
CREDIT NUMBER 7007-MW
GRANT NUMBER D935-MW

Financing Agreement

(Additional Financing for Lilongwe Water and Sanitation Project)

between

REPUBLIC OF MALAWI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

CREDIT NUMBER 7007-MW
GRANT NUMBER D935-MW

FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between the REPUBLIC OF MALAWI (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form 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 General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient a grant and a credit, which are deemed as Concessional Financing for purposes of the General Conditions (collectively, “Financing”) in the following amounts to assist in financing the project described in Schedule 1 to this Agreement (“Project”):
 - (a) an amount equivalent to twenty-three million four hundred thousand Special Drawing Rights (SDR 23,400,000) (“Grant”); and
 - (b) an amount equivalent to eight million five hundred thousand Special Drawing Rights (SDR 8,500,000) (“Credit”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section III of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.
- 2.04. The Service Charge is three-fourths of one percent (3/4 of 1%) per annum on the Withdrawn Credit Balance.
- 2.05. The Payment Dates are May 1 and November 1 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Dollar.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article V of the General Conditions, Schedule 2 to this Agreement and the Project Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

- 4.01. The Additional Condition of Effectiveness is that the Subsidiary Agreement has been executed and delivered in a manner and substance satisfactory to the Association, and all conditions precedent to its effectiveness or to the right of the Project Implementing Entity to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.
- 4.03. For purposes of Section 10.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the Signature Date.

ARTICLE V — REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is its minister responsible for finance.
- 5.02. For purposes of Section 11.01 of the General Conditions:

- (a) the Recipient's address is:

Ministry of Finance and Economic Affairs
Capital City
P.O. Box 30049
Lilongwe 3
Malawi; and

- (b) the Recipient's Electronic Address is:

Facsimile:	E-mail:
265-1-789173	finance@finance.gov.mw

5.03. For purposes of Section 11.01 of the General Conditions:

- (a) the Association's address is:

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

- (b) the Association's Electronic Address is:

Telex:	Facsimile:
248423 (MCI)	1-202-477-6391

AGREED as of the Signature Date.

REPUBLIC OF MALAWI

By

Sosten Gwengwe

Authorized Representative

Name: Sosten Alfred Gwengwe

Title: Hon

Date: 04-Apr-2022

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Hugh Riddell

Authorized Representative

Name: Hugh Riddell

Title: Country Manager

Date: 31-Mar-2022

SCHEDULE 1

Project Description

The objective of the Project is to increase access to improved water services and safely managed sanitation services in Lilongwe City.

The Project consists of the following parts:

1. Water Distribution Network Rehabilitation, Expansion, and Non-Revenue Water Reduction
 - (a) Upgrading of network, including replacement of pipelines with larger diameter pipelines, construction of reservoirs, transmission mains, and pumping stations of varying capacities, and installation of permanent pressure and leakage control system.
 - (b) Performance-based water loss reduction, including improvements in network maintenance, active leakage control, leak repairs, and pressure management.
 - (c) Network expansion, including construction of distribution pipelines, reservoirs, pumping stations, and communal water points, and establishment of household connections.
2. Priority Sanitation Improvements
 - (a) *Sewerage*: Rehabilitation and expansion of sewers in priority areas under Kauma sewer catchment, connection of additional households to sewer network, and rehabilitation and upgrading of Kauma sewage treatment plant.
 - (b) *Onsite sanitation*: Carrying out of sanitation marketing and hygiene promotion campaign, provision of support to construction of improved onsite sanitation facilities for vulnerable households, and construction of public sanitation facilities.
3. Technical Assistance
 - (a) *Water supply*: Preparation of engineering designs, environmental and social safeguards instruments, and tender documentation for, and supervision of, construction of water distribution network infrastructure under Part 1 of the Project, carrying out of groundwater resource assessment, and development of water supply master plan, feasibility studies for priority infrastructure identified in such plan, and framework for improvement of preparation of future water supply investments.

- (b) *Sanitation:* Preparation of feasibility studies, engineering designs, environmental and social safeguards instruments, and tender documentation for, and supervision of, construction of sanitation infrastructure under Part 2 of the Project, development of sanitation master plan and feasibility studies for priority infrastructure identified in such plan, and carrying out of development diagnostic of Lilongwe City, including assessment of medium and long-term growth scenarios, population and spatial trends, institutional structures, and investment demands.

4. Institutional Capacity Strengthening

- (a) *Lilongwe Water Board:* Institutional capacity strengthening of Lilongwe Water Board in relation to water service delivery, including:
 - (i) Design and implementation of incentive-based, agency-wide performance management system, carrying out of staff training and change management in water distribution network management, water treatment process optimization, public-private partnerships, corporate utility management, and finance, development of quality management systems, water safety and business continuity plans for disasters, and customer service improvement plan, modernization of operational processes, consensus-building for structural corporate reform and capacity building, and Project management and implementation.
 - (ii) Implementation of priority safety measures in relation to Kamuzu Dam II.
 - (iii) Preparation of safety management plans (including instrumentation plan, operation and maintenance plan, and emergency preparedness plan) for Kamuzu Dams I and II, and independent review of and provision of independent expert advice to Project Implementing Entity in this regard and in relation to implementation of Part 4 (a) (ii) of the Project.
- (b) *Lilongwe City Council:* Institutional capacity strengthening of Lilongwe City Council, particularly its engineering and health departments, in relation to sanitation service delivery, including provision of equipment, logistical support, technical assistance, and training, and financing of incremental operating costs.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Subsidiary Agreement

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity under a Subsidiary Agreement between the Recipient and the Project Implementing Entity, under terms and conditions acceptable to the Association, which shall include:
 - (a) the right of the Project Implementing Entity to withdraw the proceeds of the Financing on behalf of the Recipient, and proceeds so withdrawn shall be considered to be withdrawn by the Recipient;
 - (b) the obligation of the Project Implementing Entity to: (i) repay the principal amount of the Credit made available under the Subsidiary Agreement (“Subsidiary Credit”) in Dollars or such other currency as may be agreed in writing between the Recipient and the Association; (ii) pay interest on the principal amount withdrawn and outstanding from time to time at the rate specified in Section 2.04 of this Agreement; and (iii) repay the principal amount of the Subsidiary Credit over the period applicable to the Recipient pursuant to Section 2.06 of this Agreement;
 - (c) the provision of the principal amount of the Grant under the Subsidiary Agreement in Dollars or such other currency as may be agreed in writing with the Association on a grant basis;
 - (d) the obligation of the Project Implementing Entity to carry out the Project in accordance with the provisions of the Anti-Corruption Guidelines;
 - (e) the obligation of the Project Implementing Entity to carry out the Project in accordance with the provisions of the Safeguards Instruments, and without any right or authority, except as the Association shall otherwise agree in writing, to assign, amend, abrogate, or waive, or permit to be assigned, amended, abrogated, or waived, said instruments;
 - (f) the obligation of the Project Implementing Entity to: (i) 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 the Project; and (ii) have such statements audited by independent auditors acceptable to the

Association, in accordance with consistently applied auditing standards acceptable to the Association, and furnish such audited financial statements to the Recipient and the Association in accordance with the provisions of Section 5.09 (b) (ii) of the General Conditions and make them publicly available in a timely fashion and in a manner acceptable to the Association; and

- (g) the obligation of the Project Implementing Entity to carry out procurement of the goods, works, and consultants' services required for the Project in accordance with the provisions of the Procurement Regulations, as said provisions may be further elaborated in the Procurement Plan.
- 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 Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive said agreement.

B. Implementation Manual

- 1. The Recipient shall: (a) ensure that the Project is carried out in accordance with the Implementation Manual; and (b) except as the Association shall otherwise agree in writing, not assign, amend, abrogate, or waive, or permit to be assigned, amended, abrogated, or waived, said manual.
- 2. In the event of a conflict between the provisions of said manual and those of this Agreement, the latter shall govern.

C. Safeguards

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Safeguards Instruments, and, except as the Association shall otherwise agree in writing, the Recipient shall not assign, amend, abrogate, or waive, or permit to be assigned, amended, abrogated, or waived, said instruments.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

The Recipient shall furnish to the Association each Project Report not later than one (1) month after the end of each calendar semester, covering the calendar semester.

B. Semi-Annual Reviews

The Recipient shall review the Project Reports jointly with the Association, the Project Implementing Entity, and Lilongwe City Council, not later than one (1) month after the submission of each such report to the Association, and thereafter cause the Project Implementing Entity to take all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of such report and the Association's views on the matter.

Section III. Withdrawal of the Proceeds of the Financing

A. General

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Recipient may withdraw the proceeds of the Financing to finance Eligible Expenditures, in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

Category	Amount of the Credit Allocated (expressed in SDR)	Amount of the Grant Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, works, non-consulting services, consulting services (including for audits), Training, and Operating Costs for Parts 1, 3(a), and 4(a) of the Project	8,500,000	0	100
(2) Goods, works, non-consulting services, consulting services (including for audits), Training, and Operating Costs for Parts 2, 3(b), and 4(b) of the Project	0	23,400,000	100
TOTAL AMOUNT	8,500,000	23,400,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A above, no withdrawal shall be made:
 - (a) for payments made prior to the Signature Date; or
 - (b) under Category 2, unless the Implementation Agreement has been executed on behalf of the Project Implementing Entity and Lilongwe City Council.
2. The Closing Date is December 31, 2024.

Section IV. Other Undertakings

1. The Recipient shall promptly take all necessary measures (including, without limitation, financial restructuring, promotion of private sector participation, promotion of efficiency, adjustments of the structure or levels of tariffs, and provision of financial assistance) to enable the Project Implementing Entity to meet the requirements set forth in Section III of the Schedule to the Project Agreement.
2. The Recipient shall, not later than March 31, 2022, transfer, in a manner satisfactory to the Association, sewerage services and all related assets from Lilongwe City Council to the Project Implementing Entity in accordance with the provisions of the Water Works Act (Cap. 72:01).

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each May 1 st and November 1 st , commencing May 1, 2028 to and including November 1 st 2059	1.5625%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.05 (b) of the General Conditions.

APPENDIX

Definitions

1. “Additional Environmental and Social Management Plan” means the Project Implementing Entity (as hereinafter defined)’s plan, to be prepared in accordance with the provisions of the Environmental and Social Management Framework (as hereinafter defined) and agreed with the Association, setting out mitigation, enhancement, monitoring, and institutional measures, including capacity building through training, and establishment and maintenance of a grievance redress mechanism, to eliminate any adverse environmental and social impacts of activities to be implemented under Parts 1 (b), 2, 3, and 4 of the Project, offset them, or reduce them to acceptable levels, or enhance positive impacts, as the same may be modified from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such plan, and “Additional Environmental and Social Management Plans” means more than one (1) such plan.
2. “Additional Resettlement Action Plan” means the Project Implementing Entity’s plan, to be prepared in accordance with the provisions of the Resettlement Policy Framework (as hereinafter defined) and agreed with the Association, setting forth arrangements, including establishment and maintenance of a grievance redress mechanism, pertaining to land acquisition and the compensation, resettlement, and rehabilitation of Affected Persons under Parts 1(b), 2, 3, and 4 of the Project, as the same may be modified from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such plan, and “Additional Resettlement Action Plans” means more than one (1) such plan.
3. “Affected Person” means a person who, on account of implementation of the Project, has experienced or would experience direct economic and social impacts caused by Involuntary Resettlement; and “Affected Persons” means, collectively, all such persons.
4. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.
5. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.
6. “Dzalanyama Forest Reserve” means the forest reserve of such name in the central part of the Recipient’s territory, approximately forty (40) kilometers southwest of Lilongwe City (as hereinafter defined), or any successor thereto.

7. “Directorate of Infrastructure Services” means the Project Implementing Entity’s directorate responsible for infrastructure services, or any successor thereto.
8. “Environmental and Social Management Framework” means the Project Implementing Entity’s framework, dated October 2017 and agreed with the Association, setting forth mitigation, enhancement, monitoring, and institutional measures, including capacity building through training, and establishment and maintenance of a grievance redress mechanism, to eliminate any adverse environmental and social impacts of activities to be implemented under Parts 1(b), 2, 3, and 4 of the Project, offset them, or reduce them to acceptable levels, or enhance positive impacts, and guidelines and procedures for the preparation of Additional Environmental and Social Management Plans, as the same may be modified from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such framework.
9. “Environmental and Social Management Plan” means the Project Implementing Entity’s plan, dated September 2017 and agreed with the Association, setting forth mitigation, enhancement, monitoring, and institutional measures, including capacity building through training, and establishment and maintenance of a grievance redress mechanism, to eliminate any adverse environmental and social impacts of activities to be implemented under Part 1(a) of the Project, offset them, or reduce them to acceptable levels, or enhance positive impacts, as the same may be modified from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such plan.
10. “European Investment Bank” means the bank established and operating pursuant to the Treaty on the Functioning of the European Union dated March 25, 1957, or any successor thereto.
11. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Investment Project Financing”, dated December 14, 2018 (revised on August 1, 2020, April 1, 2021 and January 1, 2022).
12. “Implementation Agreement” means the agreement between the Project Implementing Entity and Lilongwe City Council for purposes of implementation of Parts 2, 3(b), and 4(b) of the Project, and referred to in Section I.B of the Schedule to the Project Agreement, setting forth the institutional roles, operational responsibilities, and results to be achieved under said Parts, and other joint undertakings relating to sanitation service delivery, and such term includes any annexes or schedules to such agreement.
13. “Implementation Manual” means the Project Implementing Entity’s manual adopted for the Project pursuant to the provisions of the Original Project Agreement, setting out the implementation, organizational, administrative, monitoring and evaluation (including performance indicators and related targets),

financial management, disbursement, and procurement arrangements for purposes of Project implementation, as the same may be modified thereafter, from time to time, with the prior written agreement of the Association, and such term includes any annexes or schedules to such manual.

14. “Involuntary Resettlement” means the following caused on account of Project implementation: (a) the involuntary taking of land, resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not the affected person must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas resulting in adverse impacts on the livelihood of the affected person.
15. “Kamuzu Dam I” means the dam of such name on the Lilongwe River (as hereinafter defined), approximately twenty (20) kilometers southwest of Lilongwe City (as hereinafter defined), or any successor thereto.
16. “Kamuzu Dam II” means the dam of such name on the Lilongwe River, approximately twenty (20) kilometers southwest of Lilongwe City, or any successor thereto.
17. “Kauma” means the neighborhood of Kauma in the peri-urban area of Lilongwe City.
18. “Lake Malawi” means the lake of such name in the eastern part of the Recipient’s territory, or any successor thereto.
19. “Lilongwe City” means the city of such name in the central part of the Recipient’s territory, or any successor thereto.
20. “Lilongwe City Council” means the Recipient’s entity, established and operating pursuant to the Recipient’s Local Government Act No. CAP22:01 and responsible for the administration of Lilongwe City, or any successor thereto.
21. “Lilongwe River” means the river of such name in the central part of the Recipient’s territory, flowing from Dzalanyama Forest Reserve to Linthipe River (as hereinafter defined), or any successor thereto.
22. “Lilongwe Water Board” means the Recipient’s entity, under the Ministry of Forestry and Natural Resources (as hereinafter defined), established and operating pursuant to the Project Implementing Entity’s Legislation (as hereinafter defined), and responsible for the supply of potable water to Lilongwe City and the surrounding areas, or any successor thereto.
23. “Lilongwe Water Resources Efficiency Program” means the project described in the financing agreement dated June 12, 2015, between the Recipient and the

European Investment Bank for a Lilongwe Water Resources Efficiency Program (Loan No. 84056), as the same may be amended from time to time in accordance with its terms.

24. “Linthipe River” means the river of such name in the central part of the Recipient’s territory, flowing from Dzalanyama Forest Reserve to Lake Malawi, or any successor thereto.
25. “Ministry of Forestry and Natural Resources” means the Recipient’s ministry responsible for policy formulation in relation to, and management of, forestry and natural resources, or any successor thereto.
26. “Operating Costs” means the incremental operating costs under the Project, based on the annual work plans and budgets referred to in Section I.D of the Schedule to the Project Agreement as approved by the Association, and incurred by the Recipient, the Project Implementing Entity, or Lilongwe City Council for purposes of Project management, implementation, and monitoring and evaluation, on account of utilities and supplies, bank charges, communications, vehicle operation, maintenance, and insurance, office space rental, building and equipment maintenance, public awareness-related media expenses, domestic and international travel and subsistence, and salaries of contractual and temporary staff, but excluding salaries, fees, honoraria, bonuses, and any other salary supplements of members of the Recipient’s, the Project Implementing Entity’s or Lilongwe City Council’s civil service.
27. “Original Project Agreement” means the project agreement entered into, by and between, the Association and the Project Implementing Entity on March 20, 2018, for purposes of the Project, and in respect to the Association’s Credit No. 6172-MW and Grant No. D266-MW.
28. “Panel of Dam Safety Experts” means the panel of dam safety experts established by the Project Implementing Entity pursuant to Section I.E.12 of the Schedule to the Original Project Agreement.
29. “Procurement Regulations” means, for purposes of paragraph 87 of the Appendix to the General Conditions, the “World Bank Procurement Regulations for IPF Borrowers”, dated November 2020.
30. “Project Implementation Unit” means the Project Implementing Entity’s unit established by the Project Implementing Entity under its Directorate of Infrastructure Services, referred to in Section I.A.2 of the Schedule to the Original Project Agreement, and responsible for the implementation of the Project Implementing Entity’s capital projects.

31. “Project Implementing Entity” means Lilongwe Water Board.
32. “Project Implementing Entity’s Legislation” means the Recipient’s Water Works Act No. 17 of 1995; and such term includes any other laws or any regulations governing the organization, reorganization, restructuring, and operations of the Project Implementing Entity as of the date of this Agreement.
33. “Resettlement Action Plan” means the Project Implementing Entity’s plan, dated September 2017 and agreed with the Association, setting forth arrangements, including establishment and maintenance of a grievance redress mechanism, pertaining to land acquisition and the compensation, resettlement, and rehabilitation of Affected Persons under Part 1(a) of the Project, as the same may be modified from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such plan.
34. “Resettlement Policy Framework” means the Project Implementing Entity’s framework, dated October 2017 and agreed with the Association, setting forth mitigation, enhancement, monitoring, and institutional measures, including capacity building through training, and establishment and maintenance of a grievance redress mechanism, to carry out acquisition of land and related assets and compensation, resettlement, and rehabilitation of Affected Persons, both under Parts 1 (b), 2, 3, and 4 of the Project, and guidelines and procedures for the preparation of Additional Resettlement Action Plans, as the same may be modified from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such framework.
35. “Safeguards Instruments” means, collectively, the Environmental and Social Management Framework, the Environmental and Social Management Plan, any Additional Environmental and Social Management Plans, the Resettlement Policy Framework, the Resettlement Action Plan, any Additional Resettlement Action Plans, and the SEAH Prevention and Response Plan, and such term includes any annexes or schedules to such instruments.
36. “SEAH Prevention and Response Plan” means the prevention and response plan to be prepared and adopted by the Recipient, in a manner and substance satisfactory to the Association, pursuant to Section I.E.14 of the Schedule to the Project Agreement, and to be disclosed by/on the Project Implementing Entity’s and the Association’s website, setting out the precautionary measures to be set in place to mitigate and/or address any project-related incident of sexual exploitation and abuse, sexual harassment and other forms of gender-based violence, as well as considerations related to child protection, as said instrument may be updated from time to time with the prior written concurrence of the Association.

37. “Signature Date” means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to “the date of the Financing Agreement” in the General Conditions.
38. “Subproject” means one (1) or more contract packages under the Project, grouped together for procurement purposes.
39. “Subsidiary Credit” means the portion of the Financing to be on-lent by the Recipient to the Project Implementing Entity pursuant to the Subsidiary Agreement, pursuant to Section I.A.1(b) of Schedule 2 to this Agreement.
40. “Training” means the costs of training under the Project, based on the annual work plans and budgets referred to in Section I.D of the Schedule to the Project Agreement as approved by the Association, and attributable to seminars, workshops, and study tours, along with domestic and international travel and subsistence allowances for training participants, services of trainers, rental of training facilities, preparation and reproduction of training materials, and other activities directly related to course preparation and implementation.