission and distribution works. These services are providing technical due diligence and assisting FIPAG with quality controls and environmental and social compliance for the various works packages. Resources under this component are 100 percent committed.

7. **Component D** - Capacity Building and Operational Support to Water Regulatory Council (*Conselho de Regulação de Águas* – CRA)<sup>1</sup> (US\$4.5 million). Through this component CRA is undertaking various studies and technical assistance services to support the development of regulatory services. Extensive training has been provided to CRA staff on tariff reviews and structuring. A tariff review was carried out in 2018, which granted FIPAG an average 22 percent tariff increase across the country. Disbursements for this component stand at 73 percent.

8. The project's overall financial management (FM) arrangements were assessed to be adequate. The overall FM risk remains Moderate, and the FM performance rating is Moderate. FIPAG and CRA submitted timely and acceptable audit reports throughout implementation. For the fiscal year ended December 31, 2018, the auditors expressed unqualified audit opinion on the Project Financial Statements and no reportable issues were identified in the year under review for both implementing agencies. The interim un-audited financial reports (IFRs) have been submitted timely and are of acceptable quality.

9. The project's overall procurement performance is satisfactory. The Implementing agencies (FIPAG and CRA) have adopted the mitigation measures identified in the appraisal document, and from the early stages of project implementation, FIPAG has retained the services of a qualified international technical assistance consultant. These arrangements will continue throughout the requested extension period to ensure that adequate contract management and future procurement activities are carried out efficiently. Since there will be no additional resources added to the project, the procurement provisions applicable to the Project, the Procurement Guidelines and Consultants Guidelines, will remain in force.

10. Overall, the project environmental and social safeguards performance is moderately satisfactory. An Environmental and Social Impact Assessment (ESIA), an Environmental and Social Management Plan (ESMP) and a Resettlement Action Plan (RAP) were prepared for the project and have been adequately implemented to date. Applicable safeguards policies will remain unchanged, and an updated environmental license to cover all the extension period has been granted by the Ministry of Land, Environment and Rural Development (MITADER). The RAP originally prepared did not cover the routing of the power lines associated with the project and FIPAG is preparing an abbreviated RAP for the installation of the power lines and some other ancillary infrastructure. The project has fully complied with the established environmental and social management requirements, including, when works have started, the submission to MITADER and the World Bank of quarterly environmental and social compliance reports. No additional economic or physical displacement is expected as result of project restructuring for the extension period, no additional or new areas will be added to the project scope of activities.

11. However, gaps remain in the management of environmental and social safeguards in ongoing contracts that must be addressed, most importantly related to the contractors' failure to develop site-specific management plans for particular aspects of their work, which limits FIPAG and the supervising consultant's ability to systematically monitor and manage

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<sup>1</sup> Recently changed to Water Regulatory Authority (*Autoridade Reguladora de Água*, AURA) through the Decree 08/2019 of February 18, 2019.



their performance. Aspects of waste management, dust control, noise control, general workplace and community health and safety, grievance management and labor management, among others, still require more detailed plans that can serve as a basis for proper monitoring and management. FIPAG has already flagged these limitations and defined the corrective actions to be taken by the contractors. These are currently being implemented and will be in place by the end of the next reporting cycle ending on December 31, 2019.

12. The World Bank team will continue to provide support to FIPAG to assess the adequacy of the contractors’ site-specific environmental, social, health and safety and labor management plans and to help improve them, where necessary. The project underwent a gender-based violence retrofitting exercise in May 2019. FIPAG is working along with contractors to implement the provisions of the agreed action plan, as well as on strengthening their grievance redress mechanisms to capture, among others, gender as well as gender-based violence and sexual exploitation and abuse related risks and impacts.

13. The table below shows the overall progress towards the achievement of the project main outcome indicators. The extension of closing date will allow for the satisfactory achievement of these outcomes. Upon the approval of the extension of closing date and verification of implementation of agreed corrective safeguard actions, the project’s progress towards achieving its development objective and the implementation progress can be upgraded to satisfactory.

PDO-Level Indicator	Unit of Measure	Baseline	Progress to Date	Target
Direct project beneficiaries Of which female	Number %	0 50%	184,800 50%	560,000 50%
People in urban areas provided with access to improved water sources under the project	Number	0	184,800	560,000
Increased capacity of the water system	m <sup>3</sup> /day	0	0	60,000

14. **Rationale for Restructuring.** The primary reason for the restructuring is to extend the project closing date by 18 months from September 30, 2019 to March 31, 2021, allowing for the full completion and commissioning of the Sábie Water Treatment Plant; primary and secondary networks; and household connections, that are critical to achieving the project objectives. Completion of the project activities are critical to improve resilience and water security for the Greater Maputo Area, which in addition to rapid population growth, has been under extreme pressure due to a prolonged drought following the El Niño effects since the 2015/2016 hydrological year started in October 2015.

15. ORIO is financing the construction of distribution centers that will allow for storage and distribution the Northern Maputo and Matola neighborhoods. However, the success of the ORIO funded project is dependent on the availability of the water from Sábie Water Treatment Plant. The AFD is financing the construction and equipping of new boreholes to increase water availability in the system and improve the resilience to prolonged droughts. Both the AFD and ORIO funded projects (ending in December 2020 and December 2021, respectively), are dependent on the completion of the distribution network, and connections financed by the World Bank. Project closure without completion of the outstanding World Bank financed activities will negatively impact the overall availability of potable water in the GMA as well as the performance of the parallel financing from ORIO and AFD.

16. In addition, there are about US\$70.3 million of undisbursed funds in contracts currently under implementation, including the Sábie Water Treatment Plant, the construction of 300 km of network, pumping stations and power lines. The Government has expressed concerns about the cancellation of these contracts, as there are no available funds to complete these activities within the government budget. Moreover, cancellation of this contracts and deliverables is likely to impact



the country’s growth forecast, as the GMA hosts the largest industrial production zone in the country, with water availability being a critical development factor.

## II. DESCRIPTION OF PROPOSED CHANGES

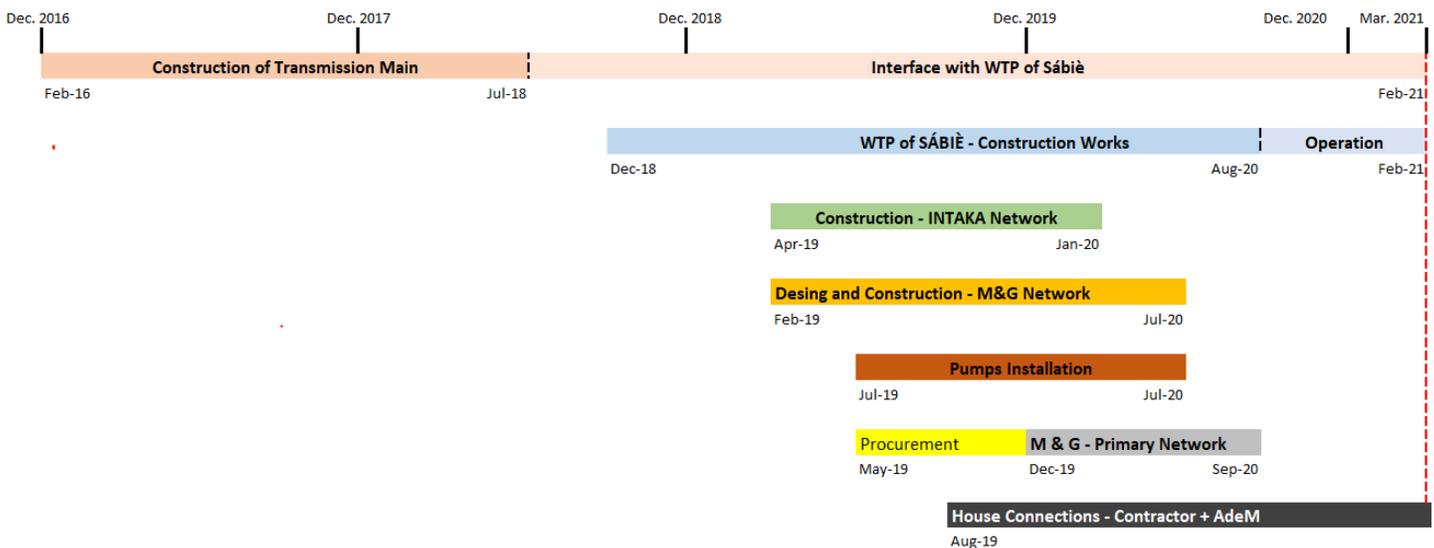
17. **Extension of closing date.** The proposed restructuring seeks to extend the project's closing date by 18 months from September 30, 2019 to March 31, 2021 to allow for the completion of the construction of the Sábie water treatment plant and associated distribution network, therefore achieving the project development objective and outcomes. This is the first extension of the closing date.

18. Based on the Task Team’s assessment, the risk of not completing the works by the revised closing date is low and the Project Development Objective (PDO) is achievable within the extended period. The implementing agencies have prepared a plan acceptable to the Bank to complete all activities by the revised closing date, and the team is confident that these activities will be completed, as they are under implementation or at advanced procurement stage using the Government’s emergency procedures, where appropriate. Moreover, the contracts under the project include 2 to 3 months buffer to ensure the completion and commissioning of the works. The key milestones agreed with Government to ensure close monitoring of project performance and deliverables include (a) the hiring of external services to support the safeguards implementation and monitoring; and (b) quarterly reviews of progress with the Bank team to proactively identify and address any potential bottlenecks.

19. **Revised component costs and disbursement estimates.** The proposed restructuring also revises the costs of each of the project components to account for the aforementioned US\$13 million funding shortfall as a result of exchange rate losses and reflect current project commitments to date. Disbursement estimates are also being revised to reflect the delays as well as the current and expected implementation pace until the revised closing date.

20. **Revised project implementation plan.** The following revised project implementation plan (Figure 1 below) has been agreed upon with FIPAG to ensure the works are finalized by the proposed closing date, therefore achieving the project objectives and outcomes:

Figure 1: Revised Project Implementation Plan





### III. SUMMARY OF CHANGES

	Changed	Not Changed
Components and Cost	✓	
Loan Closing Date(s)	✓	
Disbursement Estimates	✓	
Implementation Schedule	✓	
Implementing Agency		✓
DDO Status		✓
Project's Development Objectives		✓
Results Framework		✓
Cancellations Proposed		✓
Reallocation between Disbursement Categories		✓
Disbursements Arrangements		✓
Overall Risk Rating		✓
Safeguard Policies Triggered		✓
EA category		✓
Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Other Change(s)		✓
Economic and Financial Analysis		✓
Technical Analysis		✓
Social Analysis		✓
Environmental Analysis		✓

### IV. DETAILED CHANGE(S)



**COMPONENTS**

Current Component Name	Current Cost (US\$M)	Action	Proposed Component Name	Proposed Cost (US\$M)
Component A: Investment in Water Supply Network System	133.00	Revised	Component A: Investment in Water Supply Network System	111.00
Component B: Investment in Water Supply Distribution System	27.00	Revised	Component B: Investment in Water Supply Distribution System	33.50
Component C: Technical Assistance to FIPAG	13.00	Revised	Component C: Technical Assistance to FIPAG	16.00
Component D: Capacity Building and Operational Support to CRA	5.00	Revised	Component D: Capacity Building and Operational Support to CRA	4.50
<b>TOTAL</b>	<b>178.00</b>			<b>165.00</b>

**LOAN CLOSING DATE(S)**

Ln/Cr/Tf	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IDA-52900	Effective	30-Sep-2019		31-Mar-2021	31-Jul-2021

**DISBURSEMENT ESTIMATES**

Change in Disbursement Estimates

Yes

Year	Current	Proposed
2014	1,000,000.00	0.00
2015	10,000,000.00	2,772,138.67
2016	33,000,000.00	40,239,368.13
2017	40,000,000.00	15,608,522.54
2018	33,000,000.00	12,571,138.51
2019	41,000,000.00	37,076,448.67
2020	20,000,000.00	40,000,000.00



**The World Bank**

Greater Maputo Water Supply Expansion Project (P125120)

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2021	0.00	16,732,383.48
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