



Policy development and governance arrangements for water services in small towns: Mozambique

Work Package 1

Deliverable 1.1

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Introduction

This document collects initial information on the current set up of the water sector in Mozambique for the delivery of water services to small towns. This document has been produced based on the review of existing documents and reports from the implementing parties and support agencies in Mozambique, and additional interviews with key stakeholders in the sector.

The objective of this delivery was to create an overview of the knowledge that already exists in the sector in order to identify more specific questions and knowledge gaps in which the project could focus itself in. During the development of this report the project partners realized of the immensity of models and arrangements existing for small towns in Mozambique. As a consequence, and provided the limited scope of SMALL this document, as well as the questions identified at the end are only relevant for the area of control of AIAS.

The first part of the document compiles an overview of the legal and institutional framework for the management of small towns in Mozambique as a whole. It includes as well a reflection of the definitions of small towns in Mozambique.

Legal Framework

The first law in water in Mozambique is of 1991 (Law 16/91, of August 3, 1991). The law was revised in 1995 (Resolution n.º 7/95) to include broad reform of the water supply provision systems that would set the first step towards delegated management, improved regulation and its financial planning. This regulation was revised and approved in 2007 introducing a clear emphasis on integrated water systems and the importance of water development for the general economic and social growth of the country (Resolution n.º 46/2007 30 October).

In Mozambique, the Ministry of Public Works and Water Resources (MPOH) through the National Director (DNA) develop the strategic planning and management of the sector. The government is represented in the provinces by the Provincial Offices of the Ministry (DPOPH) and at District level by the offices of Infrastructural Development (SDPI). In case a municipal council exists, the municipal council would be responsible for urban water services within the municipal boundaries. Typically, and before the Law of 1995 was approved the water systems were heavily supported and managed by government organizations. This gradually changed with the operationalization of the delegated management framework.

In 1998, the government created by decree the *Delegated Management Framework* (DMF) (Decree 72/98, of December 23, 1998) that would give a final impulse to their decentralization efforts already initiated by allowing the possibility to grant management, lease or concession contracts to private companies. Under the DMF the government designed two new organizations. In 1998 the government created the Water Supply Investment and Asset Fund (FIPAG) under Decree 73/98, of December 23, 1998. The fund would be responsible for the execution of new water infrastructure works, finance new investments and award and supervise the contracts of water supply with private operators. Under the DMF under Decree 74/98, of December 23, 1998, the Water Supply Regulatory Council (CRA) started its activities. CRA holds responsibility for regulation of water service and tariffs (of formal water provision) as well as to ensure the well-being of the consumers.

Small water systems were in the past controlled and supported by DNA (or other ministerial provincial or district organizations) until the creation of AIAS. Under the newly revised Water Law of 2007 the Government of Mozambique decided to extend the DMF by creating a new organization (AIAS) that would be responsible for the management of assets in the, so called, secondary towns (130), as well as wastewater infrastructure in the country (157). Their mandate is to promote the autonomous, efficient and financially viable management of the public (water) infrastructural systems through the delegation of operations to the private sector, or other entities (Decree n. 19/2009 13 May 2009). AIAS manages the investment plans for the rehabilitation and construction of existing and new water systems, launches public tenders to encourage local private sector to participate in the operations of these systems and supervises the implementation of contract.

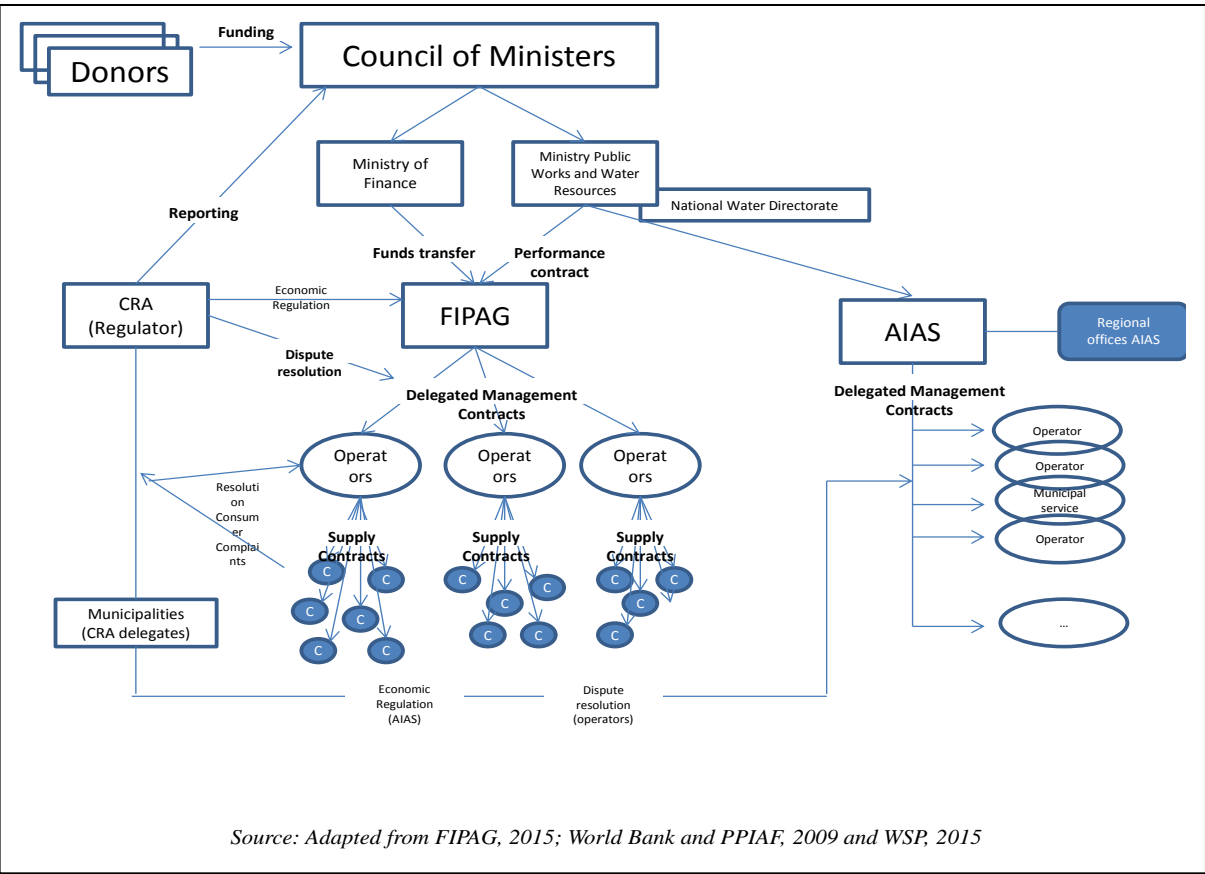
Institutional Framework

AIAS falls under the greater picture of the Delegated Management Framework (DMF) that is promoted from the Ministry of Public Works and Water Resources (MOPHRH in Portuguese). Strictly speaking, the organizations created under the DMF are the two asset holders, FIPAG for main urban towns, and AIAS for small towns, and the independent regulator. AIAS and FIPAG share no mandate, nor any operations. CRA is responsible for the economic regulation of both asset holders and in this way ultimately responsible for tariff approval, and the guardian that these two organizations optimize their resources to expand services to all in Mozambique. Apart from that CRA directly controls the operations of subcontracted parties such

as operators (and in very few instances municipal water companies) who are subject to compliance with specific performance indicators such as coverage (expansion) and operational items such as billing and collection efficiencies and non-revenue water.

DNA is officially the policy advisory organization of the Ministry in charge of developing policy and overseeing the developments in the water (and sanitation) sector at large. In practice, they have increasingly developed a very strong executive role in the development of rural services through their both centralized offices in Maputo and their decentralized operations at regional and local ministerial representative offices. DNA is in fact of little influence in the developments of urban water services.

Donors are sketched in below diagram as direct support to the Ministry, centralizing all donor efforts in a one-basket initiative. For rural developments donors efforts are mainly concentrated in the PRONASAR project that is officially managed and controlled by DNA. In fact, the donor support received by FIPAG and AIAS is received directly by these organizations.



Definition of small towns in Mozambique

There is no official working definition of small towns in Mozambique. The one instance that towns received the label of ‘small’ was upon the extension of the DMF and the creation of AIAS in 2009. At that point 130 towns were named ‘small’ (or secondary) based on the state at that time (December 2009) in the national administrative hierarchy. Following this logic, the 130+ towns that were enlisted as small towns at that point and transferred to AIAS were the so called ‘capital of district’ and other settlements classified as ‘vilas’ (villages). If outside of the capital district settlements were qualified as municipalities (hierarchically higher than village) were not transferred to AIAS. However, there are a few exceptions to this logic, as some ‘vilas’

were officially transferred to AIAS but have never been managed or in the radar of this organization. The reason for this is that these towns had already received investments from the Government of Mozambique and at the moment of transfer were involved in several improvement processes for which it was deemed better to remain under the existing structures (DNASS).

The hierarchical structures of settlements in Mozambique is very dynamic and settlements can upgrade provided an increase in population or because of the installation of specific public service amenities such as a secondary school or rural medical center. Due to this upgrade these towns could arguably be added to the list of AIAS. Despite this, the list of AIAS has not been updated since the moment it was first drafted in 2009. These towns that could become AIAS towns remain then under the auspices of the previous governmental structures. This remains like this as AIAS has not been able to fulfil its requirements and mandate with the initial towns that were transferred. In order not to over burn the organization, the sector as a whole has decided to not update the list for the time being.

Models for water provision in small towns in Mozambique

This document makes specific emphasis on the arrangements currently in place to provide water services in the small towns that fall under the mandate of AIAS. However, provided that there are towns or municipalities in Mozambique that could be assimilated with a town under AIAS but that for other reasons (explored elsewhere in this project) have fallen under the mandate of another organization their approaches have also been documented here. This documentation is useful in leading to learning opportunities that can be incorporated in WP4 (fit-for-use models).

The information collected in this section is reported following the analytical framework that the project SMALL proposes for the analysis of service models in WP1. The models are reported on infrastructural choices, operations and management arrangements and financial mechanisms to sustain services. Under infrastructure we document the type of infrastructural choice, the population that is projected to serve. Under management we include a documentation of how and where responsibilities are allocated, from operations to ownership, including oversight. With the documentation of finance we link the infrastructural choices and see where funds are originated from and where (and for what purpose) they are located.

AIAS

AIAS is responsible for the development of infrastructure and remains owner of any infrastructure laid down for the provision of services. This infrastructure is leased to an operator (municipal organization or private) that is to maintain and operate it.

	Infrastructure	Management	Finance
Infrastructure	Typically centralized systems mimicking urban designs. Designed to serve the most densely populated areas within small town boundaries. Point sources are also implemented but delegated or fall in decay	Major developments and repairs responsibility of AIAS System reticulation is responsibility of operator	The capital costs (eventually) incurred for the development of infrastructure are to be factored in by AIAS (eventual debt on their name)
Management	AIAS remains owner of all water infrastructure within the limits of small towns.	The operations are delegated to a third party who is responsible for the expansion of the service coverage (and other KPIs)	The water tariffs should cover operations and a concession fee (8% and 2%) to AIAS/CRA) AIAS acts as fund broker for the rehabilitation

		The regulator oversees the implementation of the contract	
Finance	AIAS funds the rehabilitation of infrastructure (seldom with own funds from national budget lines, often with project funded lines)	Operations are to be fully funded by the water tariffs raised by operators. AIAS supports often (with project funded lines) the purchase of meters, or other material for extension	Regulator believes that water tariffs should be capped in order to protect (poor)households. Each system currently should be able to operate financially independently

DNA

DNA remains supporting small towns historically as it has supported the development of water services in rural areas. Some of these rural have grown such in the last years that rehabilitation works no longer take the form of source point/handpumps, rather small systems

	Infrastructure	Management	Finance
Infrastructure	Small conventional system mimicking those in urban areas (centralized)		Capital costs not repaid (usually grants)
Management	Infrastructure is fully owned by the local authorities	These systems fall outside of the DMF and therefore are no officially controlled by the independent regulator. The systems are given to municipal/town authorities upon rehabilitation	
Finance	DNA raises funds for the rehabilitation/construction of systems	Local authorities are fully responsible for the definition of their service level and their responsibilities, including the definition of a tariff	These systems are deemed by DNA as no viable and that will always require external support

FIPAG

FIPAG is officially only responsible for the expansion of services in the main urban centres. However, due to historical and political reasons FIPAG has increasingly taken responsibility over water systems in other urban centres that could currently be seen as small towns. FIPAG is supposed to act exclusively as an asset holder but they have become an organization able to function as an operator eliminating the distinction between operator and asset holder.

	Infrastructure	Management	Finance
Infrastructure	Conventional centralized systems	Infrastructure development (main and reticulation) falls under one organization at	The capital costs (eventually) incurred for the development of infrastructure are to be

		different levels (major works designed at HQ, and operational level at regional office)	factored in by FIPAG as it is this organization that holds the title to the debt (currently servicing debt)
Management	FIPAG owner of all infrastructure. No possible confusion of ownership as fused in one organization	The operations are organized under regions. All regions are monitored by independent regulator	The water tariffs should allow for full cost recovery. But since all systems are seen under one umbrella cross-subsidy is possible between systems
Finance	FIPAG funds the rehabilitation of infrastructure (often with own concessional loan, sometimes with project funded grants)	Operations are to be fully funded by the water tariffs raised by operators. AIAS supports often (with project funded lines) the purchase of meters, or other material for extension	Regulator believes that water tariffs should be capped in order to protect (poor)households.

Identified challenges of servicing small towns in Mozambique

Since the focus of the research is of support to the work done by AIAS in this section we only highlight the current challenges to sustainable implementation of water services in small towns in Mozambique as done by AIAS:

- Difficulty to identify potential local private operator:
AIAS had difficulty in finding initially private operators that were capable of complying with the requirements presented in the tender documentation (financial and technical capacity). Adjustments have been made to the process but the pool of private operators remains low and in fact a few operators hoard a majority of contracts. This has in turn proven to be an efficient and effective way of developing services as it naturally creates efficiencies by bringing together support operations, but it questions the capacity to expand to 130 with this model provided the fact that these operators also have a limited capacity to grow.
- Incentives in contract:
The opportunity of developing viable businesses for private operators lays in the development of more infrastructure and the expansion of the business through the instalment of household connections. The initial potential of household connections exists with the design of the systems at transfer. However, some interesting areas to the operators lay further away than the prescribed 500m of primary network extension in the contract. This limits the capacity of operators to maximize revenues/profits.
- Capacity and demands from operators:
The mentality of operators (not all) with contracts with AIAS is reliant on the support systems of AIAS, be it in capacity training or in the provision of materials. This is partially due to the lack of experience these private operators have in the managing and operations of water systems. Previous management of AIAS saw this project as a capacity development project to boost the national private sector. Current management questions to the need for so much support, and how it contradicts the essence of delegating the management of services to a third party if the fund is to keep investing in this type of support.
- Difficulties to tariff increase:

The systems are all tendered with an initial common tariff for the entire country. Based on operational data produced during the first year of the contract the operators are entitled to request a revision. In 2018 the first contract will come to an end and the tariff negotiation has been approved in Q4 2017 but has not yet been implementing. This proves the challenges to build a business case based solely on the increase of tariffs.

- Financial autonomy:

AIAS was created as a not financially autonomous organization. This was done like this as the towns in which AIAS operates were deemed to be not readily profitable. While this is still the case, the current status of the organization is limiting itself from the reception of the fees from the operators directly and making difficult the re-investment of these fees in future system rehabilitation or in improving the institutional capacity of the organization.

Input for subsequent work of SMALL

Based on the reflections above the project has decided to focus its efforts in the coming years to:

- Provide feedback to the contract review: this process has been delayed until 2018 but it will be picked up again with the hiring of a legal advisor in AIAS and also with the support of other supporting agencies such as UNICEF who is posing similar questions
- Elaborate a study for the feasibility of clustering services and/or systems: in view of the limitations of revenue increase, AIAS and IHE will develop a preliminary study of the possibilities for clustering and whether gains can be materialized.