

Public Disclosure Authorized

CONFORMED COPY

ACGF GRANT NUMBER TF091521

Africa Catalytic Growth Fund Project Agreement

(Second National Water Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

CENTRAL REGION WATER BOARD

Dated March 27, 2008

PROJECT AGREEMENT

AGREEMENT dated March 27, 2008, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and CENTRAL REGION WATER BOARD (“Project Implementing Entity”) (“Project Agreement”) in connection with the Africa Catalytic Growth Fund Grant 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 — STANDARD CONDITIONS; DEFINITIONS

- 1.01. The Standard Conditions (as defined in Section 1.01. of the Africa Catalytic Growth Fund Grant 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 Grant Agreement or the Standard Conditions.

ARTICLE II — PROJECT

Project Execution Generally

- 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 with due diligence and efficiency, and in conformity with appropriate administrative, technical, financial, economic, environmental and social standards and practices. The Project Implementing Entity shall provide or cause to be provided 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.

Insurance

- 2.03. The Project Implementing Entity shall make adequate provision for the insurance of any goods required for its Respective Part of the Project and to be financed out of the proceeds of the Grant, against hazards incident to the acquisition, transportation and delivery of the goods to the place of their use or installation. Any indemnity for such insurance shall be payable in a freely usable Currency to replace or repair such goods.

Land Acquisition

- 2.04. The Project Implementing Entity shall take (or cause to be taken) all action to acquire, as and when needed, all land and rights in respect of land as shall be required for carrying out its Respective Part of the Project and shall promptly furnish to the Association, upon its request, evidence satisfactory to the Association that such land and rights in respect of land are available for purposes related to its Respective Part of the Project.

Use of Goods, Works and Services; Maintenance of Facilities

- 2.05. Except as the Association shall otherwise agree, the Project Implementing Entity shall ensure that all goods, works and services financed out of the proceeds of the Grant are used exclusively for the purposes of the Project.
- 2.06. The Project Implementing Entity shall ensure that all facilities relevant to its Respective Part of the Project shall at all times be properly operated and maintained and that all repairs and renewals of such facilities are made promptly as needed.

Plans, Documents, Records, Visits

- 2.07. The Project Implementing Entity shall furnish to the Association all plans, schedules, specifications, reports and contract documents for its Respective Part of the Project, and any material modifications of or additions to these documents, promptly upon their preparation and in such detail as the Association shall reasonably request.
- 2.08. The Project Implementing Entity shall maintain records adequate to record the progress of its Respective Part of the Project (including its cost and the benefits to be derived from it), to identify the goods, works and services financed out of the proceeds of the Grant and to disclose their use for its Respective Part of the Project, and shall furnish to the Association upon its request.
- 2.09. The Project Implementing Entity shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under its Respective Part of the Project until at least the later of: (i) one (1) year after the Association has received the audited Financial Statements covering the period during which the last withdrawal from the Grant Account was made; and (ii) two (2) years after the Closing Date. The Project Implementing Entity shall enable the Association's representatives to examine such records.
- 2.10. The Project Implementing Entity shall enable the Association's representatives to: (i) visit any facilities and construction sites included in its Respective Part of the Project; and (ii) examine the goods financed out of the proceeds of the Grant for its Respective Part of the Project, and any plants, installations, sites, works, buildings, property,

equipment, records and documents relevant to the performance of its obligations under the Grant Agreement and 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
Washington, D.C.

248423(MCI)

1-202-477-6391

3.03. The Project Implementing Entity's Address is:

Central Region Water Board
Murry Road
Off Chilambula Road
Private Bag 59
Lilongwe
Malawi

Facsimile:

(265) 175 8178

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Timothy R. Gilbo

Authorized Representative

CENTRAL REGION WATER BOARD

By /s/ Ziddy K. Medi

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 Unaudited 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 Grant Agreement and the PIM, in a satisfactory manner.

2. The Project Implementing Entity shall ensure that it has representation on the Program Task Force throughout 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 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, 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 Grant 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 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 the Grant 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 Grant 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 that set out *inter alia* performance standards and provisions similar to those set out in paragraph E.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 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) procure goods, works and services on behalf of the Subproject Beneficiary in accordance with the provisions of Section IV of Schedule 2 to the Grant 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. 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.
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 does 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 Project Implementing Entity shall:

(i) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Association as set forth in subparagraph (b) of this paragraph, the progress of its Respective Part of the Project and the achievement of its objectives;

(ii) (A) prepare a Project report, satisfactory to the Association in form and substance, integrating the results of such monitoring and evaluation activities and setting out measures recommended by the Project Implementing Entity to ensure the continued efficient and effective execution of its Respective Part of the Project, and to achieve its objectives. 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; and (B) afford the Association a reasonable opportunity to exchange views with the Recipient and Project Implementing Entity on such report, and thereafter implement such recommended measures, taking into account the Association's views on the matter;

(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 | 2,500 |
| (ii) Number of rehabilitated connections | 5,000 |
| (iii) Hours per day of supply based on weighted average of connections | 24 |
| (iv) Ratio of operating revenues/expenses | 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 Completion Reports referred to in Section 2.06 (b) (ii) of the Standard 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 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 twelve (12) 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 (1) fiscal year of the Project Implementing Entity. The audited financial statements for each period shall be furnished to the Association not later than six (6) 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 Grant shall be procured in accordance with the provisions of Section IV of Schedule 2 to the Grant Agreement.