

CONFORMED COPY

CREDIT NUMBER 2103-ET

Project Agreement

(Market Towns Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

WATER SUPPLY AND SEWERAGE AUTHORITY

Dated March 30, 1990

CREDIT NUMBER 2103-ET

PROJECT AGREEMENT

AGREEMENT, dated March 30, 1990, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and WATER SUPPLY AND SEWERAGE AUTHORITY (WSSA).

WHEREAS (A) by the Development Credit Agreement of even date herewith between People's Democratic Republic of Ethiopia (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to thirty one million four hundred thousand Special Drawing Rights (SDR 31,400,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that WSSA agree to undertake such obligations toward the Association as are set forth in this Agreement;

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

WHEREAS WSSA, 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. WSSA declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement and, to this end, shall carry out Parts C and E.2 of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and engineering 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 Association 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 Credit shall be governed by the provisions of Schedule 3 to the Development Credit Agreement.

Section 2.03. WSSA shall carry out the obligations set forth in Sections 9.03, through 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 this Project Agreement and Parts C and E.2 of the Project.

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

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

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

ARTICLE III

Management and Operations of WSSA

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

Section 3.02. WSSA 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 and financial practices.

Section 3.03. WSSA 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.

Section 3.04. WSSA shall, not later than June 30, 1990, upgrade its regional financial units to enable it to employ qualified staff in adequate numbers.

Section 3.05. WSSA shall furnish to the Association the results of the Water Tariff Study currently being carried out and shall consult with the Association prior to the implementation of the recommendations of the said

study.

Section 3.06. WSSA shall: (a) not later than December 31, 1991, complete the installation in its head office of improved accounting and financial management information systems; (b) thereafter install the system in its water supply services units under the Project; and (c) train an adequate number of staff in the use of the said systems.

ARTICLE IV

Financial Covenants

Section 4.01. (a) WSSA shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition, including separate records, accounts and financial statements for its water and sewerage activities prepared in a commercial accounting format as well as separate accounts related to Parts C and E. 2 of the Project (Project Accounts).

(b) WSSA shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) including the Project Accounts for each fiscal year audited, in accordance with appropriate auditing principles 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 nine months after the end of each such year (A) certified copies of its financial statements and the Project Accounts 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 Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Association shall from time to time reasonably request.

Section 4.02. (a) Except as the Association shall otherwise agree, WSSA shall produce for the WSSSUs of the towns of Assela and Shashemane for each of its fiscal years after fiscal year ending on June 30, 1993, total revenues equivalent to not less than the sum of: (i) its total operating expenses for each town; and (ii) the amount by which debt service requirements for each town exceed the provision for depreciation.

(b) Before June 30 in each of its fiscal years, WSSA shall, on the basis of forecasts prepared by WSSA and satisfactory to the Association, review whether it would meet the requirements set forth in paragraph (a) 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) If any such review shows that WSSA would not meet the requirements set forth in paragraph (a) for WSSA's fiscal years covered by such review, WSSA shall promptly take all necessary measures in order to meet such requirements.

(d) For 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 related to operations.
- (iii) 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.

- (iv) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation on a straight-line basis at an average rate of about 3.5% per annum of the average current gross value of WSSA's fixed assets in operation, or other basis acceptable to the Association, but excluding interest and other charges on debt.
- (v) The average current gross value of WSSA's fixed assets in operation shall be calculated as one half of the sum of the gross value of WSSA's fixed assets in operation at the beginning and at the end of the fiscal year.
- (vi) The term "debt service requirements" means the aggregate amount of repayments of principal and interest.

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 WSSA 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 26 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 WSSA 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, 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 Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

For WSSA:

Water Supply and Sewerage Authority
P.O. Box 1505
Addis Ababa
Ethiopia

Cable address:

AWSA
Addis Ababa

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 WSSA may be taken or executed by the General Manager or such other person or persons as WSSA shall designate in writing, and WSSA 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 /s/ Edward V.K. Jaycox

Regional Vice President
Africa

WATER SUPPLY AND SEWERAGE AUTHORITY

By /s/ Tekola Dejene

Authorized Representative

