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CONFORMED COPY

LOAN NUMBER 7834-BG

Loan Agreement

Municipal Infrastructure Development Project

between

REPUBLIC OF BULGARIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated February 1, 2010

LOAN NUMBER 7834-BG

LOAN AGREEMENT

Agreement dated February 1, 2010, between REPUBLIC OF BULGARIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of eighty one million Euro (EUR 81,000,000), including the Front-end Fee set in accordance with the provisions of Section 2.03 (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.
- 2.05. The Payment Dates are April 15 and October 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III - PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out the Project, through MRDPW, in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - EFFECTIVENESS

- 4.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE V - REPRESENTATIVE; ADDRESSES

- 5.01. The Borrower's Representative is the Minister of Finance of the Borrower.
- 5.02. The Borrower's Address is:

Ministry of Finance
102 Rakovski Street
Sofia, 1040
Republic of Bulgaria

Cable address:

Ministry of Finance
Sofia

Facsimile:

(359) 2-9806863

- 5.03. The Bank's Address is:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423(MCI) or
64145(MCI)

Facsimile:

1-202-477-6391

AGREED at Sofia, Republic of Bulgaria, as of the day and year first above written.

REPUBLIC OF BULGARIA

By: /s/ Simeon Djankov

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By: /s/ Florian Fichtl

Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are to: (a) improve the reliability and quality of water provision to the communities in selected settlements in the Project area; and (b) assist municipalities to improve investment-planning capacity.

The Project consists of the following parts:

Part A: Project Implementation Support

(a) Provision of technical assistance for preparing the activities described in Part C of the Project, consisting of the following: completion of feasibility studies, update of designs and Environmental Management Plans, preparation of bidding documents, and construction supervision activities.

(b) Provision of consultants' services for completion of Project's activities, consisting of the following: (i) audit; (ii) training for the MRDPW's staff involved in the implementation of the Project; and (iii) the development and implementation of a communication plan on Project related land issues in accordance with the existing communication plan outline as prepared by MRDPW.

Part B: Preparation of Master Plans

Preparation of forty eight (48) regional Master Plans for Water Supply and Sewerage systems (ViK systems), including forty (40) Master Plans for urban settlements, within the six (6) economic development regions, as described in the POM, in order to support the Borrower, through MRDPW, to: (i) identify investment needs for rehabilitation of water supply network and construction of sewerage network and wastewater treatment plants; and (ii) meet the applicable EU water and wastewater directives commitments. The Master Plans will also include corporate development plans and any other related documents and activities promoting improved service delivery and greater efficiency.

Part C: Completion and Rehabilitation of Dams

Provision of works and goods for: (i) completion of Luda Yana dam, including its associated water treatment plant; (ii) completion of Plovdivtzi dam, including its associated water treatment plant; (iii) completion of Neikovtzi dam, including its associated water treatment plant; and (iv) rehabilitation of Studena dam.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements**

1. The Borrower, through MRDPW, shall maintain the PIU during the execution of the Project with necessary resources and qualified and sufficient staff in adequate numbers, as shall be required to perform its duties in respect of overall management and implementation of the Project, in a manner satisfactory to the Bank. The PIU shall be part of Water and Sewerage Department in the MRDPW and shall maintain a permanent core of staff members during the entire duration of the Project and with the composition described in the POM.

2. The Borrower, through MRDPW, shall regularly update the POM, in a manner satisfactory to the Bank.

3. Prior to the launch of the activities under Part C (i), (ii) and (iv) of the Project and in accordance with its relevant national legislation, the Borrower, through the MRDPW, shall undertake the following steps for each dam:

(a) complete feasibility studies in a manner satisfactory to the Bank that would determine the costs and benefits to confirm the viability of the proposed dam investments;

(b) complete site investigations to review the integrity of the existing construction and the current hydrogeology of the area;

(c) update the EMP and EIA, if necessary, based on the findings of the feasibility study;

(d) obtain the Bank's no objection to its financing based on satisfactory appraisal of economic, technical, environmental, social, and dam safety aspects based on related Bank policies;

(e) review and update designs and costs for the most viable option.

4. Prior to launch the activities under Part C (iii) of the Project and in accordance with its relevant national legislation, the Borrower shall: (i) relocate the graveyard in the Neikovtsi dam site in a manner satisfactory to the Bank; and (ii) undertake, through the MRDPW, the steps referred to in Section I.A.3 (a) through (e) of this Agreement.

5. The Borrower, through MRDPW, shall prepare and submit to the Bank, on a semestrial basis and not later than one month after the end of each semester, Project Reports.

6. The Borrower, through MRDPW, shall ensure that appropriate budget allocations are made available yearly for the Project implementation purposes, throughout the Project life.

7. The Borrower shall retain the ownership of the dams and the water treatment plants constructed under the Project and shall constitute, after the completion of works, a right of use, for operation purposes, in the benefit of the operators defined by the Borrower's Water Act. To that extent, the above mentioned operators shall be involved in the review of design and supervision of works.

B. Anti-Corruption

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Safeguards

1. The Borrower, through PIU, shall implement the EMPs for Part C of the Project, in a manner satisfactory to the Bank and shall provide the Bank with a summary status of the implementation (including results from environmental monitoring), as part of semestrial Project reporting or when specifically requested by the Bank.

2. The Borrower, through the MRDPW, shall maintain the Dam Safety Panel established by a Decision of Minister of Regional Development and Public Works dated December 09, 2008, which will provide advice on issues related to dam safety, including additional studies and investments necessary, and make recommendations pertaining to the design for the completion and rehabilitation of the dams under Part C of the Project.

3. The Borrower shall ensure that any land required for the Project shall be acquired in accordance with the principles and procedures set forth in the LAPF, satisfactory to the Bank, and shall not assign, amend, abrogate or waive any provision of the LAPF without prior approval of the Bank.

4. The Borrower, through MRDPW, and the Bank shall inform each other on any claim or complaint regarding past land expropriation and/or restitution that may arise in relation to the Project sites. While such claims will not be subject to the provisions of LAPF, the Borrower, through MRDPW, shall inform and discuss with the Bank the measures to find an equitable resolution to such potential claims or complaints, and shall carry out such measures in accordance with the Bulgarian laws and regulations.

5. The Borrower, through MRDPW, shall ensure that the Project activities will have no adverse effect on the quantity and quality of water flows to international waterways and other riparians.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. The Borrower, through MRDPW, shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators agreed with the Bank. Each Project Report shall cover the period of six (6) months, and shall be furnished to the Bank not later than one (1) month after the end of the period covered by such report.

2. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than six (6) months after the Closing Date.

B. Financial Management, Financial Reports and Audits

1. The Borrower, through MRDPW, shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Borrower, through MRDPW, shall prepare and furnish to the Bank after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank, not later than forty five (45) days after the end of such period.

3. The Borrower, through MRDPW, shall have the Project's Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. **Consultants’ Services.** All consultants’ services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method	
(a)	<p>National Competitive Bidding (NCB), subject to the following additional provisions:</p> <ul style="list-style-type: none"> • a point system evaluation shall not be used; • domestic preference shall not be applied; • international bidders shall not be excluded from bidding; • the draft NCB bidding documents shall be prepared and submitted to the Bank for review and no-objection before the first NCB tender is issued; • no bids shall be rejected at the bid opening. All bids submitted on or before the deadline for submission of bids shall be opened and read out at public bid opening; • local bidders shall demonstrate availability of obtaining securities and reasonable access to credit; • bid evaluation criteria shall be pre-disclosed to bidders in the bidding documents; and • technical specifications shall be clearly written to promote the broadest possible competition.

Procurement Method	
(c)	Shopping
(d)	Direct Contracting

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method	
(a)	Quality Based Selection
(b)	Fixed Budget Selection
(c)	Least Cost selection
(d)	Selection based on Consultant's Qualification
(e)	Single Source Selection
(f)	Individual Consultants

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (Expressed in EUR)	Percentage of Expenditures to be Financed
(1) Consultants’ services for Part A of the Project	4,093,500	80%
(2) Preparation of Master Plans under Part B of the Project	16,704,000	80%
(3) Works and goods for Part C of the Project	60,000,000	80%
(4) Front-end Fee	202,500	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
TOTAL AMOUNT	<u>81,000,000</u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:

(a) for payments made prior to the date of this Agreement; or

(b) under Category (3) for any expenditures for Luda Yana dam, Plodivtsi dam, Neikovtsi dam or Studena dam, unless the Borrower has carried out its obligations pursuant to Section I.A.3 and Section I.A.4 of this Schedule for each respective dam.

2. The Closing Date is December 31, 2015.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each April 15 and October 15 beginning April 15, 2017 through April 15, 2028	4.17%
On October 15, 2028	4.09%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.

(b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date.

3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable

on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

APPENDIX**Section I. Definitions**

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
4. “EIA” means the Environment Impact Assessment of the Borrower, prepared and adopted by the Borrower on May 12, 2009 for the Luda Yana, Plovdivtzi and Neikovtzi dams, referred to in Section I.A.3 (c) and Section I.A.4 (ii) of Schedule 2 to this Agreement.
5. “EMPs for Part C (i) of the Project” means the Environmental Management Plans for each dam under Part C (i) of the Project, satisfactory to the Bank, to be prepared and approved by the Borrower, through the MRDPW, pursuant to Section I.A.3 (c) and Section I.A.4 (ii) of Schedule 2 to this Agreement describing the environmental mitigation and monitoring measures under Part C (i), (ii) and (iii) of the Project.
6. “Financial Statements” means the financial statements to be maintained for the Project as provided in Section 5.09 of the General Conditions.
7. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008).
8. “LAPF” means the Land Acquisition Policy Framework, satisfactory to the Bank, prepared and approved by the Borrower on March 24, 2009 setting forth principles, rules and procedures applicable for land acquisition under the Project and referred to in Section I.C.3 and Section I.A.4 of Schedule 2 to this Agreement.
9. “Master Plan” means a general investment plan prepared at regional level or for an urban settlement which includes the diagnosis of the current situation, diagnosis of management practices, general planning criteria for both water supply and sanitation, assessment of water demand and sanitation requirements, identification and definition of possible technical solutions for water supply and sanitation, comparison of options, medium and long-term investment programs.
10. “MRDPW” means the Ministry of Regional Development and Public Works of the Borrower or any successor or successors thereto.

11. “Municipalities” means municipalities, as defined under the Borrower’s national legislation, benefiting of the Master Plans to be developed under Part B of the Project.
12. “Operators” means any institution specialized in management, operation and maintenance of a water retention dam and/or water treatment plant, as defined by the Borrower’s Water Act.
13. “PIU” means the Project Implementing Unit established, under MRDPW, by a Decision of the Minister of Regional Development and Public Works No. RD-02-14-383, dated March 18, 2009 which will be responsible for the implementation and the management of the Project.
14. “POM” means the Project Operational Manual, approved by the Borrower by a Decision of Ministry of Regional Development and Public Works dated October 20, 2009 and referred to in paragraph I.A.2 of Schedule 2 of this Agreement, describing procedures for implementation of the Project, consistent with the provisions of this Agreement and with the national laws and regulations of the Borrower and including, *inter alia*: (i) procedures governing administrative, procurement, accounting, financial management and monitoring and evaluation arrangements; and (ii) sample formats for annual reports; as the same may be amended from time to time with the agreement of the Bank.
15. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
16. “Procurement Plan” means the Borrower’s procurement plan for the Project dated October 14, 2009 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
17. “ViKs systems” mean Borrower’s regional and local Water and Wastewater Infrastructure (Vodosnabdiavane I Kanalizacia).
18. “Water Act” means the Borrower’s Water Act published in the State Gazette No. 67 dated July 27, 1999, and entered into force on January 28, 2000, as amended.