



Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 08-Feb-2018 | Report No: PIDISDSC23305



BASIC INFORMATION

A. Basic Project Data

Country Angola	Project ID P163572	Parent Project ID (if any)	Project Name Luanda Bitá Water Supply Guarantee (GU-P163610) & (P163572)
Region AFRICA	Estimated Appraisal Date Sep 03, 2018	Estimated Board Date Nov 27, 2018	Practice Area (Lead) Water
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency EPAL - EPAL: Empresa Pública de Águas de Luanda	

Proposed Development Objective(s)

The Project Development Objective (PDO) is to improve access to potable water service in selected areas of Luanda by mobilizing commercial financing for the Government of Angola.

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	658.00
Total Financing	658.00
of which IBRD/IDA	0.00
Financing Gap	0.00

DETAILS

Private Sector Investors/Shareholders

Equity	Amount	Debt	Amount
		IFI Debt	0.00
		IBRD	0.00
		Commercial Debt	658.00
		Guaranteed	658.00
Total	0.00		658.00



Payment/Security Guarantee

Total	0.00
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Environmental Assessment Category

B - Partial Assessment

Concept Review Decision

A. Introduction and Context

1. The Republic of Angola is the seventh-largest country in size, the third-largest economy in Sub-Saharan Africa (SSA), and the second largest oil producer in Africa.¹ It is bordered by Namibia to the south, the Democratic Republic of the Congo to the north and east, Zambia to the east, and the Atlantic Ocean to the west. The enclave Province of Cabinda has borders with the Republic of the Congo and the Democratic Republic of the Congo. Angola has a population of about 26 million, with over 27 percent living in the Luanda Province that is home to Angola's capital city, Luanda. About 37 percent of the population live in rural areas.² A low population density (20 people per square kilometer) makes rural service delivery especially difficult and not very cost effective. An estimated 28 percent of the population in 2014 still lived below the international poverty line of US\$ 1.90 (PPP 2011).³
2. Oil and mineral wealth allowed Angola to sustain a long civil conflict and to pay for post-conflict reconstruction. Angola gained independence from Portugal in 1975. Independence was immediately followed by a massive civil war that destroyed Angola's infrastructure, damaged the public administration and economic enterprises, displaced a large part of the rural population, and prompted a large, permanent outflow of skilled migrant workers. From the end of the civil war in 2002 until the historic peak in oil prices in 2014/2015, Angola experienced record growth, led by record oil prices, increased oil production and massive reconstruction. With lower oil prices, growth slowed abruptly from an annual average of 7.9 percent during 2004 to 2014 to only 2 percent since 2015.
3. The oil sector is the driving force of Angola's economic growth, but has had limited spillovers to other sectors. Oil represents about 1/3 of GDP and over 95 percent of its exports. The sharp and prolonged decline in oil prices since mid-2014 has had a significant impact on the economy. It has reduced oil revenues, brought GDP growth down to zero in 2016 from almost 5 percent in 2014, which negatively affected the collection of non-oil revenues. Thus, fiscal imbalances surfaced and public debt grew.
4. The Government of Angola (GoA) was one of the first SSA countries to respond to the oil price shock of 2014, addressing its consequences upfront and in a coherent way until 2015. It allowed for some exchange rate devaluation,

¹ Angola is historically the second largest oil producer in Sub-Saharan Africa behind Nigeria. Just recently Angola surpassed Nigeria's production due to political disruptions in Nigeria.

² Census 2014.

³ While Angola is likely to be downgraded to a lower-middle-income-country in FY18, the comparison with upper middle-income countries remains useful in terms of Angola's aspirations.



raised interest rates, cut fuel subsidies that benefited disproportionately the wealthy, increased non-oil tax rates and government-set prices; and cut current and capital expenditures.

5. However, economic reforms lost momentum over time and economic policy eventually reversed course in 2016. Fiscal consolidation was halted and public expenditures, especially public investments, were pushed to boost economic activity. The automatic fuel price adjustment mechanism was never triggered and interest rates – although higher – are still negative in real terms. Inflation rate remains high and widespread (27.5 percent in September 2017) and the exchange rate was repegged, leading to an overvaluation of the currency. To defend the currency and address inflationary pressures, liquidity was tightened and administrative controls on foreign exchange (FX) sales were imposed. Consequently, international reserves have declined consistently since 2014, the country has accumulated domestic and external arrears, and the wedge between the official and the parallel exchange rate increased.
6. The oil price shock has spilled over to the banking sector and contributed to the deterioration of key financial soundness indicators. Exposure of banks to the oil sector is high and comes through a variety of channels, with important spillover effects, including: (i) delays in government payments to suppliers, (ii) cut in public investment projects, (iii) spending cuts by oil companies, (iv) increase in the government's bond yield; and (v) increased depreciation pressure on the Kwanza as FX availability becomes limited. System Non-Performing Loans (NPLs) have reached 27.6 percent as of June 2017, comparing to less than 10 percent in 2013. The five largest banks accounted for 88 percent of NPLs as of September 2015,⁴ with BE (the successor of legacy problem bank - BESA) and BPC (state-owned) accounting for 72 percent of total system NPLs. Following completion of an Asset Quality Review (AQR) in 2015, BNA requested all three state-owned banks to submit recapitalization plans. The largest of them, BPC is a systemically important bank and the main bank for the government and state-owned enterprises (excluding Sonangol). Capitalization of BPC and other small banks all required public debt issuance, BPC itself requiring approximately 0.3 percent of GDP. Additionally, in 2017, the Ministry of Finance (MoF) of announced the creation of a publicly funded state-owned asset management company (Recredit) as a “bad bank” to buy NPLs.
7. Macroeconomic adjustment is unavoidable as Angola continues to struggle under the rebalancing of the global oil market, but the new government is already undertaking the needed adjustments. There are widespread imbalances on fiscal and external accounts. Even with large restrictions on imports and FX controls, the current account deficit is estimated at \$6 billion in 2017, down from a surplus of more than \$8 billion in 2013 (pre-oil price shock). Large fiscal deficits have returned and public debt reached 78 percent of GDP (including Sonangol's debt) at the end of 2016 (up from 57 percent at the end of 2015) and it is expected to be even higher by the end of 2017 (at declining maturities) due to increasing financing needs and debt issuances to settle payment arrears, raising debt sustainability concerns. Fortunately, the new government recognizes the need for macroeconomic rebalancing and has put together a bold and straightforward strategy in the *Plano Intercalar*⁵. The central bank has increased the benchmark interest rate and moved to a monetary aggregate target policy in preparation for an administered float of the local currency. MoF is preparing the 2018 budget to restore the fiscal consolidation agenda, including increases in public prices, and cuts on subsidies and other major expenditures such as payroll and goods and services.
8. Progress on social indicators has been uneven, particularly lacking in health and education. Despite the positive progress made in poverty reduction, primary education, and gender equality since 2002, progress in other key social indicators remains limited. Despite the relatively high GDP per capita (US\$ 5,170 in 2013), in the absence of effective and inclusive socio-economic policies and public service delivery, high inequality is perpetuated, with extremely low

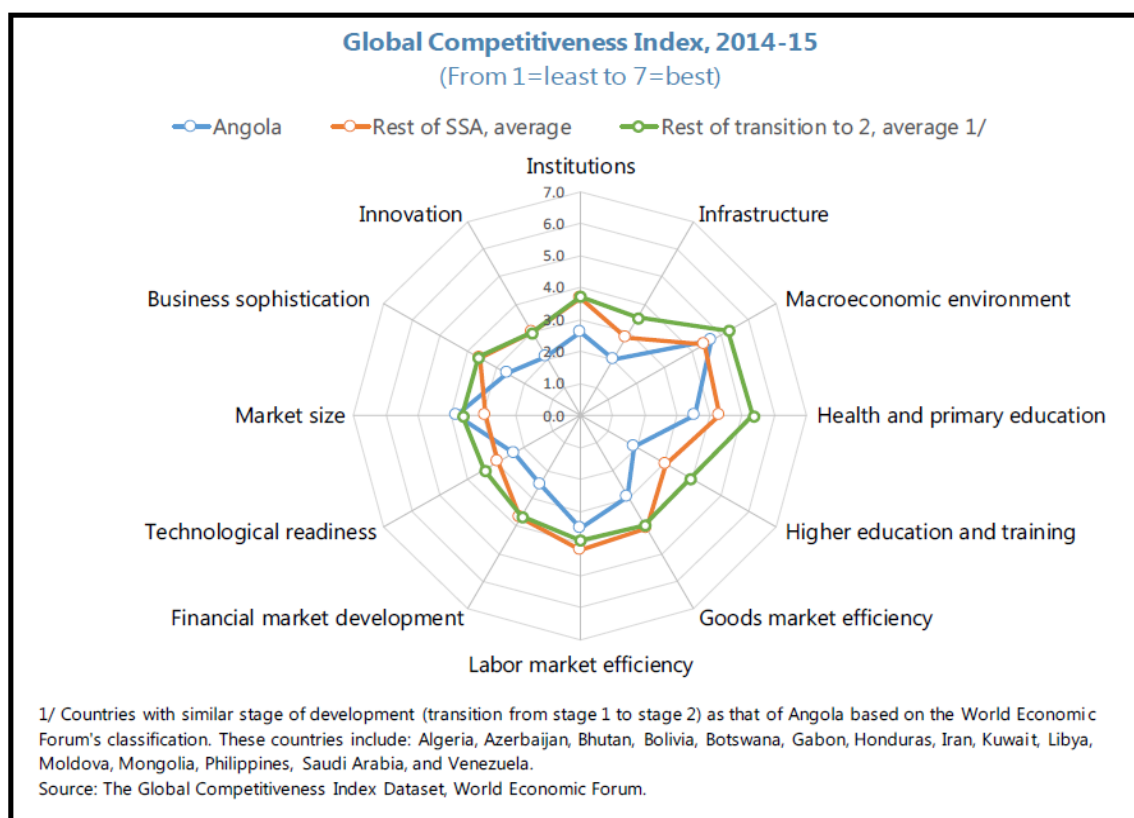
⁴ Latest data available to the Bank team.

⁵ The plan calls for: “to conceive and implement a credible and effective macroeconomic stabilization program, to reunite the FX market, reduce inflation, and create an adequate environment for private investment, relaunch Angola's economy and improve social indicators”.



health and education indicators. For example, life expectancy at birth is only about 51 years. Maternal mortality is 450 out of 100,000 births, which is the highest in Sub-Sahara Africa. Malnutrition is also acute, with 30 percent of children under five years of age suffering from stunting; 16 percent are under-weight. Furthermore, Angola ranked 148 out of 187 countries in the 2013 Human Development Index.

9. **Post civil war, Angola’s infrastructure development continues to lag compared to its peers.** This continues to be a major obstacle for the development of non-oil related industries due to the lack of reliability and resilience of transport, electricity, and telecommunications infrastructure. The Global Competitiveness report from 2014/2015 ranks Angola at 139th out of 144 countries for the quality of its transport, electricity and telecommunications infrastructure. The development of water infrastructure has also only been limited to urban areas where 86 percent of households have access to water, compared to 40 percent of rural households. As illustrated below, the ranking of infrastructure quality and services in Angola are behind rest of the Sub-Saharan Africa.



Source: World Economic Forum, Global Competitiveness Index, 2014-15

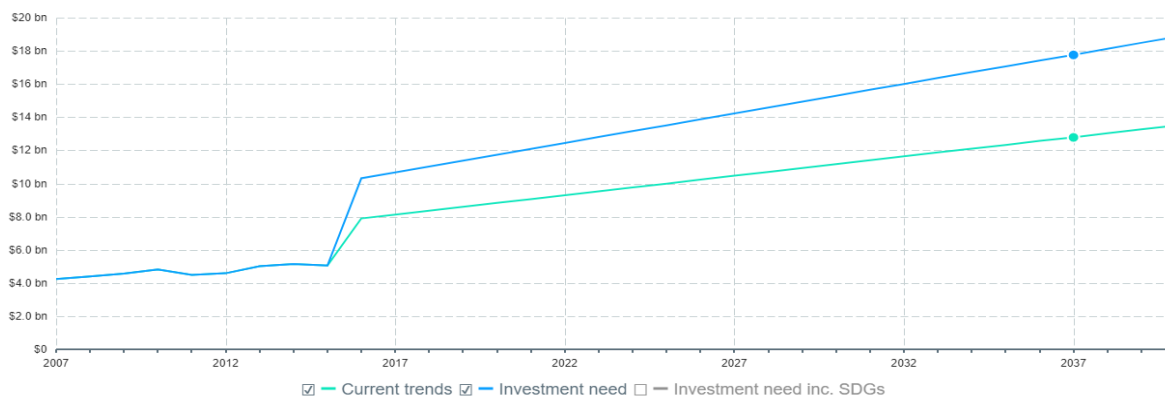
10. Angola’s financial markets are relatively underdeveloped considering the country’s oil wealth. The health of banking system has been deteriorating, with number of banks undercapitalized and have declining capital adequacy ratio, thus severely constraining their ability to provide long term financing. At the sovereign level, Angola has been testing international capital markets in recent years⁶ and issued 2 bonds, however, it is yet to establish its track record as an

⁶ The most recent bond issued was in 2015, issued a \$1.5 Billion, 10 year Eurobond, with a 9.5 percent yield, placed by Deutsche Bank, Goldman Sachs, and ICBC.



international bond issuer. Therefore, it limits GoA’s access to financing market only through multilateral, bilateral (e.g., Chinese) and commercial bank sources.

Infrastructure investment at current trends and need



Source: Global Infrastructure Hub Outlook for Angola

11. The total infrastructure investment requirements in the next 20 years, covering energy, telecom, transport and water is approx. US\$364 billion, however following the current investment trends creates an investment gap of around US\$97 billion. More specifically on water sector, the investment needs are US\$4.6 billion in 2017 and increasing to US\$7 billion in 2037. The water sector investment needs for the next 5 years (2017-2022) is approx. US\$ 22 billion⁷, requiring significant financing amount of financing to be raised. With constrains on oil-linked revenues, limited public debt capacity and extremely weak domestic financing market, GoA relies on hard currency commercial financing. On the other hand, the current credit rating limits their ability to attract long term commercial financing without credit enhancement.

B. Sectoral and Institutional Context

12. As of 2001, at the end of the civil war, only 27 percent of the population had access to improved drinking water sources, with access somewhat better in urban areas at 42 percent, and as low as 18% in rural areas. Since then, Angola has increased access to improved water services, with particular emphasis on accelerated urban service coverage through public standpipes. As of 2015, Angola had not met the MGDs for water and sanitation, and, as summarized in the table below, continued to feature an acute urban vs. rural divide in access to services. Open defecation also remains prevalent for 54% of the rural population.

Access (2015)	Urban	Rural	Total
Improved water source	75%	25%	49%
Improved sanitation	89%	22%	52%

13. Even in urban areas, access to water via household connections (to yard taps or internal plumbing) remains low, at 32 percent. In addition, the data for urban water access may be overstated, as peri-urban areas—where density is often as high or higher than formal urban areas, and where water service is largely non-existent—are not included in “urban” service estimates. There are also wide disparities in between urban areas, such as in particular, across provincial capitals. Informal private water tanker truck service is ubiquitous in both served and unserved urban areas. Urban

⁷ Global Infrastructure Outlook, investment forecasts for Angola, <https://outlook.gihub.org/countries/Angola>



sanitation is hardly developed, with conventional sewerage restricted to a few central neighborhoods of Luanda. The vast majority of urban households and businesses rely on onsite solutions such as septic tanks and pit latrines, emptied by unregulated private providers. Provincial utilities provide service in urban areas, with poor levels of performance and cost-recovery, and until recently, limited incentives to improve services or revenues. GoA's Vision 2025 aims at universal service access in urban areas.

14. The Ministry of Energy and Water (MinEA) oversees sector development under the 2002 Water Law. The law mandates cost-recovery tariffs and professionalization of service delivery, as well as devolution of service responsibility to provincial governments. The pace of reforms was accelerated in recent years with the creation of 16 provincial utilities, and the strengthening of separation of policy, regulatory, and service delivery functions, including the 2016 establishment of a water regulator within the national electricity regulator—now known as the Instituto Regulador dos Serviços de Electricidade e Água e Saneamento de Aguas Residuais (IRSEA). A significant tariff regulation reform is announced for 2018 by which utility tariffs would be set at “efficient cost-recovery” levels with elimination of operational subsidies. A process is on-going led by MinEA, to introduce performance-based management contracts in provincial utilities, including with PDISA2 support in up to 9 utilities.

C. Relationship to CPF

15. The proposed guarantee project reflects the Maximizing Finance for Development (MFD) approach of the World Bank (WB). Being one of the first guarantee projects in Water Sector, the project and broader water sector engagement aims to leverage limited public finance by crowding-in private finance into water supply systems. The country has other infrastructure sectors (e.g., Cambambe hydropower) financed through commercial financing (with 95% NHSFO credit cover of MIGA); however, water sector investments at this scale has not happened before. Thus the project can create a strong demonstration effect for future water supply system investments in Angola, Africa and other regions through optimal use of WB Guarantee products.
16. The proposed guarantee project is aligned with the existing Country Partnership Strategy (CPS) for FY14 - FY16, in particular with its second pillar which is to enhance the quality of service delivery to improve the quality of life of the population. The development of water, sanitation and hygiene (WASH) services in Angola is an integral part of WB's support to Angola towards the twin goals of ending extreme poverty and promoting shared prosperity, with particular emphasis on institutional development, as already embodied by the on-going second Water Sector Institutional Development Project (PDISA2). This ongoing sector engagement will also help improve operational performance of Empresa Pública das Águas de Luanda E.P. (EPAL), the Luanda Province water utility, under the guarantee project. Going forward, the on-going Systematic Country Diagnostic (SCD) highlights the inadequacy and inequalities of access to WASH services, and is expected to confirm the importance of improved infrastructure services in pathways to development for urban and rural Angola.



D. Proposed Development Objective(s)

17. The Project Development Objective (PDO) is to improve access to potable water service in selected areas of Luanda by mobilizing commercial financing for the Government of Angola.⁸
18. The key result will be the improved access to connected potable water service, attained by crowding-in private finance through IBRD guarantees. US\$[285] million of IBRD exposure for a loan guarantee will allow private financing of a project estimated at US\$[658] million. PDO achievement will be measured against key indicators which may include:
- Private commercial financing mobilized.
 - Number of people provided with access to “Improved Water Sources” under the project

The Project will also measure indicators of utility performance, such as supported through technical assistance funded under the PDISA2 project, outside of the Bitá Guarantee scope, including:

- Water Utility - Improved utility operating cost coverage ratio

19. The ultimate beneficiaries will be the connected users in the Bitá service areas. The Bitá Project will initially bring new or improved piped water service to an estimated 1 million people, with capacity to serve a doubling of the population in coming years. The Project is expected to substantially improve living conditions by providing reliable connected potable water service to users, displacing and reducing unsafe and expensive tanker truck service, thereby reducing water supply coping costs, and enhancing public health.

D. Concept Description

Project overview

20. The Bitá water supply project is a national priority investment to expand and improve water supply service in the fast growing unserved urban and peri-urban belts of south Luanda. The Project consists of water production, transmission, storage and distribution investments including a water treatment plant with a production capacity of 3 cubic meters per second, 72km of gravity transmission pipelines towards Luanda, and storage and distribution systems in the suburban districts of Bitá, Cabolombo, Mundial and Ramiros.
21. Only about 37% of Luanda’s 7 million people benefit from connected service from the network, while another 22% gets water from public standpipes. The rest relies on unregulated and extremely costly private tanker truck service (25%), or consume water drawn from illegal connections or from untreated river sources (16%). Even in served areas, piped service is discontinuous, averaging about 9 hours/day, and is commonly complemented by tanker truck service. As suggested by cholera outbreaks in recent years, the overall water, sanitation and hygiene (WASH) service conditions are poor across metropolitan Luanda, with vast urban and peri-urban areas depending on informal providers for water supply and fecal sludge disposal services. With population growing at 4% per year, EPAL faces a major challenge to expand and improve service. EPAL’s 2012 masterplan recommended the phased development of two large new water systems – “Bitá” (or S4) and its twin system “Quilonga Grande” (S5) to the west - to serve the fast-growing outer

⁸ The Project and implementing entity EPAL will benefit from technical assistance funded under the PDISA2 project, including for i) technical audit services on Bitá project implementation, ii) an integrated water and sanitation masterplan for Luanda, ii) capacity building to improve EPAL cost-recovery and performance, and iv) a study of options to regulate tanker truck service. Since these tasks are not included in the Bitá Guarantee scope, the PDO does not reflect any expected outcomes of such tasks, such as in particular for utility performance gains.



districts of Greater Luanda, interconnected with existing central systems. Despite Luanda's urban planning uncertainties, the need for the Bitá project appears strongly justified in the context of pressing short-term and long-term water supply infrastructure needs. Construction is underway for the Quilonga Grande project.

22. Identification and follow-up missions in April and November 2017 have allowed a preliminary assessment of the project. The original Bitá project scope of approximately US\$600 million included production, transmission and storage investments, with a capacity of 6m³/sec, without distribution systems. An agreement was reached with GoA in November 2017 on necessary scope adjustments, such as the inclusion of distribution networks to reach the beneficiaries, and a reduction in initial production and transmission capacity (from 6 to 3 m³/sec) to reflect an actual current population of about 360,000 people, significantly lower than original planning projections. The service perimeter of the Bitá project was furthermore expanded to include the already well urbanized and networked areas of Camama and Benfica 2, which can no longer be served by existing systems. Updated EPAL cost estimates were received for the revised scope, including US\$ 471 million for production, transmission and storage, and US\$ 162 million for distribution networks and connections to cover the existing populations of the Bitá areas⁹. Consulting services and financing fees are furthermore assessed at US\$26 million. The updated investment need is thus assessed at US\$ 658 million, subject to further adjustments through preparation.
23. Opportunities are identified to complement project documentation. Design specifications for the Project were derived by EPAL from the masterplan towards developing design-build bid packages. The Project, however, did not benefit from a dedicated technical feasibility study optimizing demands, design options, benefits, costs, sustainability of operations, etc., more thoroughly than possible at masterplan level. Environmental and social impacts were also assessed based on preliminary investment specifications, without distribution systems.
24. The GoA wishes that in conjunction with the guarantee, IBRD also support EPAL in achieving aggressive performance and cost-recovery improvements. While no technical assistance (TA) or capacity building (CB) loan is attached to the current guarantee request, it is envisioned that funds available under the PDISA2's institutional strengthening component will be applied to EPAL's needs such as:
 - Technical auditing of Bitá project implementation.
 - Integrated master plan for water and sanitation in Greater Luanda.
 - Selected CB and TA tasks to strengthen EPAL commercial and operational performance.
 - An assessment of opportunities to regulate water tanker truck service.

Financing and Guarantee Structure

25. The original Bitá scope assumed a financing requirement of US\$ 600 m, without distribution network investments. As explained above (para 22), the scope has been revised to meet current and expected population requirements and included prioritized network investments, the revised estimate is approx. US\$ 658 m. The revised overall financing requirement has increased by US\$ 58 m while the project scope includes US\$ 162 m of network investments, thus reflecting an overall savings of more than US \$ 100 m. Due to limited debt capacity and fiscal space in Angola, the Government decided to finance the Project through commercial borrowing with credit enhancement since 2015, however, GoA-MoF has been challenged by difficulties in securing sufficient credit enhancement in the context of Angola's economic downturn. Luanda's water utility - and implementing agency - Empreza Publica das Aguas de Luanda, E.P. (EPAL) has however already awarded the seven design-build works contracts of the Project, as well as relevant project management, supervision and environmental monitoring service contracts. As the project is

⁹ Longer-term distribution investment needs are assessed at US\$ 541m, to serve a population of 1.3 million people.



considered a national priority, GoA has been urgently seeking guarantee solutions¹⁰, ultimately to request an IBRD guarantee. The guarantee ranks high among partnership priorities for GoA.

26. The proposed project is an Investment Project Finance (IPF) operation, utilizing an IBRD guarantee product to mobilize commercial financing to meet the financing requirements of Bitá and network investments (covering Bitá prioritized area). The currently proposed IBRD guarantee amount of US\$ 285 m¹¹ will be structured as a loan guarantee to backstop debt service payment obligations of the GoA. To optimize IBRD guarantee amount, two potential guarantee structure options are proposed at this stage (refer details in para 27 below). The main risk that the IBRD guarantee mitigates is debt service default by the GoA under the facility agreement with commercial financiers. The proposed IBRD guarantee is expected to provide adequate comfort to commercial financiers that the debt service payments will be made on time. Following the World Bank core principle of guarantees, the coverage on risk will only be partial in nature. Based on recent examples in the region, risk coverage of around [60] % of loan amount will be essential to attract competition from commercial banks under the current credit rating of Angola. While financing requirements for Lot B1 through to B7 and consultancy costs are mostly confirmed, the cost of distribution network, fees (financing and guarantees) and interest during construction will be finalized after the procurement of distribution network works; however, indicative estimates are presented below in Table 1.
27. Commercial financiers will be selected through a funding competition to attract competitive financing terms and conditions. An informal market sounding process conducted by the team confirmed interest from commercial financiers to provide long term financing to the project. Notwithstanding this, the team proposes to have a funding competition process to select commercial financiers to benefit from both attracting competitive financing terms as well as minimizing the amount of IBRD guarantees. The level of risk coverage and degree of partiality will be finalized after negotiations with the commercial financiers, taking into account the project being the first guarantee in the water sector.
28. IBRD loan guarantees will be structured along with ECA tranches to cover the total financing amount. IBRD guaranteed will be complemented by ECAs, such as BPI France (previously COFACE) and Sinosure, as illustrated in Table 1 below. The indicative sizing of IBRD guarantee amount needed is summarized below in Table 1. The process to raise financing will be managed by Standard Chartered (Mandated Lead Arranger and Financial Advisor) such that necessary approvals processes from ECAs are coordinated towards achieving financial closure in mid-2018. Based on Table 1

¹⁰ Both MIGA and IFC could not support the project for reasons of credit rating threshold and public investment nature, respectively. MIGA initiated their support in 2015-2016, and required a sensitive rebidding of selected awarded lots, but was ultimately forced to withdraw due to the continued degradation of Angola's credit rating through 2016 and 2017.

¹¹ However, the expected amount of IBRD guarantee may be around US\$ [330] million to accommodate the total project financing requirements.



below, the amount of IBRD guarantee needed is approximately **US\$ [329] million**, based on the initial estimate of network investment costs.

Table 1 – Indicative Sizing of IBRD Guarantee Amount

S. No	Scope	Total Financing Amount (\$ Mil)	IBRD Guarantee Needed (\$ Mil)	IBRD Guaranteed Financing (\$ Mil)	ECA Guarantee Needed (\$ Mil)	ECA Supported Financing (\$ Mil)
1.	Revised Bitá scope	471	216	362	108	108
2.	Distribution Networks (indicative)	162	97	162	0	0
3.	Financing Fees and Consultancy	26	16	26	0	0
	Total	658	329	550	108	108

29. The proposed IBRD guarantee could be structured in two potential options – a) Option 1 - IBRD loan guarantee structure, where IBRD covers losses arising from non-payment by government on debt service for up to US\$ [329] m; and b) Option 2 - IBRD loan guarantee combined with a GoA liquidity reserve account in an escrow to meet debt service payments for [6-12] months, in which the GoA takes first loss position and IBRD backstops the GoA’s obligation to replenish the reserve account for up to US\$ [285] m. Under both structures, the total guarantee coverage amount is expected to be around [60] % of the principal amount. While the team is working on Option 2 (IBRD Guarantee of US\$ 285 m) as a primary option, the risk of GoA not able to create and capitalize the reserve account will require to move towards Option 1 (IBRD Guarantee of US\$ [329] m). The team has initiated the conversation with GoA-MoF and expect confirmation on Option 2 early January.

30. The proposed guarantee structure as illustrated in Figure 1, has been well tested in other loan guarantee operations in the region (e.g., Kenya Power and Light Corporation Refinancing) and globally. Under this structure, commercial financiers will provide US\$ [660]¹² million of loan to the Ministry of Finance, who will in turn use the amount of pay fees, consultancy costs and design and construction payments on an agreed schedule¹³. The payments will be cleared by EPAL and MINEA, based on the invoices received from the EPC contracts on milestone completion. Ministry of Finance will enter into a Facility Agreement(s) with commercial financiers on a drawdown and repayment schedule. The commercial financiers through an agent bank will enter a Guarantee Agreement with the IBRD. IBRD will also enter into an Indemnity Agreement with the Ministry of Finance. Should there be a debt service default by the GoA under the guaranteed loan facility and [under circumstances where a Government Reserve Account (as defined below) has been fully exhausted and not replenished in a timely manner by GoA]¹⁴, the IBRD guaranteed commercial financiers can access IBRD for the amount of overdue scheduled principal [and interest] under the guaranteed loan facility. Any payment made by IBRD under the IBRDguarantee will trigger the obligation on part of the GoA to repay

¹² Including Interest During Construction (IDC) if GoA requires a grace period.

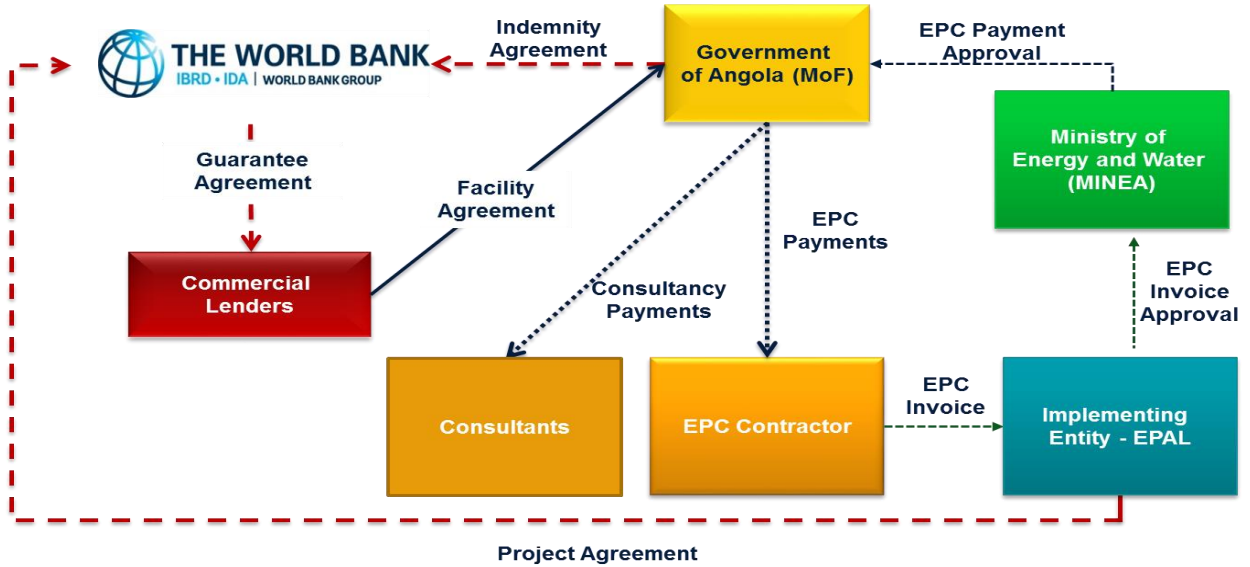
¹³ All payments to be made under the guaranteed financing will meet specific eligible expenditures.

¹⁴ Proposed under Option 2 under Para 28 below.



IBRD under the Indemnity Agreement on demand or otherwise direct. Annex 5 provides an indicative Term Sheet for the IBRD guarantee.

Figure 1 : Option 1 - Indicative Financing and Guarantee Structure

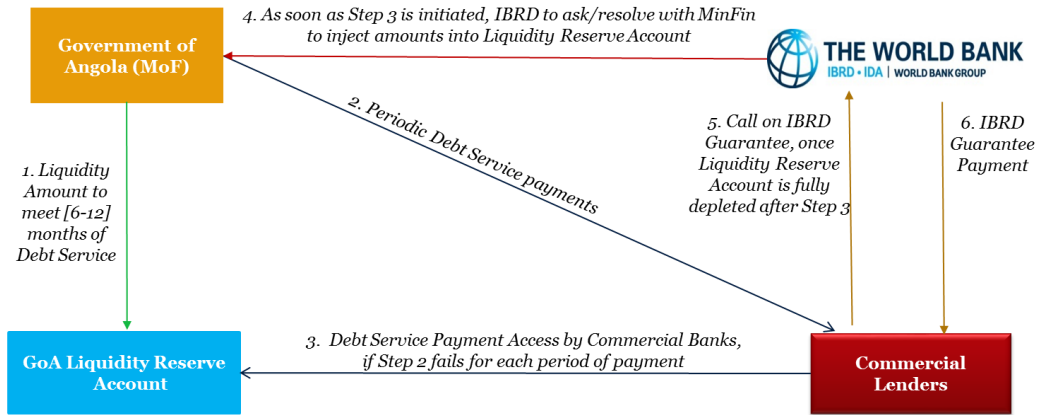


31. Under Option 2, the GoA would establish an interest-bearing liquidity reserve account to be maintained and funded by GoA for the duration of the commercial debt facility in a minimum amount equal to [6-12 months] of scheduled principal and [interest] payments (the “Government Liquidity Reserve Account”). The funds in the Government Liquidity Reserve Account would only be permitted to be used to make payments of scheduled installments of principal and interest thereon under the IBRD-guaranteed commercial debt facility. GoA would be obligated to replenish the balance of the Government Payment Reserve Account to the required minimum level within [6] months after any draw thereunder. This reserve would act as a first loss mechanism, allowing for a more optimal use of the IBRD Guarantee by giving IBRD and GoA additional time to work together to resolve the liquidity issues that led to a draw on the reserve, and potentially avoid a call on the Guarantee. Under this second option, both the IBRD guarantee and GoA reserve account together will achieve the [60]% target risk coverage, thus having the potential to expand the amount of financing that can be raised to meet additional costs on distribution network. In addition to the structure



in Figure 1 above, the Option 2 will have additional step involved before calling on IBRD guarantee, as explained in Figure 2 below.

Figure 2: Option 2 – Option1 + Additional processes involved



SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The project location is in Luanda, the capital of Angola, specifically in the fast-growing outer suburban districts of Greater Luanda namely Bitá, Cabolombo, Camama, Benfica, Mundial and Ramiros, all part of the Belas Municipality. The districts are urbanized, especially Camama and Benfica and none are near natural habitat or forests. A Climate Risk Assessment was done and it concluded that the project location only presents slight exposure to drought, while the potential impacts and risks for extreme precipitation and flood hazards, are low. Overall, the environmental impacts of the project are expected to be positive. However, small-scale, localized negative effects may arise during the implementation of the limited site specific civil works envisaged under the project. These may include rehabilitation or expansion water distribution and connection systems. Safeguards management can be adequately handled through good engineering practices for design and construction. In light of the above, this project has been classified as a Category B project, which requires a partial assessment environmental impacts. Such impacts are expected to be generated throughout the project cycle and they are related with infrastructure rehabilitation, upgrading or construction such as air, soil and water pollution, loss of vegetation, soil erosion, increase in HIV AIDS and occupational health and safety (accidents on the work sites). OP 4.12 on Involuntary Resettlement is triggered for this Project as there are potential small scale impacts on households and subsistence economic activities (such as loss of crops/ fruit trees and temporary relocation of informal business activities). As the exact location of distribution networks is not yet known and will not be confirmed prior to appraisal, a Resettlement Policy Framework (RPF) will be prepared, setting forth standards and guidance, including guidance for the preparation of Abbreviated Resettlement Plans (ARAPs) or Resettlement Action Plans (RAPs) in cases in which involuntary resettlement impacts could not be avoided. The Bitá Project will initially bring new or improved piped water service to an estimated at 1 million people, considerably reducing health related risks related to the consumption of untreated water. Given the nature of the activities,



the proposed project activities are not expected to cause any major, significant or irreversible environmental and social impacts.

B. Borrower’s Institutional Capacity for Safeguard Policies

The Implementing Agency (EPAL) has limited experience regarding the implementation and monitoring of Safeguards Policies and the use of Safeguard instruments. EPAL will directly appoint a Social and Environmental Safeguards Specialist prior to project approval and this specialist will receive training and coaching from the Bank. In addition, the World Bank will provide general guidance and training for other staff in EPAL to ensure that the client will have the adequate capacity to implement, monitor and report on environmental and social issues. A capacity building strategy will be included in the design of the new operation.

C. Environmental and Social Safeguards Specialists on the Team

- Mario Rizzolio, Social Safeguards Specialist
- Paulo Jorge Temba Sithoe, Environmental Safeguards Specialist
- Nadia Tembe Bilale, Environmental Safeguards Specialist

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	The proposed project supports infrastructure investments aimed at expanding access to water supply services. The negative environmental impacts are expected to be associated with activities of the project that comprise of water production, transmission, storage and distribution networks, including a water treatment plant. Given the nature of the foreseen works, it is anticipated that most activities will fall under Environmental Category B, since potential environmental impacts are site-specific, minimal, and can be easily mitigated using appropriate tools. The location of the project is known, which is in the suburban districts of Bitá, Cabolombo, Camama, Benfica, Mundial and Ramiros, in South Luanda. The borrower had already prepared an Environmental and Social Management Plan (ESIA) that reflected the initial scope of the project. However, the project scope has changed and as such the borrower will prepare a new ESIA that shall be consulted and disclosed prior to appraisal.
Natural Habitats OP/BP 4.04	Yes	Project investments will finance water production however; the location of the extraction is not a protected area and may affect the quality or the status of natural habitats as defined in the OP/BP 4.04. Notwithstanding, this policy is preventively triggered, as some civil works will be carried out in the vicinity of natural habitats or fragile ecosystems. The ESIA will include provisions to ensure that likely negative impacts to natural



		habitats are adequately captured and taken in to consideration during sub projects preparation and implementation.
Forests OP/BP 4.36	No	The project is not expected to affect Forests as defined by this policy.
Pest Management OP 4.09	No	The project does not involve the use of pesticides.
Physical Cultural Resources OP/BP 4.11	Yes	As the proposed project will involve excavations and earth movements for civil works and could unintentionally affect sites deemed of cultural importance. Hence, chance finds approach shall be adopted during construction. Consequently, OP 4.11 is triggered as a precautionary measure and the ESIA will include provisions to address basic OP 4.11 requirements.
Indigenous Peoples OP/BP 4.10	No	OP4.10 is not triggered for this project as there are no indigenous people within the project area.
Involuntary Resettlement OP/BP 4.12	Yes	Although no land acquisition will be required for the project activities, OP 4.12 is triggered on a precautionary basis to provide guidance for small scale impacts that might affect households in high density peri-urban areas. These impacts would be small scale economical displacement (temporary relocation of informal business) or loss of productive assets (such as loss of crops/ fruit trees). The client will prepare an RPF to adequately address these issues and the RPF will be duly consulted, cleared by the Bank and adequately disclosed both in-country and on Infoshop prior to appraisal. The RPF will include specific provisions to guide the borrower to undertake: (i) the screening process; (ii) community consultations; (iii) preparation of site specific Resettlement Action Plans (RAPs) or Abbreviated Resettlement Action Plans (ARAPs) prior to subproject approval; (iv) implementation of RAPs and ARAPs before any construction works for the respective subproject; and (v) completion audits. Such RAPs will also be consulted upon, approved by the Bank, and adequately disclosed prior to the physical implementation of any of such given activity.
Safety of Dams OP/BP 4.37	TBD	The project is not expected to finance activities that fit within triggering definition for this policy. This will be further determined before project appraisal
Projects on International Waterways OP/BP 7.50	TBD	This policy will be triggered should the project is sourcing water from international rivers
Projects in Disputed Areas OP/BP 7.60	No	

E. Safeguard Preparation Plan

The borrower will elaborate a new ESIA. An RPF will be prepared prior to Appraisal. Approval on 8 June 2018.



CONTACT POINT

World Bank

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APPROVAL

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Approved By

Safeguards Advisor:	Issa Maman-Sani	
Practice Manager/Manager:	Wambui Gichuri	
Country Director:	Elisabeth Huybens	



SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

Luanda Province; Bitá, Cabolombo, Mundial and Ramiros districts.

B. Borrower's Institutional Capacity for Safeguard Policies

To be assessed

C. Environmental and Social Safeguards Specialists on the Team



Benjamin Burckhart, Social Specialist
Paulo Jorge Temba Sithoe, Environmental Specialist

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	The proposed project supports infrastructure investments aimed at expanding access to water supply services. The negative environmental impacts are expected to be associated with activities of the project that comprise of water production, transmission, storage and distribution networks, including a water treatment plant. Given the nature of the foreseen works, it is anticipated that most activities will fall under Environmental Category B, since potential environmental impacts are site-specific, minimal, and can be easily mitigated using appropriate tools. The location of the project is known, which is in the suburban districts of Bitá, Cabolombo, Camama, Benfica, Mundial and Ramiros, in South Luanda. The borrower had already prepared an Environmental and Social Management Plan (ESIA) that reflected the initial scope of the project. However, the project scope has changed and as such the borrower will prepare a new ESIA that shall be consulted and disclosed prior to appraisal.
Performance Standards for Private Sector Activities OP/BP 4.03	No	
Natural Habitats OP/BP 4.04	Yes	Project investments will finance water production however; the location of the extraction is not a protected area and may affect the quality or the status of natural habitats as defined in the OP/BP 4.04. Notwithstanding, this policy is preventively triggered, as some civil works will be carried out in the vicinity of natural habitats or fragile ecosystems. The ESIA will include provisions to ensure that likely negative impacts to natural habitats are adequately captured and taken in to consideration during sub projects preparation and implementation.
Forests OP/BP 4.36	No	The project is not expected to affect Forests as defined by this policy.
Pest Management OP 4.09	No	The project does not involve the use of pesticides.
Physical Cultural Resources OP/BP 4.11	Yes	As the proposed project will involve excavations and earth movements for civil works and could



unintentionally affect sites deemed of cultural importance. Hence, chance finds approach shall be adopted during construction. Consequently, OP 4.11 is triggered as a precautionary measure and the ESIA will include provisions to address basic OP 4.11 requirements.

Indigenous Peoples OP/BP 4.10

No

OP4.10 is not triggered for this project as there are no indigenous people within the project area.

Involuntary Resettlement OP/BP 4.12

Yes

Although no land acquisition will be required for the project activities, OP 4.12 is triggered on a precautionary basis to provide guidance for small scale impacts that might affect households in high density peri-urban areas. These impacts would be small scale economical displacement (temporary relocation of informal business) or loss of productive assets (such as loss of crops/ fruit trees).

The client will prepare an RPF to adequately address these issues and the RPF will be duly consulted, cleared by the Bank and adequately disclosed both in-country and on Infoshop prior to appraisal. The RPF will include specific provisions to guide the borrower to undertake: (i) the screening process; (ii) community consultations; (iii) preparation of site specific Resettlement Action Plans (RAPs) or Abbreviated Resettlement Action Plans (ARAPs) prior to subproject approval; (iv) implementation of RAPs and ARAPs before any construction works for the respective subproject; and (v) completion audits. Such RAPs will also be consulted upon, approved by the Bank, and adequately disclosed prior to the physical implementation of any of such given activity.

Safety of Dams OP/BP 4.37

TBD

The project is not expected to finance activities that fit within triggering definition for this policy. This will be further determined before project appraisal

Projects on International Waterways OP/BP 7.50

No

This policy will be triggered should the project be sourcing water from international rivers

Projects in Disputed Areas OP/BP 7.60

No

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Apr 27, 2018



Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

Not available at this stage

CONTACT POINT

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APPROVAL

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Country Director:	Elisabeth Huybens	28-Feb-2019
