

Ethio - Italian Cooperation

**WASH in Small and Medium Towns
- Project Implementation Document -**

Recipient country	Ethiopia
Donor agency	Italian Development Cooperation
Title	WASH in Small and Medium Towns
Sector	Water, Sanitation and Hygiene (WASH)
Regions	Oromya, SNNPR, Amhara, Tigray
Type of agreement	Bilateral
Financial modality	Channel 1b / “Art.15 legge 49/87” + Channel 3/ “fondo esperti-fondo in loco”
Financial agency	MAE/DGCS and Ethiopian regional and towns administrations
Executing agency	Water Resources Development Fund (WRDF) and MAE/DGCS for the channel 3 funds
Implementing agencies	Town Water Utilities, Regional Water Bureaus, Contractors
Location	Huruta, Limu Genet, Durame, Bati, Humera towns
Proposed amount	- Italian Contribution: 5,500,000 Euro as Grant (channel 1b) + 650,000 Euro as technical assistance (channel 3) - Ethiopian Contribution: estimated in about 3,700,000 Euro (from regional and towns administrations)
Duration	36 months (EFY 2002 – 2005)
Proposed starting date	January 2010

List of Acronyms

DGCS	<i>Direzione Generale Cooperazione allo Sviluppo</i> – Directorate General for Development Cooperation of the Italian Ministry of Foreign Affairs
DFID	Department for International Development (UK)
GOE	Government of the Federal Democratic Republic of Ethiopia
GOI	Government of the Italian Republic
IDC	Italian Development Cooperation
IE	Italian Expert
ITA	Italian Technical Assistance
MAE	<i>Ministero Affari Esteri</i> – Ministry of Foreign Affairs of the Italian Government
MoWR	Ministry of Water Resources
MDG	Millennium Development Goal
MoFED	Ministry of Finance and Economic Development
O&M	Operation and Maintenance
OP	Operational Plan
PASDEP	Plan for Accelerated Sustainable Development to End Poverty
PIC	Person in Charge
PSC	Project Steering Committee
RWB	Regional Water Bureau
TA	Town Administration
TWU	Town Water Utility
UAP	Universal Access Programme
UTL	Local Technical Unit
WaSH	Water Sanitation and Hygiene
WB	World Bank
WRB	Water Resources Bureau
WRDF	Water Resource Development Fund

The Exchange rate adopted is 1 Euro = 16.00 Birr

Table of Contents

List of Acronyms	2
Table of Contents	3
1. BACKGROUND AND PROBLEMS TO ADDRESSED	4
1.1 Origin of the Project.....	4
1.2 Country and Sector Context	5
1.3 Problems to be addressed	6
2. PROJECT STRATEGY	7
2.1 Overall Objective	7
2.2 Strategic Approach, selected towns and beneficiaries	7
2.3 Specific Objective, Results and Activities	10
3. PROJECT IMPLEMENTATION.....	12
3.1 Institutions and their roles	12
3.2 Project management and timeframe.....	14
3.2.1. Financial Mechanism	14
3.2.2 Operational Mechanism.....	15
3.3 Estimation of Project costs	19
3.4 Project Budget	20
3.5 Procurement.....	20
3.6 Italian Technical Assistance	20
3.7 Operational plans, technical and financial reports, instalment requests	21
4. SUSTAINABILITY	23
4.1 Financial sustainability.....	23
4.2 Economic sustainability	23
4.3 Social sustainability and gender impact	23
4.3 Environmental sustainability	23
5. RISKS AND ASSUMPTIONS.....	23
6. MONITORING AND EVALUATION	24

1. BACKGROUND AND PROBLEMS TO ADDRESSED

1.1 Origin of the Project

Italy is committed to support poverty reduction and development initiatives aiming at achieving the Millennium Development Goals (MDGs) in Ethiopia and at implementing the Plan for Accelerated Sustainable Development for Ending Poverty (PASDEP) adopted in 2006 by the Country. The Italian Cooperation is also internationally committed to harmonize and align its Official Development Aid, as per the principles of the Paris Declaration, and it is responsive to the Ethiopian Government's (GOE) demand for increased aid predictability and efficiency and for the adoption of aid instruments aligned to the national administrative procedures.

The GOE and the Government of Italy (GOI) signed on the 21st of April 2009 an Ethio-Italian Cooperation Framework 2009-2011, which includes a specific contribution to sustain the National WASH Programme by aligning objectives and methodologies followed by other donors as World Bank (WB), African Development Bank (AfDB), UNICEF, Finland and DFID. The planned Italian contribution to the sector is of 5,500,000 Euro as Grant to be assigned to the Water Resource Development Fund (WRDF) during the three years implementation of the Project. Additional 650,000 Euro will be allocated for the Italian Technical Assistance.

Following the above mentioned Ethio-Italian Cooperation Framework, the Ministry of Water Resources of Ethiopia (MoWR), in April 2009, submitted to the Italian Development Cooperation office in Addis Ababa (IDC/UTL) a concept note on "Small and Medium Towns Supply and Sanitation Project". Through this document and a following meeting held on the 6th May 2009 with the WRDF¹, a preliminary identification exercise has been carried out through the definition of priorities and relevant criteria for the selection of localities (towns) proposed for financing. After further discussions with representatives of the Regional Water Bureaus, 5 towns (in four different regions) have been short-listed in order to match the Italian funds available and taking into account Regions' priorities and the equity criteria proposed by the GOE.

In this context a mission of experts of the Directorate General for Development Cooperation of the Italian Ministry of Foreign Affairs (MAE/DGCS), was carried out in June 2009 to appraise the request received from the MoWR and to formulate, together with the staff of IDC/UTL office in Addis Ababa and the staff of WRDF, this Project Implementation Document (PID). The site appraisal was carried out from the 12th to the 28th of June 2009, and a Site Appraisal Report, attached to the present PID, was presented to, discussed and approved by WRDF on the 1st July 2009.

With the present PID, the IDC/UTL and the WRDF agreed on the features and modalities of the new Project named "**WASH in Small and Medium Towns**". As per the usual procedure, this document will be officially transmitted to the Embassy of Italy by MoFED and it will be the base for the funding proposal to the board of the Italian Cooperation as well as for the bilateral agreement that will regulate the Project.

¹ A comprehensive description of the Water Resource Development Fund and of its mechanisms is provided in par 3.1

1.2 Country and Sector Context

Ethiopia is a wide and varied country, densely populated², where almost 85% of the population lives in rural areas³. Despite the economy enjoyed a strong expansion allowing the real GDP to grow by an annual average of more than 10% for the period 2003/2004 through 2006/2007, Ethiopia is one of the poorest countries in the world. Per-capita income has increased 7% in the last three years, but it remains one of the lowest in the world (160 euro per capita). Thirty one million of persons live below the national poverty threshold of 40/50 US cents a day. Ethiopian economy, still strongly dependent on international aid, is based on the rural sector, dominated by rain fed, subsistence agriculture. 90% of the poor are located in rural areas. Ethiopia is also ranked 169 out of 177 countries in the UNDP Human Development Index. About 80% of its population lives with less than two dollars a day and life expectancy is below 47 years due to high infant mortality rate and other epidemics.

Access to safe water in Ethiopia is one of the main priorities and commitments of the Federal Government of Ethiopia, as demonstrated in the recent development of the 'Universal Access Program' (UAP), which lays out a country-wide plan for a safe water supply access by the year 2012, and in the "Plan for Accelerated and Sustainable Development to End Poverty" (PASDEP), which serves as main strategy for poverty-reduction in Ethiopia and gives a strong prioritization for improving water supply. In these main documents the access to safe water and sanitation is defined by:

- availability of at least 15 l/p/d of clean water from a source within 1½ km of the dwelling in rural areas; 20 l/p/d within ½ km of the dwelling in urban areas
- lowest cost option for sanitation facilities that ensures a clean and healthful living environment both at home and in the neighborhood of households.

Nevertheless, the access to safe water in Ethiopia is still low compared to the sub-Saharan African average. Over recent years the majority of foreign donors have targeted support for rural water and sanitation, in response to the low level of access observed in rural areas with the result to increase access to around 54% in 2007/2008. However, urban water supply access has been relatively stagnant in the last years at around 80-85 percent. In 2006, the rate of malfunctioning schemes was estimated at more than 25% and the long term integrated water resources management approach is not widely adopted. The Ministry of Health (MoH) has reported that the national sanitation coverage in 2007 was 38%. Low coverage, quality and sustainability of water and sanitation service represent critical and chronic problems for Ethiopia.

The UAP estimates that a total of ETB 9.5 billion (or US\$ 950 million) is required to achieve universal access in urban areas during the period 2006 to 2012. The large majority of this, around ETB 7.5 billion, will be required for construction of water supply infrastructures, while around ETB 1.5 billion for sanitation infrastructures.

A strong and institutionalized dialogue and a sector-wide approach have been implemented for the scaling up of WaSH resources required by the UAP. This scaling up is currently pursued by gradually merging of initiatives, financed by the main sector donors, into a National WaSH Program with aligned objectives and methodologies.

The GOI has a significant experience in the water sector in Ethiopia through its leading role in the EU Water Initiative Country Dialogue Process, through the consistent water component of its Arsi Bale Rural Development Programme and through financing of water projects implemented by

² 73,5 million people in 2007 according to the most recent National Census

³ 61,8 million were classified as rural in the National Census of 2007

Italian NGOs. It also supports a rural WASH programme in Oromia with a grant of 1.91 MEUR and provides financial and technical support for sector capacities in 4 regions, through a contribution of 1.4 MEUR to UNICEF’s capacity building programme. IDC/UTL is also committed in ensuring that its interventions are aligned and harmonized with other financing mechanisms under the National WASH Programme.

1.3 Problems to be addressed

Access to adequate water & sanitation services are generally not adequate to standards in all the selected areas of the Project. At this level, the shortage of budget allocations for capital costs, coupled with the lack of planning, implementation and monitoring capacity, turns into an overall inadequate services provision to the population. Furthermore, the lack of resources and capacities deteriorates the sustainability of existing water and sanitation infrastructures and affects the performance of the Town Water Utilities, representing the autonomous bodies in charge of towns’ water schemes management.

Funds allocated by the Federal Government, Regional Water Bureaus and Town Administrations (municipalities) are usually not sufficient to match the capital investments necessary to guarantee an equity access to safe water and sanitation services to towns’ population.

The following table shows the very critical figures of access and coverage of safe water and sanitation, assessed during the site visits in the five selected towns

Town	Water availability (l/p/d)	Water coverage (% of town area)	Sanitation coverage (%)
Huruta	4.3	25	25
Durame	6.8	30	40
Limu Genet	1.6	30	90
Bati	6.3	50	75
Humera	12	50	70

90% of sanitation is constituted by dry pit latrines and most of them have been found not functional (as not timely and correctly drained) and in scarce hygienic conditions. Sanitation infrastructures in school and in other public places/buildings are generally in precarious conditions or completely missing. Very few septic tanks have been constructed and are properly working, without a proper draining of sludge and safe treatment/disposal facilities.

The lack of regular piped water distribution at towns’ level induces the population to use alternative water sources, often contaminated. In certain cases towns’ inhabitants have no option but to buy water from rural villagers at very high prices, sometimes up to 10 times the cost of the water sold in towns. The scarcity of water also provokes long queues at the distribution points, where women, usually in charge of fetching water for their family, spend up to 8 hours a day losing precious time that could be dedicated in other activities.

Town Water Utilities’ staff are usually characterized by low skills and scarce competencies in operational procedures (such as billing system, bill collection, technical, operational and financial planning) which, along with the problem of water scarcity, tremendously affect the financial management of the water schemes and, consequently, TWUs’ financial autonomy.

The urbanization in the country was 15.2 percent in 2000 and it is estimated to rise up to 30 percent by 2020, generating an increased urban population of over 23 million within a 20-year period. This

rate of urbanization is expected to inevitably put a tremendous pressure on the poor water and sanitation infrastructures existing at towns' level and to generate an unsustainable scenario were more and more investments will be required for corrective measures to even the growing water demand. However, this growth could also represent an opportunity for the TWUs to increase their business at a relatively low marginal cost, on the condition that their managerial skills and business plans strategies are consistently strengthen.

2. PROJECT STRATEGY

2.1 Overall Objective

The Project contributes to pro-poor development of four Regions in Ethiopia by implementing the Universal Access Programme for the WASH sector in selected towns (MDG n.7 target n.2).

To enhance ownership and alignment, Project funds will support the resources of the WRDF addressed to the improvement of a safe water and sanitation facilities access in urban context of Ethiopia. Funds are earmarked to the activities defined in the Agreement and in the present Project Implementation Document (PID).

2.2 Strategic Approach, selected towns and beneficiaries

Strategic Approach and selection of target towns

Through the Project, the GOI will contribute with a grant to the resources of the WRDF in order to strengthen the financing of the urban water supply and sanitation sector. The grant will be then channelled by the WRDF, through loans, to the eligible TWUs which will operate on cost recovery principles and, meanwhile, foster the gradual building up of local resources so as to guarantee the sustainable development of the sector.

The Italian grant is aligned with other donors' financing modalities in favour of the WRDF. The European Commission has already contributed with 33 MEURO (15 towns projects) while 109 USD Million have been provided by World Bank (5 towns project). In addition to the above, the African Development Bank and the Arab Bank are in the process to provide support for one big and one medium town.

Part of the Italian grant will be assigned to WRDF for technical assistance (including preparation of final technical designs, feasibility studies, business plans and on-lending agreements with TWUs) and strengthening the capacities of target Town Water Boards' members and Town Water Utilities' staff.

According to GOE priorities and the available amount of the Italian contribution, the selection of the locations for the Project is addressed to optimize the investment in order to obtain effective and observable impacts. Cost sharing participation of Regional Governments, Town Administrations and Town Water Utilities, is of extreme importance to complete Italian funds and match the requested amounts for the proposed water and sanitation interventions in the target towns.

Therefore the selection of towns has been carried out reviewing the regional priorities by means of a set of criteria proposed by the IDC/UTL and adopted with a flexible approach:

- Towns' size ranging from 15.000 to 30.000 inhabitants;
- water coverage less than 50%;
- water availability less than 15 l/p/d;
- precarious sanitation conditions;
- TWUs autonomous and legally established;

- evidence of exploitable water resources⁴;
- submission of preliminary documentation for the application to the WRDF loan⁵;
- accomplishment of preliminary appraisal criteria adopted by the WRDF (see below).

In addition of those criteria, the selection of the towns has been driven by an equity criterion, established by the GOE/MoWR, in order to have a fair allocation of resources according to the priorities of the Regions.

The WRDF, in order to judiciously and equitably allocate resources to eligible borrowers, carries out a rigorous appraisal of the proposals submitted. As a minimum requirement the following activities must be performed:

- a) an analysis of the demand for the project output;
- b) an appraisal of the technical soundness and the appropriateness of the technology to be used in the light of possible alternatives;
- c) an evaluation of the organizational structure and proposed management;
- d) a financial evaluation to determine cash flow, financial structure and repayment capability of the TWUs.
- e) an assessment of the project's economic impact;

The following table shows the number of beneficiaries in the towns where site appraisal visits were carried out:

Town	Zone	Region	2007 Population	Expected population (year)
Huruta	Arsi	Oromya	30,148	73,255 (2022)
Durame	Kembta-Tembaro	SNNPR	34,969	54,478 (2022)
Limu Genet	Jimma	Oromya	19,230	33,537 (2027)
Bati	Oromya	Amhara	23,120	53,706 (2029)
Humera	Western	Tigray	30,383	56,530 (2020)
Total			137,849	271,506

Findings of site appraisal visits

The detailed description of the field visits is reported in the annexed “Site Appraisal Report” and visited localities are shown in the following map. Huruta, Durame Limu Genet and Bati have been found eligible for the application to WRDF loan, even if the necessary documentation must be updated and completed (see footnote n.5). Regarding Humera, some doubts have been raised regarding the target beneficiaries of the project proposed and the high investment requested. Actually, because of a strong and recent expansion, more than 60% of expected water resources of the town should be addressed to the growing industrial area and relevant infrastructures. This doesn't surely match the main target of the Project where improved water supply and sanitation services are exclusively for people's consumption.

⁴ This criterion was not perfectly matching with the priority and equity principles of the GOE/MoWR and so not strictly observed during this selection. In order to ensure the presence/evidence of exploitable water resources, ad-hoc inspections and review of the towns' project feasibility studies have been scheduled within the Project (see par 2.3)

⁵ This criterion was not perfectly matching with the priority and equity principles of the GOE/MoWR and so not strictly observed during this selection. Proper review of required documentation for loans application is foreseen in Project activities (par 2.3)

The investment proposed by the existing Humera project document (77,000,000 Birrs for the 1st phase project) requires about 80% of capital to come from the regional budget, while the Italian fund can cover up to a maximum of 20% of the overall project budget in order to be in line with the principle of equity and fair allocations for the 4 selected regions.

In the annexed site appraisal report, recommendations for actions to be taken to accomplish the requirements for WRDF loan application are highlighted for each project. Focus is made on the evidence of exploitable water resources: the Water Regional Bureaus should be committed in assuring the expected water demand before the starting of the project. If an exploitable water resource is not evident, the project shall be not considered for application to WRDF loan.

During the field visit, the assessment of the capacity of the TWUs has revealed a poor financial status and the impossibility for them to share the costs of the proposed projects.



The necessary funds to match the final budget of the proposed towns' projects will be provided by the Regional Governments, the Town Administrations and, where it is possible, by the Town Water Utilities.

The main planned interventions (already discussed with the counterparts) in each locality and the related water pro-capita availability expected in the next 15-20 years are described in the following table.

Town	Expected water availability l/p/d	Planned intervention
Huruta	25	Spring development, two break pressure tanks, 6,500 m main line, 500 m ³ reservoir, 43,547 m distribution line (to be revised during WRDF final revision), 5 water points, access road and buildings
Durame	25	2 bore holes equipments, 8,000 m main line, 2 reservoirs of 100 m ³ each, 12,500 m distribution line, 6 water points, electro mechanical works, buildings
Lime Genet	35	2 bore holes equipments, 3,100 m main line, 2 reservoirs (500 and 100 m ³), 14,500 m distribution line, 5 water points, electro mechanical works, buildings
Bati	49	3 bore holes equipments, 14,085 m main line, 300 m ³ , 5,750 m distribution line, 6 water points, electro mechanical works, buildings
Humera	78.7*	2 bore holes equipments, 7,229 m main line, 2,500 m ³ reservoir, 8,650 m distribution line, 6 water points, electro mechanical works, access road and buildings

* Expected pro-capita daily consumption will be revised during the WRDF final assessment. It is expected to be lower.

Following the assessment on the existing sanitary infrastructures and considering the expected final water availability, the sanitation component of the Project will be focussed on the improvement of public infrastructures through upgrading the existing pit latrines in schools and health centres (the connection of these public buildings with the new constructed water facilities should also lead to the introduction of “pour flush” latrines), construction of communal pour flush latrines with septic tanks and subsurface absorption systems (for example in market palces), purchase of vacuum trucks

for sludge removal, location and construction of stabilization ponds for the sludge drying treatment. Small sewerage systems with septic tank, collector and subsurface absorption systems could be introduced in the condominiums of the new urban expansion areas.

2.3 Specific Objective, Results and Activities

Specific Objective

To improve access to clean water and sanitation services in 5 towns

Indicators

- A minimum of 20 l/p/d of safe water available within 0.5 Km from their home to the target population (about 270.000 people in 5 towns)
- Time per household dedicated to fetch water is reduced to a maximum of 30 minutes per day
- 100% of target population not using unsafe alternative sources of water for drinking
- Water related diseases decrease of 50% from baseline by local health facilities
- Target towns are open-defecation free
- Share of households' income allocated for water provision is reduced to a maximum of 4%

Expected results

1. Water supply networks, properly sized to the target populations, functional and sustainable in the 5 selected towns
2. Public sanitation infrastructures and services upgraded, constructed and management set up in the 5 selected towns
3. Improved capacity of 5 target Town Water Utilities for planning, management and O&M and of WRDF for loans' management and delivery of technical assistance to recipients.

Indicators

- 60% of the target population actually consumes a minimum of 15 l/p/d as the new water scheme starts working
- Tariff strategies for sustainability of water schemes are in place and billing systems in use
- Unaccounted-for-water less than relevant national targets and international best practices
- Interruptions of water supply service is less than relevant national targets and international best practices in the first 3 months of new water schemes working period
- 100% of schools and health facilities in selected areas has adequate latrines with hand washing facilities
- Communal and institutional sanitation infrastructures are used and are properly managed (baseline to be assessed during the preparatory work)
- Septic tank sludge removal facilities are functional and users pay for the service
- Integration of water, sanitation and hygiene planning and monitoring at Town Administration level
- TWUs are able to properly perform the water schemes financial management, provide adequate O&M assistance and repay back the loan

Activities and actors

The activities, detailed for each result, and the actors involved for the implementation of the Project are summarized in the following table:

Activities	Actors involved	
	Implement	Assist
<p>For Result 1 - Water supply networks, properly sized to the target populations, functional and sustainable in the 5 selected towns</p> <p>Verify available documentation (feasibility, designs, business plans etc) for the applications to WRDF loan by the 5 selected TWUs</p> <p>Set up cost sharing participation and confirmation of the selection of the towns</p> <p>Prepare tender documents for consultancy services and consultancy contracts awarding</p> <p>Revision or upgrading of technical documentation (feasibility, designs, business plans etc)</p> <p>On-lending agreements between WRDF and selected TWUs</p> <p>Prepare tender documents for works and works contracts awarding</p> <p>Works Implementation</p> <p>Works supervision</p> <p>Preliminary and final inspections of works</p> <p>Hand over the new water schemes</p>	<p>WRDF⁶</p> <p>RWB, TA, TWUs</p> <p>TWU,RWB</p> <p>Consultants⁷</p> <p>WRDF, TWUs</p> <p>TWUs, Consultants</p> <p>Contractor, TWUs</p> <p>TWUs, RWBs</p> <p>WRDF, TWUs, RWB, TA, contractor</p>	<p>RWB</p> <p>WRDF, RWB, MoWR</p> <p>WRDF</p> <p>WRDF, TWUs</p> <p>Consultants</p> <p>WRDF</p> <p>WRDF, RWB</p> <p>Consultants, WRDF</p> <p>Consultants</p>
<p>For Result 2 - Public sanitation infrastructures and services upgraded, constructed and management set up in the 5 selected towns</p> <p>Prepare tender documents for consultancy services and assignment</p> <p>Assess sanitation facilities in the target towns and set up priorities</p> <p>Design a cost recovery system and management for sanitation infrastructures</p> <p>Prepare tender documents for sanitation works (if any)</p> <p>Tender procedures and contracts award for sanitation works</p> <p>Works Implementation</p> <p>Preliminary and final inspections of works</p> <p>Hand over of the new sanitation infrastructures and equipment</p>	<p>TWUs, RWB</p> <p>Consultants</p> <p>Consultants, WRDF</p> <p>Consultants</p> <p>TWUs</p> <p>Contractor, TWUs</p> <p>WRDF, TWUs, RWB, TA</p> <p>Consultants, contractor</p>	<p>RWB, WRDF</p> <p>RWB, TA, WRDF</p> <p>RWB, TA, TWUs</p> <p>WRDF, WRB, TWUs</p> <p>WRDF</p> <p>WRDF, RWB</p> <p>Consultants</p> <p>TWU, WRDF</p>
<p>For Result 3 - Improved capacity of 5 target Town Water Utilities for planning, management and O&M and of WRDF for loans' management and delivery of technical assistance to recipients.</p> <p>Set up a programme of trainings⁸ for TWUs and WRDF staff</p> <p>Implementation of the trainings:</p> <ul style="list-style-type: none"> - On the job technical assistance to TWU for activities in results 1 & 2 - Definition of different scenarios for each town according to business plan and tariff strategy - Seminars with TWU, zonal, regional water bureau - Networking and experience sharing with stakeholders of the National WASH Programme - Final workshop and proceedings 	<p>WRDF</p> <p>WRDF, Consultants</p>	<p>RWB, TWUs</p> <p>TA, WRB</p>

In order to ensure a correct implementation of the Project activities, the following requirements should be observed:

- WRBs present evidence of exploitable water sources within the first month of activity
- Operational plan is finalised within 60 days from the start of the project
- Consultancy contracts are signed within 5 months from the start of the project
- On-lending agreements are signed with at least 3 Town Water utilities within the 2nd month of the project

⁶ WRDF staff will operate with the technical assistance of Italian Experts (see par. 3.6)

⁷ These consultants could be hired by the WRDF and assigned to specific tasks in support to the WRDF staff.

⁸ Including both formal courses, technical assistance and training on the job

- Works contracts are signed and advance instalments disbursed within the 11th month of the project
- Remaining works contracts are signed within the 18th month of the project
- Sanitation assessment is completed in the first year of the project
- Sanitation contracts are fully assigned at the end of the second year of the project
- Commissioning and preliminary deliveries of the schemes and sanitation works are provided within the 32nd month of the project.
- Loan repayment plan is set up before the signature of the on-lending agreement
- Tariff strategy are set up before the preliminary delivery of the water schemes
- Market analysis on sanitation services must be completed within the 15th month of the project
- Management options and loan repayment strategy for sanitation infrastructure are set up within the 18 the month of the project
- Tranche instalment to DGCS/MAE is presented during each fiscal year⁹ of the project
- Monitoring assessment is regularly carried out with reporting period of 6 months maximum
- Review, approval and disbursement of payment requests must be accomplished within 15 days from the reception.

3. PROJECT IMPLEMENTATION

3.1 Institutions and their roles

In line with the provisions of the Agreement, the main actors involved in the implementation of the Project are:

The **MoFED** represents the GOE as counterpart of the GOI for the Project. In line with the provisions of the Agreement, it opens a special foreign currency bank account for the Project (Special Account – SA) at the National Bank of Ethiopia (NBE), receives funds from MAE/DGCS, and opens Birr account(s) to be managed by the WRDF (WASH Special Account - WSA). MoFED ensures that adequate internal administrative controls are in place at all levels and that such controls adhere consistently with all the parties involved in the project. MoFED will assure, along with the WRDF, the cost sharing participation to the Project costs form Regional Governments and Town Administrations.

A **Project Steering Committee** (PSC) will be the guarantor of the governance of the Project and the relevant decision making body. It will be constituted by representatives of MoWR and MAE/DGCS. Its roles and responsibilities are defined in the Agreement.

The **MoWR** is the Institution responsible for the monitoring of Project activities. It will delegate one person to attend the PSC and is in charge of providing technical assistance to the regional counterparts.

The **WRDF** is the main Executing Agency of the Project. It also acts as implementing agency for capacity building activities. It is responsible for all the activities of the Project. For this purpose it formally appoints a **Person in Charge (PIC)**, whose roles and responsibilities are defined in the Agreement.

WRDF shall assess and revise the applications of the towns for the loan and, when necessary, it shall provide assistance to complete the required documentation with the support also of external consultants. It shall prepare and sign the on-lending agreement with the Town Water Utilities and supervise the works implementation. It shall conduct, together with the WRB and the TA, the preliminary and final inspection to towns' projects. The WRDF will be in charge of the preparation

⁹ Italian Fiscal Year

of the Operational Plan (OP), technical and financial reports and the instalment requests to be submitted to MAE/DGCS according to the provisions of the Agreement. The reports are jointly reviewed by the PIC and the Italian Expert (see below) in regular Project Review Meetings and submitted to the PSC according to the modalities defined in the Agreement.

The **Water Resource Development Fund (WRDF)** was established in 2002 by the Government of Ethiopia with Proclamation No 268(15)/2002, as core-financing institution for the water sector with the aim of supporting the implementation of the sector policy. Its main purpose is to deliver long term loans to decentralized regional entities, which, under the regulations of the sector policy, are responsible for the development of urban water supply and sanitation projects, on the principles of full cost recovery.

According to the Proclamation, the objectives of WRDF are to:

- Enable institutions which are engaged in the provision of water supply and sanitation services to be fully autonomous in the provision of reliable and sustainable water supply service to the community;
- Make significant contribution in the course of development efforts directed towards attaining food self sufficiency by expanding and ensuring the sustainability;
- Create favourable conditions for the realization of the above objectives by granting long term loans on the basis of the principle of cost recovery.

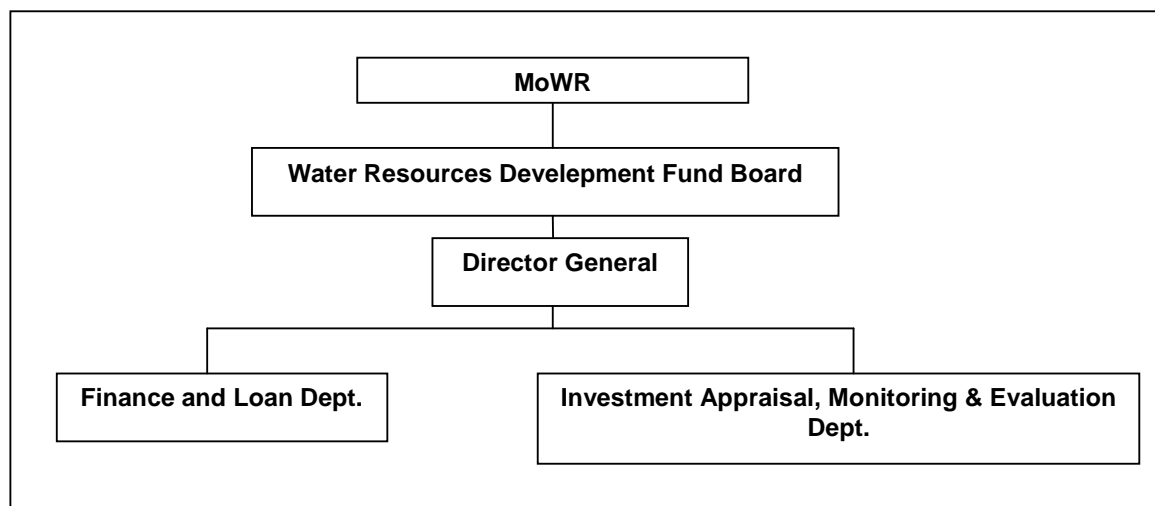
In the Proclamation the source of funds for WRDF are indicated as:

Grants and loans from foreign governments and international donor agencies provided in line with the purpose of the fund

Budgetary allocations by the GOE

Other sources

The funds collected will be used to establish a centralized revolving “Water Resources Development Fund” to implement the above mentioned objectives and to create ways and means to ensure fair, equitable and sustainable benefit to all. The structure of the WRDF is hereby reported



The **Regional Water Bureaus** will act as co-financing agencies and implementing bodies in support of the TWUs. They will assure the availability of exploitable water resources for the new towns projects and will provide assistance during the implementation of the final design of the water supply scheme. The RWBs will assist the TWUs in setting up their management structures and will participate in the preparation of the training courses addressed to the TWUs.

The **Town Administrations and their Water Boards** will assist the TWUs in the supervision of the works and in the managing sanitation infrastructures. They will be involved in the water tariff assessment and in the development of strategies to be adopted in the business plan.

The **Town Water Utilities** will be the final recipient of the loans delivered by the WRDF and the main Implementing Agencies. They are accountable to the Town Water Boards under a performance agreement or contract for the operation and maintenance of the water supply systems and responsible for the management of the water supply schemes. They will receive on the job trainings by WRDF. Together with the consultants provided by WRDF, they shall implement the tenders, supervise the works and participate in all the monitoring and evaluation missions, in line with provisions defined in the Agreement. Before the starting of the project, the TWUs should have received the WB training programme and set up the operational structure as recommended by WB/WRB.

3.2 Project management and timeframe

3.2.1. Financial Mechanism

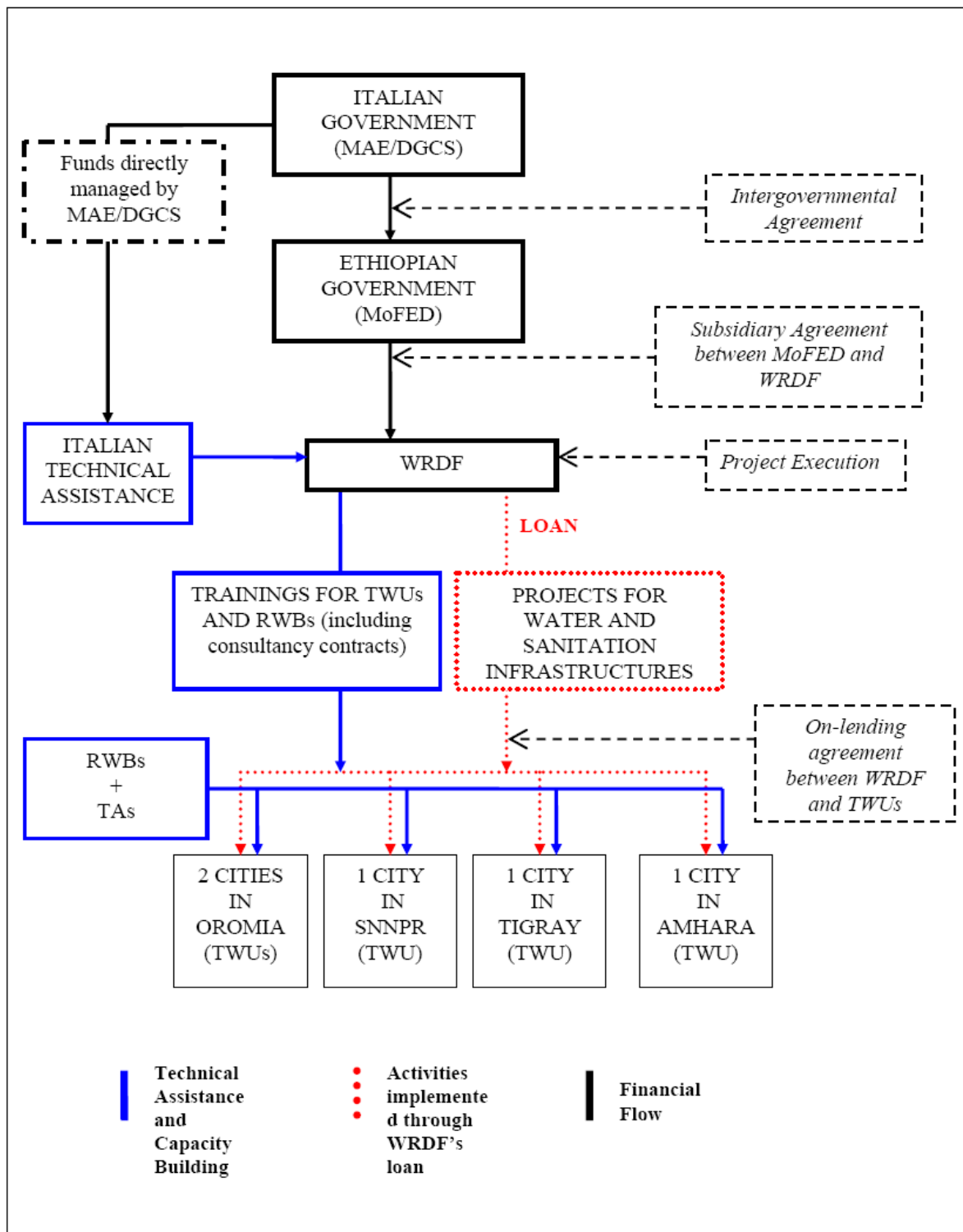
The Project will be implemented through the financial modality which foresees the direct grant to be transferred to the MoFED, as detailed in the Agreement. MoFED will then transfer the funds to the WRDF according to the provisions of a dedicated “subsidiary agreement” between MoFED and WRDF.

The Italian funds given to Ethiopia as grant aid, will contribute to WRDF revolving funds mechanism, aimed at giving soft loans to the Town Water Utilities for implementing Project activities. These soft loans shall be regulated by dedicated “on-lending agreements” between WRDF and TWUs. In the long term, the loans will be returned by TWUs to WRDF accordingly. WRDF will then use the same funds as part of its revolving mechanism to support other TWUs according to sector priorities. This mechanism is the standard working modality of the WRDF for funds coming from Ethiopian budgetary resources and from any donor.

WRDF will also allocate a small part of the Project funds as grant for capacity building activities addressed to its internal staff and to TWUs and RWBs staff.

This methodology is aligned with the implementation modalities of other main sector donors, in order to ensure the ownership of Ethiopian institutions in the management of the Project and to limit donors’ role to supervision of financial flows and monitoring of results.

The overall picture of the Financial Mechanism of the Project is described in the chart below:



3.2.2 Operational Mechanism

The description of the operational mechanism adopted in the Project is based on the standard working modality of the WRDF for loans' concessions.

The following list summarizes all the operational steps to be followed by WRDF:

1. Receipt of applications for loan and related project documents
2. Initial screening
3. Pre-appraisal
4. Appraisal
5. Notification to applicants
6. Negotiation
7. Loan agreement (on-lending agreement)
8. Loan approval by WRDF Management and Board
9. Loan disbursement
10. Monitoring and evaluation of projects
11. Billing and loan collection

Selected towns are eligible to apply for concessional loans' financing from the WRDF once they have functional Water Boards and Town Water Utilities and once they have prepared a business plan and completed preliminary rehabilitation works as well as detailed studies for water schemes expansion. If the above mentioned requirements are not completed or partly missing, WRDF will hire ad-hoc consultants in order to assist TWUs to accomplish all the documents necessary for loans' applications.

The WRDF will appraise the towns' proposals in two stages in order to screen viable projects:

- Stage I: office level appraisal – desk assessment;
- Stage II: project site level appraisal;

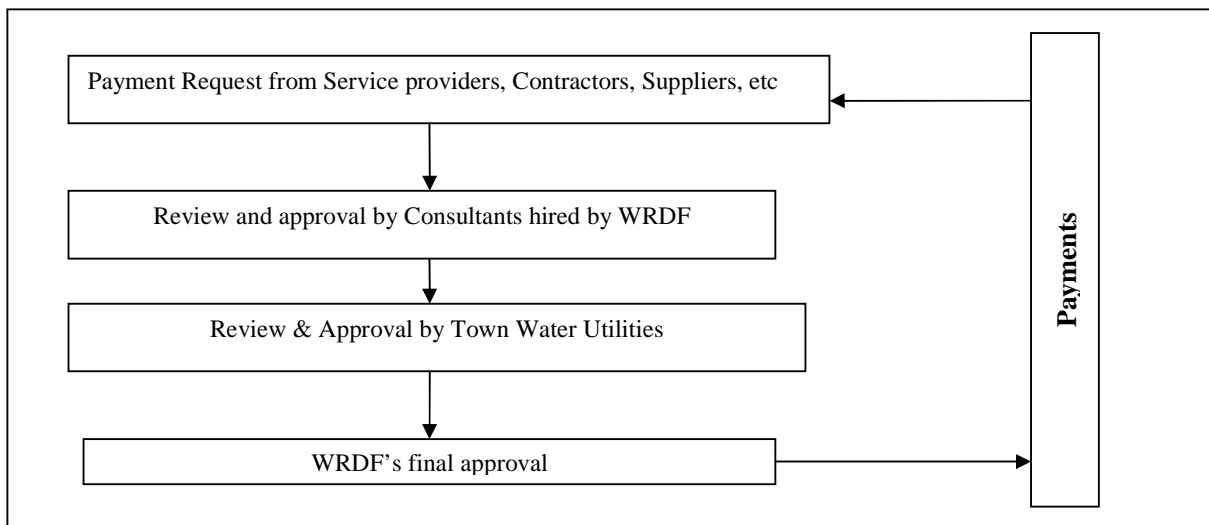
Both stages cover the major aspects of a project: technical feasibility, implementation arrangement and management, economic and financial, social desirability and environmental impact assessments.

Once a project proposal is considered eligible, the WRDF notifies the approval of the loan to the TWU. Then “on-lending agreements” are signed and then tenders for construction of works/provision of services can be launched and awarded according to the procurement procedures and modalities defined in the Agreement.

The on-lending agreements are regulated by a number of terms & conditions, established by the WRDF and in compliance with its mandate, as follows:

- Interest rate: supposed to be 3% but regularly revised by MoFED
- Grace period: max 5 year
- Repayment period: from 10 to 30 years for long-term loan. It differs from project to project depending on the size of the investment and the terms of agreement. It depends on TWUs' liquidity assets and the economic life of major investment components
- Penalty charges: determined to be 1/3 of the interest rate per annum in addition to the predetermined interest rate
- Collateral/guarantee: RWBs or any other relevant governmental body defined in the on-lending agreement
- Loan rescheduling: under WRDF's Board Management approval
- Loan default: i) failure to repay, ii) other loan request without WRDF consensus, iii) adverse material changes

The TWUs have the mandate to control and supervise, with the assistance of the RWBs, the quality of the supplies/works. Payments to contractors/suppliers are directly made by WRDF upon prior request from the TWUs and executed as shown in the diagram below:

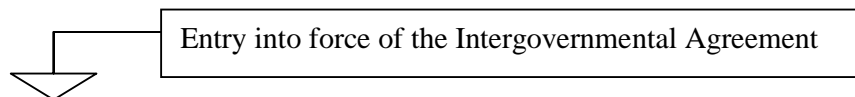


Loans are returned to WRDF according to its rules and to any specific condition emerged and specified in the on-lending agreement.

The **sanitation** component of the Project will be appraised during the first year of activities and should be implemented starting from the second year, as detailed in the following PIS. Activities and procurements related to the sanitation component will be subject of a second loan agreement with the TWUs and they will follow the same above mentioned mechanism¹⁰. During the assessment mission of WRDF, a sustainable strategy for sanitation infrastructures' costs recovery (capital investment and O&M) will be studied, formulated and implemented along with the Town Administrations and the TWUs and with the support of the WRBs.

¹⁰ Whenever possible, appropriate, in line with budget limitations and unanimously agreed by WRDF and TWU, the sanitation component for a given town can be included in the same on lending agreement for the water supply works. In the same way assessment, procurement and implementation of sanitation works could be merged and carried out together with the assessment, procurement and implementation of water supply works.

The **Project Implementation Schedule (PIS)** will be implemented according to the provisions of the Agreement and it is defined in the following working plan:



Activities	1 Year												2 Year												3 Year											
	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12
Revision of the existing documentations of TWUs for WRDF loan application	█																																			
Definition of Ethiopian counterparts' co-financing and confirmation of the 5 selected cities	█																																			
Preparation of procurement procedures for consultancies' services and contracts award		█	█	█	█																															
Review or relevant technical documents (feasibility, technical drawings, business plans etc)					█	█	█	█																												
On lending agreement between WRDF and the 5 selected TWUs		█																																		
Preparation of Operational Plans	█	█											█	█											█	█										
Preparation of procurement procedures for water infrastructures' works and contracts award									█	█	█	█																								
Implementation and Supervision of water works													█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
Technical inspections and new water schemes hand-over																																			█	█
Assessment of sanitation needs in the 5 selected towns and formulation of a sustainable strategy for sanitation infrastructures cost-recovery system											█	█																								
Preparation of procurement procedures for sanitation works and contracts award																		█	█	█	█															
Implementation and Supervision of sanitation works																									█	█	█	█	█	█	█	█	█	█	█	█
Technical inspections and new sanitation facilities' hand-over																																			█	█
Capacity building activities foreseen for result 3													█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
SARs						█																														
Final report																																				█
IRRs																																				█

Whenever possible, appropriate, in line with budget limitations and unanimously agreed by WRDF and TWU, the sanitation component for a given town can be included in the same on lending agreement for the water supply works. In the same way assessment, procurement and implementation of sanitation works could be merged and carried out together with the assessment, procurement and implementation of water supply works.

3.3 Estimation of Project costs

The following table refers to the estimation of Project costs (in Birr). A co-financing by the GoE through Federal or Regional Funds and Town Administration, where available, is an assumption for matching funds necessary to implement towns' projects. The amount of this cost sharing is then reported in this estimation of Project costs and it must be confirmed before the approval of the annual Operational Plan since it will affect the disbursement of the total funds planned for the activities. The no-availability of the co-financing support from GOE should influence the selection of eligible towns and lead to a re-addressing of the target to other localities with relevant distribution of the costs estimation. If any controversy or delay arises, implementation of some activities should be postponed and approved in the second Operational Plan.

Region	Town	Total budget	Italian contribution	VAT	GoE Contribution	% GoE Contribution + VAT
Tigray	Humera	74.300.345,60	18.000.000,00	9.691.388,56	46.608.957,04	75,8%
Amhara	Bati	15.008.342,34	11.000.000,00	1.957.611,18	2.050.731,16	26,7%
SNNPR	Durame	16.216.581,81	11.000.000,00	2.115.206,32	3.101.375,49	32,2%
Oromya	Huruta	17.243.728,56	11.000.000,00	2.249.181,99	3.994.546,57	36,2%
Oromya	Limu Genet	17.055.043,67	11.000.000,00	2.514.732,34	3.540.311,33	35,5%
SUBTOTAL water works		139.824.041,98	62.000.000,00	18.528.120,39	59.295.921,59	55,7%
Sanitation works		13.000.000,00	13.000.000,00			
Total LOAN		152.824.041,98	75.000.000,00	18.528.120,39	59.295.921,59	50,9%
GRANT Capacity building and WRDF technical assistance		13.000.000,00	13.000.000,00			
TOTAL		165.824.041,98	88.000.000,00	18.528.120,39	59.295.921,59	46,9%

Details of single town intervention are reported in the attached Site Appraisal Report.

3.4 Project Budget

The following budget (in EURO), obtained from the above estimation of Project costs (in Birr), refers to the funds to be transferred from the MAE/DGCS to MoFED (in 3 annual instalments) and from MoFED to WRDF and to TWUs (channel 1b/Art.15 legge 49/87) in fully compliance with the procedures detailed in the Agreement.

Description	WRDF Use	1st instalment (Euro)	2nd instalment (Euro)	3rd instalment (Euro)	Total (Euro)
Water Works	Loan	1,748,000	1,253,000	874,000	3,875,000
Sanitation Works			325,000	487,500	812,500
Capacity building to TWUs and WRDF technical assistance ¹¹	Grant	406,000	203,000	203,500	812,500
Total		2,154,000	1,781,000	1,565,000	5,500,000

The Exchange rate adopted is 1 Euro = 16 Birr

Budget reallocations are allowed under the regulations defined in the Agreement.

3.5 Procurement

All the bidding procedures (including pre-qualifications) to be launched in the Project shall be carried out at local level by TWUs with the assistance of WRDF and Regional Water Bureaus (RWB) according to the budget allocation and to the provisions of the Agreement.

Procurement regarding capacity building and sanitation will be performed by WRDF following the same provisions of the Agreement.

3.6 Italian Technical Assistance

In addition to the funds transferred to MoFED/WRDF, the Project resources include additional technical assistance provided and directly managed by the MAE/DGCS, in line with the modalities detailed in the Agreement. An **Italian Expert (IE)**, supported by possible short missions of sector expertises, will provide technical assistance to WRDF during the whole implementation of the Project. He/she will represent a dedicated link among IDC/UTL and the institutions involved in the Project in order to overcome specific capacity gaps at different level.

The main task of the IE will be:

- Support WRDF in checking and expediting formal requirements stipulated in the agreement so to facilitate the disbursement process
- Assist WRDF in the preparation of Operational Plans, Technical and Financial Reports and in the request for instalments
- Assist in the optimization of the procedures to revise the documentation needed for the request of allocation of WRDF fund

¹¹ Including consultancies' contracts.

- Assistance in the revision of business plan and in setting up a tariff strategy for towns' projects
- Assist the assessment of sanitation component, the preparation of feasibility studies and the set up of best management option to manage it and the strategy for loan repayment
- Assist WRDF in the supervision of procurement activities, in line with the provisions of the Agreement.
- Assist WRDF supervision of works activity and management set up of the TWUs
- Monitor and evaluation activities and performance of Water Utilities management
- Provide training WRDF and RWBs staff on modular approach, integrated programme management, cost recovery strategy, users' satisfaction analysis, billing system, M&E methodologies
- Provide training to WRDF in managing loan financing projects and assist the activities of the Result 3 of the Project.

WRDF will provide the IE with adequate office. The IE is supposed to travel extensively to the areas of implementation of the respective components. IDC/UTL will provide a four-wheel-drive car to be used exclusively for Project purposes and to be finally handed over to WRDF at the end of the activities. A driver, a secretary/accountant and related running cost are borne by MAE/DGCS for the duration of the Project, as per the following table:

Italian Technical Assistance (EURO)	1st year	2nd year	3rd year	TOTAL
Vehicle and furniture	43,000	0	0	43,000
Running costs (including local transports)	21,270	19,770	19,760	60,800
Local personnel (driver, secretary/accountant)	11,400	11,400	11,400	34,200
Italian Experts	176,000	168,000	168,000	512,000
TOTAL	251.670	199.170	199.160	650.000

The Italian Technical Assistance provided to the Project shall be steered and coordinated by the PIC, under the overall guidance of the PSC, as detailed in article 5.4 of the Agreement.

3.7 Operational plans, technical and financial reports, instalment requests

The technical and financial documents necessary for the implementation of the Project are the Operational Plan (OP), the Semi-Annual Reports (SARs), the Instalment Request Reports (IRRs) and the Final Technical and Financial Report. The preparation of this documentation shall be regulated by specific provisions included in the Agreement.

The **Operational Plans (OP)** must be prepared by the PIC in collaboration with the IE and include financial plan according to a detailed description of activities to be executed, expected results and implementation times. The budgeted expenses must be grouped for each component of the Project (town water systems rehabilitation/extension, sanitation, WRDF technical assistance and training) type of the fund (loan or grant) and type of procurement (consultancy contracts, works, goods, services and other miscellaneous expenditure). In the Operational Plan the cost sharing commitment from Ethiopian institutions must be confirmed and the plan of disbursement set up. OP must be prepared and submitted to the PSC according to the modalities detailed in the Agreement.

Semi-Annual Reports shall be prepared by WRDF and transmitted by the PIC to PSC members, in line with the procedures described in the Agreement. The last of the SAR produced shall serve as Final Technical and Financial Report (see below).

The SAR shall include two sections, detailed here below, reporting the cumulative status of the Project, in terms of activities (Physical performance), procurement and disbursement (Financial performance). Both sections shall make reference to the approved OP.

The Physical performance section shall describe:

- the implemented activities compared with the planned activities in the OP
- the obtained results compared to the expected results
- the actual time of implementation compared to planned times
- problems and constraints encountered during the implementation of activities and measures taken and/or recommendations for corrective measures
- plan of activities for the subsequent six-months period

The first section shall also include a specific report produced by the PIC on the performance, the efficiency and the effectiveness of the technical assistance provided to the Project, in line with the provisions of articles 5.4 and 7.2 of this Agreement. This report will be also used by the PSC in order to evaluate the possibility of adjusting the technical assistance for the remaining period of the Project, if deemed necessary.

The Financial performance section shall describe:

- the amounts credited to the MoFED dedicated account and the WRDF account;
- the evidence of fund coming from Ethiopian institution for cost sharing participation;
- the budget allocated in terms of Budget lines as agreed in the OP for each activity;
- actual and committed expenditures by activity, compared with the planned;
- the remaining balance in the WRDF account
- the updated disbursement plan submitted with the previous SAR, considering the actual activities carried out and the updated activity plan.
- problems and constraints encountered, if any, during the implementation of activities and measures taken and/or recommendations for corrective measures.
- Financial plan for next period.

Instalment Request Reports (IRRs) shall be used by the PIC, after approval of the PSC, to request MAE/DGCS for crediting of the remaining instalments, as per approved budget and according to the modalities and procedures detailed in the Agreement.

At the end of the Project the last of the SARs produced shall serve as **Final Technical and Financial Report**. It will contain technical information such as the description of the specific objective and obtained results, the analysis of impact and effectiveness indicators, the eventual deviation from planned activities and the output of the projects and the implementation time. Regarding the financial section it will include the description of all the executed expenses for each budget line compared to the planned ones and will describe all introduced changes. The report should provide all the elements necessary to evaluate the programme.

4. SUSTAINABILITY

4.1 Financial sustainability

The Project will operate in a sector environment where several international agencies are strongly committed in the establishment of ad-hoc structures to properly and effectively manage, implement and monitor the outputs of the National WASH Programme. The existing national sector dialogue between the Government of Ethiopia and development partners is unanimously considered as the correct approach to ensure the coordination during the implementation phase of different initiatives and to promote the ownership of sector objectives by federal and decentralised local institutions.

The Project gives opportunity to develop the financial sustainability of the urban water and sanitation infrastructures through specific support and capacity building to the TWUs. Ad-hoc tariff strategies will be studied and implemented in order to allow TWUs to recover capital investments and O&M costs and, then, to establish a sustainable management mechanism.

The participation of Ethiopian institutions in the cost sharing of the Project investments and the continuous support of the RWBs to the towns represent another important factors contributing to the financial sustainability of Projects results.

4.2 Economic sustainability

The economic sustainability of Project results will be guaranteed through the benefits generated within the target population by new safe water sources and sanitation infrastructures.

The Project will also increase the physical and economic sustainability of urban water and sanitation services by supporting a sustainable demand-driven model of service delivery and cost recovery.

4.3 Social sustainability and gender impact

The project will create a social benefit to the rural town communities by strengthening socio-economic development through reduced incidence of water-borne diseases, cost of treatment and the productivity losses as a result of illness. It will increase equity in access to water and sanitation services by increasing coverage to all the urban population and it will reduce costs of accessing water for the urban poor.

Furthermore the reduced time spent to collect water should increase opportunities for engagement in productive activities and increasing incomes, especially for women that are the main actors involved in domestic water management and hygiene practices. Sanitation programme will positively affect the health condition of the families and the community hygienic conditions.

The project represents a contribution to improving long term food security. All the selected towns are important market centres. Increased water and sanitation services consolidate and attract access to market.

4.3 Environmental sustainability

From the environmental point of view, the activities to be developed will give adequate attention to the equilibrium of water resources between demand and availability, avoiding over exploitation of springs and wells, and sizing infrastructures in order release water for ecological needs. Technical support from RWBs is mandated to guarantee a continuous assessment of environmental impacts of the activities.

5. RISKS AND ASSUMPTIONS

If the Town Water Utilities can not afford to present adequate documentation for the application to WRDF loan, WRDF could hire ad-hoc consultants to support TWUs in completing all the requirements necessary.

If WRBs do not assure evidence of exploitable water sources necessary to supply the proposed water networks, WRDF can provide an extension of 1 year in order to accomplish the necessary studies or to select another town in according with the equity process, the available value of Italian funds and the cost sharing contribution.

6. MONITORING AND EVALUATION

Monitoring and Evaluation activities will be performed according to the modalities established in the Agreement.

Day to day monitoring activities will be jointly performed by WRDF staff and IE together with WRBs and TAs.

Whenever deemed appropriate, WRDF and IDC can ask an external independent evaluation. Relevant TORs of the mission must be approved by both the parties.