

CONFORMED COPY

LOAN NUMBER 4019 PH

Loan Agreement

(Manila Second Sewerage Project)

between

METROPOLITAN WATERWORKS AND SEWERAGE SYSTEM

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 19, 1996

LOAN NUMBER 4019 PH

LOAN AGREEMENT

AGREEMENT, dated June 19, 1996, between METROPOLITAN WATERWORKS AND SEWERAGE SYSTEM (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) THE REPUBLIC OF THE PHILIPPINES (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement of even date herewith between the Guarantor and the Bank (the Guarantee Agreement), the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement;

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" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.
- (b) The second sentence of Section 5.01 is modified to read:
"Except as the Bank and the Borrower shall otherwise agree, no

withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(c) In Section 6.02, subparagraph (k) is relettered as subparagraph (l) and a new subparagraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

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

(a) "Act" means Republic Act No. 6243 of the Guarantor, as amended to the date of this Agreement, establishing the Metropolitan Waterworks and Sewerage System as an agency of the Guarantor responsible for developing, operating and maintaining water supply, sewerage and sanitation systems in and around Metro Manila;

(b) "Bangko Sentral ng Pilipinas" means the central bank of the Guarantor and any successor thereto;

(c) "DPWH" means the Department of Public Works and Highways of the Guarantor and any successor thereto;

(d) "EMP" means the environmental management plan dated January 1996 which sets out the basic measures to protect, or to mitigate the effects on, the environment during the construction and the operation phases of the Project, and the administrative and monitoring arrangements to ensure the implementation of said measures;

(e) "Sewerage System Department" and the acronym "SSD" mean the department of the Borrower which is responsible for sewerage and sanitation services within Metro Manila; and

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

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, various currencies that shall have an aggregate value equivalent to the amount of fifty-seven million dollars (\$57,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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 works, goods 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 special deposit account in a commercial bank specifically authorized for this purpose by the Bangko Sentral ng Pilipinas on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2001 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 to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(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 Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semi-annually on January 1 and July 1 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 with due diligence and efficiency and in conformity with appropriate engineering, environmental, financial, administrative and public utility 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 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

Management and Operations of the Borrower

Section 4.01 The Borrower shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering and public utility practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 4.02. (a) The Borrower shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and public utility practices.

(b) Except as the Bank shall otherwise agree, the Borrower shall not sell, lease, transfer or otherwise dispose of any of its property or assets which shall be required for the efficient operation of its business and undertaking.

(c) The Borrower shall consult with the Bank prior to undertaking any of the following actions: (i) substantial restructuring or reorganization of its operations; (ii) substantial modification, surrender, abandonment, transfer or other disposition of either its water supply operations or its sewerage and sanitation operations; or (iii) conclusion of any concession agreements in respect of such operations.

Section 4.03. The Borrower shall take out and maintain with responsible insurers insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE V

Financial Covenants

Section 5.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices, its operations and financial condition.

(b) The Borrower shall:

- (i) have its accounts and financial statements (balance sheets, statements of income and expenses and related statements), including, specifically and separately, the accounts and financial statements of SSD, and 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, (A) certified copies of its financial statements, including, specifically and separately, the financial statements for SSD, 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 said accounts and financial statements as well as the audit thereof and said records, 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 5.02. Except as the Bank shall otherwise agree, the Borrower shall take all such actions as may be necessary to ensure that, for each year commencing in 1996, its net accounts receivable (excluding provisions for bad debts) in respect of its water supply and sewerage and sanitation services would not exceed the amount of such charges actually billed by the Borrower during the preceding three months.

Section 5.03. The Borrower shall:

(a) for each year commencing in 1997, prepare separately and furnish to the Bank an annual budget for SSD which shall include an income statement and a balance sheet; and

(b) by March 31 of each year commencing in 1997, furnish to the Bank annual updated financial projections for SSD.

Section 5.04. Except as the Bank shall otherwise agree,

(a) the Borrower shall take all such actions as may be necessary, including adjustment of the structure or levels of sewerage rates to generate, for each year commencing in 1996, funds from internal sources

allocated to SSD equivalent to not less than twenty five percent (25%) of the annual average of the capital expenditures allocated to SSD which are expected to be incurred in such year; and

(b) the Borrower shall not incur any debt to be allocated to SSD, unless a reasonable forecast of the revenues and expenditures allocated to SSD shows that the projected net revenues allocated to SSD for each year during the term of the debt to be incurred shall be at least 1.2 times the projected debt service requirement allocated to SSD in such year on all debt allocated to SSD, including the debt to be incurred.

Section 5.05. For the purposes of Section 5.04:

(a) The term "funds from internal sources" means (i) internal cash generation less (ii) debt service and change in working capital other than cash.

(b) The term "internal cash generation" means the sum of net income before interest expense, depreciation, other non-cash debits and credits and incidental revenue.

(c) The term "capital expenditures" means all expenditures incurred on account of fixed assets, including interest charged to construction, related to operations. The average annual of such capital expenditures shall be calculated on a rolling three year basis and, for any year, shall be the average of the capital expenditures incurred or projected, as the case may be, for such year and for each of the following two years.

(d) The term "debt" means any indebtedness maturing by its terms more than one year after the date on which it is originally incurred.

(e) Debt shall be deemed to be incurred: (i) under a loan contract or agreement or other instrument providing for such debt or further modification of its terms of payment, on the date of such contract, agreement or instrument; and (ii) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(f) The term "net revenues" means gross revenues allocated to SSD from all sources, adjusted to take account of SSD's tariffs in effect at the time of the incurrence of debt even though they were not in effect during the twelve-month period to which such revenues relate, less all operating expenses allocated to SSD, including expenses in respect of administration, maintenance and taxes (or payments in lieu of taxes), but before provision for depreciation of assets and interest and other charges on debt.

(g) The term "debt service requirement" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

(h) The term "reasonable forecast" means a forecast prepared for SSD in the fiscal year in which the debt in question is to be incurred, which both the Bank and the Borrower accept as reasonable and as to which the Bank has notified the Borrower of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have a material or adverse effect on the financial condition or future operating results of SSD.

(i) Whenever for the purposes of Section 5.04 it shall be necessary to value, in terms of currency of the Guarantor, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 5.06. The Borrower shall, commencing as soon as possible but in no event later than March 31, 1997, and thereafter, take all such actions as may be necessary to: (i) on a quarterly basis, complete the posting of the revenues and administrative costs allocated to its water

supply services and its sewerage services respectively; (ii) make all necessary cash transfer between the internal receivable and payable accounts of such services to evidence such allocation of revenues and costs; and (iii) at each year end close the account between such services.

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely that: the Act shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition of the Borrower, or the ability of the Borrower to carry out the Project or any part thereof, or to perform any of the obligations of the Borrower under this Agreement.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, any event specified in Section 6.01 hereof shall occur.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions:

(a) the Borrower shall have obtained from the Guarantor's Environmental Management Bureau environmental compliance certificates in respect of the construction and operation of each of Parts A (1) and (2) and B (1), (2) and (3) of the Project;

(b) the Borrower shall have obtained authorization from its Board of Trustees to raise the average water tariff in accordance with its request of December 1995 and shall have implemented such tariff increase, including the accompanying sewerage tariff and environmental charges;

(c) the Borrower shall have completed a mathematical dispersion model of septage components at the selected sea disposal site, in accordance with terms of reference acceptable to the Bank; and

(d) an agreement for the lease of land and other facilities necessary for the construction of the barge loading stations at Napindan and Estero de Vitas shall have been executed by the Borrower and DPWH and is in full force and effect.

Section 7.02. 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 Administrator 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:

PANGASIWAAN NG TUBIG AT
ALKANTARILYA SA METRO MANILA
Metropolitan Waterworks and Sewerage System
Katipunan Road, Balara,
Quezon City 1105, Philippines

Cable address: Telex:

MWSS PH

(722) 27947 MWSS PH

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 248423 (MCI) or
Washington, D.C. 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.

METROPOLITAN WATERWORKS
AND SEWERAGE SYSTEM

By /s/ Angel L. Lazaro III
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Harold Messenger
Acting Regional Vice President
East Asia and Pacific

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	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be financed
(1) Civil works	31,000,000	100% of foreign expenditures, 50% of local expenditures
(2) Goods and materials	6,800,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items pro- cured locally
(3) Consultants'	8,600,000	100%

	services and training	
(4)	Unallocated	10,600,000
		<hr/>
	TOTAL	57,000,000
		=====

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, except that withdrawals, in an aggregate amount not to exceed \$300,000 equivalent, may be made in respect of Category 3 of the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after July 15, 1995.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for:

(a) civil works under contracts not exceeding \$5,000,000 equivalent;

(b) goods and materials under contracts not exceeding \$1,000,000 equivalent;

(c) consultants' services under contracts with firms or individuals not exceeding \$100,000 and \$50,000 equivalent, respectively; and

(d) training;

all 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 assist the Borrower to: (a) reduce the pollution of Metro Manila waterways and Manila Bay; (b) reduce the health hazards associated with human exposure to sewerage in Metro Manila; and (c) establish a gradual low-cost improvement of sewerage services in Metro Manila by expanding the Borrower's septage management program.

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: Construction of:

1. a pilot septage treatment plant at Dagat-Dagatan with a capacity of about 200 cubic meters per day (m³/d); and

2. three barge-loading stations at Napindan, Estero de Vistas and Paranaque, each with a capacity to transfer about 500 m³/d of septage from collecting vehicles to barges.

PART B:

1. Upgrading of the Metro Manila central sewerage system, including the repair of defective pipes and pumping stations and minimizing of the

entry of rain water to the system.

2. Upgrading of the Ayala sewerage system, including the repair of the pumping station and sedimentation tanks to provide mechanical treatment of septage.

3. Construction of about 10,000 new sewer connections in Metro Manila.

PART C:

Strengthening of the Borrower's central laboratory through the provision of specialized furniture, equipment and materials.

PART D:

Strengthening of the technical capabilities of SSD to operate and maintain sewerage systems through the provision of staff training, vehicles, machinery and tools, and consultants' services.

PART E:

Strengthening of the Borrower's technical capabilities in construction supervision, development of a pilot septage management program, environmental monitoring and preparation of follow-up sewerage and water supply projects, through the provision of consultants' services.

* * *

The Project is expected to be completed by June 30, 2001.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
January 1, 2002	1,105,000
July 1, 2002	1,145,000
January 1, 2003	1,185,000
July 1, 2003	1,225,000
January 1, 2004	1,270,000
July 1, 2004	1,315,000
January 1, 2005	1,360,000
July 1, 2005	1,405,000
January 1, 2006	1,455,000
July 1, 2006	1,505,000
January 1, 2007	1,560,000
July 1, 2007	1,615,000
January 1, 2008	1,670,000
July 1, 2008	1,730,000
January 1, 2009	1,790,000
July 1, 2009	1,850,000
January 1, 2010	1,915,000
July 1, 2010	1,980,000
January 1, 2011	2,050,000
July 1, 2011	2,120,000
January 1, 2012	2,195,000
July 1, 2012	2,275,000
January 1, 2013	2,350,000
July 1, 2013	2,435,000
January 1, 2014	2,520,000
July 1, 2014	2,605,000
January 1, 2015	2,700,000
July 1, 2015	2,795,000
January 1, 2016	2,890,000
July 1, 2016	2,985,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions,

Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than eleven years before maturity	0.55
More than eleven years but not more than sixteen years before maturity	0.80
More than sixteen years but not more than eighteen years before maturity	0.90
More than eighteen years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods 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 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. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

(a) Prequalification

Bidders for all contracts for works shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) 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 Guarantor.

Part C: Other Procurement Procedures

National Competitive Bidding

(a) Goods estimated to cost \$200,000 equivalent or less per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, and (b) works under Part A (2) of the Project estimated to cost up to an aggregate amount not to exceed \$1,600,000 equivalent may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid 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.

2. Prior Review

With respect to each contract for (a) works estimated to cost \$5,000,000 equivalent or more; and (b) goods estimated to cost \$1,000,000 equivalent or more, the procedures set forth in paragraphs 2 and 3 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: (i) the terms of reference for such contracts; (ii) single-source selection of consulting firms; (iii) assignments of a critical nature, as reasonably determined by the Bank; (iv) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (v) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 5

Implementation Program

1. The Borrower declares its commitment to the Bank's policies on protection of the environment. To this end, the Borrower shall:
 - (a) prior to commencing work on each of Parts A (1) and (2) and B (1), (2) and (3) of the Project, complete a detailed environmental management plan acceptable to the Bank in respect of each such Part, in accordance with the general measures set forth in the EMP;
 - (b) thereafter, carry out each such environmental management plan in a manner satisfactory to the Bank;
 - (c) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis the carrying out of such environmental management plans, in accordance with indicators acceptable to the Bank; and
 - (d) commencing on December 31, 1996, submit an annual monitoring report regarding the implementation of such plans.
2. The Borrower shall: (a) commencing in June 1997, furnish to the Bank reports of annual audits performed by an independent agency acceptable to the Bank, of its procedures to monitor and evaluate compliance with the environmental management plans; and (b) in consultation with the Bank, take all appropriate actions to ensure its compliance with such plans taking into consideration the recommendations from such audits and the Bank's comments thereon.
3. The Borrower shall establish by December 31, 1996 and, thereafter, maintain an advisory panel comprising technical and management specialists to advise on the pilot septage management operations under Part A of the Project and on the evaluation of the designs of future septage treatment plants.
4. The Borrower shall take all actions necessary to enable it to adhere to a timetable for cessation of sea disposal of septage acceptable to the Bank.
5. Without limitation upon the provisions of Section 9.07 of the General Conditions, the Borrower shall prepare on the basis of guidelines acceptable to the Bank and submit to the Bank:
 - (a) by March 31 and September 30 of each year, commencing on September 30, 1996, a semi-annual progress report on the implementation of all components of the Project, which shall include revised project cost estimates and implementing schedules; and
 - (b) (i) by September 30, 1998, a report on the progress achieved in the carrying out of the Project during the period preceding the date of such report and setting out the measures recommended to ensure the efficient implementation of the Project and the achievement of the objectives thereof during the period following such date; and (ii) by November 1, 1998, review such report with the Bank and, thereafter, take all necessary actions to ensure the efficient completion of the Project and the achievement of the objectives thereof on the basis of the conclusions and recommendations of said report and taking into consideration the Bank's view thereon.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:
 - (a) the term "eligible Categories" means Categories (1) through (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 \$2,000,000 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 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 with respect to the Project, 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.

[Redacted]