

CONFORMED COPY

LOAN NUMBER 4216 UZ

Loan Agreement

(Water Supply, Sanitation and Health Project)

between

Republic of Uzbekistan

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated August 29, 1997

LOAN NUMBER 4216 UZ

LOAN AGREEMENT

AGREEMENT, dated August 29, 1997, between Republic of Uzbekistan (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

(B) to assist in the financing of the Project, the Borrower intends to contract: (a) a loan from Kuwait Fund for Arab Economic Development (Kuwait Fund) in an amount equivalent to about \$20,000,000; and (b) a loan from Kreditanstalt fur Wiederaufbau (KfW) of the Federal Republic of Germany in an amount equivalent to about \$9,000,000; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, with the modification set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days, or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be canceled."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Co-Financiers" means Kuwait Fund and KfW;

(b) "Co-Financing Agreements" means the agreements to be entered into between the Borrower and the Co-Financiers;

(c) "Community-Based Society" means a society or an organization registered under the laws of the Borrower or under local regulation in the Project area to provide community services and is qualified under such laws or regulation for the performance of works and services related to its functions;

(d) "Goskomprognostat" means the Borrower's State Committee for Forecasting and Statistics;

(e) "Institutional Consumer" means an agency which is a customer of a Water Agency (as defined in this Agreement);

(f) "Pilot Project Loan" means the loan provided by the Bank to the Borrower in the amount of \$5,000,000 under the Loan Agreement dated September 27, 1996, for the Pilot Water Supply Engineering Project;

(g) "PIU" means the Project Implementation Unit, established to manage and implement the Project, within Goskomprognostat;

(h) "Project Account" means the account referred to in paragraph 3 of Schedule 5 to this Agreement;

(i) "Project Area" means (i) the Khorezm Oblast, a region in the south-west of the Borrower's territory, and (ii) the Republic of Karakalpakstan, which, according to Articles 69-72 of the Borrower's Constitution, constitutes a part of the Borrower's

territory, and is subject to the Borrower's laws;

(j) "Special Account" means the account referred to in Section 2.02(b) of this Agreement;

(k) "Tuyamuyun Hydro System" means the multi-purpose reservoir, dam and related structures on the Amu Darya River; and

(l) "Water Agencies" means the agencies responsible for water production or distribution in the project area, namely:

(m) Tuyamuyun-Urgench, the agency responsible for the production and delivery of bulk water to the water distribution agencies in the Khorezm Oblast;

(n) Tuyamuyun-Nukus, the agency responsible for the production and delivery of bulk water to the water distribution agencies in the Republic of Karakalpakstan;

(o) Khorezm Vodokanal, the agency responsible for water distribution and sewerage in urban areas of Khorezm Oblast;

(p) Khorezm Agrovodokanal, the agency responsible for water distribution and sewerage in rural areas of Khorezm Oblast;

(q) Karakalpakstan Vodokanal, the agency responsible for water distribution and sewerage in urban areas in the Republic of Karakalpakstan; and

(r) Karakalpakstan Agrovodokanal, the agency responsible for water distribution and sewerage in rural areas of the Republic of Karakalpakstan.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to seventy-five million Dollars (\$75,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a separate special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

(c) Upon the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount required to repay the principal amount of the Pilot Project Loan withdrawn as of such date and outstanding and to pay all unpaid charges due thereon. Thereupon the unwithdrawn balance of the Pilot Project Loan shall be canceled.

Section 2.03. The Closing Date shall be December 31, 2005, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) one half of one percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiration of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable February 15 and August 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through the PIU, with due diligence and efficiency and in conformity with appropriate engineering, financial, public utility, public health, and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this

Agreement.

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) The Borrower shall cause each Water Agency to maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) The Borrower shall cause each Water Agency to:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year: (a) certified copies of its financial statements for such year as so audited: and (b) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, and

(iii) furnish to the Bank such other information concerning such records, accounts and the financial statements and the audit thereof as the Bank shall from time to time reasonably request.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall cause each Water Agency:

(a) to carry on its operations and conduct its affairs in accordance with sound administrative, financial, public utility and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

(b) at all times to operate and to maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and public utility practices.

Section 5.02. The Borrower shall cause each Water Agency:

(a) to complete and review with the Bank, by October 15, 1998, an assessment of its requirements for insurance;

(b) to prepare, on the basis of such review, a plan for insurance of its assets and operations against such risks and in such amount as shall be consistent with appropriate practices; and

(c) to implement such plan commencing January 1, 1999.

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) Without limitations to the provisions of paragraph 6 of Schedule 5 of this Agreement, the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of any Water Agency or for the suspension of its operations.

(b) The Co-financing Agreement to be concluded between the Borrower and Kuwait Fund shall have failed to become effective by December 31, 1997, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(c) (i) Subject to subparagraph (ii) of this paragraph:

(a) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, terminated in whole or in part, pursuant to the Co-Financing Agreement providing therefor, or canceled or terms of the

(b) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (a) such suspension, cancellation, termination or caused by the failure of the Borrower to obligations under such agreement; and (b) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraphs (a) or (b) of Section 6.01 of this Agreement shall occur; and

(b) the event specified in paragraph (c)(i)(b) of Section 6.01 of this Agreement shall occur, subject to the proviso of paragraph (c)(ii) of that Section.

ARTICLE VII

Termination

Section 7.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Mustakillik Meydani
Tashkent
Republic of Uzbekistan

Telex:

116360 IKBOL

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF UZBEKISTAN

By /s/ S. Safaev

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ K. Kodera

Acting Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Works	42,000,000	83%
(2) Equipment and Materials	10,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 83% of local expenditures for other items procured locally
(3) Consultants' Services	9,000,000	100%
(4) Refinancing of the Pilot Project Loan	5,000,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(5) Unallocated	9,000,000	
TOTAL	75,000,000 =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any

country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) goods and works under contracts costing less than \$300,000 equivalent each; and (b) consultant's services under contracts costing less than \$100,000 equivalent for the employment of consulting firms and under contracts costing less than \$50,000 equivalent for the employment of individual consultants, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to improve water supply, sanitation and health in the Project area through: (a) the provision of safe drinking water and sanitation facilities; and (b) the strengthening of the financial, operational and managerial capacities of water supply and sanitation utilities.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Water Supply and Distribution

(1) Improvement and expansion of the piped water supply systems in urban and rural parts of the Project area through: (a) replacement or rehabilitation of sections of the distribution systems; (b) expansion of piped water supply to new consumers; (c) rehabilitation and expansion of water treatment plants; (d) rehabilitation and expansion of ground water sources; (e) construction of additional trunk pipelines; (f) rehabilitation of rural distribution centers in the Project area; (g) provision of spare parts for desalination units and training for operators of desalination plants; and (h) expansion of demand-based rural water supplies.

(2) Provision of goods and technical assistance and carrying out of works for the implementation of a water demand management program, including measures for: (a) testing different approaches to controlling water usage; (b) improving consumers' awareness of the need to optimize water use; (c) repairing of water fixtures; and (d) implementing a leakage control strategy.

(3) Provision of equipment and materials to the Water Agencies to improve the operation and maintenance of their facilities.

Part B: Sanitation, Health and Hygiene

(1) Construction of latrines in rural parts of the Project area and installation of hand washing facilities in selected households, schools, health care centers, canteens and public places in the Project area and provision of training in hygiene and low-cost sanitation.

(2) Installation of hand pumps and other low-cost supply schemes in the Project area.

(3) Provision of technical assistance and training in carrying out of health care promotion and hygiene education activities as a complement to the sanitation investments under Parts B(1) and (2) of the Project.

(4) Carrying out of works and provision of goods and technical assistance to implement measures to improve water quality monitoring and the operations of the Sanitary Epidemiological Services (SES), including a review of quality standards for

water and sanitation service, adoption of a monitoring program, rehabilitation of SES' laboratories and improvement of health data collection, analysis and reporting.

Part C: Technical Assistance

(1) Carrying out of measures to strengthen the technical, managerial and financial capacities of the Water Agencies, including measures for: (a) preventive maintenance; (b) monitoring and reduction of operating costs; (c) management and reduction of accounts receivable; (d) design and operation of a utility accounting system including cost accounting; (e) training of technical staff; and (f) development of a mechanism for restructuring of the Water Agencies.

(2) Carrying out of a study of water and sewerage tariffs and development on the basis thereof of tariff policies and a mechanism for tariff implementation.

Part D: Project Management

Provision of technical assistance to the PIU in the management of the Project.

* * *

The Project is expected to be completed by June 30, 2005.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in Dollars)*
February 15, 2003	1,635,000
February 15, 2004	1,735,000
February 15, 2005	1,835,000
February 15, 2006	1,945,000
February 15, 2007	2,065,000
February 15, 2008	2,190,000
February 15, 2009	2,320,000
February 15, 2010	2,460,000
February 15, 2011	2,605,000
February 15, 2012	2,760,000
February 15, 2013	2,925,000
February 15, 2014	3,105,000
February 15, 2015	3,290,000
February 15, 2016	3,485,000
February 15, 2017	
August 15, 2017	3,690,000

* The figures in this column represent the amount in Dollars to be repaid except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be

procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. Grouping of contracts

To the extent practicable, contracts for works to be procured in accordance with the provisions of paragraph 1 above shall be grouped in bid packages estimated to cost \$1,000,000 equivalent or more each.

(a) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

(b) Notification and Advertising

Bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. Limited International Bidding

Works required for rehabilitation of the desalination units under Part A of the Project estimated to cost up to an aggregate amount not to exceed \$1,200,000 equivalent may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Competitive Bidding

Without limitation to the provision of paragraph 5 of this Part, works estimated to cost less than \$1,000,000 equivalent per contract, up to an aggregate amount not to exceed \$5,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

3. International Shopping

Goods estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$4,250,000, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$900,000 may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

5. Procurement of Small Works

Works for construction of latrines, installation of hand pumps and rehabilitation of laboratories under Part B of the Project; estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$10,000,000 equivalent, may be procured under fixed-price contracts awarded to Community-Based Societies, following the soliciting and evaluation, under standard procedures satisfactory to the Bank, of price quotations from not less than two (2) such Societies.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of bids for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all

goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) each contract for works estimated to cost the equivalent of \$1,000,000 or more; (ii) the first two contracts for works awarded in accordance with the provisions of Part C.2 of this Schedule; and (iii) each contract for goods estimated to cost the equivalent of \$300,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first two contracts for goods awarded in accordance with the provisions of Parts C.3 and C.4 of this Schedule, the following procedures shall apply:

(i) prior to selection of any supplier under shopping procedures the Borrower shall provide to the Bank, a report on the comparison and evaluation of quotations received;

(ii) prior to execution of any contract procured under shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and

(iii) in addition, the procedures set forth in paragraphs 2(f) and 2(g) of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each; or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to: (a) the terms of reference for such contracts; (b) single-source selection of consulting firms; (c) assignments of a critical nature, as reasonably determined by the Bank; (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 5

Implementation Program

A. Project Implementation

1. The Borrower shall assign the responsibilities for management and coordination of Project implementation to the PIU, and shall, for this purpose, until completion of the Project: (a) maintain the PIU with such staff, facilities and resources as shall be required for proper performance of its responsibilities under the Project; and (b) cause the PIU to put into effect appropriate procedures to ensure an adequate level of coordination and cooperation in Project implementation between the Water Agencies and

other agencies of the Borrower involved in Project implementation.

2. Without limitation to its general responsibility for Project management, the PIU shall, in particular, be responsible for: (a) maintenance of Project records and accounts; (b) preparation of contract and bidding documents under the Project; (c) coordination of approvals of contracts and expenditures under the Project; (d) obtaining necessary administrative decisions, permits or approvals required for the carrying out of activities under the Project; (e) preparation of quarterly reports on progress in the implementation of the Project, and the furnishing of such reports to the Bank; and (f) arranging for the audit of Project accounts.

3. The Borrower shall: (a) establish, not later than October 1, 1997, in the currency of the Borrower, and maintain until Project completion, a Project Account to be drawn on to meet payments required in said currency in respect of contracts under the Project; and (b) ensure regular replenishment of the Project Account so that the balance of amount in deposit therein shall be maintained, on average, at the equivalent of not less than \$300,000.

4. The Borrower shall ensure the carrying out of the Project in accordance with a time-schedule which shall have been agreed upon with the Bank and which shall provide, inter alia, for the undertaking, by October 1, 1997, of the following actions under the Project:

(a) conclusion of the contracts for the provision of consultants' services required under Part C (1) of the Project;

(b) conclusion of the contracts for the provision of consultants' services required under Part B of the Project;

(c) completion of bidding documents, agreed upon with the Bank, for contracts to be financed under the Loan during the first year of Project implementation; and

(d) issuance of invitation for the provision of consultants' services required for the carrying out of the tariff study referred to under Part C (2) of the Project.

5. The Borrower shall ensure that: (i) the dam of the Tuyamuyun Hydro System is inspected annually in accordance with sound engineering practice by independent expert(s) is dam safety approved by the Bank; (ii) the report and recommendations of such experts are forwarded to the Bank for its review and comment within three months of each annual inspection; and (iii) any appropriate remedial action recommended by such expert(s) is promptly taken.

6. For the purpose of consolidating responsibilities for water production and distribution in the Project area, the Borrower shall: (a) by January 1, 1998, prepare and furnish to the Bank, for its review and comments, a plan for restructuring of the Water Agencies; and (b) implement such plan, taking into account the Bank's comments thereon, in accordance with a time-schedule agreed upon with the Bank.

7. The Borrower shall: (a) undertake the tariff study referred to in Part C.2 of the Project under terms of reference which shall have been agreed upon with the Bank and which shall provide, inter alia, for the completion of said study by June 30, 1998; (b) furnish to the Bank, for its review and comments, the findings and recommendations of said study, promptly upon the completion thereof; and (c) prepare, by December 31, 1998, on the basis of said study and the Bank's comments thereon, and put into effect, by December 31, 2000, a tariff structure for water and sewerage services in the Project area which shall provide for the determination of said tariffs at such levels as shall enable each Water Agency (or any successor thereto under the plan referred to in paragraph 6 above) to generate revenues sufficient to cover its operation and maintenance expenses, working capital requirements and a reasonable portion of the cost of its investment program.

8. Until the implementation of the tariff structure referred to in the preceding paragraph, the Borrower shall: (a) cause each Water Agency for water distribution (or any successor thereto under the plan referred to in paragraph 6 above) to set tariffs at such levels as shall enable said Water Agency to generate revenues sufficient to cover its operation expenses, working capital requirements and a progressively

increasing proportion of its maintenance cost; and (b) cause each Water Agency for water production to set such tariffs at such levels as shall enable it to generate revenue sufficient, when added to subsidies provided to cover the pumping costs, its operation expenses, working capital requirements and a progressively increasing proportion of its maintenance cost.

9. (a) The Borrower shall cause each Water Agency to prepare its draft budget for each year, and a forecast of its projected water sales to each Institutional Consumer for the following calendar year, together with a statement of the total outstanding water bill of such Institutional Consumer.

(b) The Borrower shall take appropriate measures to ensure that the draft annual budget for each Institutional Consumer shall include allocations adequate to cover the amounts forecast and outstanding for water sales, referred to in the preceding sub-paragraph (a).

10. The Borrower shall cause the Water Agencies to adopt and enforce procedures for the gradual reduction of their accounts receivable for water supplies to farms and industrial establishments, including the use of contractual provisions in the annual contracts with such consumers requiring monthly payment for services supported by a bank guarantee, so that accounts receivable for water supply to farms and industrial establishments shall not exceed, on average, the equivalent of: 135 days of billing by the end of the year 1997, 120 days of billing by the end of the year 1998, 105 days of billing by the end of the year 1999, 90 days of billing by the end of the year 2000, 75 days of billing by the end of the year 2001, and 60 days of billing by the end of the year 2002 and each subsequent year.

11. The Borrower shall ensure: (a) the preparation for each Water Agency of the utility accounting system, referred to in Part C.(1)(d) of the Project, under terms of reference which shall have been agreed with the Bank and which shall provide, inter alia, for completion of said preparation by December 31, 1998; and (b) the adoption and operation by the Water Agencies (or any successors thereto under the plan referred to in paragraph 6 above) of their respective utility accounting systems not later than July 1, 1999.

12. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about April 15, 2000, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by June 15, 2000, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank views on the matter.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in

accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$3,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,000,000 until the aggregate amount of withdrawals from the Loan Account allocated plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$10,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01(b)(ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible

Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

