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CONFORMED COPY

ACGF GRANT NUMBER TF091521

Africa Catalytic Growth Fund Grant Agreement

(Second National Water Development Project)

between

REPUBLIC OF MALAWI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION
acting as administrator of the Africa Catalytic Growth Fund

Dated March 27, 2008

ACGF GRANT NUMBER TF091521

**AFRICA CATALYTIC GROWTH FUND
GRANT AGREEMENT**

AGREEMENT dated March 27, 2008, entered into between REPUBLIC OF MALAWI (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (variously referred to as “World Bank” and “Association”), acting as administrator of the Africa Catalytic Growth Fund.

WHEREAS (A) the Recipient requested the Association, and the Association agreed to finance the project (“Association-financed Second National Water Development Project”) described in Schedule 1 to the agreement entered into between the Recipient and the Association, dated July 17, 2007 (“Financing Agreement”);

(B) the Recipient has requested the Association to provide further assistance to finance additional complementary activities to those set out in Schedule 1 of the Financing Agreement for the Association-financed Second National Water Development Project, aimed at: (i) scaling up Part B of the Association-financed Second National Water Development Project (Town, Market Center, and Rural Piped Water Supply and Sanitation component) to cover additional geographic areas further described in this Agreement and to expand its scope to include water supply connections and service reservoirs in low income areas; and (ii) introducing a rural water supply and sanitation component, as described in Part A of Schedule 1 to this Agreement;

(C) the Association has agreed to the Recipient’s request and is providing the Grant to finance the additional complementary activities referred to in paragraph (B) of this Preamble;

(D) Part B of the Project will be carried out by the Regional Water Boards in their respective designated water areas with the Recipient’s assistance, and as part of such assistance, the Recipient will make part of the proceeds of the Grant provided for in Article III of this Agreement available to each respective Board, as provided for in this Agreement;

WHEREAS the World Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the Grant to the Recipient upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Association and each Project Implementing Entity;

The Recipient and the World Bank hereby agree as follows:

Article I
Standard Conditions; Definitions

- 1.01. The Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 20, 2006 (“Standard Conditions”), constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in the Preamble or Appendix to this Agreement.

Article II
The Project

- 2.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall: (a) carry out Part A of the Project through the Ministry of Irrigation and Water Development, and cause the Project Focus Districts to carry out jointly with MIWD Parts A.1 (a) (i), (c) and (d), A.2, A.3 and A.4 of the Project in accordance with the provisions of this Agreement, Article II of the Standard Conditions and the Memorandum of Understanding (if entered into pursuant to the provisions of paragraph E.2 of Section II of Schedule 2 to this Agreement); and (b) cause Part B of the Project to be carried out by the Regional Water Boards in accordance with the provisions of Article II of the Standard Conditions and the Project Agreements.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Recipient and the World Bank shall otherwise agree, the Recipient shall carry out or cause the Project to be carried out in accordance with the provisions of Schedule 2 to this Agreement.

Article III
The Grant

- 3.01. The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to twenty-five million Dollars (\$25,000,000) (“Grant”) to assist in financing the Project as follows:

- (a) an initial contribution in an amount equal to ten million Dollars (\$10,000,000) (“Initial Contribution”); and
 - (b) subject to Section 3.03 of this Agreement, an additional contribution in an amount equal to fifteen million Dollars (\$15,000,000) (“Additional Contribution”).
- 3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section V of Schedule 2 to this Agreement.
- 3.03. With reference to Section 3.02 of the Standard Conditions, the Initial Contribution has been made available to the Africa Catalytic Growth Fund. The Additional Contribution is not yet available, and is only expected to be made available to the Recipient subject to the following conditions:
- (a) the Recipient’s utilization of at least four million Dollars (\$4,000,000) of the Initial Contribution by June 30, 2008, and thereafter its provision of satisfactory supporting documentation evidencing such utilization to the Association as soon as practicable thereafter, but in any event no later than September 30, 2008;
 - (b) the replenishment of the Africa Catalytic Growth Fund by contributing donors and the subsequent specific allocation by the World Bank of the Additional Contribution to the Project based on the existing Africa Catalytic Growth Fund project pipeline; and
 - (c) the satisfactory performance of the Africa Catalytic Growth Fund program as a whole.

Article IV
Additional Remedies

- 4.01. The Additional Events of Suspension referred to in Section 4.02 (i) of the Standard Conditions consist of the following:
- (a) any Project Implementing Entity’s Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of such Project Implementing Entity to perform any of its obligations under the relevant Project Agreement.
 - (b) a situation has arisen which shall make it improbable that the Program or a significant part thereof will be carried out.

- (c) the Recipient has taken or permitted to be taken any action which would prevent or interfere with the performance by any Project Implementing Entity of any of its obligations under the relevant Project Agreement.
- (d) any Project Implementing Entity has failed to perform any obligation under the relevant Project Agreement.
- (e) as a result of events which have occurred after the date of this Agreement, an extraordinary situation has arisen which makes it improbable that any Project Implementing Entity will be able to perform its obligations under the relevant Project Agreement.
- (f) the World Bank has determined after the Effective Date that prior to such date but after the date of this Agreement, an event has occurred which would have entitled the World Bank to suspend the Recipient's right to make withdrawals from the Grant Account if this Agreement had been effective on the date such event occurred.

Article V
Effectiveness; Termination

- 5.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the condition specified has been satisfied, namely, that the Subsidiary Agreements have been executed and delivered and all conditions precedent to their effectiveness (other than the effectiveness of this Agreement) have been fulfilled.
- 5.02. Except as the Recipient and the World Bank shall otherwise agree, the Effective Date on which this Agreement shall enter into effect shall be the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 5.01. If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.
- 5.03. This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date ninety (90) days after the date of this Agreement, unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.

Article VI
Recipient's Representative; Addresses

6.01. The Recipient's Representative referred to in Section 7.02 of the Standard Conditions is the Minister of Finance.

6.02. The Recipient's Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of Finance
P. O. Box 30049
Capital City
Lilongwe 3
Malawi

Cable:	Telex:	Facsimile:
FINANCE Lilongwe	44407 MI	265-1-789173

6.03. The World Bank's Address referred to in Section 7.01 of the Standard Conditions is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	1-202-477-6391

AGREED at Lilongwe, Malawi, as of the day and year first above written.

REPUBLIC OF MALAWI

By /s/ Goodall E. Gondwe

Authorized Representative

**INTERNATIONAL DEVELOPMENT ASSOCIATION
acting as an administrator of the Africa Catalytic Growth Fund**

By /s/ Timothy R. Gilbo

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to increase access to sustainable water supply and sanitation services for persons living in towns, villages and Market Centers within the Recipient's territory.

The Project consists of the following parts:

Part A: Rural Water Supply and Sanitation

1. *Capacity Building*

Strengthening the Recipient's capacity to plan, design and develop water supply and sanitation services at the District-level, through:

(a) provision of technical advisory services by a National Training Team to: (i) assist Project Focus Districts in the preparation and implementation of District Water and Sanitation Plans; and (ii) build the capacity of other Districts to prepare District Water and Sanitation Plans through the preparation of training materials, carrying out of training workshops and training of community facilitators;

(b) provision of technical advisory services to assist local communities in the establishment of Community Water and Sanitation Management Committees and in the preparation of Community Facility and Management Plans;

(c) improving the operational efficiency of District water offices (including the Project Focus Districts), by providing: (i) basic equipment and tools, including, computers, motor vehicles, motorcycles and water quality monitoring kits; and (ii) training in areas including planning and management, procurement, financial management, environmental management, community mobilization and participatory approaches; and

(d) carrying out of annual technical, procurement and financial management audits of the Project Focus Districts.

2. *Rural (Village) Water Supply Investments*

Supporting the Recipient in designing, rehabilitating or constructing village water supply facilities in the Project Focus Districts, including boreholes and small piped systems.

3. *Rural Sanitation*

Supporting the Recipient in improving its rural sanitation and hygiene programs in the Project Focus Districts, through:

(a) development and implementation of strategic District sanitation and hygiene promotion plans;

(b) implementation of school sanitation and hygiene programs aimed at promoting the safe use of water, gender sensitive sanitation and hygiene promotion including: (i) the construction of latrines, urinals and hand washing facilities; (ii) provision of training to children on safe hygienic behaviors; and (iii) provision of training to parents, teachers and school sanitation club members on relevant information, education and communication materials to be used in training children; and

(c) improving the delivery of health surveillance services by: (i) providing training to health surveillance assistants; (ii) developing and providing hygiene promotion materials; and (iii) providing equipment.

4. *Operational Support*

Provision of operational support to MIWD and the Project Focus Districts.

Part B: Town, Market Center and Rural Piped Water Supply and Sanitation

1. *Town Water Supply and Sanitation*

Expansion of town water supply and sanitation facilities, through:

(a) provision of water supply connections and service reservoirs in the low income areas of the Participating Towns; and

(b) rehabilitation and extension of water production and treatment works, and pipelines in the Participating Towns.

2. *Market Center and Rural Piped Water Supply and Sanitation*

(a) Development of community-managed Market Center and rural piped water supply and sanitation services, through the implementation of Subprojects, in geographic areas other than those covered under the Association-financed Second National Water Development Project.

(b) Strengthening the capacity of the following groups operating in the geographic areas referred to in sub-paragraph (a): (i) District Assemblies to plan and oversee the management of Market Center and rural piped water supply and sanitation programs; (ii) Water User Associations to plan and manage their water and sanitation facilities; and (iii) local utility operators to operate and maintain water and sanitation facilities.

3. *Operational Support*

Provision of operational support to the Regional Water Boards and Water User Associations.

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Program Steering Board

(1) Composition. The Recipient shall maintain at all times during Project implementation a Program Steering Board. Without limitation to the foregoing, the Program Steering Board shall be chaired by the Chief Secretary, Office of the President and Cabinet, and have membership that includes representatives from the Ministry of Finance; the Ministry of Economic Planning and Development; the Ministry of Justice; the Ministry of Mines, Natural Resources and Environment; the Ministry of Local Government and Rural Development; the Ministry of Lands, Housing and Surveys; MIWD; Council for Non-Governmental Organizations of Malawi; Malawi Confederation of Chambers of Commerce and Industry; University of Malawi; and Mzuzu University.

(2) Role. The Program Steering Board shall be responsible for providing overall oversight and policy guidance under terms of reference that are acceptable to the Association.

B. Program Task Force

(1) Composition. The Recipient shall maintain at all times during Project implementation a Program Task Force with a composition that is satisfactory to the Association. Without limitation to the foregoing, the Program Task Force shall comprise mainly representatives of the Key Implementing Entities.

(2) Role. The Program Task Force shall be responsible for activities that include the following: (a) the preparation of annual work plans and budgets; (b) monitoring the implementation of annual work plans and utilization of budgets, and making and communicating decisions made on any necessary adjustments required to improve implementation; (c) reviewing terms of reference and work products delivered from consultancies undertaken under the Project; and (d) coordinating the implementation of the Project by the Key Implementing Entities and the Participating Agencies.

C. **Project Staffing**

(1) Program Management Unit

(a) Staffing. The Recipient shall recruit, as part of the PMU: (i) a water resources management specialist, community participation specialist, and a water reforms specialist within six months of the effective date of the Association-financed Second National Water Development Project; and (ii) an additional procurement specialist and accountant to support implementation of Parts A.1 (a) (i), (c) and (d), A.2, A.3 and A.4 of the Project in the Project Focus Districts within six months of the Effective Date, all under terms of reference and with qualifications and experience, that are satisfactory to the Association, in accordance with the procurement procedures set forth in Section IV of Schedule 2 to this Agreement.

(b) Composition. Except as otherwise provided in this Agreement, the Recipient shall maintain at all times during Project implementation the PMU adequately staffed with persons with qualifications, experience and terms of reference that are satisfactory to the Association, including a Program manager, water supply and sanitation engineer, water resources management specialist, community participation specialist, water reforms specialist, two procurement officers and two accountants.

(c) Role. The PMU shall be responsible for overseeing and coordinating day-to-day implementation of the Project. Without limitation to the foregoing, the PMU shall carry out tasks that shall include: (i) overall financial management for the Project, including preparation of Interim Unaudited Financial Reports; (ii) coordinating and accounting for the use of Project funds; (iii) carrying out the accounting and financial management responsibilities for Part A of the Project unless otherwise agreed with the Association with respect to Parts A.1 (a) (i), (c) and (d), A.2, A.3 and A.4 of the Project after carrying out of a financial management capacity assessment of the Project Focus Districts and fulfillment of the other conditions set forth in Part E.2 of Section II of Schedule 2 to this Agreement; (iv) carrying out procurement for Part A of the Project unless otherwise agreed with the Association with respect to Parts A.1 (a) (i), (c) and (d), A.2, A.3 and A.4 of the Project after carrying out of a procurement capacity assessment of the Project Focus Districts and fulfillment of the other conditions set forth in Part E.2 of Section II of Schedule 2 to this Agreement, Project procurement planning, quality assurance on the procurement systems of RWBs and Project Focus Districts (upon satisfactory procurement assessment and fulfillment of the other conditions set forth in Part E.2 of Section II of Schedule 2 to this Agreement), and monitoring and reporting on Project procurement progress; (v) establishing a monitoring and evaluation system; (vi) coordinating

Project implementation review meetings; (vii) preparation of Project Reports; (viii) provision of secretariat services to the Program Steering Board and Task Force; and (ix) providing support to the Project Focus Districts.

(2) Program Implementation Units

(a) Composition. The Recipient shall maintain or cause to be maintained at all times during Project implementation the PIUs adequately staffed with persons with qualifications, experience and terms of reference, that are satisfactory to the Association, including a procurement officer, accountant and water supply and sanitation engineer.

(b) Role. The PIUs shall be responsible for overseeing and coordinating day-to-day implementation of their Respective Parts of the Project. Without limitation to the foregoing, the PIUs shall carry out tasks that shall include the following for their Respective Parts of the Project: (i) financial management, including provision to the PMU of all such information as it shall require for the preparation of Interim Unaudited Financial Reports for the Project; (ii) provision of all such information as the PMU shall require for the preparation of Project Reports; (iii) carrying out of procurement; and (iv) supervision of consultants and construction activities.

(3) Participating Agencies

The Recipient shall ensure that competent staff are designated to work on the Project in all the Participating Agencies, and shall cause the said Agencies to liaise, as necessary, with the Key Implementing Entities and the Program Task Force.

(4) Project Focus Districts

The Recipient shall ensure that competent staff are designated to work on Parts A.1 (a) (i), (c) and (d), A.2, A.3 and A.4 of the Project in the Project Focus Districts, and shall cause the said Districts to liaise as necessary with MIWD and the Program Task Force.

Section II. Implementation Arrangements

A. Subsidiary Agreement

1. To facilitate the carrying out of a Project Implementing Entity's Respective Part of the Project, the Recipient shall make part of the proceeds of the Grant available to the Project Implementing Entity under a Subsidiary Agreement between the Recipient and the Project Implementing Entity, under terms and conditions approved by the Association, which shall include the following:
 - (a) implementation by the Project Implementing Entity of its Respective Part of the Project in accordance with the terms of this Agreement;
 - (b) the requirement that the Project Implementing Entity maintain the PIU at all times during Project implementation with competent staff to undertake all Project related activities, including, without limitation, a procurement officer, accountant and water supply and sanitation engineer;
 - (c) the requirement that the Project Implementing Entity is represented on the Program Task Force throughout Project implementation;
 - (d) the requirement that the Project Implementing Entity liaise, as necessary, during Project implementation with the other Key Implementing Entities and Participating Agencies;
 - (e) the requirement that the Project Implementing Entity comply with all environmental and social safeguards as provided in the Environmental and Social Management Framework and the Resettlement Policy Framework, including without limitation, the preparation of ESMPs and RAPs, as necessary;
 - (f) the requirement that the Project Implementing Entity implements its Respective Part of the Project in accordance with the PIM;
 - (g) an undertaking by the Recipient to pay or cause to be paid to the Project Implementing Entity any outstanding water bills owed by a public institution by December 31, 2008, and thereafter to ensure the timely payment of dues;

- (h) an undertaking by the Recipient to provide the funds to the Project Implementing Entity on a grant basis; and
 - (i) an undertaking by the Project Implementing Entity to meet its operations and maintenance costs fully by its 2008/9 fiscal year from revenues collected, and in addition, its depreciation and debt service obligations, by its 2011/12 fiscal year.
2. The Recipient shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Grant. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

B. Program Implementation Manual

The Recipient shall carry out or cause the Project to be carried out in accordance with the PIM, and except as the Association shall otherwise agree, shall not amend, abrogate or waive any provision of the PIM.

C. Annual Work Plans and Budgets

The Recipient shall submit or cause to be submitted to the Association for its review and approval an annual work plan and budget on or about September 30 of each year of Project implementation. The Recipient shall implement or cause to be implemented, the activities reflected in such annual work plans in a manner that is satisfactory to the Association.

D. Environmental and Social Safeguards

- 1. The Recipient shall at all times carry out or cause the Project to be carried out in accordance with the ESMF and the RPF, and wherever applicable, prepare and implement or cause to be prepared and implemented ESMP(s) and RAP(s).
- 2. The Recipient shall not amend or waive, or permit to be amended or waived, the ESMF, RPF, ESMP(s) and RAP(s), or any provision thereof.
- 3. The Recipient shall ensure that the Ministry of Mines, Natural Resources and Environment and the Ministry of Lands, Housing and Surveys provide all such services as shall be required to ensure that the Project is implemented in accordance with the provisions of the ESMF and the RPF, respectively.

E. Rural Water Supply and Sanitation under Part A of the Project

1. Selection of Project Focus Districts

MIWD shall select Project Focus Districts that are satisfactory to the Association taking into account eligibility criteria set out in the PIM including water supply coverage, geographical balance, suitability as training centers for personnel from other Districts and financial management/procurement/project management capacity.

2. Procurement and Financial Management

MIWD shall be responsible for undertaking all the procurement and financial management responsibilities under Part A of the Project, provided, however that each Project Focus District may take on these responsibilities with respect to Parts A.1 (a) (i), (c) and (d), A.2, A.3 and A.4 of the Project, once the following has been undertaken:

(a) the Project Focus District has prepared a District Water and Sanitation Plan that is satisfactory to the Association;

(b) the Association has undertaken a procurement and financial management capacity assessment of the Project Focus District and found this to be satisfactory;

(c) MIWD has entered into a Memorandum of Understanding with the Project Focus District, that is satisfactory to the Association, setting out implementation arrangements for Parts A.1 (a) (i), (c) and (d), A.2, A.3 and A.4 of the Project, including without limitation, procurement, financial, environmental and social management arrangements, and reporting obligations; and

(d) the Recipient has recruited an additional accountant and procurement specialist to the PMU and a National Training Team to support each Project Focus District in implementing Parts A.1 (a) (i), (c) and (d), A.2, A.3 and A.4 of the Project, under terms of reference and with qualifications that are satisfactory to the Association.

3. Investments Under Parts A.2 and A.3 of the Project

(a) The Project Focus Districts shall receive technical advisory services, as needed, throughout Project implementation to assist them in the development and implementation of their respective District Water and Sanitation Plans from the National Training Team contracted by MIWD for this purpose. The District Coordination Teams shall be responsible for the preparation of the District Water and Sanitation Plans and their annual updates. The activities set out in the District Water and Sanitation Plans for each year of Project implementation shall constitute part of the Project's annual work plan and budget for purposes of Parts A.2 and A.3 of the Project.

(b) Without limitation to the foregoing, the District Coordination Teams, shall on an annual basis, recommend to the District Assembly the local communities that would participate in the rural water and sanitation supply program for the year in question based on eligibility criteria set out in the PIM, including the establishment of a Community Water and Sanitation Committee with at least half the membership comprising women, and preparation of a Community Water and Sanitation Plan and budget. The Districts shall contract community facilitators to help the said communities in preparing and implementing their Community Water and Sanitation Plans, in a manner that is consistent with the District Water and Sanitation Plans.

4. Technical, Financial and Procurement Audits

The Recipient shall undertake or cause to be undertaken annual technical, procurement and financial management audits of the Project Focus Districts with respect to Parts A.1 (a) (i), (c) and (d), A.2, A.3 and A.4 of the Project on or about December 31 of each year of Project implementation, and submit copies of the audit reports to the Association on or about March 31 of the following year of Project implementation.

F. Town Investments under Part B.1 of the Project

1. Each Regional Water Board shall develop proposed business plans and investment proposals for individual towns in a consultative manner, and meet the requisite economic, technical, financial, environmental and social standards set forth in the PIM. Without limitation on the foregoing, the Regional Water Board shall ensure that the town business plans are comprehensive setting out *inter alia*: a proposed tariff structure towards full cost recovery; sound systems for financial and operations management; adequate implementation capacity; an analysis showing that the proposed investment(s) are cost effective

and financially viable; and details of any proposed usage of the output-based approach.

2. The Regional Water Board shall submit the town business plans and investment proposals to MIWD for its appraisal and endorsement, taking into account eligibility criteria set forth in the PIM including, without limitation, a business plan with projected cash flow meeting recurrent costs including operations and maintenance, renewal and replacement of short life assets, and a proportion of expansion costs; effective accounting, financial management, billing/collection and monitoring and evaluation systems; decentralized day to day management; procurement readiness; and confirmation that the environmental and social impacts of the proposed town investments have been addressed in accordance with the ESMF and RPF, and the applicable laws of the Recipient relating to health, safety and environmental protection.
3. Town investments shall be financed on a grant basis under terms and conditions agreed with the Association and set forth in the PIM. Without limitation on the foregoing, a positive list of items eligible for financing shall be provided in the PIM, including investments, such as yard taps and public standpipes financed using the output-based approach, and sanitation activities. The MIWD and the Regional Water Board shall enter into a written agreement(s) that is satisfactory to the Association with respect to the proposed investments.
4. In cases where the output-based approach is utilized:
 - (a) the investment costs shall be pre-financed by the Regional Water Boards or by the water services operators, in cases where the said Regional Water Boards deem fit to use the services of the said operators who must have been competitively selected in accordance with the Association's procurement procedures, as set forth in Section IV of Schedule 2 to this Agreement;
 - (b) the investment costs to the Regional Water Boards or water services operators, as the case may be, shall be reimbursed, on a periodic basis, at a pre-determined cost per connection that has been found by the Association to meet a reasonable standard of economy and efficiency;
 - (c) the Regional Water Boards shall keep or cause to be kept all documentation on the expenditures underlying the outputs to enable the amounts disbursed to be compared with actual expenditures;

(d) the Regional Water Boards shall carry out or cause to be carried out the activities in accordance with the Association's procurement procedures, as set forth in Section IV of Schedule 2 to this Agreement; and

(e) an independent verification shall be taken by an independent expert that is satisfactory to the Association, to establish, without limitation: (i) that the proposed works have been completed in accordance with agreed connection specifications and that service delivery has been satisfactory to the connected households; (ii) the actual costs incurred for the underlying outputs; (iii) that the Association's procurement procedures were used as set forth in Section IV of Schedule 2 to this Agreement; and (iv) that implementation was undertaken in accordance with the ESMF and RPF.

G. Subprojects under Part B.2 of the Project

1. The MIWD shall, in consultation with the Regional Water Boards, District Assemblies, and local communities, select participating Market Centers taking into account factors set out in greater detail in the PIM, including, without limitation, socio-economic potential, the District infrastructure plan's priorities, population levels, existing water and sanitary service levels and existing electricity supply.
2. To be eligible for Subproject financing under the Project, the District Assembly shall submit an application to the RWB, on behalf of a proposed Subproject Beneficiary, and work closely with the RWB and the proposed Subproject Beneficiary, to meet the various eligibility criteria set out at each stage of the process as set out in the PIM, including, without limitation:
 - (a) establishing Water User Associations;
 - (b) hiring by the Water User Association of a local utility operator that has adequate financial management capacity and core operating staff, subject to operator performance agreements that set out *inter alia* performance standards and provisions similar to those set out in paragraph G.6 below with respect to eligible Operating Expenses and financial management requirements; and
 - (c) carrying out pre-feasibility studies, baseline surveys and assessments; and preparing preliminary designs, business plans, sanitation plans and water supply facilities design and tender documents.

3. An appraisal committee, with representatives from MIWD, RWB and the District Assembly, shall evaluate whether or not a proposed Subproject Beneficiary has met the requirements at each stage of the process.
4. The Regional Water Boards shall:
 - (a) procure goods, works and services on behalf of the Subproject Beneficiary in accordance with the provisions of Section IV of Schedule 2 to this Agreement;
 - (b) ensure that proper records are kept reflecting the operations, resources and expenditures relating to each Subproject in accordance with sound accounting practices that are acceptable to the Association;
 - (c) ensure that the Subprojects are implemented with due diligence and efficiency and in accordance with sound technical, financial, managerial, social and environmental standards and practices;
 - (d) address all the environmental and social impacts of the proposed Subprojects in accordance with the provisions of the ESMF and RPF;
 - (e) ensure that the proposed Subprojects are in compliance with the standards set forth in the applicable laws and regulations of the Recipient relating to health, safety and environmental protection; and
 - (f) ensure that the proposed Subprojects have an adequate management and sustainability plan.
5. Training shall be provided, as necessary, by the Regional Water Boards to build the capacity of the Water User Associations and local utility operators in areas including financial management, billing and collection, operating procedures and monitoring and evaluation.
6. The Regional Water Boards may finance the Operating Expenses of Water User Associations relating to the Subprojects, after carrying out an evaluation of the financial management capacity of the said Water User Association in accordance with eligibility criteria agreed with the Association as set out in the PIM, and finding this to be satisfactory. To this end, the Regional Water Board, MIWD, District Assembly and Water User Association shall enter into written agreements that are acceptable to the Association for each Subproject setting out, without limitation:

- (a) the respective roles of the parties with respect to the Subproject;
- (b) the nature of the Operating Expenses eligible for financing;
- (c) the requirement that the Water User Association shall maintain and cause the local utility operator to maintain its financial management capacity at the level agreed with the Regional Water Board during the evaluation process throughout Subproject implementation;
- (d) the requirement that the Water User Association shall maintain and cause the local utility operator to maintain proper records documenting the use of the funds provided for the Operating Expenses in accordance with sound accounting practices and make such records accessible for inspection by the Association and the Regional Water Boards; and
- (e) the right of the Regional Water Board to discontinue the financing of Operating Expenses if, without limitation, the Water User Association or the local utility operator do not have the requisite financial management capacity, as agreed during the evaluation process.

Section III. Project Monitoring, Reporting and Evaluation

A. Project Reports

- 1. (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators set forth below in sub-paragraph (b) of this paragraph. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.
- (b) The performance indicators referred to above in sub-paragraph (a) consist of the following:

<i>Performance Indicators</i>	Target Closing Date
Number of people with new or improved water supply	0.2 million new 0.3 million improved
Number of people with improved sanitation	0.25 million
Part A. Rural Water Supply and Sanitation	
Number of new/rehabilitated connections	3,700 new 4,040 rehabilitated
Number of new/rehabilitated community water points	1,700 new 2,700 rehabilitated
Access to and using adequate sanitation facilities	150,000 people 140 schools
Decentralized service delivery modeled in Districts	3 Districts
Additional funding leveraged from other donors	\$25 million
Part B. Town, Market Center, and Rural Piped Water Supply and Sanitation	
Number of new connections	2,500
Number of rehabilitated connections	5,000
Hours per day of supply based on weighted average connections	24
Ratio of operating revenues/expenses	1.0

- (c) Without limitation on the provisions of sub-paragraph (a) above, the Recipient shall carry out jointly with the Association a comprehensive review to assess the status of Project implementation, including without limitation, environmental and social management, on or about twelve months (12) months after the Effective Date. The Recipient shall not later than one month before such review prepare and furnish to the Association a report that is satisfactory to the Association in scope and detail for purposes of such review.

- (d) The Recipient shall prepare the Completion Reports referred to in Section 2.06 (b) (ii) of the Standard Conditions not later than six (6) months after the Closing Date.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 2.07 of the Standard Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the Project Report not later than forty-five (45) days after the end of each calendar quarter, an Interim Unaudited Financial Report for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section IV. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method
(a) Limited International Bidding
(b) National Competitive Bidding
(c) Shopping
(d) Direct Contracting
(e) Force Account

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Selection Based on Consultant Qualifications
(b) Least Cost Selection
(c) Fixed Budget Selection
(d) Quality Based Selection
(e) Individual Consultants
(f) Single Source Selection

D. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods estimated to cost the equivalent of \$250,000 or more; (b) each contract for works estimated to cost the equivalent of \$500,000 or more; (c) each contract for goods or works procured under Direct Contracting; (d) each contract for consultant services provided by a firm estimated to cost the equivalent of \$100,000 or more; (e) each contract for consultant services provided by an individual estimated to cost the equivalent of \$50,000 or more; and (f) each contract for consultant services provided by a firm or an individual procured under Single Source Selection. All other contracts shall be subject to Post Review by the Association.

Section V. Withdrawal of Grant Proceeds

A. General

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of (a) Article III of the Standard Conditions; (b) Section 3.01 of this Agreement; (c) this Section; and (d) such additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Grant Allocated (expressed in USD)	Percentage of Expenditures to be Financed inclusive of Taxes
(1) Works and Goods		100%
(a) Part A	6,390,000	
(b) Part B	4,160,000	
(2) Consultants’ Services for Part A	640,000	100%
(3) Training		100%
(a) Part A	2,040,000	
(b) Part B	300,000	
(4) Subprojects	9,430,000	100%
(5) Operating Costs		100%
(a) Part A	490,000	
(b) Part B	350,000	
(6) Operating Expenses	200,000	100%
(7) Unallocated	1,000,000	
TOTAL AMOUNT	<u>25,000,000</u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made:
 - (a) for payments made prior to the date of this Agreement except that withdrawals up to an aggregate amount not to exceed \$1,000,000 equivalent may be made for payments made prior to this date but on or after April 1, 2007, for Eligible Expenditures under Categories (1), (4) and (5) for Parts A and B of the Project; or
 - (b) that exceeds the total amount of the Initial Contribution of ten million Dollars (\$10,000,000) until the conditions set out in Section 3.03. (a), (b) and (c) have been met to the satisfaction of the Association.
2. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is June 30, 2011.

Section VI. Other Undertakings

1. Outstanding Water Bills

The Recipient undertakes to pay or cause to be paid to the respective Project Implementing Entity any outstanding water bills owed by a public institution by December 31, 2008, and thereafter to ensure the timely payment of any dues.

2. Cost Recovery

The Recipient shall cause the Project Implementing Entity to meet its operations and maintenance costs fully by its 2008/9 fiscal year from revenues collected, and, in addition, its depreciation and debt service obligations, by its 2011/12 fiscal year.

APPENDIX

Definitions

1. “Affected Persons” means persons who, on account of the execution of the Project had or would have their: (a) standard of living adversely affected; or (b) right, title, interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (c) access to productive assets adversely affected, temporarily or permanently; or (d) business, occupation, work or place of residence or habitat adversely affected.
2. “Category” means a category set forth in the table in Section V of Schedule 2 to this Agreement.
3. “Community Facility and Management Plan” means a plan prepared by a local community, and updated annually, outlining the water and sanitation program for such community, and Community Facility and Management Plans means such Plans, collectively.
4. “Community Water and Sanitation Management Committee” means a committee established by local community, to plan and manage water and sanitation facilities on its behalf, and Community Water and Sanitation Management Committees shall mean such Committees, collectively.
5. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
6. “Currency” means the currency of a country that is its legal tender for the payment of public and private debts in that country.
7. “District” means a local government area established pursuant to the Regional and District Boundaries and Place Names Act, Chapter 18:04 of the laws of the Recipient.
8. “District Assembly” means an assembly established pursuant to Section 5 of the Local Government Act, Chapter 22:01 of the laws of the Recipient.
9. “District Coordination Team” means a team constituted from various departments of the District Assembly to plan and manage the implementation of

its rural water and sanitation program, and District Coordination Teams shall mean such Teams, collectively.

10. “District Water and Sanitation Plan” means a District Water Supply and Sanitation Plan, that is satisfactory to the Association, prepared by a District and updated annually, outlining the water and sanitation program for such District, and District Water and Sanitation Plans shall mean such Plans, collectively.
11. “Effective Date” means the date upon which this Agreement shall become effective, as set forth in Section 5.02 of this Agreement.
12. “Environmental and Social Management Framework” or “ESMF” means the framework dated, March 2007, prepared by the Recipient and approved by the Association, setting forth an environmental and social screening process that will enable Project implementers to identify and assess potential adverse environmental and social impacts, and offset and reduce them to acceptable levels, or enhance positive impacts, and in accordance with which ESMPs will be prepared and submitted to the Association for its approval, as the same may be amended from time to time with the concurrence of the Association.
13. “Environmental and Social Management Plan” or “ESMP” means an environmental and social management plan, to be prepared by the Recipient in accordance with the provisions of the ESMF and approved by the Association, setting out measures to mitigate any adverse environmental and social impacts arising from activities to be implemented under the Project, and “Environmental and Social Management Plans” or “ESMPs” shall mean such Environmental and Social Management Plans, collectively.
14. “Interim Unaudited Financial Report” means a report describing progress in Project implementation which: (a) sets forth the sources and uses of funds for the Project, both cumulatively and for the period covered by the said report, and explains variances between the actual and planned uses of such funds; (b) describes physical progress in Project implementation, both cumulatively and for the period covered by the said report, and explains variances between the actual and planned Project implementation; and (c) sets forth the status of procurement under the Project, as at the end of the period covered by the said report.
15. “Key Implementing Entities” means MIWD, Northern Region Water Board, Southern Region Water Board, the Central Region Water Board, and the Project Focus Districts, and includes any successor to each individual Key Implementing Entity.

16. “Market Center” means a concentrated area of commercial activity, including surrounding local communities and public institutions.
17. “Memorandum of Understanding” means the memorandum of understanding to be entered into between MIWD and each Project Focus District pursuant to the provisions of paragraph E.2 of Section II of Schedule 2 to this Agreement, setting out implementation arrangements with respect to Parts A.1 (a) (i), (c) and (d), A.2, A.3, and A.4 of the Project, including without limitation, procurement, financial, environmental and social management arrangements, and reporting obligations.
18. “Ministry of Irrigation and Water Development” or “MIWD” means the Recipient’s Ministry with responsibility for irrigation and water development, and includes any successor thereto.
19. “National Training Team” means a team of national and/or international consultants selected in accordance with the procurement procedures set forth in Section IV of Schedule 2 to this Agreement, under terms of reference and with qualifications and experience that are satisfactory to the Association, to provide capacity building to Districts under Part A of the Project.
20. “Operating Costs” means the incremental operating costs arising under the Project on account of Project coordination, implementation and monitoring activities undertaken by the PMU, the Program Implementation Units and the Project Focus Districts, including salaries of contractual staff, office equipment, motor vehicle operations and maintenance and Program management workshops, but excluding salaries of the Recipient’s civil servants.
21. “Operating Expenses” means the cost of electricity, chemicals and staff salaries incurred by a Water User Association in connection with the implementation of a Subproject under Part B.2 of the Project.
22. “Participating Agencies” means the Ministry of Mines, Natural Resources and Environment; the Ministry of Lands, Housing and Surveys; the Ministry of Justice; the Ministry of Local Government and Rural Development; the Ministry of Economic Planning and Development; the National Council on the Environment; and the Privatization Commission, and includes any successor to each individual Participating Agency.
23. “Participating Towns” means the following towns:

(a) for Part B.1 (a) of the Project: Likuni, Mponela, Kasungu, Zomba, Mangochi, Mzuzu, Mzimba, Ekwendeni, Chitipa, Chilumba, Rumphu, Nkhata Bay and Chintheche; and

(b) for Part B.1 (b) of the Project: Likuni, Bunda, NRC, Chitedze, Dedza, Bembeke, Ntcheu, Salima, Nkhota Kota, Senga Bay, Chipoka, MAFCO, Ntchisi, Dowa, Madisi, Mchinji-Kochilira, Dwangwa, Mitundu, Linthipe, Liwonde, Balaka, Ngabu, Lirangwe, Songwe, Misewu Folo - Chikwawa, and Likoma and Chizumulu Islands.

24. "Procurement Guidelines" means the "Guidelines: Procurement under IBRD Loans and IDA Credits" published by the Bank in May 2004.
25. "Procurement Plan" means the Recipient's procurement plan for the Project, dated February 25, 2008, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
26. "Program" means the Recipient's National Water Development Program designed to provide water supply and sanitation services in villages, towns and cities, and to improve water resources management, as set forth or referred to in the letter dated March 23, 2007, from the Recipient to the Association.
27. "Program Implementation Manual" or "PIM" means the Manual specifying, *inter alia*, the procedures for procurement, disbursement, financial management, accounting, reporting, monitoring and evaluation, environmental and social management, and other implementation arrangements agreed upon by the Recipient and the Association for the Project, as the same may be amended from time to time with the approval of the Association, and such term includes any annexes to the said manual.
28. "Program Implementation Unit" or "PIU" means the Unit established in each of the Regional Water Boards with a composition and role described in paragraph C.2 of Section I of Schedule 2 to this Agreement and "Program Implementation Units" or "PIUs" shall mean such Units, collectively.
29. "Program Management Unit" or "PMU" means the Unit established within MIWD with a composition and role described in paragraph C.1 of Section I of Schedule 2 to this Agreement.
30. "Program Steering Board" means the Board with a composition and role described in paragraph A.1 and A.2 of Section I of Schedule 2 to this Agreement.

31. “Program Task Force” means the Task Force with a composition and role described in paragraph B.1 and B.2 of Section I of Schedule 2 to this Agreement.
32. “Project Agreement” means the Agreement between the Association and a Project Implementing Entity relating to the implementation of all or part of the Project, as such agreement may be amended from time to time. “Project Agreement” includes all appendices, schedules and agreements supplemental to the Project Agreement and Project Agreements shall mean such Project Agreements, collectively.
33. “Project Focus District” means, individually, one of the three focus Districts to be agreed between the Recipient and Association, and selected in accordance with eligibility criteria that include those set out in paragraph E.1 of Section II of Schedule 2 to this Agreement and in the PIM, and Project Focus Districts shall mean such Districts, collectively.
34. “Project Implementing Entity” means, individually, the Northern Region Water Board, the Southern Region Water Board, and the Central Region Water Board, as the case may be.
35. “Project Implementing Entity’s Address” means the Project Implementing Entity’s address specified in Section 3.03 of the Project Agreement.
36. “Project Implementing Entity’s Legislation” means the Waterworks Act of 1995, Chapter 72:01 of the laws of the Recipient.
37. “Project Implementing Entity’s Representative” means the Project Implementing Entity’s representative specified in Section 3.01 of the Project Agreement.
38. “Regional Water Board” or “RWB” means a Board established under the Waterworks Act, Chapter 72:01 of the laws of the Recipient, to provide water supply and water-borne sanitation services in its respective designated water areas in Malawi, and for purposes of this Agreement means, individually, the Northern Region Water Board, the Central Region Water Board and the Southern Region Water Board, as the case may be, and includes any successor thereto, and Regional Water Boards shall mean such Regional Water Boards, collectively.
39. “Resettlement Action Plan” or “RAP”, means a plan approved by the Association, to be prepared in accordance with the provisions of the RPF, setting forth principles and procedures governing land acquisition or other associated Project impacts, resettlement and compensation of Affected Persons, as well as reporting and monitoring arrangements to ensure compliance with the said plan,

as the same may be amended from time to time with the agreement of the Association, and “Resettlement Action Plans” or “RAPs” shall mean such Resettlement Action Plans, collectively.

40. “Resettlement Policy Framework” or “RPF” means the framework dated, March 2007, prepared by the Recipient and approved by the Association, for land acquisition or other associated Project impacts, resettlement and compensation under the Project, and in accordance with which Resettlement Action Plans shall be prepared and submitted to the Association for its approval, as the same may be amended from time to time with the concurrence of the Association.
41. “Respective Part of the Project” means, for the Recipient and for any Project Implementing Entity, the part of the Project specified in the Grant Agreement or the Project Agreement, to be carried out by it.
42. “Subproject” means a water and/or sanitation related activity proposed by local community(ies) in selected Market Centers and villages, for implementation by a RWB, financed or to be financed under Part B.2 of the Project, and Subprojects shall mean such Subprojects, collectively.
43. “Subproject Beneficiary” means a Market Center or village.
44. “Subsidiary Agreement” means the agreement referred to in paragraph A.1 and A.2 of Section II of Schedule 2 to this Agreement pursuant to which the Recipient shall make part of the proceeds of the Grant available to each Project Implementing Entity, and “Subsidiary Agreements” shall mean such Subsidiary Agreements, collectively.
45. “Water User Association” means a community-based group established by a District Assembly as a trust under the Trustee’s Incorporation Act, Chapter 5:03 of the laws of the Recipient, or as a cooperative under the Cooperative Societies Act, Chapter 47:02 of the laws of the Recipient, and to which the responsibility for managing a Market Center or rural piped water supply system is delegated.