

CONFORMED

CREDIT NUMBER 3945 SL

Project Agreement

(Power and Water Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

GUMA VALLEY WATER COMPANY

Dated July 6, 2004

CREDIT NUMBER 3945 SL

PROJECT AGREEMENT

AGREEMENT, dated July 6, 2004, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and GUMA VALLEY WATER COMPANY (GVWC).

WHEREAS (A) by the Development Credit Agreement of even date herewith between Republic of Sierra Leone (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to twenty four million two hundred thousand Special Drawing Rights (SDR 24,200,000), on the terms and conditions set forth in the Development Credit Agreement, but only on conditions that GVWC agree to undertake certain of such obligations toward the Association as are set forth in this Agreement;

(B) by a subsidiary agreement to be entered into between the Borrower and GVWC (the GVWC Subsidiary Agreement), part of the proceeds of the Credit as provided for under the Development Credit Agreement will be made available to GVWC on the terms and conditions set forth in said GVWC Subsidiary Agreement; and

WHEREAS GVWC, in consideration of the Association's entering into the Development Credit 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 Development Credit Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) GVWC declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end it shall carry out Part B.3 of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and public utility practices, provide or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the carrying out of Part B.3 of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and GVWC shall otherwise agree, GVWC shall carry out Part B.3 of the Project in accordance with the Implementation Program set forth in Schedule 4 to the Development Credit Agreement, including the monitoring and reporting obligations set forth therein.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for Part B.3 of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to the Development Credit Agreement, as said provisions may be further elaborated in the Procurement Plan.

Section 2.03. (a) GVWC shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 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 Part B.3 of the Project.

(b) For the purposes of Section 9.06 of the General Conditions and without limitation thereto, GVWC shall:

- (i) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Association and GVWC, a plan designed to ensure the continued achievement of the Project objectives; and
- (ii) afford the Association a reasonable opportunity to exchange views with GVWC on said plan.

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

Section 2.05. (a) GVWC shall, at the request of the Association, exchange views with the Association with regard to the progress of Part B.3 of the Project, the performance of its obligations under this Agreement and under the GVWC Subsidiary Agreement, and other matters relating to the purposes of the Credit.

(b) GVWC shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Part B.3 of the Project, the accomplishment of the purposes of the Credit, or the performance by GVWC of its obligations under this Agreement and under the GVWC Subsidiary Agreement.

ARTICLE III

Management and Operations of GVWC

Section 3.01. GVWC 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.

Section 3.02. GVWC shall at all times operate and maintain its buildings, office space, 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. GVWC shall take out and maintain with responsible insurers, or make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) GVWC shall establish and maintain a financial management system, including records and accounts, and prepare financial statements, all in

accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to Part B.3 of the Project and GVWC's general operations.

- (b) GVWC shall:
 - (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each FY audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;
 - (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year as so audited, and (B) an opinion on such statements and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
 - (iii) furnish to the Association such other information concerning such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

Section 4.02. (a) Without limitation upon GVWC's reporting obligations set out in Schedule 4 to the Development Credit Agreement, GVWC shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and

- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such quarter.

Section 4.03. GVWC shall:

(a) Continue its program for the annual revaluation of its assets in accordance with consistently maintained methods of valuation satisfactory to the Association.

(b) Carry out a tariff study on the tariff structure and the required pattern of tariff increase to reach the financial equilibrium as defined through a financial model to be developed for this purpose, all under terms of reference satisfactory to the Association.

(c) Determine its tariff structure on the basis of metered water consumption and as a result, starting on January 1, 2006: (i) cease from billing households without connection on the general water rate category; and (ii) start billing households on the basis of metered water consumption.

(d) Improve its commercial operating ratios based on the indicators to be developed as a result of the technical advisory services provided under Part B.3 of the Project and in consultation with the Association.

Section 4.04. (a) Except as the Association shall otherwise agree, GVWC shall, with respect to its water operations, take all necessary action (including adjustment of its water tariffs) to earn for its fiscal year ending December 31, 2005 and each of its fiscal years following thereafter, an annual return before taxes to be calculated during Project implementation based on sound financial analysis acceptable to the Association, and as further detailed in subparagraphs (b) (i) through (vi) of this Section.

(b) For the purposes of this Section:

- (i) the annual return shall be calculated by dividing GVWC's net operating income for the fiscal year in question by one-half of

the sum of the current net value of GVWC's fixed assets in operation at the beginning and at the end of that fiscal year;

- (ii) the term "net operating income" means total operating revenues less total operating expenses;
- (iii) the term "total operating revenues" means revenues from all sources related to operations;
- (iv) the term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance and provision for depreciation on a straight-line basis at a rate of not less than 4% of the average current gross value of GVWC's fixed assets in operation, or other basis acceptable to the Association, but excluding interest and other charges on debt and taxes;
- (v) the average current gross value of GVWC's fixed assets in operation shall be calculated as one-half of the sum of the gross value of GVWC's fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Association; and
- (vi) the term "current net value of GVWC's fixed assets in operation" means the gross value of GVWC's fixed assets in operation less the amount of accumulated depreciation, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Association.

Section 4.05. (a) Except as the Association shall otherwise agree, GVWC shall, with respect to its water and sewerage operations, take all necessary action (including adjustment of its sewerages charges, when applicable) to produce for each of its fiscal years total revenues from the said operations equivalent to not less than the sum of its total cash operating expenses and debt service payments related to its water and sewerage operations (the latter when applicable).

(b) Before March 1 in each fiscal year referred to in paragraph (a) above, GVWC shall, on the basis of forecasts prepared by GVWC and satisfactory to the Association, review whether it would meet the requirements set forth in said paragraph in

respect of such year and the next following fiscal year and shall furnish to the Association the results of such review upon its completion.

- (c) For the purposes of this Section:
 - (i) the term "total revenues" means the sum of total operating revenues and net non-operating income;
 - (ii) the term "total operating revenues" means revenues from all sources relating to sewerage operations;
 - (iii) the term "net non-operating income" means the difference between:
 - (A) revenues from all sources not related to sewerage operations, and
 - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
 - (iv) the term "total cash operating expenses" means all expenses related to sewerage operations, including administration, adequate maintenance and taxes and payments in lieu of taxes but excluding provision for depreciation and interest and other charges on debt.

Section 4.06. Except as the Association shall otherwise agree, GVWC shall not, for each of its fiscal years following next after its fiscal year ending on December 31, 2005, incur any debt unless a reasonable forecast of the revenues and expenditures of GVWC for each fiscal year during the term of the debt to be incurred shall be at least 1.5 times the estimated debt service requirements of GVWC in such year on all debt of GVWC including the debt to be incurred.

Section 4.07. For the purposes of Sections 4.05 and 4.06 of this Agreement:

- (ii) the term "debt" means any indebtedness of GVWC maturing by its terms more than one year after the date on which it is originally incurred;

- (iii) 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.
- (iv) the term "debt service requirements" means the aggregate of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt; and
- (v) the term "reasonable forecast" means a forecast prepared by GVWC not earlier than twelve months prior to the incurrence of the debt in question, which both the Association and GVWC accept as reasonable and as to which the Association has notified GVWC 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 GVWC.

Section 4.08. Whenever for the purposes of Sections 4.03, 4.04, 4.05, 4.06 and 4.07 of this Agreement, 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 Association.

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 Development Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of GVWC thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) the date fifteen years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify GVWC of this event.

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, telex or facsimile 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. Deliveries made by facsimile transmission shall also be confirmed by mail. The addresses so specified are:

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

For Guma Valley Water Company (GVWC):

P.O.Box 700
Lamina Sankoh St., Freetown
Sierra Leone

Cable address:	Facsimile:
GUWATER	(232) 22-228394

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 GVWC, or by GVWC on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by the Managing Director of GVWC or such other person or persons as GVWC shall designate in writing, and GVWC shall furnish to the Association 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 DEVELOPMENT ASSOCIATION

By

Authorized Representative

GUMA VALLEY WATER COMPANY

By

Authorized Representative