Project Agreement

(Additional Financing for the Water Services and Institutional Support Project II)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

Fundo de Investimento e Patrimônio Do Abastecimento de Água
GRANT NUMBER D491-MZ

PROJECT AGREEMENT

AGREEMENT between the INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") and the FUNDO DE INVESTIMENTO E PATRIMONIO DE ABASTECIMENTO DE AGUA ("FIPAG" or "Project Implementing Entity") ("Project Agreement") in connection with the Financing Agreement ("Financing Agreement") of the Signature Date between the Republic of Mozambique ("Recipient") and the Association, concerning Grant No. D491-MZ. 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) 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 Financing Agreement or the General Conditions.

ARTICLE II — PROJECT

2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall carry out Parts A, B, C and D of the Project in accordance with the provisions of Article V of the General Conditions and the Schedule to this Agreement, and shall provide promptly as needed, the funds, facilities, services and other resources required for its Respective Part of the Project.

ARTICLE III — TERMINATION

3.01. For purposes of Section 10.05(c) of the General Conditions, the date on which the provisions of this Agreement shall terminate is twenty years after the Signature Date.

ARTICLE IV — REPRESENTATIVE; ADDRESSES

4.01. The Project Implementing Entity’s Representative is its director general.

4.02. For purposes of Section 11.01 of the General Conditions:
(a) the Association’s address is:

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

(b) the Association’s Electronic Address is:

Telex: Facsimile:

248423(MCI) or 1-202-477-6391

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

(a) the Project Implementing Entity’s address is:

Fund do Investimento e Patrimonio do Abastecimento de Agua
Av. Filipe Samuel Magaia, Nr. 1291
PO Box 917
Maputo
Republic of Mozambique; and

(b) the Project Implementing Entity’s Electronic Address is:

Facsimile: +258 213 088 81
AGREED as of the later of the two dates written below.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By:

[Signature]
Authorized Representative

Name: **MARK R. LUNDELL**

Title: **COUNTRY DIRECTOR**

Date: **7-2-2019**

FUNDO DE INVESTIMENTO E PATRIMONIO DE ABASTECIMENTO DE AGUA (FIPAG)

By:

[Signature]
Authorized Representative

Name: **PEDRO M. PAULINO**

Title: **DIRECTOR GERAL**

Date: **15-07-2019**
SCHEDULE

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

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The FIPAG shall be maintained at all times during the implementation of the Project with functions, staffing, and resources satisfactory to the Association, for the purpose of ensuring the prompt and efficient implementation of its Respective Parts of the Project, as further detailed in the PIM.

B. Subsidiary Agreement

1. To facilitate the carrying out of Parts A, B, C and D of the Project, FIPAG shall execute a subsidiary agreement ("FIPAG Subsidiary Agreement") between the Recipient and FIPAG, under terms and conditions approved by the Association, which shall include the following;

   (a) FIPAG shall not be required to repay the proceeds of the Financing received from the Recipient;

   (b) the obligation of the FIPAG to carry out Parts A, B, C and D of the Project with due diligence and efficiency, in conformity with appropriate administrative, economic, managerial, financial, environmental, social and technical standards and practices, and provide promptly as needed, the facilities, services and other resources required for Parts A, B, C and D of the Project;

   (c) the obligation of the FIPAG to: (i) exchange views with the Recipient and the Association with regards to the progress of Parts A, B, C and D of the Project, and the performance of its obligations under the FIPAG Subsidiary Agreement; and (ii) assist the Recipient in complying with its obligations referred to in Section II of this Schedule, as applicable to Parts A, B, C and D of the Project;

   (d) the obligation of the FIPAG to promptly inform the Recipient and the Association of any condition which interferes or threatens to interfere with the progress of Parts A, B, C and D of the Project;

   (e) the obligation of FIPAG to carry out Parts A, B, C and D of the Project in accordance with the PIM;

   (f) the obligation of the FIPAG to carry out Parts A, B, C and D of the Project in compliance with the Anti-Corruption Guidelines;
(g) the obligation of the FIPAG 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, resources and expenditures related to Parts A, B, C and D of the Project; and (ii) have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient and the Association; and

(h) the right of the Recipient to take remedial actions against the FIPAG, in case the FIPAG shall have failed to comply with any of its obligations under the FIPAG Subsidiary Agreement, which actions may include, inter alia, the partial or total suspension and/or cancellation or refund of all or any part of the proceeds of the Subsidiary Financing transferred to FIPAG pursuant to the FIPAG Subsidiary Agreement.

2. The Recipient shall exercise its rights under the FIPAG 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 the FIPAG Subsidiary Agreement or any of its provisions.

C. Project Implementation Manual (PIM)

1. Not later than two (2) months from the Effective Date, the FIPAG shall adopt and, thereafter, carry out Parts A, B, C and D of the Project in accordance with the updated Project Implementation Manual, which shall contain the detailed work flow, arrangements, methods and procedures for the implementation of the Project, including, but not limited to: (a) administration and coordination including placement of necessary human resources within FIPAG and at the regional and municipal levels; (b) a template Performance-based Grant agreement, performance indicators (institutional, operational and financial) and a performance-based scorecard for purposes of Part B.3 of the Project; (c) monitoring and evaluation arrangements; (d) social and environmental safeguards arrangements; (e) corruption and fraud measures; (f) roles and responsibilities of various agencies in the implementation of the Project, at central, regional and systems levels; (g) details on the Project grievance redress mechanism and procedure; and (h) notification requirements in the case of Project-related accidents and incidents (including but not limited Project-related fatalities or allegations of gender-based violence), and except as the Association shall otherwise agree in writing, not amend, abrogate or waive, or permit to be amended, abrogated or waived any provision of the Project Implementation Manual.
2. In case of conflict between the provisions of the Project Implementation Manual and this Agreement, those of this Agreement shall prevail.

D. Annual Work Plans and Budget

The FIPAG shall collaborate in a manner satisfactory to the Association with the Recipient, to prepare and furnish to the Association for its approval not later than November 30 of each calendar year during the implementation of the Project, or such later date as the Association may agree, the Annual Work Plans and Budget containing all activities to be carried out in the following Fiscal Year, modified in a manner satisfactory to the Association, taking into account the Association's comments and views on the matter.

E. Safeguards

1. The FIPAG shall ensure that Parts A, B, C and D of the Project are carried out in accordance with the Safeguard Instruments and shall ensure that no provision of the Safeguard Instruments is amended, suspended, abrogated, repealed or waived without the prior written approval of the Association.

2. The FIPAG shall ensure that all bidding documents and contracts for civil works under Parts A, B, C and D of the Project include the obligation of contractors, subcontractors and supervising entities to: (a) comply with the relevant aspects of the Safeguard Instruments; (b) adopt and implement measures to assess and manage the risks and impacts of labor influx; and (c) adopt and enforce codes of conduct that should be provided to and signed by all workers, detailing measures on environmental, social, health and safety, and gender-based violence, all as applicable to such civil works commissioned or carried out pursuant to said contracts.

3. The FIPAG shall ensure that the following actions are taken in a manner acceptable to the Association:

   (a) Project activities shall be screened in accordance with the ESMF and RPF to determine if any ESMP, or RAP is needed.

   (b) Whenever an ESMP would be required on the basis of the ESMF: (i) each ESMP shall be prepared in accordance with the requirements of the ESMF, adopted and disclosed by the Recipient, and subject to prior approval by the Association; and (ii) the Recipient shall refrain from tendering any civil works contract during Project implementation unless and until such ESMP has been prepared in accordance with the ESMF, adopted and disclosed by the Recipient, and approved by the Association; and
(c) Whenever a RAP would be required on the basis of the RPF: (i) each such RAP shall be prepared in accordance with the requirements of the RPF, adopted and disclosed by the Recipient, and subject to prior approval by the Association; (ii) sufficient funds are made available to cover all the costs of implementing Project-related resettlement, in accordance with the RPF and resettlement action plan(s); (iii) the Recipient shall refrain from tendering any civil works contract during Project implementation unless and until such RAP has been prepared in accordance with the RPF, adopted, disclosed and implemented by the Recipient, and approved by the Association; and (iv) no works under the Project shall be commenced until: (A) all measures required to be taken under said RAP prior to the initiation of said works have been taken, including but not limited Project affected persons shall be compensated at full replacement cost, resettled and provided with assistance in accordance with the RPF and resettlement action plan(s); (B) the Recipient has prepared and furnished to the Association a report in form and substance satisfactory to the Association, on the status of compliance with the requirements of said RAP and detailing that the implementation, monitoring and evaluation of such resettlement action plan is completed and reported in a manner satisfactory to the Association; and (C) the Association has confirmed that said works may be commenced.

4. The FIPAG shall ensure that all measures necessary for carrying out the requirements of the Safeguard Instruments are to be taken in a timely manner.

5. Without limitation to paragraph 1(b) of Section III.B of this Schedule, no works shall be eligible for financing unless and until prior to the commencement of such works: (a) an ESMP was prepared, adopted and disclosed, and approved by the Association; and (b) in case such works are expected to cause involuntary resettlement, a RAP was prepared, adopted, disclosed and implemented by the Recipient, and approved by the Association.

6. Without limitation to the excluded expenditures provision set forth in the ESMF and/or RPF, the following activities shall not be eligible to be included in or funded under the Project ("Negative List"): any activities that would lead to conversion or degradation of critical natural habitats or their supporting areas;

   (b) any activities that would lead to conversion or degradation of critical forest areas, related critical natural habitats, clearing of forests or forest ecosystems;

   (c) activities involving nuclear reactors and parts thereof and fuel elements (cartridges), non-irradiated, for nuclear reactors; and
(d) goods intended for a military or paramilitary purpose.

7. The FIPAG shall maintain, throughout Project implementation, and publicize the availability of a grievance and feedback mechanism, in form and substance satisfactory to the Association, to hear and determine fairly and in good faith, all complaints raised in relation to the Project, and take all measures necessary to implement the determinations made by such mechanism in a manner satisfactory to the Association.

8. Without limitation to its other reporting obligations under this Agreement and under Section 4.08 of the General Conditions, the FIPAG shall, throughout Project implementation, include in the Project Reports referred to in Section II of this Schedule, adequate information on the implementation of the Safeguard Instruments, and shall:

(a) take all measures necessary on its part to collect, compile, and furnish to the Association through Project Reports, and promptly in a separate report or reports, if so requested by the Association, information on the status of compliance with the Safeguard Instruments and the management tools and instruments referred to therein, all such reports in form and substance acceptable to the Association, setting out inter alia: (i) the status of implementation of the Safeguard Instruments; (ii) conditions, if any, which interfere or threaten to interfere with the implementation of the Safeguard Instruments; and (iii) corrective and preventive measures taken or required to be taken to address such conditions;

(b) promptly notify the Association of any incident or accident related to or having an impact on the Project, including but not limited any Project-related allegation of gender-based violence or alleged violation of Project-related labor and working conditions, which has, or is likely to have, a significant adverse effect on the environment, the affected communities, the public or workers, including, in accordance with the Safeguard Instruments, and the instruments referenced therein.

9. The FIPAG shall ensure that all technical assistance and capacity building activities undertaken under Parts A, B, C and D of the Project, application of whose results would have environmental or social implications, shall only be undertaken pursuant to terms of reference reviewed and found satisfactory by the Association, such terms of reference to ensure that the technical assistance takes into account, and calls for application of the Association’s environmental and social safeguards policies and the Recipient’s own laws relating to the environment and social aspects.
10. The FIPAG shall ensure that any remedial actions to address dam safety issues in relation to the Nacala dam identified in the Dam Safety Assessment and Dam Safety Plan are financed and implemented, in a manner satisfactory to the Association.

11. In the event that any provision of the Safeguards Instruments shall conflict with any provision under this Agreement, the provisions of this Agreement shall prevail.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Project Implementing Entity shall monitor and evaluate the progress of Parts A, B, C and D of the Project and prepare Project Reports for its Respective Part of the Project in accordance with the provisions of Section 5.08(b) of the General Conditions and on the basis of the indicators acceptable to the Association. Each such Project Report shall cover the period of one calendar semester, and shall be furnished to the Recipient not later than three 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.

2. The Project Implementing Entity shall provide to the Recipient not later than five (5) months, for incorporation in the report referred to in Section 5.08(c) of the General Conditions all such information as the Recipient or the Association shall reasonably request for the purposes of such Section.

Section III. Other Undertakings

A. The FIPAG shall ensure that:

(a) the tariffs for the water systems under the responsibility of FIPAG shall reflect the principle of full cost recovery and shall be sufficient to cover operating expenses, depreciation, and cost of capital in a reasonable time horizon for all said systems. These tariffs shall be assessed yearly to ensure that they satisfy these requirements;

(b) within twelve months following the end of the mid-term review, measures shall be taken to cover the financing needs referred to in (a) as necessary;

(c) the Regional Utilities have been incorporated as corporations under the laws of the Recipient by no later than November 30, 2020;

(d) FIPAG maintains at all times during the Project, contracts with the Regional Utilities to operate the water supply assets under FIPAG's
responsibility; the said contracts to address the financial obligations undertaken by FIPAG under various loans and credits extended to FIPAG and the sustainability of the future investments in the water supply systems, including any applicable lease fees payable to FIPAG;

(e) an escrow account has been established for each Regional Utility, into which all revenues from the provision of services shall be deposited, for the purpose of payment of applicable lease fees and operator tariff.

(f) FIPAG submits to CRA, by August 31 of each year, a proposal for tariff revision based on the audited expenses of the prior Financial Year, with reasonable projections of the cost of service, including operating expenses, applicable depreciation, and cost of capital, for the following three Financial Years for each of the Regional Utilities; and

(g) the terms and conditions of the Subsidiary Agreement between FIPAG and the Recipient with regard to financing shall have the same terms and conditions as this Agreement, and the respective amounts shall be converted to Meticais at disbursement rates applicable at the time of disbursement of the relevant proceeds of the financing to FIPAG.