

CONFORMED COPY

LOAN NUMBER 4079 RO

Project Agreement

(Bucharest Water Supply Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

REGIA GENERALA DE APA BUCURESTI

Dated August 2, 1996

LOAN NUMBER 4079 RO

PROJECT AGREEMENT

AGREEMENT, dated August 2, 1996, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and REGIA GENERALA DE APA BUCURESTI (RGAB).

WHEREAS (A) by the Loan Agreement of even date herewith between Romania (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount equal to twenty five million dollars (\$25,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that RGAB agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by a subsidiary loan and guarantee agreement to be entered into among the Borrower, RGAB and the General Council of the Bucharest Municipality, the proceeds of the loan provided for under the Loan Agreement will be relented to RGAB on the terms and conditions set forth in said Subsidiary Loan and Guarantee Agreement; and

WHEREAS RGAB, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several

terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. RGAB declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental and public utility practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 2.02. 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 1 to this Agreement.

Section 2.03. (a) RGAB shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement and the Project.

(b) For the purposes of Section 9.08 of the General Conditions and without limitation thereto, RGAB shall:

- (i) 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
- (ii) afford the Bank a reasonable opportunity to exchange views with RGAB on said plan.

Section 2.04. RGAB shall duly perform all its obligations under the Subsidiary Loan and Guarantee Agreement. Except as the Bank shall otherwise agree, RGAB shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan and Guarantee Agreement or any provision thereof.

Section 2.05. (a) RGAB shall, at the request of the Bank, exchange views with the Bank with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan and Guarantee Agreement, and other matters relating to the purposes of the Loan.

(b) RGAB shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Loan, or the performance by RGAB of its obligations under this Agreement and under the Subsidiary Loan and Guarantee Agreement.

Section 2.06. RGAB shall maintain the PCU with a sufficient number of qualified staff, adequate facilities, and terms of reference, satisfactory to the Bank.

ARTICLE III

Management and Operations of RGAB

Section 3.01. RGAB shall carry on its operations and conduct its affairs in accordance with sound administrative, financial and public utility practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers, and in accordance with the provisions of the STAP.

Section 3.02. RGAB 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.

Section 3.03. RGAB shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial and Other Covenants

Section 4.01. (a) RGAB shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) RGAB shall:

- (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 (6) 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 said records, accounts and financial statements as well as the audit thereof, as the Bank shall from time to time reasonably request.

Section 4.02. By January 1, 1997, RGAB shall appoint, and thereafter maintain in this position, an environmental advisor, whose qualifications and terms of reference shall be acceptable to the Bank, to be responsible, inter alia, for advising on any environmental issues arising out of the execution of the Project.

Section 4.03. RGAB shall: (i) by September 30 of each year starting in 1996, review with the Bank the progress achieved in the implementation of the STAP; and (ii) by November 30 of the same year, submit to the Bank, for its approval, any proposed modifications to the STAP.

Section 4.04. (a) Except as the Bank shall otherwise agree, RGAB shall not incur any debt unless a reasonable forecast of the revenues and expenditures of RGAB shows that the estimated net revenues of RGAB for each fiscal year during the term of the debt to be incurred shall be at least 1.3 times the estimated debt service requirements of RGAB in such year on all debt of RGAB including the debt to be incurred.

(b) For the purposes of this Section:

- (i) The term "debt" means any indebtedness of RGAB maturing by its terms more than one year after the date on which it is originally incurred.
- (ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

- (iii) The term "net revenues" means the difference between: (A) the sum of revenues from all sources related to operations and net non-operating income; and (B) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.
- (iv) The term "net non-operating income" means the difference between: (A) revenues from all sources other than those related to operations; and (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
- (v) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
- (vi) The term "reasonable forecast" means a forecast prepared by RGAB not earlier than twelve (12) months prior to the incidence of the debt in question, which both the Bank and RGAB accept as reasonable and as to which the Bank has notified RGAB 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 adverse effect on the financial condition or future operating results of RGAB.
- (vii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, 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 4.05. RGAB shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory 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 March 31, 1998, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) above, 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 30, 1998, or such later date as the Bank shall request, the report referred to in sub-paragraph (b) above, 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's views on the matter.

ARTICLE V

Effective Date; Termination;
Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of RGAB thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify RGAB thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

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 (RCA)
Washington, D.C.	82987 (FTCC)
	64145 (WUI) or
	197688 (TRT)

For RGAB:

General Water Company Bucharest
2, Aristide Demetriad Str.
70448 Bucharest, 1 st. Sector
Romania

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of RGAB, or by RGAB on behalf of the Borrower under the Loan Agreement, may be taken or executed by the General Manager and President of the Board or such other person or persons as the General Manager and President of the Board shall designate in writing, and RGAB shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Christiaan Poortman
Acting Regional Vice President
Europe and Central Asia

REGIA GENERALA DE APA BUCURESTI

By /s/ Napoleon Pop
Authorized Representative

SCHEDULE 1

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 works and the supply and installation of equipment 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 Borrower.

(c) Notification and Advertising

The invitation to prequalify or 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. National Competitive Bidding

Filtering sand estimated to cost a total amount not to exceed \$300,000 equivalent, and works for the installation of meters estimated to cost a total amount not to exceed \$2,000,000 equivalent, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. International Shopping

Filter nozzles estimated to cost an amount not to exceed \$300,000 equivalent may be procured under a contract awarded on the basis of international shopping procedures in accordance with the provisions of

paragraphs 3.5 and 3.6 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 1.

2. Prior Review

With respect to each contract estimated to cost the equivalent of \$250,000 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 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 individuals 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.

