

# AFRICAN DEVELOPMENT BANK GROUP



## SUSTAINABLE RURAL WATER AND SANITATION INFRASTRUCTURE PROJECT FOR IMPROVED HEALTH AND LIVELIHOODS

**COUNTRY : MALAWI**

### APPRAISAL REPORT

**OWAS DEPARTMENT**

*April 2014*

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## Currency Equivalents

November 2013

National currency is Malawi Kwacha (MWK)

1 UA = 569.869 MWK

1 UA = 1.53804 US\$

1 UA = 1.12751 EUR

### Fiscal Year

1 July – 30 June

## Acronyms and Abbreviations

ACGF	African Catalytic Growth Fund	NCB	National Competitive Bidding
ADB	African Development Bank	NGO	Non-Governmental Organization
ADF	African Development Fund	NSP	National Sanitation Policy
AWF	African Water Facility	NPP	National Procurement Procedures
CBM	Community Based Management	NPV	Net Present Value
CLTS	Community Led Total Sanitation	NWDP	National Water Development Programme
CPIA	Country Policy and Institutional Assessment	NWP	National Water Policy
CSI	Core Sector Indicators	ODF	Open Defecation Free
CSP	Country Strategy Paper	O & M	Operation and Maintenance
DCT	District Coordination Team	OPEV	Operations Evaluation Department
DC	District Council	PCR	Project Completion Report
DPs	Development Partners	PCT	Project Coordination Team
EIRR	Economic Internal Rate of Return	PIU	Project Implementation Unit
ESMP	Environmental and Social Management Plan	PMU	Programme Management Unit
ESW	Economic and Sector Work	RMC	Regional Member Country
GFS	Gravity Fed Schemes	RWSSI TF	Rural Water Supply & Sanitation Initiative Trust Fund
GoM	Government of Malawi	SWAp	Sector Wide Approach
ICEIDA	Icelandic International Development Agency	TA	Technical Assistance
JMP	Joint Monitoring Programme (UNICEF/WHO)	ToR	Terms of Reference
LUO	Local Utility Operator	UA	Unit of Accounts
M & E	Monitoring and Evaluation	UNICEF	United Nations Children's Fund
MDG	Millennium Development Goal	USD	United States Dollars
MGDS	Malawi Growth and Development Strategy	WASH	Water, Sanitation and Hygiene
MoWDI	Ministry of Water Development and Irrigation	WPCs	Water Point Committees
MWK	Malawi Kwacha	WSS	Water Supply and Sanitation
NAPA	National Adaptation Program of Action	WUA	Water Users Association

## Loan/Grant Information

Client's information

**BORROWER/RECEIPIENT** Republic of Malawi  
**EXECUTING AGENT** Ministry of Water Development and Irrigation

Financing plan

Source	Amount (million)	Instrument
ADF	15.0 UA	Loan
NTF	5.0 UA	Loan
RWSSI Trust Fund	EUR 3.5 m (3.1 UA)	Grant
Government of Malawi	2.51 UA	In-kind Contribution
<b>TOTAL COST</b>	<b>25.61 UA</b>	

ADF/ADB's key financing information

Loan/Grant	ADF Loan
Interest type	N/A
Interest rate spread	N/A
Commitment fee	0.5% on undisbursed
Other fees	0.75% service charge on disbursed & outstanding
Tenor	40 years
Grace period	10 years
EIRR (base case)	39%

Loan/Grant	NTF
Interest type	N/A
Commitment fee	0.5% on undisbursed
Other fees	0.75% service charge on disbursed & outstanding
Tenor	27 years
Grace period	7 years

Loan/Grant	RWSSI TF
Interest type	N/A
Other fees	N/A
Tenor	N/A

Timeframe - Main Milestones (expected)

Project approval	April 2014
Effectiveness	September 2014
Completion	June 2019
Last Disbursement	December 2019
Last repayment	December 2069

## Project Summary

### *Overview*

The objective of the Sustainable Rural Water Infrastructure for Improved Health and Livelihood (SRWSIHL) project is to spur socio-economic growth in Malawi by improving health and livelihoods of the marginalised rural population through provision of sustainable water supply and improved sanitation. This project represents a continuation of a program which received Bank and other Development Partners (DPs) support and which closed on 31<sup>st</sup> December 2013. The SRWSIHL seeks to increase the resilience of water supply systems through rehabilitation and expansion and to address sanitation and hygiene challenges. The Bank's intervention will help to climate proof and ensure inclusive access to water supply and sanitation in five districts, namely, Rumphi, Nkhotakota, Ntcheu, Mangochi and Phalombe. It will also support the empowerment of district councils and rural communities with particular emphasis on women and youth, monitoring and evaluation, and on enhancing sector reforms for governance and accountability of service delivery. The project will closely collaborate with the initiatives that are supporting the prevention of malaria, a deadly disease for many rural communities that makes them unproductive for extended periods. The program to be financed by the ADF, NTF, RWSSI Trust Fund and the Government of Malawi, is estimated to cost UA 25.61 million, and will be implemented over a period of 5 years beginning in the second semester of 2014.

### *Assessment of Needs Met*

With about 16% of Malawians (2.56 million people) lacking access to clean water supply and 47% (7.52 million) without access to improved sanitation (Joint Monitoring Programme, WHO/UNICEF, 2012), the country must increase its efforts to achieve its National Water Policy vision of “*water and sanitation for all, always*”. Under this intervention approximately 516,000 people in marginalised rural areas will have access to improved water supply and 575,000 to improved sanitation, thus helping the GoM to meet its objectives.

### *Bank's Added Value*

Positive results in infrastructure, capacity development and health were recorded under past interventions in Malawi including the National Water Development Program (NWDP, completed in December 2013) and the Integrated Rural Water Supply and Sanitation project (completed December 2008). Under the concluded operations, the GoM was supported to address institutional, water and health issues in 6 out of 28 districts, namely: Lilongwe, Machinga, Mulanje, Mzimba, Ntchisi and Zomba. The SRWSIHL will expand these results to five more districts. The experience gained, capacity developed, lessons learned and the need to consolidate results from the two previous projects make this intervention both incremental and timely.

Amongst the donors involved in Malawi's water and sanitation sector, the Bank is perceived to have a comparative advantage in rural water supply and sanitation. This is evidenced through the Australian Aid Programme's use of the AfDB as manager of their contribution to NWDP. In addition, whilst other donors such as the World Bank primarily support the urban and town water supply and water resources sub-sectors under the NWDP, the Bank has primarily focused on supporting the marginalised rural areas with increasing resilience and access to sustainable water supply and improved living environment. The Bank's support through the SRWSIHL will complement on-going efforts by the GoM to improve the health and livelihoods of people living in rural areas among whom the women are 52%.

### *Knowledge Management*

The proposed project comprises elements of knowledge and skills development. The SRWSIHL will be the first water project to be implemented by Government staff (without a PIU), the knowledge generated will be valuable to implementation of future water projects. The sector is progressing towards a Sector Wide Approach (SWAp) and increased decentralisation. Results and lessons from the implementation of the SRWSIHL will be captured and shared with all stakeholders in the water sector.

## Results Based Logical Framework

**Country and Project Name:** Malawi: Sustainable Rural Water and Sanitation Infrastructure for Improved Health and Livelihoods

**Purpose of the project:** To improve access to clean and sustainable water supply and improved health of rural communities.

RESULTS CHAIN		PERFORMANCE INDICATORS				MEANS OF VERIFICATION	RISKS/MITIGATION MEASURES
		Indicator (scope is project districts, unless indicated), including CSI	Baseline (2013)	MTR (2017)	Target (2019)		
IMPACT	Improved health and alleviated poverty	Reported incidences of water borne diseases (proportion of persons suffering from diarrhoea) (rural areas) Population below poverty line (all Malawi)	11%(2011) 51%(2012)	8% 48%	6% (2025) 45% (2025)	National Statistical Office (NSO)	<b>Risk #1.</b> Shortage of key professionals within the MoWDI to implement the project. <b>Mitigation.</b> To continue engaging the Government on the commitment to make available suitably qualified staff and mobilisation of short term TA and capacity development of Government staff.
	OUTCOMES	1. Increased access to clean and sustainable water and improved and inclusive sanitation 2. Improved resilience of water resources 3. Sustainable community management of water supply and sanitation facilities	1.1 Access to clean drinking water (%) 1.2 No. of added people with access to clean drinking water by gender (CSI) 1.3 No. of added people with access to improved sanitation by gender (CSI) 2.1 Improved water quality (quality assessments completed) 3.1 Organized rural WUAs and WPCs managing the use of water sustainably which include women members in leading positions (CSI)	1.1 65% 1.2 - 1.3 -0 2.1 60% 3.1 -0	1.1 75% 1.2 120,000 1.3 350,000 2.1 70% 3.1 12 WUAs & 1,225 WPCs	1.1 80% 1.2 515,850 (52% F) 1.3 575,000 (52% F) 2.1 80% 3.1 12 WUAs & 2,925 WPCs (60% F, 3 WUAs with female in lead role)	
OUTPUTS	<b>Component 1: Water Infrastructure</b> 1.1 Gravity Fed Water Supply Schemes rehabilitated 1.2 Boreholes constructed. 1.3 Deforested land reforested 1.4 Communities trained in climate change adaptation 1.5 Water resources monitoring strengthened	1.1.1 No. of Gravity Fed Schemes rehabilitated 1.1.2 No. of construction of Communal Water Points 1.2.1 No. of boreholes constructed 1.3.1 No of tree seedlings planted 1.4.1 No. of Catchment Management Committees formed and trained 1.4.2 No. of people trained in climate change and catchment protection 1.5.1 No. of laboratories rehabilitated and equipped 1.5.2 No. of hydrometric and groundwater monitoring stations	1.1.1 -0 1.1.2 -0 1.2.1 -0 1.3.1 -0 1.4.1 -0 1.4.2 -0 1.5.1 -0 1.5.2 -0	1.1.1 5 1.1.2 550 1.2.1 350 1.3.1 168,000 1.4.1 12 1.4.2 31,650 1.5.1 2 1.5.2 11 & 8	1.1.1 12 1.1.2 2,925 1.2.1 450 1.3.1 240,000 seedlings 1.4.1 12 (50% F) 1.4.2 31,650 (50% F) 1.5.1 2 1.5.2 11 & 8	Project monitoring reports, supervision missions, District Team Reports	<b>Risk #2.</b> Inadequate capacity at district councils to implement the project and sustainably manage the water and sanitation infrastructure. <b>Mitigation.</b> Effective capacity development at community, council and district level while pursuing policy dialogue with GoM and Development Partners to sustain the decentralisation process. <b>Risk #3.</b> Proposed water supply schemes not properly operated and maintained and so require more rehabilitation in future. <b>Mitigation.</b> Continuous capacity development of the community structures and introduction of WUAs and LUOs for GFS, and WPCs for boreholes. Roll out O&M framework
	<b>Component 2: Sanitation and Hygiene</b> 2.1 Communities trained in improved sanitation and hygiene 2.2 Institutional sanitation facilities constructed	2.1.1 No. of people trained in improved environmental health sanitation & hygiene by gender 2.1.2 No. of pupils trained in hygiene education by gender	2.1.1 -0 2.1.2 -0	2.1.1 425,000 2.1.2 350,000	2.1.1 575,000 (52% F) 2.1.2 465,000 (52% F)		
	<b>Component 3: Capacity Development and Project Management</b> 3.1 Improved Capacity of DCs and Communities 3.2 Reviewed National Water Policy 3.3 Project managed	2.2.1 No of school, market and health centre toilets constructed (disaggregated by sex & physically challenged) 3.1.1 No of DCT members and Extension Workers trained 3.1.2 No. of DC office blocks and staff houses constructed 3.2.1 National Water Policy reviewed 3.3.1 Financial Audits	2.2.1 -0 3.1.1 -0 3.1.2 -0 3.2.1 -0 3.3.1 -0	2.2.1 150 3.1.1 180 3.1.2 5 and 10 3.2.1 1 3.3.1 Annually	2.2.1 166 3.1.1 180 (> 30% F) 3.1.2 5 and 10 3.2.1 1 3.3.1 Annually		

KEY ACTIVITIES	ACTIVITIES	INPUTS
	<ol style="list-style-type: none"> <li>1. <u>Water Supply Infrastructure</u> – Rehabilitation of GFS, Formation of CWPs and Catchment Protection Committees and Training in Climate Change Adaptation</li> <li>2. <u>Sanitation and Hygiene</u> – Training of communities and pupils in sanitation and hygiene in public places</li> <li>3. <u>Capacity Development and Project Management</u> – Gender empowerment – Training particularly women for economic empowerment, rehabilitation of laboratories, Training of GoM Staff and Construction of Office Blocks and Staff Houses support and Project Management</li> </ol>	Financial resources: <ul style="list-style-type: none"> <li>▪ ADF: UA 15.0 million</li> <li>▪ NTF: UA 5.0 million</li> <li>▪ RWSSI TF: UA 3.1 million</li> <li>▪ GoM: UA 2.51 million</li> </ul> <b>Total: UA 25.61 million</b>

### Project Implementation Schedule

Activity	2014						2015						2016						2017						2018						2019					
	2	4	6	8	10	12	2	4	6	8	10	12	2	4	6	8	10	12	2	4	6	8	10	12	2	4	6	8	10	12	2	4	6	8	10	12
Board Approval			■																																	
Publication of GPN				■																																
Signing					■																															
Effectiveness						■																														
Launch Mission																																				
<b>Services</b>																																				
Eol/Shortlist						■																														
RfP/bidding & contract award												◇																								
Implementation for Baseline Survey																																				
Implementation for Capacity Developmt																																				
Implementation for Sanitation & Hygiene																																				
<b>Civil Works for GFS</b>																																				
Eol/Shortlist																																				
RfP/bidding & contract award																																				
Implementation																																				
Defect Liability Period																																				
Post construction mentoring																																				
<b>Civil Works for Sanitation Facilities</b>																																				
Eol/Shortlist																																				
RfP/bidding & contract award																																				
Implementation																																				
Defect Liability Period																																				
Mid Term Review																																				
Endline Survey																																				
Financial Audit																																				
<b>Project Completion</b>																																				

## **REPORT AND RECOMMENDATION OF MANAGEMENT ON PROPOSED LOANS AND GRANT TO MALAWI FOR SUSTAINABLE RURAL WATER AND SANITATION INFRASTRUCTURE PROJECT FOR IMPROVED HEALTH AND LIVELIHOODS PROJECT**

Management submits the following Report and Recommendation on a proposed ADF loan not exceeding UA 15.0 million, NTF loan not exceeding UA 5.0 million and a grant from the RWSSI Trust Fund not exceeding EUR 3.5 million to finance the Sustainable Rural Water and Sanitation Infrastructure for Improved Health and Livelihood (SRWSIHL) project in Malawi.

### **I – STRATEGIC THRUST AND RATIONALE**

#### ***1.1. Project Linkages with Country Strategy and Objectives***

1.1.1 The Government of Malawi (GoM)'s Growth and Development Strategy (MGDS II, 2011-2016) has the objective to '*continue reducing poverty through sustainable economic growth and infrastructure development.*' It identifies nine priority areas, including water development and sanitation, to meet its goals under the Vision 2020. Rehabilitating water facilities, promoting user and gender friendly technologies, efficient water resource utilization and campaigns to address sanitation and hygiene are the GoM's priorities under the MGDS II. The SRWSIHL contributes to achieving the MGDS II targets. In addition, the SRWSIHL complements Malawi's National Adaptation Programme of Action (NAPA, 2006), which recognises the country's high vulnerability to the impacts of climate change. The proposed adaptation measures under NAPA include improved water resource management, which is addressed under this proposed intervention.

1.1.2 The Bank Group's Country Strategy Paper (CSP, 2013-2017) for Malawi mirrors the MGDS II's emphasis on water and sanitation. The SRWSIHL is identified under the first pillar of the CSP, *addressing infrastructure bottlenecks to competitiveness and growth*, and will contribute to three CSP outcomes, namely: (i) increased access to clean water; (ii) increased access to improved sanitation; and (iii) improved institutional capacity for water resources management. In addition, the Bank's Rural Water Supply and Sanitation Initiative Strategic Plan (RWSSI, 2012-2015) calls for increased investment in the rural sector along with a reduction in non-functioning facilities, issues which are covered under this SRWSIHL. In accordance with the Bank's policy on Integrated Water Resources Management (IWRM), the project has employed an IWRM design including catchment protection (community sensitization, tree planting) and gender responsive activities. It is also consistent with the twin objectives of the Bank Group's Ten-Year Strategy (TYS, 2013-2022) of inclusiveness and green growth and responds to three of its five operational priorities of sustainable infrastructure, skills and technology; and governance and accountability. The SRWSIHL also incorporates two of the three areas of special emphasis of gender and food security due to increased productivity with available water. The project's objective is in line with the Bank's Gender Policy (2001) and Gender Strategy (2014-2018) in that it will empower women through their involvement in sector governance and provide women and girls with more time for economic activities, school and leisure.

#### ***1.2. Rationale for Bank's Involvement***

1.2.1 With 84% of the population of Malawi living in rural areas, rural water supply remains a key priority both for the social and economic development of the country. According to a UN water and sanitation progress update<sup>1</sup>, in 2011, about 16% of Malawians (2.56 million people) did not have access to clean water supply and 47% (7.52 million) did not have access to improved sanitation. While Malawi is on track to meet the water MDG by 2015, the country is lagging behind on the sanitation MDG. While JMP reports on improved water access, it acknowledges challenges in terms of distance

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<sup>1</sup> WHO/UNICEF Joint Monitoring Program (2013)

to, and numbers of users of, many water points. This programme, which will provide new and rehabilitated water points, will address this in areas served by GFS. Safe hygiene practices remain insufficient leading to a high prevalence of water and sanitation related diseases (for example, in 2011, 11% of the rural population suffered from diarrhoea due to poor water and sanitation, and diarrheal diseases are the second highest cause of mortality (18%) of children under five). This, in turn, contributes to poor health, loss of productivity and deepening poverty. Women and girls are most affected by lack of access to water, as the GoM statistics show that it is women who are largely responsible for collecting water (82% of females assume responsibility for domestic activities which includes fetching and handling water against only 18% of males; women spend over eight times more time than men fetching water and wood and girls spend over three times more time than boys on the same activities). There is also a need to better manage the country's water resources in order to sustain the water demand, improve water allocation and equitability and improve community resilience to climate change and variability. The rationale to support improved sanitation and hygiene interventions is to contribute to reduction of the top leading causes of death among children under 5 in Malawi which are diarrheal diseases (18%) and Malaria (14%).

1.2.2 The Bank has a long history of involvement in Malawi's rural water and sanitation sector dating back to 1976. It is viewed as a trusted partner having a comparative advantage due to its long-term presence on the ground. While other donors have chosen to provide support for urban water supply, the Bank has taken an inclusive approach by addressing the unserved rural population. Indeed, the proposed operation will contribute significantly to the required rural sector financing outlined in Malawi's 2012 Water Sector Investment Plan. The project will build on impacts of earlier Bank interventions, including the recently completed NWDP, by covering additional districts, applying lessons learned, laying the groundwork for institutionalization of SWAp, and supporting the GoM's policy of decentralization to the district level.

### **1.3. Donor Coordination**

1.3.1 There is strong collaboration among the Water and Sanitation Sector Development Partners (DPs) in the country who regularly meet to discuss sector issues. The DPs are mainly engaged in policy dialogue, financing projects and programmes, and economic sector work (ESWs). Improved harmonization in the water sector is taking shape with some progress being made towards the institutionalization of the SWAp. The sector undertakes annual Joint Sector Reviews (JSR) informed by Sector Performance Reports, and has institutionalized the Sector Working Group (SWG) and Technical Working Groups. Most recently, the Sector Performance Report (2012) outlined a number of recommendations that include increasing the number of functional rural water systems through rehabilitation and the number of Open Defecation Free (ODF) villages.

1.3.2 The DPs are part of the SWG which is chaired by the Ministry of Water Development and Irrigation (MoWDI). The main task of the SWG is to make decisions for the sector, assess and report on progress on the implementation of agreed programmes and projects in the sector. This project will also be subject to review and report to the SWG and JSR. The DPs who are active in Malawi include: AfDB, the World Bank, UNICEF, European Union (EU), European Investment Bank (EIB), JICA, UK's DfID, WaterAid, Australian Aid Program. The sector has a coordinated network of Non-Government Organizations (NGOs) under the Water and Environmental Sanitation NGO Network. The contribution of the DPs to the sector in terms of monetary volume is presented in Table 1.

**Table 1: Development Partners Support**

Sector or subsector*	GDP	Size Exports	Labour Force
Water and Sanitation	[4.2%]	[N/A]	[%]
Public Annual Expenditure in the Water and Sanitation Sector (2007 – 2012)			
Government	Donors		
59.68 UA m	238.72 UA m	AfDB	13 %
20%	80%	EU&UNICEF	8%
		EU & EIB	13%
		DfID & UNICEF	8%
		WB	45%
		Australian Govt	4%
		ACGF	7%
Level of Donor Coordination			
Existence of Thematic Working Groups			YES
Existence of SWAps or Integrated Sector Approaches			YES
AfDB's Involvement in donors coordination			Member

## II - PROJECT DESCRIPTION

The project development objective is to contribute to socio-economic growth in Malawi by improving the health and livelihood of the population in the rural areas through provision of sustainable clean water supply and improved sanitation.

### 2.1 Project Components

2.1.1 The project will comprise three components, as follows: (i) Water Infrastructure Development; (ii) Sanitation and Hygiene; and (iii) Capacity Development and Project Management; and Table 2 below provides a summary of components and outputs.

**Table 2.1: Project Components and Activities (net of contingencies)**

No.	Component name	Est. cost (UA m)	Component Description
A	Water Infrastructure Development	<b>13.125</b>	<ul style="list-style-type: none"> <li>- Rehabilitation and expansion of 12 Gravity Fed Schemes;</li> <li>- Construction of 600m<sup>3</sup> localised storage reservoirs &amp; break pressure tanks;</li> <li>- Construction of 2,925 Communal Water Points;</li> <li>- Construction of 450 new boreholes;</li> <li>- Catchment protection and management;</li> <li>- 12 Catchment Management Committees formed and trained, with 50% female members, and 30% women in leadership positions;</li> <li>- 5 ground water monitoring and 8 hydrometric stations established;</li> <li>- Rehabilitation of 2 water quality laboratories;</li> <li>- Design and supervision services.</li> </ul>
B	Sanitation and Hygiene	<b>3.749</b>	<ul style="list-style-type: none"> <li>- Promotion and education on health and hygiene in water and sanitation, 52% female;</li> <li>- Construction of 166 sanitation facilities at public institutions (schools, health and market centres) disaggregated by sex and for those who are physically challenged;</li> <li>-</li> </ul>

C	Capacity Development and Project Management	5.993	<ul style="list-style-type: none"> <li>- Training of District Coordination Teams and Extension Workers;</li> <li>- Formation, training and capacitation of Water Users Associations (WUA) and Water Point Committees (WPC), with 60% female members and 30% women in leadership positions;</li> <li>- Construction of District WASH offices &amp; staff houses;</li> <li>- Operations and Maintenance (O&amp;M) Framework rolled out;</li> <li>- Strengthening of M&amp;E systems including training in collecting, analysing and reporting on gender &amp; social issues ;</li> <li>- Review of National Water Policy and review of the policy's gender and social equity dimensions;</li> <li>- Preparation of a gender responsive District WASH Investment Plans;</li> <li>- Impact evaluation of NWDP.</li> <li>- Project Management, monitoring and reporting system with gender and social indicators; and</li> <li>- Audits.</li> </ul>
	<b>Total</b>	<b>22.867</b>	

## 2.2 *Technical solution retained and other alternatives explored*

2.2.1 In accordance with the guiding strategies for rural water services of the National Water Policy (NWP, 2005), the project has opted to rehabilitate and expand existing Gravity Fed Schemes (GFS) as the best way to meet its stated objectives. This technical solution was considered optimal because: (i) GFS have proved to be sustainable and in accordance with the NWP, provide convenient access and adequate water supply to most people; (ii) GFS contribute to reduction of time spent in fetching water since GFS schemes bring water supply closer to households (without pumping) than supply from boreholes and also enables some direct household connections to be made; (iii) GFS have the potential to be expanded and reach more people; and (iv) in the two districts of Mangochi and Phalombe, the groundwater in the targeted areas is salty and virtually unusable, being recharged from the nearby lakes that have a high salt content. In areas where groundwater quality is good and GFS will not be within reach, groundwater from drilled boreholes will supplement water supply. In accordance with the guiding principles of the NWP, the project will include activities that will increase the resilience of water resources with activities for better catchment management around all GFS. These schemes will be managed by newly formed Water User Associations (WUAs), a model which has increased the sustainability of infrastructure and proved successful in Malawi, with Local Utility Operators (LUOs) responsible for operation, maintenance and collecting tariffs from users.

2.2.2 With regards to sanitation, the project will, in accordance with the National Sanitation Policy (NSP, 2008), focus on hygiene and sanitation promotion and marketing. This is expected to create demand as opposed to the former approach of providing the standard VIP to households with a household contribution of a dug pit. The project will contribute to capacity development of masons and other artisans (of which 30% will be female) as a continuation of the highly successful strategy of encouraging and supporting local private entrepreneurs in the construction of improved facilities. The interventions will be guided by the Bank supported National Ten Year Sanitation and Hygiene Investment Plan and Strategy developed under the NWDP and adopted by the GoM in 2012. Concerning school sanitation, in consultation with the GoM the Bank is focusing on primary schools which are facing a significant level of infrastructure degradation. The standard toilet design includes hand washing facilities, and discussions are underway to include facilities for menstrual hygiene management to ameliorate the school dropout rate among pubescent girls. For most secondary schools, provision of waterborne sanitation facilities is incorporated when the schools are being constructed, unlike with primary schools.

**Table 2.2: Project alternatives considered and reasons for rejection**

Alternative name	Brief Description	Reasons for Rejection
Construction of boreholes (use of ground water sources) to serve the communities.	Communities are served by localised boreholes that use ground water sources which serve few people per borehole.	In some of the targeted areas, ground water is salty, unpalatable and unacceptable for domestic use. Boreholes cannot be brought as close to communities as can GFS.
Provision of standard VIP to households with a household contribution of a dug pit.	Provision of standard VIP to households with a household contribution of a dug pit including a household subsidy.	Provision of VIPs does not generate the required level of demand as compared to Community Led Total Sanitation (CLTS) and Sanitation Marketing approach.

## 2.3 Project type

2.3.1 The water and sanitation sector is moving towards the SWAp, though the requisite institutional framework is not yet in place. Currently the sector is implementing the National Water Development Programme (NWDP) with five components (Urban and Town Water Supply, Water Resources Management, Sanitation and Hygiene, Rural Water Supply and Sector Reforms and Management) through implementation of several projects supported by the development partners including the World Bank, UNICEF, European Investment Bank, European Union, Australian Government, among others. Thus, the Bank funded SRWSIHL project will be implemented by the Ministry of Water Development and Irrigation within the framework of the NWDP focusing on rural water supply sanitation in five districts. However, it will contribute towards the institutionalization of SWAp by being directly implemented by the Government, rather than through a separate Project Implementation Unit (PIU) as has been the case in the previous Bank funded projects. It is anticipated that, in future, with the institutionalisation of SWAp and strengthening of country fiduciary, procurement and monitoring systems, DPs will implement future interventions through SWAp.

## 2.4 Project cost and financing arrangements

2.4.1 The total cost of the Project for the components defined above is estimated at UA 25.61 million (equivalent to USD 39.39 million), including contingencies but net of taxes and duties, of which UA 16.24 million (63%) is in foreign currency and UA 9.37 million (37%) in local costs. Table 2.3 below provides a summary of the project costs by component. These cost estimates are based on the set of proposed activities to be undertaken and recent unit rates obtained from suppliers and contractors, as well as from experience of on-going projects in the county. The estimates include physical contingency of 7% and price contingency of 5%.

**Table 2.3: Project cost estimates by component [‘000 UA]**

Components	Foreign	Local	Total	% Foreign Exchange	% Base Costs
Water Infrastructure Development	10,492	2,633	13,125	80	57
Sanitation and Hygiene	1,575	2,174	3,749	42	16
Capacity Development and Project Management	2,435	3,557	5,992	41	26
<b>Total Base Costs</b>	<b>14,502</b>	<b>8,364</b>	<b>22,866</b>	<b>63</b>	<b>100</b>
Physical Contingencies @ 7%	1,015	586	1,601		7
Price Contingencies @ 5%	725	418	1,143		5
<b>Grand Total</b>	<b>16,242</b>	<b>9,368</b>	<b>25,610</b>		<b>112</b>

2.4.2 The cost of the project will be financed by the ADF, NTF, RWSSI Trust Fund and the GoM through an in-kind contribution, as shown in Table 2.4 below. The Bank will finance UA 23.1 million, comprising of an ADF loan of UA 15.0 million, NTF loan of UA 5.0 million and a Grant of Euro 3.5 million (equivalent to UA 3.1 million) from the RWSSI Trust Fund. The Bank Group financing accounts for 90% of the total project cost and the GoM will fund the project through an in-kind contribution valued at UA 2.51 million.

**Table 2.4: Sources of financing [millions UA]**

Source	Amount	% of Total
ADF	15.00	59
NTF	5.00	19
RWSSI TF	3.10	12
GoM	2.51	10
<b>Total</b>	<b>25.61</b>	<b>100</b>

**Table 2.5: Project cost by category of expenditure and Source of Financing ['000 UA]**

Category of Expenditure	ADF Loan		NTF Loan		RWSSI TF		Govt	Total	
	Foreign	Local	Foreign	Local	Foreign	Local	Local	Foreign	Local
Works	7,795	1,947	2,795	696	462	115	-	11,052	2,758
Goods	962	78	-	-	293	-	-	1,255	78
Services	1,890	722	263	516	61	1,841	-	2,214	3,079
Operational Costs	-	-	-	195	-	-	-	-	195
Miscellaneous	-	-	-	-	-	-	2,241	-	2,241
<b>Total Base Costs</b>	<b>10,647</b>	<b>2,747</b>	<b>3,058</b>	<b>1,407</b>	<b>816</b>	<b>1,956</b>	<b>2,241</b>	<b>14,521</b>	<b>8,351</b>
Physical Contingencies	745	192	214	98	57	137	157	1,016	585
Price Contingencies	532	137	153	70	41	98	112	726	418
<b>Total Project Cost</b>	<b>11,924</b>	<b>3,076</b>	<b>3,425</b>	<b>1,575</b>	<b>914</b>	<b>2,191</b>	<b>2,510</b>	<b>16,264</b>	<b>9,353</b>

**Table 2.6: Expenditure schedule by component ['000 UA]**

Component	2014	2015	2016	2017	2018	2019	Total
Water Infrastructure	-	1,924	5,102	4,669	1,430	-	13,124
Sanitation and Hygiene	-	961	1,294	956	537	-	3,749
Capacity Development & Project Management	259	1,823	1,769	1,127	515	499	5,992
<b>Total Base Costs</b>	<b>259</b>	<b>4,708</b>	<b>8,166</b>	<b>6,752</b>	<b>2,482</b>	<b>499</b>	<b>22,865</b>
Physical Contingencies	18	329	572	472	174	35	1,601
Price Contingencies	12	235	408	338	124	25	1,143
<b>Total Project Cost</b>	<b>290</b>	<b>5,273</b>	<b>9,145</b>	<b>7,563</b>	<b>2,779</b>	<b>558</b>	<b>25,609</b>

## 2.5 Project's Target Area and Population

**2.5.1** The project will focus on the rehabilitation and expansion of twelve GFS in five districts, namely: Rumphi (northern region), Nkhotakota and Ntcheu (central region), Mangochi and Phalombe (southern region). The project will increase coverage of sustainable and clean water to a total population of approximately 516,000 and will increase coverage of improved and inclusive sanitation to a total population of about 575,000 including pupils in public primary schools. It is expected that about 52% of the beneficiaries will be female. In addition, the project will create more than 6,760 jobs including 750 for the youths in bee keeping as part of sustainable catchment management. The project will also improve resilience of water resources with related improved community management to sustain water supply and sanitation facilities. Additional demographic information on the target population is included in **Annex B7** and **B8**.

## **2.6 Participatory process for project identification, design and implementation**

2.6.1 Consultations with relevant stakeholders, including project beneficiaries, women, men, line ministries, District Councils, Traditional Authorities, DPs, and NGOs took place during project preparation and appraisal. A consultative workshop which was attended by 38 people (of which about 20% of attendees were female) was jointly hosted by the Bank and the MoWDI during appraisal. These consultations were instrumental in finalizing the design of the project. Feedback received during the consultations included: (a) Traditional Authorities' overwhelming preference for rehabilitation and expansion of existing GFS instead of boreholes, (b) agreed implementation arrangements by the MoWDI and District Councils, (c) descriptive input from women on the amount of time to fetch water from safe sources (sometimes exceeding an hour and a half per trip), (d) broad based consensus among District Councils that formation of WUAs and recruitment of LUOs should be done up-front, and (e) reports on linkage of diarrhoea and cholera to poor quality water and lack of sanitation, including open defecation. Additional details of how these consultations have been addressed are included in **Annex B1**. There was also evidence that MoWDI had consulted with beneficiaries on the design and implementation of the project.

## **2.7 Bank Group Experience, Lessons Reflected in Project Design**

2.7.1 The Bank's current active portfolio in Malawi amounts to UA 257.7 million with an overall disbursement rate of 42%. In the water sector, ADF support to the NWDP closed on 31<sup>st</sup> December 2013. The project was completed within the available resources and timeframe and the Project Completion Report is planned for the second quarter of 2014. Additional details are included in **Appendix 3**.

2.7.2 Lessons from previous interventions have been considered in the design of the SRWSIHL. In the absence of a Project Completion Report (PCR) for the NWDP, details of lessons from past PCRs have been captured in Technical **Annex B1**. In general, PCRs of water and sanitation projects from the region show that ownership and participation of beneficiaries improve sustainability of facilities. Indeed, a 2010 OPEV Synthesis Report on Water Supply and Sanitation (WSS) notes: "effective community participation, especially in rural settings, is paramount for ensuring ownership and sustainability". This lesson has been incorporated in the design of SRWSIHL in particular through the system of community participation that includes the establishment and training of WUAs, Water Point Committees (WPCs), resident External Workers (Water Monitoring Assistants, Community Development Assistants and Health Surveillance Assistants) and LUOs. Other key lessons from previous interventions which have been considered are:

- (i) Use of country structures ensures seamless coordination and also builds sustainable capacity in the institutions. The project will use the existing structures within the MoWDI to implement the project thereby creating the capacity for implementing larger projects;
- (ii) Capacity development at community level is critical and should be continuous for long term sustainability. The project includes a component on capacity development to create effective structures for operation and management (i.e. WUAs, Catchment Protection Committees, WPCs). These local committees will manage and develop the GFS. The project will also support the roll out of an O&M framework for rural water supply in the five districts. The NWDP revealed that the construction of new offices and staff houses facilitates the attraction and retention of high quality professionals and this will consequently be continued under new project. A further lesson from NWDP, the SRWSIHL will ensure that WUAs and LUOs are established early to allow time for post-construction hands-on learning/training. WUAs will additionally be supported with seed money to cover the first six months of operation, which will bridge the time until they are able to collect tariffs from beneficiaries;

- (iii) Promoting enhanced local governance and equal contribution to the operation and maintenance of the facilities requires that every member of the community has equal say in the management affairs of the facilities. Most households, however, are headed by men and so most decisions are likely to be dominated by them. The project, therefore, recommended mainstreaming gender by ensuring that at least 50% of the WPCs are women and that they occupy important positions like chairperson, secretary and treasurer.
- (iv) Improving monitoring and evaluation capacity for tracking gender and social results and enhancing accountability is important. The project will provide support to roll out the newly developed M&E framework in the five districts, which was supported by the AWF. The MoWDI will be encouraged to convene meetings of WUAs on a regular basis to ensure cross-fertilization of lessons, peer-to-peer mentoring and friendly competition on performance targets;
- (v) Sustained hygiene promotion in order to generate demand for sanitation and also bring desirable behavioural changes requires continuous focus and collaboration with the Ministries of Health and Local Government and Rural Development. The project will therefore support effective collaboration between the Ministries of Health and Local Government and Rural Development and MoWDI.

## **2.8 Key performance indicators**

2.8.1 The SRWSIHL will be monitored using Key Performance Indicators (KPIs) which are in-line with Core Sector Indicators (CSIs) as well as the M&E framework that has been developed with support from AWF. The KPIs will include the number of people added with access to improved and clean water and number of people added with access to improved sanitation. In order to capture aspects of inclusive growth, the project KPIs disaggregate information for gender inclusivity. A short consultancy will be commissioned at commencement of the project to collect and validate baseline data and at project closure to collect end-line data. This will facilitate reporting on project results. The project's M&E expert will be responsible for collecting, analyzing and monitoring performance indicators, including those for gender.

2.8.2 The SRWSIHL will also include an impact evaluation of the recently completed NWDP. Under the project, funds have been budgeted to conduct an impact evaluation of the NWDP, in the final year of the SRWSIHL (i.e. five years after the close of NWDP). It is expected that the impact evaluation will yield interesting results which could be deployed by the GoM and DPs, including the Bank, in future engagements in the water and sanitation sector. The impact evaluation will evaluate the achievements of the NWDP measured against the outcomes projected at project design. The impact evaluation acknowledges that outcomes and impact of various interventions will take time to be felt or seen and the evaluation will review benefits to various segments of the population, including to women, in terms of time saved and spent on income generating activities, rest and recreational activities.

## **III – PROJECT FEASIBILITY**

### **3.1 Economic Performance**

EIRR (base case) 39%

NPV (base case) USD 16.9 million

3.1.1 The economic analysis assesses the beneficial effects of the proposed intervention and highlights the broader impacts associated with the program interventions in terms of employment generation, public health, time savings and the incidence of waterborne and water-related diseases. The following broad parameters constitute the variables that were used for the economic viability assessment: (i) averted costs of healthcare; (ii) averted productivity losses while sick or accessing health care (including welfare gained by women due to less child illness); (iii) improved earnings due to training and skills upgrading; (iv) travel and waiting time averted for collecting water for female

beneficiaries; and (v) travel and waiting time averted for access to sanitation for all beneficiaries. Detailed assumptions are contained in **Annex B7**.

### **3.2 Environmental and Social impacts**

#### **Environment**

3.2.1 The project has been classified as Category 2 according to the Environmental and Social Assessment Procedures (ESAP). This is based on its focus on GFS rehabilitation and construction of small size sanitation facilities in rural areas whereby the works will not require any involuntary resettlement and will not affect livelihoods of the rural people. An Environmental and Social Management Plan (ESMP) was prepared in accordance with the Bank's guidelines and has been disclosed on the Bank's website on 26 February 2014.

3.2.2 The project may have some minor and temporary environmental impacts resulting mainly from the construction of water supply and sanitation facilities. Surface water abstraction usually impacts downstream users during low river/stream flows. Drilling of boreholes will generate noise, dust and fumes and the construction process will generate solid waste and other debris. These impacts will be minor, temporary and confined to the areas immediately surrounding the drilling and construction. Intense groundwater abstraction may deplete the aquifers and therefore the project will include provision of groundwater monitoring wells in each project district. Other negative impacts include: (i) over abstraction; (ii) contamination of water sources; (iii) management and disposal of sanitary waste and disposal during operation; (iv) damage to existing vegetation and resources during construction; (v) risk of industrial accidents during construction; and (vi) increased risk of HIV/AIDs and STDs due to interactions of contractor staff and the local population.

3.2.3 An ESMP has been developed for the project for which appropriate safeguards has been included to: (i) protect environmentally sensitive areas around the water sources and in particular the riverine environments and catchments; (ii) ensure controlled abstraction of water from ground water sources; and (iii) safeguarding the interest of downstream users for surface water sources. Among initiatives included under the ESMP are measures to control dust, noise, oil leakage, protection of vegetation cover and ensure minimal disruption of water supply to communities during construction. In addition, (i) twelve Catchment Protection Committees with 50% women will be formed and trained in order to safeguard the quality of water in the intake areas: (ii) district forestry officers will conduct law enforcement activities to prevent encroachment in catchment areas: (iii) the SRWSIHL will also provide for training on solid waste management for DCTs, public schools, markets, and health centres under the sanitation component. This training will encourage farmers to use end-products of faecal sanitation; and (iv) water metering will improve water demand management. The estimated cost of the ESMP is MWK 76.5 million (UA 134,200).

3.2.4 The positive impacts include the improved quantities and quality of water available to the communities which will lead to an improved quality of life. The formation of Water Users Associations and committees for water points and catchments and associated training will empower the communities. The Project will promote equal access to potable water by poor women-headed households, youth, the elderly and disabled people. Access to potable water and improved hygiene practices among the rural population will contribute to a reduction in morbidity and mortality, especially among young children and improve health outcomes. Improved health conditions will reduce the mortality rate and incidence of waterborne and skin diseases. The number of hours spent on collecting water will be reduced significantly by the establishment of water points closer to public institutions and villages. This will allow women to spend time in productive activities and family welfare. Catchment management activities and waste management programs will support conservation efforts and increase the resilience of the communities to climate change.

## **Climate Change**

3.2.5 The project is aligned to the National Adaptation Programme of Action (NAPA) by providing for: (i) installation of 8 hydrometric monitoring stations in selected rivers in the project and 5 groundwater monitoring stations; (ii) improvement in water quality testing through the upgrading and rehabilitation of Water Quality laboratories (iii) development of catchment management plans and formation of catchment conservation committees at the community level; (iv) tree planting activities to restore degraded catchments; (iv) training of district water monitoring assistants help track the quality of water resources and ensure they are not becoming degraded; (v) sensitization and training of the communities in the project catchment areas in climate change mitigation and adaptation activities; and (vi) planting 250,000 trees in the project catchment areas to reduce erosion and contribute to decrease in carbon emissions.

3.2.6 In addition, Malawi's NAPA acknowledges that women are most impacted by adverse climate as they are typically responsible for collection of water, firewood and ensuring daily access to food. The SRWSIHL will directly respond to one of the gender-related activities proposed under NAPA, notably, ensuring easier access to water sources.

## **Gender**

3.2.7 Preparation and appraisal of the SRWSIHL was guided by Bank policies and strategies including the Gender Strategy (2014-2018), Checklist for Gender Mainstreaming in the Water and Sanitation Sector. The Bank Group CSP (2013 – 2017) for Malawi notes that gender inequality remains a concern. It calls for interventions which target gender parity in skills development in order to provide women with more economic opportunities. Women and girls are most affected by lack of access to water, as the GoM statistics show that it is women who are largely responsible for collecting water (82% of females assume responsibility for domestic activities which includes fetching and handling water against only 18% of males; women spend over eight times more time than men fetching water and wood and girls spend over three times more time than boys on the same activities). An overview of the Gender context in Malawi is included in Technical **Annex B8**. Some of the key issues which the country is working on include economic empowerment of women. Gender issues are an integral part of the overall national development agenda in Malawi<sup>2</sup>. The 2012 Malawi Gender Development Index position has slightly declined from 0.639 in 2010 to 0.621 in 2011 (170 out of 186), reflecting slow progress in closing gender disparity in the socio-economic and political spheres.

3.2.8 In order to contribute to address these issues, the project includes activities for empowering women and youths. The SRWSIHL will train and organize skills up-grade for 2,400 female members of Water Point Committees, 30 female Catchment Management Committee members, 5 female masons and 10 female mechanics. The participation of women also draws on past experience and Dublin Principles (1992) which have shown that women must be involved in water management since they are the primary users. Women participation in governance increases accountability in the management of facilities. In addition, women are expected to experience significant time savings as a result of the project, due to less time spent fetching water and through avoided productivity losses due to caring for sick members of the families. These benefits have been quantified in the economic analysis and are highly significant. In general, it is expected that the SRWSIHL will free time for women and girls to engage in more productive activities and education. Overall progress on gender will be monitored through the use of gender disaggregated performance indicators. The PCT will also include a Community Participation Specialist who has experience in Gender issues.

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<sup>2</sup> Malawi Growth and Development Strategy – From Poverty to Prosperity 2006-2011

## **Social**

3.2.9 Youth unemployment in the districts is very high (exceeding 30%) and consequently, the project will aim to create approximately 660 jobs for youth (with 30% girls) through training in bee-keeping (as an income-generating activity to complement efforts for preserving the catchment area), employment of area mechanics, masons (for san plats), as well as Local Utility Operators (LUOs). The project will also create about 4,750 jobs during construction of works.

3.2.10 Tariffs for water users will be set by WUAs for GFS and through Water Point Committees for boreholes, following tariff guidelines developed under the NWDP with the Bank's support. Consultations held in districts benefitting from earlier Bank support revealed that communities are willing to pay for water services. Through health benefits (and avoided health costs) and time savings accorded to women and to households, it is expected that welfare will improve.

3.2.11 As concerns health, the SRWSIHL is expected to have an impact on the incidence of water borne disease. In particular, the incidence of diarrhoea and cholera is expected to decrease in the target areas. It is expected that children, in particular, will experience improved health as they are typically more vulnerable to waterborne diseases and will benefit from the investment in primary school sanitation. The project will also construct sanitation infrastructure in health and market centres. The distribution of mosquito nets is also expected to decrease the incidence of malaria in the target districts.

## **Involuntary resettlement**

3.2.12 Implementation of the project will not result in resettlement of people since the project activities of rehabilitation shall be within existing infrastructure. In cases where the water pipes traverse agricultural land, rehabilitation works shall be planned in such a way that farmers are allowed to harvest or they are given ample notice not to plant crops until after works have been completed. A resettlement policy framework based on the Bank's Involuntary Policy has been prepared within the context of the ESMP which will guide any unlikely events requiring compensation.

## **IV – IMPLEMENTATION**

### ***4.1 Implementation Arrangements***

4.1.1 The overall coordination and management of the project and reporting obligations to the Bank Group will be the responsibility of the Ministry for Water Development and Irrigation. The MoWDI has experience in the implementation of projects through the NWDP which is supported by the Program Management Unit (PMU). However, in accordance with the Government policy of mainstreaming the implementation of the projects and abolishing PIUs, the MoWDI will constitute, within the Ministry and made up of Ministry staff and subject matter specialist(s), a Project Coordination Team (PCT), comprising a Project Coordinator, two Water and Sanitation Engineers, Procurement/Contracts Management Expert, Financial Management Expert/Accountant, Social/Community Mobilization Expert (who has experience in gender mainstreaming activities), Environment and Social Safeguards Officer and M&E Expert. The PCT will report to the Project Task Force (comprising all the Directors in the MoWDI) on a monthly basis. Actual implementation including monitoring of the project will be at the district level through the respective District Coordination Teams, while complex schemes like gravity fed schemes will be implemented through the PCT. The districts have varying levels of capacity to implement the program, and the PCT will provide technical support to the Districts while the capacity is being built in line with the Government's Decentralization Policy (1998) and the drive to fully institutionalise a SWAp in the water sector.

4.1.2 In order to ensure high level coordination with similar initiatives and other Government programs, the Project will receive direction from the Project Steering Committee (PSC) for the

SRWSIHL. The PSC, which already exists, will provide a higher level of oversight, policy and strategic guidance and coordination for the implementation of the project. Representation on the PSC includes the Ministry of Finance, Ministry of Economic Planning and Development, Ministry of Gender, Youth and Women Development, Ministry of Health, Ministry of Education, Ministry of Local Government and Rural Development, and Ministry of Environment and Climate Change. Detailed implementation arrangements are included in Appendix 5 below and Annex B3 in the Technical Annexes.

#### 4.2 Implementation Schedule

4.2.1 The project will be implemented over a period of 60 months with implementation of the capacity development component beginning immediately upon fulfilment of conditions precedent to first disbursement. Works will commence during the last quarter of 2015 and the Project completion date is 30 June 2019.

#### 4.3 Procurement Arrangement

4.3.1 Procurement will be carried out by the Executing Agency, MoWDI, using their internal structure including the Internal Procurement Committee whose capacity was enhanced under NWDP. Procurement of the majority of goods, works and acquisition of consultancy services financed by the Bank Group will be in accordance with the Bank Group's Rules and Procedure for Procurement of Goods and Works using relevant Bank Group Standard Bidding Documents. All project contracts procured under NCB arrangement may make use of National Procurement Procedures (NPP) for works and goods within the given thresholds. Experience from NWDP will be taken into account as concerns the incorporation of ESMP requirements (including those that address gender) in contracts.

4.3.2 The procurement arrangements including the assessment of the executing agency, the draft procurement plan, an update of the national procurement procedures and the procurement package are detailed in the technical **Annex B5**. However, Table 4.1 below presents a summary of procurement arrangements.

**Table 4.1: Summary of Procurement Arrangements**

Project Categories	UA Million			
	Use of Country Procurement Procedures	Use of Bank's Procedures	Non-Bank-Funded	Total
<b>1. Civil Works</b>				
1.1 Rehabilitation & expansion of 12 GFS & WUA offices		(9.039)		(9.039)
1.2 Construction of boreholes	(1.755)			(1.755)
1.3 Construction of office blocks and staff houses	(1.138)			(1.138)
1.4 Construction of public sanitation facilities	(1.603)			(1.603)
1.5 Rehabilitation of water quality labs and construction of hydrometric and ground water monitoring stations	(0.255)			(0.255)
<b>Sub Total</b>	<b>(4.751)</b>	<b>(9.039)</b>		<b>(13.790)</b>
<b>2. Goods</b>				
2.1 Lab Equipment	(0.169)			(0.169)
2.2 Hydrometric and groundwater monitoring equipment	(0.100)			(0.100)
2.3 Motor Vehicles		(0.618)		(0.618)
2.4 Motor Cycles	(0.176)			(0.176)
2.5 Seedlings	(0.078)			(0.078)
<b>Sub Total</b>	<b>(0.523)</b>	<b>(0.618)</b>		<b>(1.141)</b>

<b>3. Consulting Services</b>		(2.641)		(2.641)
3.1 Capacity Development				
Design and Supervision of 12 GFS				
Design of priority GFS				
Training of DCTs and Extension Workers				
Catchment Management and Climate Change adaptation				
Strengthening M&E				
Formation and training of WUAs and WPCs				
Preparation of WASH investments plans		(0.061)		(0.061)
3.2 Training on lab, hydrometric, groundwater monitoring equipment		(1.853)		(1.853)
3.3 Hygiene and Hygiene				
Awareness campaign in schools and market centres				
Sanitation marketing for households				
Production of IEC materials and other services		(0.026)		(0.026)
3.4 Review of National Water Policy		(0.072)		(0.072)
3.5 Preparation of WUA instruments and support to NWDP WUAs		(0.020)		(0.020)
3.6 Baseline Survey		(0.046)		(0.046)
3.7 Impact Assessment for NWDP and Endline Survey		(0.098)		(0.098)
3.8 Project Audit (Financial and Procurement)		(0.163)		(0.163)
3.9 Technical Assistance		<b>(4.980)</b>		<b>(4.980)</b>
<b>Sub total</b>				
<b>4. Miscellaneous</b>			2.241	2.241
4.1 Government Contribution	(0.195)			(0.195)
4.2 Operating Costs	<b>(0.195)</b>		<b>2.241</b>	
<b>Sub Total</b>	<b>(5.469)</b>	<b>(14.637)</b>	<b>2.241</b>	<b>2.241 (20.106)</b>
<b>TOTAL</b>				

#### **4.4 Financial Management and Disbursement Arrangements and Funds Flow**

4.4.1 The MoWDI, as the Project Executing Agency, shall coordinate project implementation and manage the specific activities and financial management including planning and budgeting, record keeping, accounting and reporting etc. A full assessment of MoWDI's financial management capacity for the implementation of the project, to ensure that they satisfy Bank requirements, was conducted at project appraisal. Whilst the existing structures generally satisfy Bank's financial management requirements, it has been a common trend with on-going operations fully implemented through Government structures that compliance remains low and audit findings are adverse, consequently increasing overall financial management risks. The main reason for high level of noncompliance is the lack of continuity as Accounts personnel are rotated across Government departments from time to time. In order to mitigate any risk on financial management, the project will engage a full time Financial Management Specialist who will mentor the Government staff on the Bank's financial management.

4.4.2 In accordance with the Bank's requirements, MoWDI will prepare a separate set of financial statements for the project, which will be audited by the National Audit Office. However, the National Audit Office may outsource the external auditing services to a competent and reputable firm of external auditors procured through short-lists using the Bank's rules and procedures for procurement, with the associated cost financed from the loan proceeds. The project audit will be carried out in accordance with an audit Terms of Reference (ToR) that has been approved by the Bank. The audit report will be sent to the Bank no later than six (6) months after the end of the respective fiscal year together with a management letter indicating any weakness in internal control together with the responses from management.

4.4.3 The implementing entity will open Project Special Accounts in USD with the Reserve Bank of Malawi with corresponding local currency operating accounts at a local commercial bank acceptable to the Bank. The local currency accounts will be used to transfer money from the Special Accounts to cover eligible Project expenditures only. Replenishment of the Special Accounts will be subject to fulfilment of justification requirements and annual audit status. Transfers to districts will be made strictly on a needs basis (to fund project related operational activities for which payments directly from central Governments can be ineffective) and will be based on an imprest system, with clear procedures to be articulated in the Project Finance Manual. The transfers will be made into existing District Council accounts.

4.4.4 **GoM Counterpart contribution:** Due to high levels of inflation (which reached 37.9% in February 2013) fiscal pressures and the economic slowdown since 2011, the GoM has had serious challenges in providing its counterpart financing for the NWDP. In order to comply with the requirements of protocol agreements between the Bank and Regional Member Countries (RMCs), the GoM will honour its commitment through an in-kind contribution in the form of staff costs and existing facilities (e.g. office furniture, office space), which have been monetized and included in the project cost.

#### 4.5 *Monitoring and Evaluation*

4.5.1 The Ministry will prepare progress reports on a quarterly basis which will highlight the progress towards meeting the project’s targets as reflected in the project result-based logical framework. In addition to submitting to the Bank, these reports will also be shared with the Ministry of Economic Planning and Development, for use in the national M&E system. Apart from reports, monitoring and evaluation will also be undertaken through supervision visits and missions. Quarterly supervision visits and review meetings (by the Project Task Force and PSC), and Bank missions will track implementation progress, challenges and strategically plan the way forward. There will be a Mid Term Review in 2017. The sector’s M&E framework, prepared with support from AWF, will be an important tool in the monitoring and evaluation of the project. In addition, the sector prepares annual Sector Performance Report (SPR) which is reviewed at the Joint Sector Review. The SPR will also include the performance and contribution of the project to achievement of the sector targets. Details of M&E are included in Technical **Annex C2**, however Table 4.2 below presents a summary of key milestones.

**Table 4.2 – Key Project Milestones**

<b>Timeframe</b>	<b>Milestone</b>	<b>Monitoring Process/feedback loop</b>
April 2014	Board Approval	Financing Approval
August 2014	Signing of Agreements	Financing agreements signed
September 2014	Effectiveness	Declared effective by the Bank
October 2014	Launching	Launching workshop organised
November 2014	Request for Proposals	First RfPs approved and issued to firms
September 2015	Works commencement	First works contract signed
July 2017	Mid Term Review	Mid Term Review conducted
June 2019	Completion of Project	Commissioning and project completion report

#### 4.6 *Governance*

4.6.1 The water and sanitation sector in Malawi is repositioning itself to institutionalize the SWAp, which has been under discussion since 2008. However, the requisite fiduciary management framework is not yet in place.

4.6.2 In addition, the GoM is implementing its Decentralisation Policy (2008). MoWDI has made

moderate progress in implementing the Policy by devolving the responsibilities of management, maintenance and oversight of WASH services to the district councils. Human resource management and recurrent expenditure are in the process of being devolved, but development budgets (capital expenditure) remain at the central levels with the various ministries. The capacity of districts to manage projects varies, but a number of examples of districts learning to successfully manage WASH projects exist, particularly under UNICEF and ICEIDA projects. Programs and projects being implemented by districts have supported the decentralization drive by affirming district capacity. Interventions to enhance the capacity of the targeted districts to manage the implementation are included on the project with deliberate targeting of female employees.

#### **4.7 Sustainability**

4.7.1 In terms of water supply, the sustainability of GFS will be assured through the financial sustainability of WUAs and the technical support provided by the Water Monitoring Assistants. Furthermore, the Regional Water Boards as well as the District Forestry Officers will augment the sustainable management of catchments. Tariffs for water users will be set by WUAs for GFS and by WPCs for boreholes, following tariff guidelines developed under NWDP to ensure financial sustainability. The financial requirements to sustain GFS, which do not require power, vary depending of the size and characteristics of the population served, however the guidelines promote setting of tariff that would fully cover the costs of operations and maintenance including the cost of the LUOs. The borehole sustainability will be overseen by WPCs established and trained through the SRWSIHL. Communities provided with boreholes will contribute an initial MWK 15,000 (US\$ 37.50) which they will maintain in a separate bank account for repairs. Each household will be required to contribute a minimal fee of K100.00 (US\$ 0.25) each month for maintenance. The program will also train local area mechanics to ensure that any necessary repairs and maintenance can be conducted in a timely manner. These mechanics will be encouraged to keep a stock of necessary spare parts.

4.7.2 For the project's sanitation and hygiene component, measures will be put in place to sustain the gains made which lead to some open defecation-free villages. District water and health personnel and traditional authorities will be required to carry out follow up activities in those villages to check that they stay ODF. To this will be added sanitation marketing activities to promote improved sanitation facilities. While the operation and maintenance of the sanitation facilities in public schools and health centres rests with the respective managements, market management committees with support from the district councils identify individuals as toilet attendants to manage public toilets at a fee which is collected from the users. The minimum fee paid per use is K30.00 and experience from the NWDP, because there are more users during market days, the money collected is more than adequate to pay the toilet attendant.

4.7.3 With high vacancy rates in MoWDI (estimated at more than 60%), and districts often chronically short of staff, it is expected that the project may be used as a platform to hire people to fill vacancies that include positions for Engineers, Water Monitoring Assistants, etc. To ensure that hiring for the project builds sustained capacity in government, the project intends for these staff to be hired to permanent and established positions, rather than temporary project positions. Separate procedures will be followed where staff are to be hired purely to meet project implementation needs rather than filling existing government positions.

#### **4.8 Risk Management**

4.8.1 The risk of key professionals within the MoWDI not being available to implement the project will be mitigated by continued engagement with GoM on their commitment to implement the project and the mobilisation of short term technical assistance to support the Government.

4.8.2 The sector reforms in the area of decentralization at district and council level have been slow and the risk of diminished political commitment to decentralisation might result in continued inadequate capacity at district council level. The project will mitigate this risk through effective and continuous capacity development at community, council and district levels while pursuing policy dialogue with GoM, along with other DPs, so that the decentralisation process is sustained.

4.8.3 There is a risk that the proposed water supply schemes will not be properly operated and maintained and so require more rehabilitation in future. This will be mitigated through continuous capacity development of the community structures and introducing WUAs and LUOs for GFS, and Water Point Committees for boreholes. The project will provide technical assistance required to roll out the operation and maintenance (O&M) framework, train WUAs and operators, and establish technical support mechanisms. The project will also support developing the structures and processes at district level to provide on-going support and management to the communities and local private operators.

#### **4.9 Knowledge Building**

4.9.1 The implementation of the SRWSIHL will result in the development of skills and knowledge in specific areas of: (i) community management of water supply and sanitation facilities by WUAs and LUOs; (ii) hygiene practices for the population (including pupils) in the target areas; (iii) catchment protection and management practices by communities in catchment areas covered by the project; and (iv) training of mechanics, among others. The capacity development component of the project will result in skills and knowledge building for District Councils, WPCs, WUAs and communities. This knowledge will be acquired through training as well as through the processes of project implementation, preparing district investment plans, O&M frameworks, and through strengthening their M&E capacity. Knowledge will be captured and disseminated through reporting from the executing agency, supervision reports and project completion reporting. The results and lessons learned will also be shared within the Bank.

### **V – LEGAL INSTRUMENTS AND AUTHORITY**

#### **5.1 Legal instruments**

The legal instruments used to finance the Project are: (i) an ADF loan agreement, (ii) an NTF loan agreement and (iii) a RWSSI Trust Fund grant agreement.

#### **5.2 Conditions associated with Bank's intervention**

##### **A. Conditions Precedent to Entry into Force**

- (i) The ADF loan agreement shall enter into force subject to fulfilment by the Borrower of section 12.01 of the *General Conditions Applicable to African Development Fund Loan Agreements and Guarantee Agreements*.
- (ii) The NTF loan agreement shall enter into force subject to fulfilment by the Borrower of the provisions of section 12.01 of the *General Conditions Applicable to African Development Bank Loan Agreements and Guarantee Agreements*.
- (iii) The RWSSI Grant Agreement shall enter into force upon its signature by the parties.

##### **B. Conditions Precedent to First Disbursement for the ADF Loan, the NTF Loan and the RWSSI Grant**

- (i) The opening of: (i) foreign currency special accounts at the Reserve Bank of Malawi for the deposit of the proceeds of the Loans and the Grant respectively; and (ii) operating local currency special accounts for the Loans and the Grant respectively at a bank acceptable to the

- Fund/Bank, as applicable; and
- (ii) The constitution of a Project Coordination Team (PCT), with terms of reference and composition acceptable to the Fund/Bank, and the staffing of the PCT with personnel, each with terms of reference, skills and qualifications acceptable to the Fund/Bank; and

**C. Other Conditions**

- (i) Revise Rural Water Supply and Sanitation Implementation Guidelines for the use by the project and the project districts by 31<sup>st</sup> December 2014.

**D. Undertakings**

- (i) The Borrower shall implement the Project in compliance and in accordance with: (a) national legislation; (b) the provisions and conditions of any environmental licences issued in relation to the Project activities; and (c) the recommendations, requirements and procedures described in the ESMP.
- (ii) The Borrower/Recipient shall maintain the existence and functioning of the existing Project Steering Committee in a form and with a composition acceptable to the Bank, with its terms of reference extended to cover this Project.
- (iii) The Borrower/Recipient shall implement, and report quarterly to the Bank Group on implementation of, the Environment and Social Monitoring Plan.

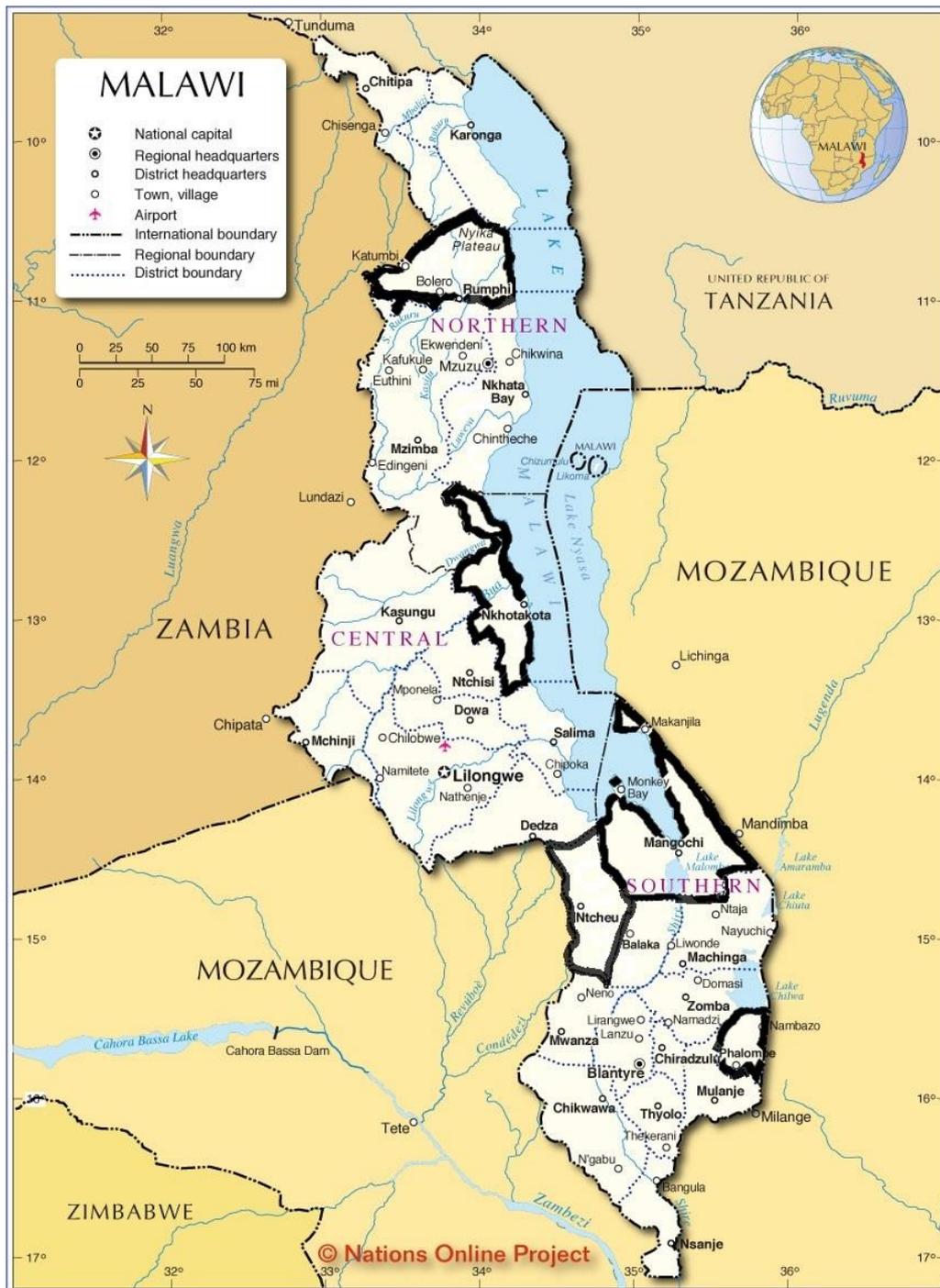
**5.3 Compliance with Bank Policies**

This project complies with applicable Bank policies.

**VI – RECOMMENDATION**

Management recommends that the Boards of Directors approve the proposed ADF Loan of UA 15.0 million, NTF loan of UA 5.0 million and a RWSSI Trust Fund Grant of EUR 3.5 million (UA 3.1 million) to the Republic of Malawi for the purposes and subject to the conditions stipulated in this report.

## APPENDIX 1. Map of Malawi and Project Locations

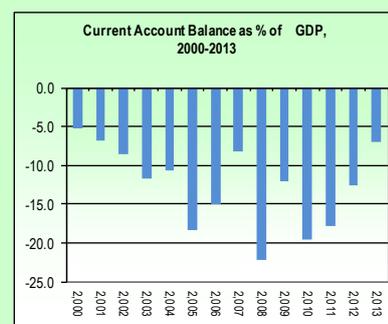
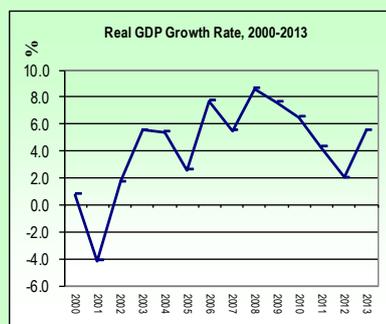


Northern Region	: Rumphi District
Central Region	: Nkhatakota and Ntcheu District
Southern Region	: Mangochi and Phalombe Districts

This map was provided by the African Development Bank exclusively for the use of the readers of this Project Appraisal Report. The names used and the borders shown do not imply on the part of the Bank and its members any judgment concerning the legal status of a territory nor any approval or acceptance of these borders

## APPENDIX 2. Malawi's Comparative Socio-Economic Indicators

Indicators	Unit	2000	2008	2009	2010	2011	2012	2013 (e)
<b>National Accounts</b>								
GNI at Current Prices	Million US \$	1,797	3,921	4,477	4,917	5,230	5,092	...
GNI per Capita	US\$	160	280	310	330	340	320	...
GDP at Current Prices	Million US \$	1,743	4,230	4,941	5,190	5,144	4,619	4,342
GDP at 2000 Constant prices	Million US \$	1,743	2,394	2,576	2,743	2,861	2,919	3,081
Real GDP Growth Rate	%	0.8	8.6	7.6	6.5	4.3	2.0	5.0
Real per Capita GDP Growth Rate	%	-1.9	5.4	4.4	3.3	1.1	-1.2	2.2
Gross Domestic Investment	% GDP	13.6	25.6	25.1	25.4	25.0	30.8	33.1
Public Investment	% GDP	10.0	8.9	13.7	12.2	11.7	17.7	20.1
Private Investment	% GDP	3.5	16.7	11.4	13.2	13.2	13.1	13.0
Gross National Savings	% GDP	8.3	16.0	20.7	24.7	9.6	12.4	20.3
<b>Prices and Money</b>								
Inflation (CPI)	%	29.6	8.7	8.4	7.4	6.4	19.2	27.7
Exchange Rate (Annual Average)	local currency/US\$	59.5	140.5	141.2	150.5	156.5	241.7	399.8
Monetary Growth (M2)	%	45.5	62.6	24.6	30.4	35.1	17.1	35.2
Money and Quasi Money as % of GDP	%	17.8	23.5	25.0	29.1	38.1	22.9	25.6
<b>Government Finance</b>								
Total Revenue and Grants	% GDP	24.1	30.1	32.7	33.8	30.9	22.2	34.9
Total Expenditure and Net Lending	% GDP	29.7	32.8	38.0	33.8	33.6	29.3	42.3
Overall Deficit (-) / Surplus (+)	% GDP	-5.6	-2.7	-5.3	0.1	-2.8	-7.2	-7.4
<b>External Sector</b>								
Exports Volume Growth (Goods)	%	-6.6	7.0	-27.6	42.5	-10.3	4.7	-3.0
Imports Volume Growth (Goods)	%	-21.3	34.9	-20.1	48.1	-14.7	-11.5	6.9
Terms of Trade Growth	%	-9.5	-14.1	50.9	-14.1	1.5	1.9	26.5
Current Account Balance	Million US \$	-92	-937	-596	-1,021	-919	-585	-302
Current Account Balance	% GDP	-5.3	-22.2	-12.1	-19.7	-17.9	-12.7	-7.0
External Reserves	months of imports	4.2	1.4	0.9	1.5	1.1	0.8	2.2
<b>Debt and Financial Flows</b>								
Debt Service	% exports	19.9	1.3	1.3	1.3	1.7	2.3	2.5
External Debt	% GDP	153.4	16.8	16.2	16.7	17.7	20.8	23.0
Net Total Financial Flows	Million US \$	431	933	812	1,056	725	667	622
Net Official Development Assistance	Million US \$	446	924	771	1,023	798	664	633
Net Foreign Direct Investment	Million US \$	40	71	55	58	56	62	92



Source : AfDB Statistics Department; IMF: World Economic Outlook, October 2012 and International Financial Statistics, October 2012; AfDB Statistics Department: Development Data Portal Database, March 2013. United Nations: OECD Reporting System Division.

Notes: ... Data Not Available (e) Estimations

Last Update: May 2013

### APPENDIX 3. Table of ADB's Portfolio in Malawi as at 31<sup>st</sup> December 2013

Division	Long name	Status	ApprovalDte	ComplDate	Company Name	Crcy	Netloan	Amt. Disb.	Disb. Ratio	PFI Status
OSAN1	SMALLHOLDER IRRIGATION & VALUE ADDITION	OnGo	03/13/2013	12/31/2018	ADF	UAC	253,000	-	-	NO SUPERVISION
OSAN1	SMALLHOLDER IRRIGATION & VALUE ADDITION	OnGo	03/13/2013	12/31/2018	GAFSP Trust Fund	UAC	25,665,621	1,108,209	4.3	NO SUPERVISION
OSAN1	AGRICULTURE INFRASTRUCTURE SUPPORT PROJE	OnGo	09/09/2009	06/30/2015	ADF	UAC	15,000,000	3,669,935	24.5	PP /
OSAN1	SMALLHOLDER CROP PRODUCTION & MARKETING	COMP	07/26/2006	06/30/2014	ADF	UAC	15,000,000	14,478,772	96.5	NON PP / NON PPP
OSAN3	GEF CARLA CLIMATE ADAPTATION	OnGo	11/10/2011	06/30/2015	GEF	UAC	1,944,365	469,500	24.2	NOT RATED /
OSGE2	RESTORATION OF FISCAL STABILITY AND SOCIAL PROTECTION PROGRAM	COMP	07/11/2012	12/31/2013	ADF	UAC	26,000,000	26,000,000	100.0	NON PP / NON PPP
OSGE2	SUPPLEMENTARY BUDGET SUPPORT TO RFSSP	COMP	04/26/2013	12/31/2013	ADF	UAC	4,000,000	4,000,000	100.0	NO SUPERVISION
ONEC2	KOLOMBIDZO HYDRO POWER PROJECT	APVD	03/25/2013	12/31/2014	ADF	UAC	2,000,000	-	-	NO SUPERVISION
OSHD1	SUPPORT TO LOCAL ECONOMIC DEVELOPMENT	OnGo	09/24/2008	12/31/2014	ADF	UAC	14,000,000	5,695,982	40.7	NON PP / NON PPP
OSHD1	SUPPLEMENTARY LOAN LOCAL ECONOMIC DEVLOP	OnGo	12/09/2010	12/31/2014	ADF	UAC	3,162,000	1,962,581	62.1	NON PP / NON PPP
OSHD1	COMPETITIVENESS AND JOB CREATION SUPPORT	OnGo	12/16/2011	12/31/2017	ADF	UAC	10,000,000	1,654,524	16.6	NON PP / NON PPP
OSHD2	SUPPORT TO HEST & TEVET PROJECT	OnGo	02/08/2012	06/30/2018	ADF	UAC	9,050,000	1,837,946	20.3	NOT RATED
OSHD2	SUPPORT TO HEST & TEVET PROJECT	OnGo	02/08/2012	06/30/2018	ADF	UAC	10,950,000	-	-	NOT RATED
OSHD2	SUPPORT TO HEST & TEVET PROJECT	OnGo	02/08/2012	06/30/2018	Nigerian Trust Fund	UAC	6,500,000	-	-	NOT RATED
OSHD3	SUPPORT TO THE HEALTH SECTOR PROGRAMME	COMP	11/24/2005	12/31/2012	ADF	UAC	15,000,000	14,340,004	95.6	NON PP / PPP
OITC2	MALAWI TRUNK ROAD REHABILITATION	OnGo	05/22/2009	12/31/2014	ADF	UAC	22,980,000	11,337,576	49.3	NON PP / NON PPP
OITC2	MALAWI TRUNK ROAD REHABILITATION	OnGo	05/22/2009	12/31/2014	ADF	UAC	1,124,000	87,025	7.7	NON PP / NON PPP
OITC2	MALAWI: MZUZU-NKHATABAY ROAD PROJECT	APVD	03/13/2013	12/31/2015	ADF	UAC	21,890,000	-	-	NO SUPERVISION
OITC2	MULTI-NACALA ROAD CORRIDOR (MALAWI)	OnGo	06/24/2009	12/31/2014	ADF	UAC	14,320,000	4,086,680	28.5	NON PP / NON PPP
OITC2	NACALA ROAD CORRIDOR PROJECT IV (MALAWI)	APVD	12/03/2013	12/31/2018	ADF	UAC	42,360,000	-	-	NO SUPERVISION
OITC2	NACALA ROAD CORRIDOR PROJECT IV (MALAWI)	APVD	12/03/2013	12/31/2018	ADF	UAC	610,000	-	-	NO SUPERVISION
AWTF	STRENGTHENING WATER SECTOR M&E IN MALAW	COMP	01/28/2010	12/31/2013	African Water Facility	UAC	1,682,464	1,682,464	100.0	NON PP / PPP
AWTF	ACCESS TO WATER & SANITATION FOR URBAN P	OnGo	12/28/2009	09/30/2014	African Water Facility	UAC	542,572	542,572	100.0	NON PP / NON PPP
OWAS2	NATIONAL WATER DEVELOPMENT PROGRAM	COMP	07/02/2008	12/31/2013	ADF	UAC	15,200,000	13,310,235	87.6	NON PP / NON PPP
OWAS2	NATIONAL WATER DEVELOPMENT PROGRAM	COMP	07/02/2008	12/31/2013	ADF	UAC	10,728,000	9,912,485	92.4	NON PP / NON PPP
OWAS2	NATIONAL WATER DEVELOPMENT PROGRAM	COMP	07/02/2008	12/31/2013	RWSSI Trust Fund	UAC	3,126,860	3,124,070	99.9	NON PP / NON PPP
<b>TOTAL</b>							<b>293,088,882</b>	<b>119,300,560</b>		

#### APPENDIX 4. Similar Projects Financed by the Bank and Other Development Partners in Malawi

Donor	Sub-sectoral Focus	Name of Project	Amount (US\$)
AfDB	RWSS Policy Water Resources Capacity Development and Decentralisation	National Water Development Program	48,300,000.00
AusAID	RWSS Water Resources Capacity Development	National Water Development Program	14,000,000.00
WB	Policy and Sector Reforms RWSS UWSS Water Resources	National Water Development Project II	170,000,000.00
WB/ACGF	RWSS	National Water Development Project II	25,000,000.00
EIB & EU	UWSS	Peri-Urban Water and Sanitation Project	48,510,000.00
EU/UNICEF	RWSS	Malawi Rural Water Supply, Sanitation and Hygiene Program	30,750,000.00
DfID/UNICEF	RWSS	Malawi Rural Water Supply, Sanitation and Hygiene Program	29,925,000.00

**APPENDIX 5: Implementation Structure**

