FIPAG Project Agreement
(Water Services and Institutional Support Project II)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

FUNDO DE INVESTIMENTO E PATRIMONIO DO
ABASTECIMENTO DE AGUA

Dated October 24, 2016
PROJECT AGREEMENT

AGREEMENT dated October 21, 2016, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") and Fundo de Investimento e Patrimonio do Abastecimento de Agua ("Project Implementing Entity") ("Project Agreement") in connection with the Financing Agreement ("Financing Agreement") of same date between the Republic of Mozambique ("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. 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 IV of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for its Respective Parts 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 Parts 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 (20) years after the date of this Agreement.
ARTICLE IV — REPRESENTATIVE; ADDRESSES

4.01. The Project Implementing Entity’s Representative is its General Director.

4.02. The Association’s Address is:

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

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

4.03. The Project Implementing Entity’s Address is:

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

Facsimile: +258 213 088 81
AGREED at Maputo, Republic of Mozambique, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

[Signature]
Authorized Representative

Name: MARK LUNDELL
Title: COUNTRY DIRECTOR

FUNDO DE INVESTIMENTO E PATRIMONIO DO ABASTECIMENTO DE AGUA

By

[Signature]
Authorized Representative

Name: PEDRO MÁRIO PAULINO
Title: DIRECTOR GENERAL
SCHEDULE

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

Section 1. Implementation Arrangements

A. Institutional Arrangements

1. The Project Implementing Entity shall, at all times during Project implementation, maintain its departments in charge of the implementation, coordination and oversight of Parts A, B, C and D of the Project, with competent staff in adequate numbers, qualifications and experience satisfactory to the Association (including monitoring and evaluation, procurement, and financial management specialists), with responsibility for implementing its Respective Parts of the Project.

2. The Project Implementing Entity shall carry out the Project in accordance with the arrangements and procedures set out in its Project Implementation Manual (provided, however, that in case of any conflict between the arrangements and procedures set out in the Project Implementation and the provisions of this Agreement, the provisions of this Agreement shall prevail).

B. Anti-Corruption

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

C. Safeguards

1. The Project Implementing Entity shall ensure, or cause to be ensured, that the Project is carried out in accordance with the Safeguard Instruments, including the guidelines, rules and procedures defined in said Safeguard Instruments.

2. The Project Implementing Entity shall take, or cause to be taken, the following actions in a manner acceptable to the Association:

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

   (b) Whenever an ESIA and/or ESMP would be required on the basis of the ESMF: (i) each such ESIA and/or 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
Project Implementing Entity shall refrain from financing any civil works contract during Project implementation unless and until such ESIA and/or ESMP has been prepared in accordance with the ESMF, adopted and disclosed by the Recipient, and approved by the Association.

(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) the Project Implementing Entity shall refrain from financing 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 (iii) no works under the contract in respect of which a RAP is required shall commence until: (A) all measures required to be taken under said RAP prior to the initiation of said works have been taken; (B) the Project Implementing Entity 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 (C) the Association has confirmed that said works may commence.

3. The Project Implementing Entity shall take all measures necessary for carrying out the requirements of the Safeguard Instruments in a timely manner.

4. Without limitation to paragraph 1(b) of Section IV.B of this Schedule, no works shall be eligible for financing unless prior to the commencement of such works: (i) an ESIA and/or ESMP was prepared, adopted and disclosed by the Recipient, and approved by the Association; and (ii) in case such works are expected to cause Involuntary Resettlement, a RAP was prepared, adopted, disclosed and implemented by the Project Implementing Entity, and approved by the Association.

5. Without limitation to its other reporting obligations under this Agreement and under Section 4.08 of the General Conditions, the Project Implementing Entity shall include in the Project Reports referred to in Section II.A of this Schedule adequate information on the implementation of the Safeguard Instruments, giving details of:

(a) measures taken in furtherance of such Safeguard Instruments;

(b) conditions, if any, which interfere or threaten to interfere with the smooth implementation of such Safeguard Instruments; and
(c) remedial measures taken or required to be taken to address such conditions and to ensure the continued efficient and effective implementation of such Safeguard Instruments.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. 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 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 one month 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. 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 the Regional Utilities’ and 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. The Project Implementing Entity shall ensure that the audited financial statements for each period shall be: (a) furnished to the Recipient and the Association not later than six months after the end of the period; and (b) made publicly available in a timely fashion and in a manner acceptable to the Association.

Section III. 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.
Section IV. **Other Undertakings**

1. Except as the Association shall otherwise agree, the Project Implementing Entity shall ensure that it: (a) covers 1.2 times its debt service requirements through its net revenues; and (b) does not incur any additional debt unless a reasonable forecast of its revenues and expenditures show that its projected net revenues for each Fiscal Year during the term of the debt to be incurred shall be at least 1.5 times the projected debt service requirements.

2. For purpose of this Section IV:

   (a) The term "debt" means any indebtedness of the Project Implementing Entity maturing by its terms more than one year after the date on which it is originally incurred.

   (b) **Debt shall be deemed to be incurred**: (A) under a loan contract or agreement or under other instrument providing for such Debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

   (c) The term "net revenues" means the difference between: (i) the sum of revenues from all sources related to operations and net non-operating income, and (ii) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, and provisions for uncollected revenue, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.

   (d) The term "net non-operating income" means the difference between: (i) revenues from all sources other than those related to operations; and (ii) expenses, including taxes and payments in lieu of taxes, incurred in the generation of non-operating revenue.

   (e) The term “provisions for uncollected revenue” means the non-cash expense related to uncollected revenue, and shall be a minimum of 50 percent of uncollected revenue.

   (f) The term "debt service requirements" means the aggregate amount of repayments of, and interest and other charges on, debt.

   (g) The term "reasonable forecast" means a forecast prepared by the Project Implementing Entity not earlier than twelve (12) months prior to the incurrence of the debt in question, which both the Association and the Project Implementing Entity accept as reasonable and as to which the
Association has notified the Project Implementing Entity of its acceptability, provided that no event has occurred since such notification which has, or may reasonable be expected in the future to have, a material adverse effect on the financial condition or future operating results of the Project Implementing Entity.

(h) Whenever it shall be necessary to value, in terms of Meticais, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of the prevailing lawful rate of exchange at which such other currency is at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Association.

(i) FIPAG shall submit to CRA, by August 31 of each year, a proposal for tariff (the Proposal) 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 relevant Regional Utilities; copy of the said Proposal to be submitted to the Association upon delivery to CRA.