

CONFORMED COPY

CREDIT NUMBER 3623 TA

Development Credit Agreement

(Rural Water Supply and Sanitation Project)

between

UNITED REPUBLIC OF TANZANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 12, 2002

CREDIT NUMBER 3623 TA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 12, 2002, between the UNITED REPUBLIC OF TANZANIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower a letter dated February

1, 2002, describing a program of actions, objectives and policies to improve the performance of its rural water supply and sanitation sector, and increase resources to the sector (hereinafter referred to as the Program), and declaring the Borrower's commitment to the execution of the Program;

(B) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit 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 Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement.

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

(a) "AIDS" means the Acquired Immune Deficiency Syndrome;

(b) "Beneficiary" means a community, including a village, group of villages, or a township, which is a recipient of a Grant (as hereinafter defined) for the implementation of a Subproject (as hereinafter defined), and Beneficiaries shall mean such Beneficiaries collectively, provided, however that for purposes of Part B.1 (ii) of the Project, the term shall include a CBO (as hereinafter defined) and a NGO (as hereinafter defined);

(c) "CBO" means a Community Based Organization operating under the Borrower's laws, and meeting the criteria provided in the Project Operational Manual (as hereinafter defined);

(d) "Community Subproject Agreement" means an agreement to be entered into between the DC (as hereinafter defined) and a Beneficiary, or between MWLD (as hereinafter defined) and a Beneficiary, as the case may be, for purposes of the implementation of a Subproject (as hereinafter defined), and referred to in paragraph 5 (h) of Schedule 4 to this

Agreement;

(e) “DC” means the District Council established and operating in each Project District (as hereinafter defined) in accordance with the Borrower’s Local Government (District Authorities) Act No. 7 of 1982, as amended;

(f) “District” means a district as defined in the Borrower’s Local Government (District Authorities) Act No. 7 of 1982, as amended;

(g) “DWSF” means the District Water and Sanitation Fund, to be established in each Project District for the collection and management of funds to be utilized in the implementation of water and sanitation activities in such District, and referred to in Part A.1 of Schedule 2 to this Agreement;

(h) “DWSP” means the District Water Supply and Sanitation Plan prepared by each Project District, and updated annually, outlining the water and sanitation program for such District, and referred to in Part A.1 of Schedule 2 to this Agreement;

(i) “DWST” means a District Water and Sanitation Team established by the DC in each Project District to plan and manage the District’s water and sanitation program, as defined in the DWSP;

(j) “EMP” means the Environment Management Plan dated September 15, 2001, satisfactory to the Association, describing measures for mitigating the potential environmental impact of the Project, as the same may be updated from time to time with the agreement of the Association;

(k) “FMR” means each Financial Monitoring Report prepared in accordance with Section 4.02 of this Agreement;

(l) “Grant” means a grant made or proposed to be made by the Borrower to a Beneficiary, to finance a Subproject (as hereinafter defined);

(m) “HIV” means the Human Immuno-Deficiency Virus;

(n) “MOH” means the Borrower’s Ministry of Health, referred to in paragraph 1 (a) (ii) of Schedule 4 to this Agreement;

(o) “MOU” means the Memorandum of Understanding to be entered into between the MWLD (as hereinafter defined) and the DC, and referred to in paragraph 4 of Schedule 4 to this Agreement;

(p) “MWLD” means the Borrower’s Ministry of Water and Livestock Development;

(q) “NGO” means a Non-Governmental Organization established and operating under the Borrower’s Societies Ordinance, Chapter 337 of the laws of the Borrower;

(r) “POM” means the Project Operational Manual setting out, *inter alia*, the procurement, financial management and disbursement procedures, the institutional aspects, work plans and other arrangements for the implementation of the Project, and referred to in paragraph 1 (b) of Schedule 4 to this Agreement as the same may be amended from time to time, and such term includes any schedules to the Project Operational Manual;

(s) “Project Account” means the account referred to in Section 3.04 of this Agreement;

(t) “Project District” means each of the twelve (12) Districts selected to participate in the Project, with the approval of the Association, and in accordance with criteria defined in paragraph 3 (a) of Schedule 4 to this Agreement, and Project Districts shall refer to such Districts, collectively;

(u) “Project Preparation Advance” means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on February 14, 2001, and on behalf of the Borrower on March 5, 2001;

(v) “Project Quarter” means the three-month period beginning from the Effective Date and ending three months thereafter (the First Project Quarter) and any three-month period beginning at the end of the First Project Quarter, or at the end of any subsequent Project Quarter;

(w) “RWSD” means the Rural Water Supply Division of MWLD;

(x) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;

(y) “Selection of Additional Districts Report” means the report dated September 2001, prepared by MWLD detailing the criteria for the selection process for Districts participating in the Project, and outlining the order of priority for the participation of such Districts, as amended from time to time with the approval of the Association, and referred to in paragraph 3 (a) (ii) of Schedule 4 to this Agreement;

(z) “Subproject” means a specific development project financed or to be financed through a Grant extended under Part B.1 of the Project;

(aa) “Subproject Agreement” means an agreement to be entered into between MWLD and DC on an annual basis, after the approval of Subprojects for the year, aggregating the

information on all Subprojects to be financed during the year, and referred to in paragraph 5 (f) of Schedule 4 to this Agreement;

(bb) “TAC” means the Technical Advisory Committee established by the Borrower, consisting of representatives from MWLD, MOH, the Ministry of Regional Administration and Local Government, NGOs, donors and private sector organizations, and referred to in paragraph 1 (a) of Schedule 4 to this Agreement;

(cc) “Tanzania Shilling and Tshs” means the currency of the Borrower; and

(dd) “WSS Committee” means a Water and Sanitation Committee established by a Beneficiary, where applicable, to plan and manage water and sanitation facilities on its behalf, with the required legal capacity under the laws of the Borrower.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to twenty million eight hundred thousand Special Drawing Rights (SDR 20,800,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Credit; and (ii) amounts paid (or if the Association shall so agree, amounts to be paid) under Part B.1 of the Project to meet the reasonable cost of goods, works and services required for a Subproject in respect of which the withdrawal from the Credit Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in United States Dollars in a commercial bank a separate special deposit account, on terms and conditions satisfactory to the Association, 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 5 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be June 30, 2006 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later

date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 15 and September 15 commencing September 15, 2012 and ending March 15, 2042. Each installment to and including the installment payable on March 15, 2022 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

(A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall

have been repaid; and

- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

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 through MWLD, with due diligence and efficiency and in conformity with appropriate administrative, financial and environmental 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 Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. 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 this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without

limitation thereto, the Borrower shall:

(a) 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 Borrower and the Association, a plan for the future operation of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.04. Without limitation to its obligations under Section 3.01 of this Agreement, the Borrower shall, for the purposes of making available its counterpart contribution to the financing of the Project:

(a) open and thereafter maintain, until the completion of the Project, an account in Tanzanian Shillings in a commercial bank on terms and conditions satisfactory to the Association;

(b) deposit into the Borrower's Project Account an initial contribution of sixty million Tanzanian Shillings (Tshs 60,000,000);

(c) thereafter replenish said account up to the initial amount of sixty million Tanzanian Shillings at the end of each Project Quarter until the completion of the Project, or whenever its balance shall be less than twenty million Tanzanian Shillings

(Tshs 20,000,000); and

(d) ensure that amounts deposited into the Borrower's Project Account shall be used exclusively to make payments to meet expenditures made or to be made in respect of the reasonable cost of goods, works and services for the Project in addition to those financed from the proceeds of the Credit.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in

paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year 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, records and accounts 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 and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit 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 separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association'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 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 7 of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a FMR 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 calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified, namely that a situation will have arisen which will make it improbable that the Program or a significant part thereof will be carried out.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Borrower has furnished to the Association a POM satisfactory, in form and substance, to the Association;

(b) the Borrower has appointed an accountant for the Project with qualifications and experience satisfactory to the Association;

(c) the Borrower's Project Account has been opened and the initial contribution referred to in Section 3.04 (b) of this Agreement has been deposited therein;

(d) the Borrower shall have set up a FMR system acceptable to the Association; and

(e) the Borrower has entered into a MOU that is satisfactory to the Association with three of the Project Districts.

Section 6.02. 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 VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of the Borrower responsible for Finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
P. O. Box 9111
Dar es Salaam
Tanzania

Cable address:	Telex:	Facsimile:
TREASURY Dar es Salaam	41329	(255) 222 11 77 90

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

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.

UNITED REPUBLIC OF TANZANIA

By /s/ Mustafa Nyang'anyi

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Pamela Cox

Acting Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Civil works for Subprojects financed under Part B.1	11,200,000	100% of amounts disbursed

of the Project

(2)	Goods	2,300,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local items procured locally
		expenditures for other	
(3)	Consultants' services and Training	5,600,000	100%
(4)	Incremental Operating Costs	400,000	90%
(5)	Refunding of Project Preparation Advance	450,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(6)	Unallocated	850,000	-
	TOTAL	20,800,000	

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;

(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; and

(c) the term "Incremental Operating Costs" means the incremental operating costs incurred by the Borrower on account of Project implementation, management and supervision, including, office supplies, office rehabilitation, office equipment, and vehicle maintenance and operating costs, but excluding salaries of the Borrower's civil servants.

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.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for contracts for: (a) civil works not exceeding \$300,000 equivalent each (other than the first two contracts of \$50,000 equivalent or more each, for each Project District); (b) goods not exceeding \$100,000 equivalent each (other

than the first two contracts procured under National Competitive Bidding procedures); (c) consulting firms not exceeding \$100,000 equivalent each; (d) individual consultants not exceeding \$50,000; (e) training; and (f) Incremental Operating Costs, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in providing improved and sustainable water and sanitation services to rural communities.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Development of a District Implementation Model

1. Strengthening the operational capacity of DWSTs in the Project Districts to prepare DWSPs, establish DWSFs, and select eligible Subprojects to be financed under the Project, through the provision of technical advisory services, training, and the acquisition of equipment.

2. Strengthening the Project implementation capacity of DWSTs in the Project Districts, through the provision of technical advisory services and training on the POM, financial management and procurement planning.

3. Provision of technical advisory services, training and workshops to create awareness in the Project Districts on hygienic practices, and HIV/AIDS prevention and mitigation.

Part B: Subprojects

1. Provision of Grants to Beneficiaries to finance: (a) the cost of civil works, training and technical advisory services for Subprojects in the Project Districts, including inter alia, the construction or rehabilitation of open wells, small pipe systems, boreholes equipped with hand pumps, gravity schemes, electric power and solar pumps, spring tapping, transmission lines, distribution systems, reservoirs, latrines, sanitation facilities, small dams, water conservation measures, watershed management, small scale irrigation, solid waste management; and (b) the research and development costs for Subprojects developing innovative technologies in the areas of, inter alia, water conservation, watershed management, small scale irrigation and solid waste management, such as rain water harvesting and solar pumps.

2. Acquisition of hand pumps by the Borrower, and provision of support for the establishment of a network of three private sector zonal suppliers as outlets for the distribution of hand pumps, and spare parts, and the maintenance of existing facilities in the Project Districts.

Part C: Development of the National Rural Water Supply and Sanitation Program and Institutional Strengthening

1. Assisting the Borrower in the development of a national rural water supply and sanitation strategy and national program, including inter alia: (a) carrying out broad based consultations on the Borrower's national water policy; (b) an assessment of the demand for water and sanitation facilities, and the preparation of a long term investment plan; (c) formulation and implementation of a communication strategy for the dissemination of information on the proposed national rural water and sanitation program, including the use of the mass media, and the preparation and translation of brochures and training materials; (d) development of monitoring and evaluation tools and procedures, including a management information system; and (e) the development of a legal and institutional framework for the decentralization, communal management and ownership of rural water supply and sanitation schemes, through the provision of technical advisory services, workshops, study tours, and training.

2. Strengthening the implementation capacity of Districts, MWLD staff, WSS Committees, Beneficiaries, NGOs, engineers, suppliers and contractors, through the provision of technical advisory services and training.

3. Provision of training and equipment to selected local private sector firms to ensure continuous delivery of specialized technical services to the Beneficiaries.

4. Strengthening the operational capacity of the Borrower to manage and evaluate the implementation of the Project.

* * *

The Project is expected to be completed by December 31, 2005

SCHEDULE 3

Procurement and Consultant Services

Section I. Procurement of Good and Works

Part A: General

Goods and works shall be procured in accordance with (a) 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 and August 1996, September 1997 and January 1999 (the Guidelines) and the provisions of the following Parts of this Section I.

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) Grouping of contracts

To the extent practicable, contracts for goods and works shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

(b) Preference for domestically manufactured goods and domestic contractors

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 and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Works estimated to cost more than \$50,000 equivalent per contract, but less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$13,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$750,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. Procurement of Small Works

Works for Subprojects estimated to cost \$50,000 equivalent or less per contract up to an aggregate amount of \$1,000,000 equivalent may be procured under lump-sum, fixed price contracts awarded on the basis of quotations obtained from at least three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor, who offers the lowest price quotation for the required work and

who has the experience and resources to complete the contract successfully.

3. Direct Contracting

Works or goods which meet the requirements of paragraph 3.7 of the Guidelines, and costing \$1,000,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. International /National Shopping and Procurement from UN Agencies

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$750,000 equivalent may be procured on the basis of international/national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines, or procured from the Inter-Agency Procurement Services Organization of the United Nations, in accordance with the provisions of paragraph 3.9 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association 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 Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to: (a) the first two contracts in each Project District estimated to cost the equivalent of \$50,000 or more, and thereafter, each contract for civil works estimated to cost the equivalent of \$300,000 or more; and (b) the first two contracts for goods procured under National Competitive Bidding procedures in each Project District, and thereafter, each contract estimated to cost the equivalent of \$100,000 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

Part A: General

Consultants' services shall be procured in accordance with: (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines); and (b) the provisions of the following Parts of this Section II.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for the design and supervision of civil works in Subprojects under Part B.1 of the Project estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Services which are estimated to cost less than \$100,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) the first two contracts in each Project District for consultants selected using Qualifications and Least Cost Selection methods; and (ii) all contracts for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

(c) Notwithstanding the provisions of sub-paragraphs (a) and (b) above, the terms of reference for the employment of all consultants shall be furnished to the Association for its prior review and approval.

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 Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

1. Project Management

(a) The Borrower shall: (i) carry out the day-to-day implementation of the Project through the RWSD, and shall ensure that staff with qualifications and terms of reference satisfactory to the Association are maintained throughout Project implementation; (ii) ensure that RWSD implements Part A.3 of the Project under the direction of MOH in accordance with the Borrower's HIV/AIDS strategy; and (iii) maintain, throughout the Project implementation period, a TAC to act as a general oversight body with respect to Project implementation, and make recommendations for the review and dissemination of policies for the development of the Borrower's national rural water and sanitation program.

(b) The Borrower shall carry out the Project in accordance with procedures set forth in the POM and the EMP, and except as the Association shall otherwise agree, shall not amend or waive any provisions thereof if such amendment or waiver, may in the opinion of the Association, materially or adversely affect the implementation of the Project.

2. Restructuring of RWSD

The Borrower shall prepare an action plan for the restructuring of RWSD by December 31, 2003, and ensure such restructuring is completed by December 31, 2004.

3. Selection of Project Districts and NGOs

(a) Project Districts

(i) The Borrower shall select Project Districts for participation in the Project in accordance with criteria acceptable to the Association, as more fully specified in the POM, including, *inter alia*, that such district shall: (A) establish and maintain in each of the Project Districts, DWSTs throughout the Project implementation period; (B) allocate as part of its budget a recurrent allocation to the DWST; (C) prepare a DWSP; and (D) establish a DWSF in accordance with the applicable laws of the Borrower; and

(ii) The Borrower shall ensure that a Project District that does not commence the implementation of activities under the Project within six months of the signing of the MOU is removed from the Project in accordance with the termination procedures set forth in such MOU, and replaced with the next qualifying District in the Selection of Additional Districts Report, subject to the approval of the Association.

(b) NGOs

In order to be eligible for the award of contracts under procedures referred to in Schedule 3 to this Agreement, NGOs participating in the Project shall comply with the criteria specified in the POM, including: (i) proven experience in comparable community development activities in the territory of the Borrower and in participatory project design and implementation; (ii) proven technical expertise in their area of intervention; (iii) adequate financial and administrative capacity; and (iv) compliance with registration requirements under the laws of the Borrower.

4. MOU

MWLD shall: (a) enter into a MOU with the DC in the remaining nine Project Districts by December 31, 2002, under terms and conditions acceptable to the Association; and (b) promptly transfer funds to the DWSFs for the implementation of Subprojects under Part B.1 of the Project, in accordance with the annual work program prepared by each Project District, and ensure that each DWSF is audited annually by an external auditor acceptable to the Association.

5. Procedures for the Preparation, Evaluation, Approval and Implementation of Subprojects

(a) The selection of Subprojects shall be carried out on an annual basis, and potential Beneficiaries shall submit an application for a Grant for a proposed Subproject to the DC.

(b) The DC shall request the DWST to carry out a thorough preliminary review of submitted applications in accordance with procedures set forth in the POM, including *inter alia*, a determination as to whether: (i) the proposed Beneficiary is a legal entity duly constituted under the laws of the Borrower; (ii) a WSS Committee is in existence; and (iii) a Bank account has been opened, and the potential Beneficiary has agreed to deposit a five (5) per cent cash contribution towards the cost of the proposed Subproject.

(c) Potential Beneficiaries identified after the preliminary screening in subparagraph (b) above shall be entitled to technical advisory services to assist in the design of proposed Subprojects, and in the implementation of such Subprojects if approved by the DWST.

(d) Selected Subprojects must satisfy the eligibility criteria set forth in the POM, including *inter alia*, the following:

- (i) that the Subproject is economically, financially and technically viable in accordance with standards set forth therein;
- (ii) that an environmental impact assessment has been carried out and an environment management plan prepared to mitigate against any potential risks to the environment;

(iii) that the Beneficiary has agreed to assume all the operation and maintenance costs with respect to the Subproject; and

(iv) that the Subproject is in compliance with the standards set forth in the applicable laws of the Borrower relating to health, safety and environmental protection.

(e) Following approval of Subprojects for the year by the DWST, the DC shall compile the list of Subprojects for the year, and prepare a consolidated budget request for submission to MWLD.

(f) MWLD shall, after carrying out a thorough review of the proposed Subprojects and budget approve the proposed annual work program, and enter into a Subproject Agreement with the DC on terms and conditions acceptable to the Association on which basis the financing of the annual work program shall take place.

(g) The transfer of funds by the Borrower from the Special Account to the respective Project District's account shall be done in accordance with the approved annual work program, as reflected in the Subproject Agreement, and in accordance with procedures set forth in the POM.

(h) The DC may either contract on behalf of a Beneficiary, or enter into a Community Subproject Agreement with a Beneficiary if such Beneficiary has the capacity to contract under the laws of the Borrower. For purposes of Part B.1 (ii) of the Project, MWLD may enter into a Community Subproject Agreement with a Beneficiary if the proposed Subproject falls outside the Project Districts. The terms and conditions of the Community Subproject Agreement shall include the following:

(i) financing shall be on a grant basis;

(ii) the Beneficiary shall deposit its five (5%) cash contribution towards the Subproject cost in the account opened for this purpose under paragraph 5 (b) (iii) above;

(iii) the Beneficiary shall carry out the Subproject with due diligence and efficiency, in accordance with the POM and sound technical, financial, environmental and managerial standards;

(iv) the Beneficiary shall maintain adequate records reflecting the operations, resources and expenditures incurred under the Subproject in accordance with sound accounting practices acceptable to the Association, and submit such records to the DC to facilitate preparation of Project financial statements by MWLD;

(v) the goods, works and services financed from the proceeds of the Credit shall be procured in accordance with the procedures set forth in

Schedule 3 to the Development Credit Agreement, and used exclusively in the implementation of the Subproject;

- (vi) the right of the DC to inspect by itself, or jointly with MWLD and the Association, if the Association shall so request, the goods, works and operations thereof, and any relevant records or documents;
- (vii) the right to receive from the Beneficiary quarterly progress reports and a final report on the completion of the Subproject; and
- (viii) the right to suspend or terminate the right of the Beneficiary to the use of the proceeds of the Credit for the Subproject, upon failure by the Beneficiary to perform any of its obligations under the Community Subproject Agreement.

(i) The DC or MWLD shall be responsible for meeting, or causing to be met the terms and conditions set forth in paragraph 5 (h) above, where the DC or MWLD, as the case may be, contract on behalf of a Beneficiary.

(j) Notwithstanding the provisions of paragraph 5 (h) above, the DC or MWLD, as the case may be, shall be responsible for the supervision of the implementation of all Subprojects, and shall ensure that any decisions made affecting the Subprojects shall be taken only after consultation with the affected Beneficiary(s).

6. Technical Audits

The Borrower shall cause an independent technical audit to be carried out on an annual basis to monitor the implementation of the Project commencing on December 31, 2003, and furnish to the Association, as soon as available, but in any case not later than six months thereafter, the report of such audit in such detail as the Association shall have reasonably requested.

7. Midterm Review

The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 5 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about August 31, 2004, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, 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 Association, by September 30, 2004, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, 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 Association's views on the matter.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1, 2, 3 and 4 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 Credit 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 \$1,500,000, to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$750,000, until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 4,000,000.

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 Association 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 Association 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 Association shall, on behalf of the Borrower, withdraw from the Credit 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 Association requests for deposits into the Special Account at such intervals as the Association shall specify.
- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association 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 Association shall, on behalf of the Borrower, withdraw from the Credit 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 Association from the Credit 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 Association shall reasonably request, furnish to the Association 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 Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit 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 Association, 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 Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association 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 Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association 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 Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association 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 Association 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 Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association 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 Association 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 Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 6

Performance Monitoring Indicators

1. Demand based district implementation model validated and operational in the Project Districts.
2. Water supply and sanitation conditions improved for two hundred fifty (250) Beneficiaries in the Project Districts.
3. Stakeholder agreement and endorsement of the Borrower's national rural water and

sanitation program and strategy.

4. Fully staffed DWSTs and complete DWSPs in the Project Districts.
 5. Fully operational audited and certified DWSFs in the Project Districts.
 6. Preparation and Implementation of HIV/AIDS mitigation plans in the Project Districts.
 7. Two hundred fifty (250) Subprojects appraised.
 8. Two hundred fifty (250) Subprojects, financed from DWSFs and constructed for eligible Beneficiaries.
 9. A minimum of twenty seven (27) service providers (1 NGO and 1 design and construction consultant per Project District, and 3 zonal hand pump suppliers/maintenance agents).
 10. All Subprojects have undergone environmental screening.
 11. A minimum of thirty (30) innovative Subprojects commissioned.
 12. The Rural Water Supply and Sanitation component of the Borrower's national water policy is updated, adopted by all stakeholders and widely disseminated.
 13. Coordinated strategy for multi-donor financing of the Borrower's national rural water supply and sanitation program is developed and endorsed by stakeholders.
 14. 50% of DWSTs in the Tanzania Social Action Fund (TASAF) Phase I districts are fully trained on the District Operational Manual (DOM).
 15. All new sector projects are formulated along MWLD policy and implementation guidelines.
 16. The completion of the restructuring of RWSD.
 17. Management Information System operational in Project Districts and MWLD.
- 

