

Global Partnership on Output-based Aid  
GRANT NUMBERS TF057614  
AND TF057615

***Global Partnership on Output-based Aid***  
**Grant Agreement**

(Kenya – Microfinance for Community-Managed Water Projects)

between

**K-REP BANK LIMITED**

and

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Acting as Administrator of the Global Partnership on Output-based Aid**

Dated DECEMBER 6, 2006

**Global Partnership on Output-based Aid  
GRANT NUMBERS TF057614 AND TF057615**

**GLOBAL PARTNERSHIP ON OUTPUT-BASED AID  
GRANT AGREEMENT**

AGREEMENT dated DECEMBER 6, 2006, entered into between:

K-REP BANK LIMITED (“Recipient”); and INTERNATIONAL DEVELOPMENT ASSOCIATION (“World Bank”) acting as administrator of the Global Partnership on Output-based Aid (Grant Agreement).

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 15, 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 one million, one hundred and fifty one thousand and three hundred United States Dollars (\$1,151,300) (“Grant”) to assist in financing the Project. From the total Grant amount, five hundred and seventy five thousand and six hundred and fifty United States Dollars (\$575,650) will be financed by the International Finance Corporation (TF057614-IFC) and the remaining five hundred and seventy five thousand and six hundred and fifty United States Dollars, (\$575,650) will be financed by the Department for International Development (TF057615-DFID).

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.* The International Bank for Reconstruction and Development (IBRD) or IDA has declared the Recipient ineligible to be awarded a contract financed by IBRD or IDA.

(b) that the Operational Manual has been amended, suspended, abrogated, repealed or waived so as to: (i) affect materially and adversely, in the opinion of the World Bank, the carrying out of the Project; and (ii) change the output based approach of the Project design without prior agreement of the World Bank.

**Article V**  
**Effectiveness, Termination**

5.01. This 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 execution and delivery of this Agreement on behalf of the Recipient has been duly authorized or ratified by all necessary governmental and corporate action.
- (b) The Recipient has submitted and adopted an Operational Manual satisfactory to the World Bank.

5.02. As part of the evidence to be furnished pursuant to Section 5.01 (a), there shall be furnished to the World Bank an opinion or opinions satisfactory to the World Bank of counsel acceptable to the World Bank or, if the World Bank so requests, a certificate satisfactory to the World Bank of a competent official of the Member Country, showing the following matter, on behalf of the Recipient, that this Agreement has been duly authorized or ratified by, and executed and delivered on its behalf and is legally binding upon it in accordance with its terms.

5.03. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 5.01 ("Effective Date"). 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 this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.

5.04. This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date 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 the Managing Director.

6.02. The Recipient's Address is:

K-Rep Bank Ltd  
Naivasha Road  
P.O. Box 24363  
Nairobi Kenya

Tel: 254-20-3871511      Facsimile: 254-020-3873178

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:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	1-202-477-6391

AGREED at NAIROBI, KENYA, as of the day and year first above written.

**K Rep-Bank**

By



**Authorized Representative**

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

By



**Authorized Representative**

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to increase access to and efficiency in water supply services for the poor in rural and peri-urban areas of Kenya through investments in selected community Subprojects.

The Project consists of the following parts:

#### **Part A: Investment Financing**

Provision of a construction or technical assistance Sub-Grant to creditworthy Beneficiaries for the purpose of implementing Subprojects which meet the criteria laid out in the Operational Manual. Some of the activities to be financed include:

1. establishment of new water services through construction of water reservoirs and water tanks, drill bore-holes, install pipes and purchase and install water meters and other related water supply infrastructure.

2. rehabilitation and augmentation of existing water supply services through a range of activities including purchasing of standby pumps; extending the pipe network; installing of zonal, mass and consumer meters to enhance audit facilities; erecting chlorine dosers; and rehabilitation and extension of storage tanks.

#### **Part B: Project Management**

Provision of auditing services for the effective implementation, monitoring and supervision of the Project.

## **SCHEDULE 2**

### **Project Execution**

#### **Section I. Institutional and Other Arrangements**

##### **A. Institutional Arrangements**

1. The Recipient shall be responsible for the overall implementation of the Project.
  
2. In implementing the Project, the Recipient shall consult with the Athi Water Services Board and coordinate with the Project Management Committee which shall be chaired by the Ministry of Water and Irrigation and comprise the Water Services Trust Fund, and the Kenya Water and Sanitation Program.

##### **B. Subprojects**

1. In implementing Part A of the Project, the Recipient shall:
  - (a) in consultation with the Athi Water Services Board screen, review and approve proposed Subprojects that meet the terms and conditions set forth in the Operational Manual;
  
  - (b) provide loan financing to eligible Subprojects;
  
  - (c) hire a Program Audit Consultant who shall be responsible for monitoring progress and certifying the payment of a Sub-Grant upon satisfactory completion of outputs for each selected community Subproject.
  
2. The Grant will be disbursed on attainment of outputs by the Beneficiaries which shall include new connections and average total monthly revenues collected.

### C. Loan Agreement

1. For the purposes of carrying out Part A, the Recipient shall enter into an agreement (the Loan Agreement) with an eligible Beneficiary in accordance with the terms and conditions set forth in the Operational Manual (which terms shall include requirement for the eligible Beneficiary to:

(a) provide 20% of its own resources for financing the Subproject, 80% loan from the Recipient and a condition that upon successful completion of the Subproject and certification by the Independent Program Audit Consultant, the Beneficiary shall receive a Sub-Grant reflecting 40% of total project expenditure to prepay the loan provided by the Recipient; and

(b) hire a Project Manager to provide project management and post implementation support.

2. The Recipient shall exercise its rights and comply with its obligations under the Loan Agreement, in such manner as to protect its interests and those of the World Bank and to accomplish the purposes of the Loan and the Grant, and except as the Bank and the Recipient shall otherwise agree, not assign, amend, abrogate, waive or fail to enforce any Loan Agreement or provision thereof.

## **Section II. Project Monitoring, Reporting and Evaluation**

### **A. Project Reports; Completion Report**

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and the Monitoring Indicators in the Operations Manual. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than one month after the end of the period covered by such report.

2. The Recipient shall prepare the Recipient's Completion Report not later than six 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 as part of the Project Report not later than one month after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.
3. The Recipient shall have its Financial Statements for the Project audited, in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. The audit of the Financial Statements shall cover the entire period of the project. The audited Financial Statements shall be furnished to the World Bank not later than six months after the closing date.

**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 Section I (excluding paragraph 1.16) of the “Guidelines for 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 (excluding paragraph 1.24) and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Recipients” published by the World Bank in May 2004 (“Consultant Guidelines”) in the case of consultants’ services.
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 and Works**

1. **National Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of National Competitive Bidding, subject to the following additional procedure: All contracts shall be advertised in the respective local areas of the communities.
2. **Other Methods of Procurement of Goods and Works.** The following methods, other than National Competitive Bidding, may be used for procurement of goods and works for those contracts which the Bank agrees meet the requirements set forth in the Procurement Guidelines for their use: (a) Shopping;

(b) Direct Contracting;; and (c) Community Participation procedures which have been found acceptable to the World Bank.

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

**1. Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 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 methods, other than Quality and Cost-based Selection, may be used for procurement of consultants' services for those assignments which the Bank agrees meet the requirements set forth in the Consultant Guidelines for their use: (a) Single-source Selection; (b) Selection of Service Delivery Contractors who have been found acceptable to the World Bank;(c) Selection of Individual Consultants; and (d) Sole Source Procedures for the Selection of Individual Consultants.

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

1. Except as the World Bank shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the World Bank: Each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more. 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: (i) 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; (ii) the contract shall be awarded only after the Association's approval shall have been given; and (iii) the provisions of paragraph 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to the contract. The following prior review procedures shall apply to each contract for the employment of individual consultants to be selected on a sole source basis: (i) 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; (ii) the contract shall be awarded only after the Association's approval shall have been given; and (iii) the provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall apply to the contract. All other contracts shall be subject to Post Review by the World Bank.

**Section IV. Withdrawal of Grant Proceeds**

**A. General**

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:

<b>Category</b>	<b>Amount of the Grant (TF 057614) Allocated (expressed in USD)</b>	<b>Amount of the Grant (TF057615) Allocated (expressed in USD)</b>	<b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b>
(1) Eligible Expenditures for water connections and average total month revenues collected under Part A of the Project	400,000	400,000	100%
(2) Consultant Services under Part B of the Project	175,650	175,650	100%
<b>TOTAL</b>	<b>575,650</b>	<b>575,650</b>	

**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, except that withdrawals up to an aggregate amount not to exceed \$80,000 equivalent, (withdrawn in the amounts of \$40,000 from TF057614-IFC and \$40,000 from TF057615-DFID) may be made for payments made prior to this date but on or after June 26, 2006, for Eligible Expenditures under Category (1); and

(b) under Category 1 unless a satisfactory Verification Report has been received from the Program Audit Consultant.

2. The Closing Date is December 31, 2008 or such later date as the World Bank shall establish. The World Bank shall promptly notify the Recipient of such later date.

**Section V. Other Undertakings**

The Recipient shall carry out the Project in accordance with the Operational Manual which shall inter alia include:

- (a) the eligibility criteria for selection of the Beneficiaries;
- (b) a detailed description of the project activities, including: (A) their sequencing and the prospective timetable and benchmarks in relation thereto; (B) the institutional arrangements in respect thereof, including the allocation of duties between the Beneficiaries and the Recipient; and (C) the terms and conditions for their respective participation;
- (c) the Project's administrative, accounting, financial, disbursement and procurement procedures and associated standard documents and model contracts in relation thereto;
- (d) the Environmental and Social Management Framework setting forth the guidelines for mitigating potential social and environmental harmful effects of Project implementation; and
- (e) the performance indicators for the Project.

## **APPENDIX**

### **Section I. Definitions**

1. “Beneficiary” means each community water organization/entity that has been selected in accordance with the eligibility criteria set forth in the Operational Manual;
2. “Dollar”, “\$” and “USD” each means the lawful currency of the United States of America;
3. “Environmental and Social Management Framework” means the plan dated October 5, 2006 satisfactory to the Association prepared and adopted by the Recipient referred to in Section V (d) of Schedule 2 to this Agreement, setting forth measures to mitigate any adverse social and environmental impacts to be applied in the implementation of the Project;
4. “Operational Manual” means the comprehensive manual satisfactory to the World Bank referred to in Section I.A.1(a) of Schedule 2 to this Agreement setting forth the operational and administrative procedures for the implementation of the Project as the same may be amended from time to time;
5. “Athi Water Services Board” means the Water Services Board established and operating pursuant to the Recipient’s Water Act, Law No. 8 of 2002 or any legal successor thereto;
6. “Program Audit Consultant” means the consultant hired by the Recipient for the purpose of monitoring implementation progress, preparing quarterly reports and certifying payment of the Sub-Grant after verifying satisfactory completion of outputs and preparing an annual program audit report.
7. “Project Manager” means the project manager appointed by each Beneficiary to ensure compliance with the requirements of the Operational Manual and assisting the Beneficiaries to certify payments to suppliers/contractors and provide post-implementation support for one year;
8. “Project Management Committee” means the Committee set up to oversee project implementation and referred to in Section 1A(2) of Schedule2 to this Agreement;
9. “Subproject” means any activities under Part A of the Project, appraised and approved in accordance with the Operational Manual;

10. "Outputs" means the Outputs that are agreed by the Beneficiary and indicated in the scheme specific loan agreement and developed as per the guidelines in the Operational Manual; and
11. "Verification Report" means a report submitted by the Program Audit Consultant verifying the satisfactory completion of outputs in the Subprojects.

## **Section II. Modifications to the Standard Conditions**

1. The provisions of Section 5.03, *Arbitration*, are deleted in their entirety and replaced by the following:

"Section 5.03. *Arbitration*. Any dispute, controversy, or claim arising out of or relating to the Grant Agreement, which has not been settled by agreement of the parties, shall be submitted to arbitration in accordance with the UNCITRAL Arbitration Rules in effect on the date of the Grant Agreement, and the following provisions:

- (a) the appointing authority shall be the Secretary-General of the Permanent Court of Arbitration; and
- (b) the language of the arbitral proceedings shall be English."