

**CONFORMED COPY**

**CREDIT NUMBER 4307-MAI  
GRANT NUMBER H294-MAI**

# **Project Agreement**

**(Second National Water Development Project)**

**between**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**and**

**NORTHERN REGION WATER BOARD**

**Dated July 17, 2007**

**CREDIT NUMBER 4307-MAI  
GRANT NUMBER H294-MAI**

**PROJECT AGREEMENT**

Agreement dated July 17, 2007, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and NORTHERN REGION WATER BOARD (“Project Implementing Entity”) (“Project Agreement”) in connection with the Financing Agreement (“Financing Agreement”) of same date between the REPUBLIC OF MALAWI (“Recipient”) and the Association. The Association and the Project Implementing Entity hereby agree as follows:

**ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to the Financing Agreement) 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 Financing Agreement or the General Conditions.

**ARTICLE II — PROJECT**

- 2.01. The Project Implementing Entity declares its commitment to the objectives of the Project and the Program. To this end, the Project Implementing Entity shall carry out its respective part of Part B of the Project in accordance with the provisions of Article IV of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for its Respective Part of the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out its Respective Part of the Project in accordance with the provisions of the Schedule to this Agreement.

**ARTICLE III — REPRESENTATIVE; ADDRESSES**

3.01. The Project Implementing Entity's Representative is the General Manager.

3.02. The Association's Address is:

International Development Association  
1818 H Street, NW  
Washington, DC 20433  
United States of America

Cable:

Telex:

Facsimile:

INDEVAS

248423(MCI)

1-202-477-6391

Washington, D.C.

3.03. The Project Implementing Entity's Address is:

Northern Region Water Board  
Kawiluwilu House  
Private Bag 94  
Mzuzu  
Malawi

Facsimile:

(265) 133 2082

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

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**By /s/ Timothy Gilbo**

**Authorized Representative**

**NORTHERN REGION WATER BOARD**

**By /s/ Titus C. Mtegha**

**Authorized Representative**

## SCHEDULE

### Execution of the Project Implementing Entity's Respective Part of the Project

#### Section I. Institutional Arrangements

##### A. Program Implementation Unit

1. Composition. The Project Implementing Entity shall maintain throughout Project implementation the PIU 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.

2. Role. The PIU shall be responsible for overseeing and coordinating day-to-day implementation of the Project Implementing Entity's Respective Part of the Project. Without limitation on the foregoing, the PIU shall carry out tasks that shall include: (a) financial management, including provision to the PMU of all such information as it shall require for the preparation of Interim Un-audited Financial Reports for the Project; (b) provision of all such information as the PMU shall require for the preparation of Project Reports; (c) carrying out of procurement; and (d) supervision of consultants and construction activities.

##### B. General

1. The Project Implementing Entity shall liaise, as necessary, during Project implementation with the other Key Implementing Entities and the Participating Agencies. Without limitation on the foregoing, the Project Implementing Entity shall work closely with the PMU and provide all such information as the PMU shall require with respect to its Respective Part of the Project to enable the PMU to undertake its responsibilities under the Project as set forth in the Financing Agreement and the PIM, in a satisfactory manner.

2. The Project Implementing Entity shall ensure that it has representation on the Program Task Force through out Project implementation to ensure the provision of technical sectoral inputs required for its Respective Part of the Project.

#### Section II. Implementation Arrangements

##### A. Program Implementation Manual

The Project Implementing Entity shall carry out its Respective Part of the Project in accordance with the PIM, and except as the Association shall otherwise agree, shall not amend, abrogate or waive any provision of the PIM.

**B. Annual Work Plans and Budgets**

The Project Implementing Entity shall submit to the Recipient all such information as shall be required for its Respective Part of the Project to enable the Recipient to submit to the Association for its review and approval an annual work plan and budget on or about August 31 of each year of Project implementation. The Project Implementing Entity shall implement or cause to be implemented, the activities reflected in such annual work plans in a manner that is satisfactory to the Association.

**C. Environmental and Social Safeguards**

1. The Project Implementing Entity shall at all times carry out or cause its Respective Part of 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 Project Implementing Entity 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 Project Implementing Entity shall work closely with the Ministry of Mines, Natural Resources, and Environment and the Ministry of Lands, Housing, and Surveys, to ensure that its Respective Part of the Project is implemented in accordance with the provisions of the ESMF and the RPF, respectively.

**D. Town Investments under Part B.1 of the Project**

1. The Project Implementing Entity 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 Project Implementing Entity 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 Project Implementing Entity 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 either through the provision of sub-grants or sub-loans 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 sub-grant financing shall be provided in the PIM, including, without limitation, investments, such as yard taps and public standpipes financed using the output-based approach, and sanitation activities. The MIWD and the Project Implementing Entity 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 Project Implementing Entity or by water services operators, in cases where the said Project Implementing Entity deems 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 the Financing Agreement;
  - (b) the investment costs to the Project Implementing Entity 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 Project Implementing Entity 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 Project Implementing Entity shall carry out or caused to be carried out the activities in accordance with the Association's procurement procedures, as set forth in Section IV of Schedule 2 to the Financing Agreement; and
  - (e) an independent verification shall be undertaken by an independent expert that is satisfactory to the Association, to establish, without limitation, that: (i) 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) the Association's procurement procedures were used as set forth in Section IV of Schedule 2 to the Financing Agreement; and (iv) implementation was undertaken in accordance with the ESMF and RPF.

**E. Subprojects under Part B.2 of the Project**

1. The Project Implementing Entity shall in consultation with MIWD, 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 electricity supply.

2. To be eligible for Subproject financing under the Project, the District Assembly shall submit an application to the Project Implementing Entity, on behalf of a proposed Subproject Beneficiary, and work closely with the Project Implementing Entity 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 a local utility operator and core operating staff, subject to operator performance agreements; and
  - (c) carrying out pre-feasibility studies, baseline surveys, and assessments; and preparing preliminary designs, business plans, sanitation plans, water supply facility design and tender documents.
3. An appraisal committee, with representatives from the Project Implementing Entity, MIWD, and the District Assembly, shall evaluate whether or not the proposed Subproject Beneficiary has met the requirements at each stage of the process.
4. The Project Implementing Entity shall:
  - (a) contract on behalf of the Subproject Beneficiary and shall 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;
  - (b) 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;
  - (c) address all the environmental and social impacts of the proposed Subprojects in accordance with the provisions of the ESMF and RPF;
  - (d) 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
  - (e) ensure that the proposed Subprojects have an adequate management and sustainability plan.
5. The Project Implementing Entity shall ensure that training is provided, as necessary, 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.



### **Section III. Project Monitoring, Reporting and Evaluation**

#### **A. Project Reports**

1. (a) The Project Implementing Entity shall monitor and evaluate the progress of its Respective Part of the Project and prepare Project reports for its Respective Part of the Project in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth below in subparagraph (b) of this paragraph. Each such Project report shall cover the period of calendar quarter, and shall be furnished to the Recipient not later than two (2) weeks after the end of the period covered by such report for incorporation and forwarding by the Recipient to the Association of the overall Project Report.

(b) The performance indicators referred to above in sub-paragraph (a) consist of the following:

<u>Performance Indicators</u>	<u>Target (Closing Date)</u>
(i) Number of new connections	4,500
(ii) Number of rehabilitated connections	10,000
(iii) Hours per day of supply based on weighted average of connections	24
(iv) Ratio of operating revenues/expenses	1.1

2. The Project Implementing Entity shall provide to the Recipient not later than one (1) month after the Closing Date, for incorporation in the report referred to in Section 4.08 (c) of the General Conditions all such information as the Recipient or the Association shall reasonably request for the purposes of such Section.

3. Without limitation on the provisions of sub-paragraph (a) above, the Project Implementing Entity shall carry out jointly with the Recipient and the Association a comprehensive mid-term review to assess the status of Project implementation, including without limitation, the operations of the Project Implementing Entity, and environmental and social management, on or about twenty-four (24) months after the Effective Date of the Project. The Project Implementing Entity shall provide to the Recipient not later than one (1) month before such review a report on its Respective Part of the Project for incorporation into the overall Project report, to be submitted to the Association by the Recipient for purposes of such review.

#### **B. Financial Management, Financial Reports and Audits**

1. The Project Implementing Entity shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to its Respective Part of the Project.

2. The Project Implementing Entity shall have its financial statements referred to above audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of these financial statements shall cover the period of one fiscal year of the Project Implementing Entity. The audited financial statements for each period shall be furnished to the Association not later than six months after the end of the period.
3. The Project Implementing Entity shall meet its operations and maintenance costs fully from revenues collected by its 2008/9 fiscal year, and, in addition, its depreciation and debt service obligations, by its 2011/12 fiscal year.

#### **Section IV. Procurement**

All goods, works, and services required for the Project Implementing Entity's Respective Part of the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the provisions of Section IV of Schedule 2 to the Financing Agreement.