Global Partnership on Output-based Aid
Grant Agreement

(Kampala Water Connections for the Poor Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION
acting as Administrator of the Global Partnership on Output-based Aid

and

NATIONAL WATER AND SEWERAGE CORPORATION

Dated February 19, 2008
GLOBAL PARTNERSHIP ON OUTPUT-BASED AID GRANT AGREEMENT

AGREEMENT dated February 19, 2008, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION ("World Bank"), acting as administrator of the Global Partnership on Output-based Aid ("GPOBA") and NATIONAL WATER AND SEWERAGE CORPORATION ("NWSC" or "Recipient").

The Recipient and the World Bank hereby agree as follows:

Article I - Standard Conditions; Definitions

1.01. The Standard Conditions for Grants Made by the World Bank out of Various Funds, dated July 20, 2006 ("Standard Conditions"), 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 Standard Conditions or in this Agreement.

Article II - The Project

2.01. The Recipient declares its commitment to the objectives of the project described in Schedule 1 to this Agreement ("Project"). To this end, the Recipient shall carry out the Project in accordance with the provisions of Article II of the Standard Conditions.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Recipient and the World Bank shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.
Article III - The Grant

3.01. The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to two million five hundred twenty-seven thousand one hundred United States Dollars ($2,527,100) ("Grant") to assist in financing the Project. The total Grant amount will be financed by the Government of Netherlands' Ministry of Development Cooperation (DGIS) (TF070592).

3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.

Article IV - Additional Remedies

4.01. The Additional Events of Suspension consist of the following:

(a) *Ineligibility.* IBRD or IDA has declared the Recipient ineligible to be awarded a contract financed by IBRD or IDA.

(b) The Recipient's legislation or capital investment has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Recipient to perform any of its obligations under this Agreement.

(c) The Recipient has: (i) amended the Operations Manual so as to affect materially and adversely the carrying out of the Project; or (ii) changed the output based approach of the Project design without prior agreement of the World Bank.

(d) The World Bank has determined after the Project becomes effective, pursuant to the provisions of Section 5.01 of this Agreement (Effective Date), that prior to such date but after the signing of the Grant Agreement, an event has occurred which would have entitled the World Bank to suspend the Recipient's right to make withdrawals from the Grant Account if the Grant had been effective on the date such event occurred.
Article V - Effectiveness; Termination

5.01. The Grant Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the conditions specified below have been satisfied:

(a) the Operations Manual has been adopted by the Recipient in a manner satisfactory to the World Bank.

(b) the Recipient has opened the Project Account on terms and conditions satisfactory to the World Bank.

5.02. Except as the Recipient and the World Bank shall otherwise agree, the Effective Date of the Grant Agreement shall be the date upon which the World Bank dispatches to the Recipient notice that the requirement under Section 5.01 has been fulfilled. If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if the Grant Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this sub-paragraph until such events have ceased to exist.

5.03. The Grant Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date ninety (90) days after the date of this Agreement, unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.
Article VI - Recipient's Representative; Addresses

6.01. The Recipient's Representative is its Managing Director.

6.02. The Recipient's Address is:

National Water and Sewerage Corporation (NWSC)
Plot 39, Jinja Road
P.O. Box 7053
Kampala
Republic of Uganda

Facsimile: 256 414 346 532

6.03. The World Bank's Address is:

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

Cable: INDEVAS  Telex: 248423 (MCI) or 64145 (MCI)
Facsimile: 1-202-477-6391
AGREED at Kampala, Republic of Uganda, and Washington, D.C., United States of America, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION
acting as an Implementing Agency of the Global Partnership on Output-based Aid

By: [Signature]
Authorized Representative

NATIONAL WATER AND SEWERAGE CORPORATION

By: [Signature]
Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to provide improved access to piped water services to poor households living in slum and poor peri-urban areas of Kampala.

The Project consists of the following:

Provision of output-based subsidies:

Provision of subsidies to increase piped water supply through:

(i) approximately 19,070 connections of new shared and domestic yard taps, estimated to serve about 280,000 people;

(ii) establishment of approximately 205 new public water points or water kiosks, estimated to serve in total about 30,000 people;

(iii) establishment of approximately 615 public water points with pre-paid meters, estimated to serve in total about 90,000 people; and

(iv) 12 months of continued reliable water supply service through the connections specified above to the best NWSC standards.
SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Operations Manual

The Recipient shall carry out the Project in accordance with the Operations Manual, and may, with the prior written consent of the World Bank, amend or modify the provisions of the Operations Manual. In the event that any provision of the Operations Manual shall be in conflict with any provision of this Agreement, the provisions of this Agreement shall prevail.

B. Delegated Management

The Recipient internally delegates to Kampala Water specific responsibilities for Project implementation, as described in the Operations Manual.

C. Project Account

For the purposes of the Project, the Recipient shall: (i) open and thereafter maintain, until the completion of the Project, an account (the Project Account) on terms and conditions satisfactory to the World Bank; (ii) deposit in the Project Account an initial contribution of USD 75,000 for the first four months of Project implementation; (iii) thereafter fully replenish the Project Account, on a quarterly basis; and (iv) ensure that amounts deposited into the account shall be used exclusively to make payments to meet expenditures made in respect of the reasonable cost of making the connections in accordance with Schedule 1.

D. Monitoring and Verification Agent

The Recipient shall obtain a verification report covering a three-month period from an independent monitoring firm, to be recruited directly by the World Bank. The Recipient shall, throughout the implementation of the Project, take all necessary measures required to enable the independent monitoring firm to visit any facilities and sites for purposes related to the Grant, in accordance with the Operations Manual.
E. Implementation Arrangements

1. Environmental and social safeguards

The Recipient shall, when necessary during the implementation of the Project:

(a) consult with the Ministry of Water and Environment (MWE), and ensure that the Project is carried out in accordance with the environmental, social, and resettlement guidelines, rules, and procedures defined in the Environmental and Social Management Framework (ESMF) and Resettlement Policy Framework (RPF); and

(b) consult with MWE, and ensure that: (i) all measures for carrying out the recommendations of the ESMF and RPF are taken in a timely manner; and (ii) the Project Reports referred to in Part A of Section II of this Schedule shall include adequate information on monitoring the measures defined in the ESMF and RPF.

2. Financial Audits

Not later than six (6) months after the date of this Agreement, the Recipient shall appoint independent auditors, subject to prior approval of the World Bank, to carry out, an annual financial audit in respect of the Project, in accordance with the provisions of Section II.B.3 of this Schedule, including audit of the Project Account, audit of the outputs delivered in respect of the Project and the rate and status of the disbursement made in respect of the Project.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports; Completion Report

1. (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports (or, “Project Progress Reports”, as referred to in the Operations Manual) in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators set forth below in sub-paragraph (b) of this paragraph. Each Project Progress Report shall cover the period of six (6) months, and shall be furnished to the World Bank not later than one month after the end of the period covered by such report.
(b) The performance indicators referred to above in sub-paragraph (a) consist of the following:

(i) the number of yard taps and public water points on an output-based aid basis in the targeted areas;

(ii) the number of these yard taps and public water points still in use after 12 months of service provided by the Recipient; and

(iii) monitoring indicators specified in the Operations Manual.

2 The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six (6) months after the Closing Date. In addition, the Recipient shall prepare two additional reports ("Post Project Reports"), each of such scope and in such detail as the World Bank shall reasonably request, on the execution of the plan set out in the Recipient’s Completion Report, and setting out measures designed to ensure the continued efficient and effective achievement of the Project’s objectives. The Recipient shall furnish the Post-Project Reports to the World Bank not later than one month after of the first and second anniversaries of the Closing Date, respectively.

B. Financial Management; Financial Reports; Audits

1. The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

2. The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty-five (45) days after the end of each quarter, covering the quarter, in form and substance satisfactory to the World Bank.

3. The Recipient shall, upon the World Bank’s request, have its Financial Statements for the Project audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.
Section III. **Procurement**

A. **General**

1. **Procurement and Consultant Guidelines.** All goods, works and services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

   (a) Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 (“Procurement Guidelines”) in the case of goods and works, and Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 (“Consultant Guidelines”) in the case of consultants’ services; and

   (b) the provisions of this Section III, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines (“Procurement Plan”).

2. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. **Particular Methods of Procurement of Goods, Works and Services (other than Consultants’ Services)**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works, and services (other than Consultants’ Services) shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods and Works**

   (a) **National Competitive Bidding** may be used for procurement of goods, works and services other than Consultants’ Services, for those contracts specified in the Procurement Plan which the World Bank agrees meet the requirements set forth in the Procurement Guidelines.

   (b) **Direct Contracting** may be used for procurement of Goods and services other than Consultants’ Services, for those contracts specified in the Procurement
Plan which the World Bank agrees meet the requirements set forth in the Procurement Guidelines.

C. **Particular Methods of Procurement of Consultants’ Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 3 below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Selection based on consultant qualification</td>
</tr>
<tr>
<td>(b) Least Cost Selection</td>
</tr>
<tr>
<td>(c) Selection of Individual Consultants</td>
</tr>
</tbody>
</table>

D. **Review by the World Bank of Procurement Decisions**

1. Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) each contract for works estimated to cost the equivalent of $300,000 or more; (b) each contract for goods estimated to cost the equivalent of $150,000 or more; (c) each contract for goods procured through Direct Contracting and (d) each contract for consultants’ services provided by a firm estimated to cost the equivalent of $100,000 or more.

2. In addition, the following contracts shall also be subject to Prior Review by the Association: (a) the first contract for goods procured under NCB irrespective of value; (b) the first contract for works procured under NCB irrespective of value.

3. In addition, the following prior review procedures shall apply to each contract for the employment of individual consultants (other than consultants to be selected on a sole source basis) estimated to cost the equivalent of $50,000 or more: (a) the report on the comparison of the qualifications and experience of candidates, terms of reference and conditions of employment of the consultant shall be furnished to the Association for its prior review and approval; (b) the contract shall be awarded only after the Association’s approval shall have been given; and (c) the provisions of paragraph 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to the contract.
4. The following prior review procedures shall apply to each contract for the employment of individual consultants to be selected on a sole source basis: (a) the qualifications, experience, terms of reference and conditions of employment of the consultants shall be furnished to the Association for its prior review and approval; (b) the contract shall be awarded only after the Association's approval shall have been given; and (c) the provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

5. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of Grant Proceeds

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of (a) Article III of the Standard Conditions, (b) this Section, and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (Expressed in US Dollars)</th>
<th>Percentage of Expenditures to be Financed (Exclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Subsidies under the Project</td>
<td>2,527,100</td>
<td>100% of amount disbursed</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>2,527,100</td>
<td></td>
</tr>
</tbody>
</table>
B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made:

   (a) for payments made prior to the date of this Agreement;

   (b) for any payment for Taxes levied by or in the territory of the Member Country in respect of goods, works and services; or

   (c) for Eligible expenditures under Category (1), unless a satisfactory Verification Report has been received from the Recipient.

2. The Closing Date is December 31, 2011.
APPENDIX

1. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


3. “Environmental and Social Management Framework or “ESMF” means the document of the Republic of Uganda dated November, 2007, as the said document may be amended and/or supplemented from time to time with the prior concurrence of the World Bank, setting forth the modalities for environmental screening and procedures for the preparation and implementation of environmental assessments and management plans under the Project pursuant to Section I.E.1 of Schedule 2 to this Agreement.

4. “Independent monitoring and verification agent” or “monitoring agent” means that firm or individual hired by the World Bank to conduct the independent monitoring and verification of the project with responsibilities as outlined in the Operations Manual.


6. “Kampala Water” means the management and staff team internally delegated by NWSC as responsible for the production, distribution, and maintenance of water and sewerage systems in the Kampala area.

7. “National Water and Sewerage Corporation” or “NWSC” means the autonomous public corporation created by Decree No. 34 of 1972, responsible for providing water and sewerage services in Uganda’s large urban centers.

8. “Operations Manual” means the manual to be adopted by the Recipient, containing or referring to detailed arrangements and procedures for the implementation of the Project, including: (i) institutional coordination and day-to-day execution of activities; (ii) disbursement and financial management; (iii) procurement; (iv) monitoring, evaluation, and reporting, and (v) such other administrative, financial, technical and organizational arrangements and procedures as shall be required for the Project.

10. “Project Account” means the account referred to in Section I. C of Schedule 2 to this Agreement.

11. “Resettlement Policy Framework” or “RPF” means the Resettlement Policy Framework of the Republic of Uganda dated November, 2007, as the said framework may be amended and/or supplemented from time to time with the prior concurrence of the World Bank, setting forth the modalities for resettlement and compensation, in an event of resettlement under the Project, and referred to in Section I.E.1 of Schedule 2 to this Agreement.

12. “Verification Report” means a report submitted quarterly by the independent monitoring and verification agent certifying that the connections installed during the period are working.