

CONFORMED COPY

CREDIT NUMBER 4376 -KE

Project Agreement

(Water and Sanitation Service Improvement Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

LAKE VICTORIA NORTH WATER SERVICES BOARD

Dated June 4, 2008

PROJECT AGREEMENT

Agreement dated June 4, 2008, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and LAKE VICTORIA NORTH WATER SERVICES BOARD (“Project Implementing Entity”) (“Project Agreement”) in connection with the Financing Agreement (“Financing Agreement”) of same date between the REPUBLIC OF KENYA (“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 Part 3 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 — TERMINATION

- 3.01. For purposes of Section 8.05 (c) of the General Conditions, the date on which the provisions of this Agreement shall terminate is twenty years after the date of this Agreement.

ARTICLE IV — REPRESENTATIVE; ADDRESSES

4.01. The Project Implementing Entity's Representative is the Chief Executive Officer.

4.02. The Association's Address is:

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

Cable:

INDEVAS

Washington, D.C.

Telex:

248423(MCI)

Facsimile:

1-202-477-6391

4.03. The Project Implementing Entity's Address is:

Lake Victoria North Water Services Board
P.O. Box 673-50100
Kakamega, KENYA

AGREED at Nairobi, Republic of Kenya, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ C. Sanjivi Rajasingham

Authorized Representative

LAKE VICTORIA NORTH WATER SERVICES BOARD

By: /s/ Amos Kimunya

Authorized Representative

SCHEDULE

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

Section I. Institutional Arrangements

Finance and Audit Committees

1. The Project Implementing Entity shall establish a Finance Committee and an Audit Committee with the mandate to oversee overall project implementation, provide policy guidance, monitor the continuing efficacy of established fiduciary safeguards and the institutional risk management arrangements.

Section II Implementation Arrangements

Utilities Provision Agreement

1. To facilitate the carrying out of the Project Implementing Entity's Respective Part of the Project, the Project Implementing Entity shall utilize the proceeds of the project to support WSPs through technical assistance, supplying of equipment and financing of operating costs, and in this respect shall enter into Utilities Provision Agreements with the WSPs satisfactory to the Association.
2. The Project Implementing Entity shall exercise its rights under the Utilities Provision Agreements 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 Project Implementing Entity shall not assign, amend, abrogate or waive the Utilities Provision Agreements or any of their provisions.

Anti-Corruption

3. The Project Implementing Entity shall ensure that its Respective Part of the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Environmental and Social Safeguards

4. The Project Implementing Entity shall carry out the Project in accordance with the Environmental and Social Management Framework, Resettlement Policy Framework, Indigenous Peoples Planning Framework and the relevant national legal and policy requirements.

5. The Project Implementing Entity shall not amend or waive, or permit to be amended or waived, any provision of the Environmental and Social Management Framework, the Resettlement Policy Framework and the Indigenous Peoples Planning Framework without prior consultation with the Recipient and approval of the Association.

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 agreed with the Association.. Each such Project Report shall cover the period of three months, and shall be furnished to the Recipient not later forty-five days 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:
 - (i) Percentage of WSP project operational areas with coverage of safe water;
 - (ii) Percentage of WSP project operational areas with coverage of safe sewerage or sanitation access;
 - (iii) Percentage of people rating the services provided by the WSPs' in the project area as satisfactory or better; and
 - (iv) Degree of operation and maintenance cost coverage of WSPs' and Water Service Boards.
- (c) The Project Implementing Entity shall: (i) not later than three months after the closing of its fiscal year, submit for review an annual progress report summarizing its progress in implementing the project and the evolution of the various performance indicators; (ii) not later than six months after the closing of its fiscal year, submit the results of the annual financial and technical audits of the Service Provision Agreements with beneficiary WSPs; and audit reports of their financial statements and the project accounts.

2. The Project Implementing Entity shall provide to the Recipient not later than six months after 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.

B. Financial Management, Financial Reports and Audits

1. The Project Implementing Entity shall or shall cause the selected WSP to 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 or shall cause the selected WSP to 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 produce interim unaudited financial reports and have its financial statements audited in accordance with Section II B.2 and B.3 of Schedule 2 to the Financing Agreement
4. Except as the Association shall otherwise agree, the Project Implementing Entity shall or shall cause the selected WSPs (a) to achieve a positive net income, excluding depreciation and amortization charges, by the end of the Project; and (b) to pay cash dividends only out of net income if such payment will not lower its current ratio below 1.2.

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 III of Schedule 2 to the Financing Agreement.