

CONFORMED COPY

GRANT NUMBER H132 GH

Development Grant Agreement

(Urban Water Project)

between

REPUBLIC OF GHANA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 5, 2005

GRANT NUMBER H132 GH**DEVELOPMENT GRANT AGREEMENT**

AGREEMENT, dated January 5, 2005 between REPUBLIC OF GHANA (the “Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the “Association”).

WHEREAS: (A) the Association has received a letter dated March 24, 2004 from the Recipient, declaring the Recipient’s commitment to the program of actions, objectives, and policies designed to strengthen its urban water sector, including public private partnership (the “Program”) and declaring the Recipient's commitment to the execution of the Program;

(B) the Recipient, 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;

(C) the Nordic Development Fund (“NDF”) intends to make a loan to the Recipient in a principal amount of approximately EUR 4 million to assist in financing part of the Project on the terms and conditions to be set forth in the NDF Loan Agreement;

(D) Parts A, B, C (1), C (4), C (5), C (6), and D of the Project, as set forth in Schedule 2 to this Agreement, will be carried out by Ghana Water Company Limited (“GWCL”) with the Recipient's assistance and, as part of such assistance, the Recipient will [lend/grant] to GWCL a portion of the proceeds of the grant as provided in this Agreement;

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Grant to the Recipient upon the terms and conditions set forth in this Agreement and in the agreement of even date herewith between the Association and GWCL (the “Project Agreement”);

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I**General Conditions; Definitions**

Section 1.01. The “General Conditions Applicable to Development Grant Agreements” of the Association, dated January 1, 1985 (as amended through May 1, 2004) (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) “Affected Persons” means a person who on account of the acquisition of land, including farm land, for purposes of establishing relocation sites under the Project had or would have his or her: (i) standard of living adversely affected; or (ii) right, title or interest in any house, or interest in or right to use any land (including premises, agricultural and grazing land) or right in annual or perennial crops and trees or any other fixed or movable asset, acquired or

possessed, temporarily or permanently; or (iii) business, occupation, work or place of residence or habitat adversely affected, temporarily or permanently, and "Affected Persons" means, collectively, all persons who qualify as an Affected Person;

(b) "Cedis" means the currency of the Recipient;

(c) "Dam Safety Report" means the Dam Safety Report, approved by MWH, dated April, 2004;

(d) "Environmental Management Plan" with respect to any urban potable water supply system infrastructure upgrading, means the set of mitigation, enhancement, monitoring, and institutional measures to be taken during design, implementation and operation of such urban water supply system infrastructure upgrading to eliminate any adverse environmental and social impacts, offset them, or reduce them to acceptable levels, or to enhance positive impacts;

(e) "Financial Monitoring Report" or "FMR" means each report prepared in accordance with Section 4.02 of this Agreement;

(f) "MOFEP" means the Recipient's Ministry of Finance and Economic Planning;

(g) "MWH" means the Recipient's Ministry of Works and Housing;

(h) "Procurement Plan" means the Recipient's procurement plan, dated May 12, 2004 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(i) "Project Account" means the account referred to in Section 3.03 (a) of this Agreement;

(j) "Project Agreement" means the agreement between the Association and GWCL of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(k) "Project Implementation Manual" means the manual dated July, 2004, setting out: (i) an implementation plan for the Project; (ii) operations procedures for the PMU; (iii) details of all procurement and disbursement arrangements under the Project; (iv) performance indicators for the Project; (v) operations procedures for the private sector operator under the Management Contract; and (vi) such other administrative, financial and organizational arrangements as shall be required, and such term includes any schedules to the Project Implementation Manual;

(l) "Project Management Unit" or "PMU" means the project management unit within GWCL, in charge of the day-to-day management of the Project;

(m) "Project Preparation Advance" means the project preparation advance granted by the Association to the Recipient pursuant to an exchange of letters dated January 25, 1999 and January 29, 1999; November 18 and November 19, 1999; February 21 and February 22, and 2001; and July 26 and August 6, 2002 between the Recipient and the Association;

(n) "PURC" means the Public Utilities Regulatory Commission, established pursuant to Public Utilities Regulatory Commission Act 1997 (Act 538);

(o) "Report-based Disbursements" means the Recipient's option for withdrawal of funds from the Grant Account referred to in Part B2(b) of Schedule 1 to this Agreement;

(p) "Resettlement Policy Framework" means the Policy Framework for Land Acquisition, Resettlement and Rehabilitation of Affected Persons, satisfactory to the Association, approved by MWH dated April 2004;

(q) "Retrenchment Committee" means the committee established to oversee implementation of the Severance Program;

(r) "Severance Payments" means the payments to be made by the Recipient to the employees of GWCL separated pursuant to the Severance Program;

(s) "Severance Program" means the program adopted by the Government and GWCL generally describing the terms and conditions for separation of the employees of GWCL, including severance payments thereunder;

(t) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement; and

(u) "Subsidiary [Loan/Grant] Agreement" means the agreement to be entered into between the Recipient and GWCL pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary [Loan/Grant] Agreement.

ARTICLE II

The Grant

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to seventy one million Special Drawing Rights (SDR 71,000,000).

Section 2.02. (a) The amount of the Grant may be withdrawn from the Grant Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of (i) the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Grant; (ii) withdrawals made on account of Severance Payments under Part A of the Project; (iii) the fee referred to in Section 2.04 of this Agreement.

(b) Promptly after the Effective Date, the Association shall, on behalf of the Recipient, withdraw from the Grant 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 December 31, 2010 or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

Section 2.04. (a) The Recipient shall pay to the Association a commitment charge on the principal amount of the Grant 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 Recipient from the Grant 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 Recipient; 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. Commitment charges shall be payable semiannually on March 1 and September 1 in each year.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end: (i) shall carry out Parts A, B, C(1), C(4), C(5), C(6) and D of the Project through GWCL; Part C(2) of the Project through PURC, and Part C (3) of the Project through MWH; all with due diligence and efficiency and in conformity with appropriate administrative, financial, and management practices; and (ii) without any limitation or restriction upon any of its other obligations under this Agreement, shall assist GWCL to carry out Parts A, B, C(1), C(4), C(5), C(6) and D of the Project and to perform in accordance with the provisions of the Subsidiary [Loan/Grant] Agreement and the Project Agreement all the obligations of GWCL therein set forth, shall take all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable GWCL to perform such obligations.

(b) The Recipient shall [relend][make] the proceeds of the Grant [available] allocated to Categories (1) through (7) set forth in Part A.1 of Schedule 1 to this Agreement to GWCL under a Subsidiary [Loan/Grant] Agreement to be entered into between the Recipient and GWCL, under terms and conditions which shall have been agreed by the Association.

(c) The Recipient shall exercise its rights under the Subsidiary [Loan/Grant] Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Grant and, except as the Association shall otherwise agree, the Recipient shall not assign the Subsidiary [Loan/Grant] Agreement or make any material amendment, waiver, or voluntary abrogation without the consent of the Association, which consent shall not be unreasonably withheld.

(d) Without limitation upon the provisions of paragraph (a) of this Section and except as the Recipient and the Association shall otherwise agree, the Recipient shall carry out

the Project or cause the Project to be carried out in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. (a) 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 Grant shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Recipient shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than 12 months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.03. Without limitation to its obligations under Section 3.01 of this Agreement, the Recipient shall cause GWCL to:

(a) open and maintain an account in Cedis in a commercial bank acceptable to the Association on terms and conditions satisfactory to the Association;

(b) promptly thereafter, make an initial deposit into such account, in the amount of 500,000,000 Cedis, to finance the Recipient's contribution to the costs of the Project;

(c) use the funds in the Project Account exclusively to finance expenditures under the Project and not otherwise financed out of the proceeds of the Grant.

Section 3.04. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Recipient 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 Recipient 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 Recipient on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Recipient shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made audited, in accordance with

consistently applied auditing standards acceptable to the Association, 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 (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, 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 Grant Account were made on the basis of reports referred to in Part B2(b) of Schedule 1 to this Agreement (Report based Disbursements) or on the basis of statements of expenditure, the Recipient shall:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) The Recipient 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 Grant, 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 calendar quarter.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) A situation shall have arisen which will make it unlikely that the Program or a significant part thereof will be carried out.

(b) GWCL shall have failed to perform any of their obligations under the Project Agreement and the Subsidiary [Loan/Grant] Agreement.

(c) As a result of events which have occurred after the date of the Development Grant Agreement, an extraordinary situation shall have arisen which shall make it unlikely that GWCL will be able to perform its obligations under the Project Agreement and the Subsidiary [Loan/Grant] Agreement.

(d) The NDF Loan Agreement shall have failed to become effective by June 30, 2005 or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Association that adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

- (i) Subject to subparagraph (ii) of this paragraph:
 - (A) the right of the Recipient to withdraw the proceeds of the NDF Loan Agreement made to the Recipient for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefore; or
 - (B) the NDF Loan Agreements shall have become due and payable prior to the agreed maturity thereof.
- (ii) Subparagraph (i) of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Association that:
 - (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Recipient to perform any of its obligations under such agreement; and
 - (B) adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional events are specified:

(a) the events specified in paragraphs (a) and (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of 30 days after notice thereof shall have been given by the Association to the Recipient; and

(b) the event specified in paragraph (d) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (d) (ii) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions; namely that the Subsidiary [Loan/Grant] Agreement has been duly executed between the Recipient and GWCL;

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 Recipient; Addresses

Section 7.01. The minister of the Recipient responsible for Finance and Economic Planning is designated as representative of the Recipient 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 Recipient:

Minister for Finance and Economic Planning
 Ministry of Finance and Economic Planning
 P.O. Box M40
 Accra, Ghana

Cable address:	Telex:	Facsimile:
ECONOMICON Accra	2205 MIFAEP GH	233-21-667069 233-21-663854

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 Accra, the Republic of Ghana as of the day and year first above written.

REPUBLIC OF GHANA

By /s/ Yaw Osafo-Mafo

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Mats Karlsson

Authorized Representative

SCHEDULE 1**Withdrawal of the Proceeds of the Grant**

A. General

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

<u>Category</u>	<u>Amount of the Grant to be Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) (a) Civil works	43,620,000	100% of foreign expenditures and 75% of local expenditures
(b) Repair, Replacement and Rehabilitation Fund	3,450,000	100%
(2) Goods	2,275,000	100% of foreign expenditures and 90% of local expenditures
(3) Consultants' services		
(a) Engineering design and Supervision	6,000,000	90%
(b) Management Contract Fee	4,135,000	100%
(c) Technical Audit	350,000	100%
(4) Training and workshops	1,030,000	100%
(5) Operating costs	490,000	90%
(6) Severance Payments	7,580,000	100%
(7) Refunding of Project Preparation Advance	1,380,000	Amounts due pursuant to Section 2.02 (d) of this Agreement
(8) Unallocated	690,000	
TOTAL	<u>71,000,000</u>	

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 Recipient for goods or services supplied from the territory of any country other than that of the Recipient;

(b) the term "local expenditures" means expenditures in the currency of the Recipient or for goods or services supplied from the territory of the Recipient;

(c) the term "Operating Costs" means costs on account of project implementation for PMU staff salaries, office expenses, utilities, fuel, supplies and vehicle maintenance, local and foreign travel and associated per diem costs, and communications, excluding salaries of civil servants;

(d) the term "Repair, Replacement and Rehabilitation Fund" means costs on account of minor works implemented by the private operator during the course of works operation and maintenance under the proposed management contract; and

(e) the term "Management Contract Fee" means the payments to the private operator under the proposed management contract; and

(f) the term "Technical Audit" means the consulting services by technical and financial auditors to measure the private operator's performance.

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, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 7,100,000 may be made in respect of Categories (2), (3)(a), (4) and (5) on account of payments made for expenditures before that date but after October 1, 2003.

4. The Association may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures for: (a) Civil Works costing less than \$1,000,000; (b) Severance Payments costing less than \$10,000 equivalent each; (c) goods under contracts not exceeding \$500,000 equivalent, (d) services of consulting firms under contracts not exceeding \$200,000 equivalent, (e) services of individual consultants under contracts not exceeding \$100,000 equivalent, (f) training and study tours; and (g) Operating Costs, all under such terms and conditions as the Association shall specify by notice to the Recipient.

B. Special Account

1. The Recipient may open and maintain in Dollars a special deposit account in a commercial bank acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

2. The Recipient may opt to make disbursements by documenting Eligible Expenditures, or by making Report-based Disbursements. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Grant Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Recipient does not opt to make Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Recipient is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Recipient out of the Special Account, the Recipient 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association, at any time, is not satisfied that the reports referred to in Part B2(b) of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Recipient directly from the Grant Account; or

(c) if the Recipient 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: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Recipient of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Recipient shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or 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. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Recipient shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Recipient 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 subparagraph (a), (b) or (c) of this paragraph 6 shall be Granted to the Grant Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Grant Agreement.

Annex A

to

SCHEDULE 1**Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$4,000,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. 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 Recipient shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have requested.

(b) For replenishment of the Special Account, the Recipient shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Recipient shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement 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 Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient 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. Each such deposit into the Special Account shall be withdrawn by the Association from the Grant Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Grant minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Grant Account of the remaining unwithdrawn amount of the Grant shall follow such procedures as the Association shall specify by notice to the Recipient. 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.

Annex B

to

SCHEDULE 1

**Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the Grant Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Grant Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Grant, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.4 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) significantly increase access to the piped water system in the Recipient's urban centers, with an emphasis on improving access, affordability and service reliability to the urban poor; and (ii) restore long term financial stability, viability and sustainability to GWCL.

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

Part A: System Expansion and Rehabilitation

Carrying out an investment program to increase the amount of potable water production and distribution for sale through: (i) new production and transmission facilities; (ii) rehabilitation of existing production and transmission facilities, and; (iii) network rehabilitation and extension, including meters and house connections, and extensions in urban and peri-urban areas.

Part B: Public-Private Partnership Development

1. Strengthening the operation of GWCL by contracting out the operation of existing and new plants and the commercial, general and selected administrative operations to private operator(s) under "Management Contract", or similar arrangement, based upon competitive bidding.
2. Provision of assistance to GWCL for monitoring performance of the Management Contract through independent financial and technical audits.

Part C: Capacity Building and Project Management

1. Institutional strengthening of GWCL, including design of an organizational structure, reorganization of GWCL, development of business plans, work plans and budgets, development of a financing plan and establishment of financial controls, installation of a management information system, and preparation of a human resources development and training plan for GWCL's operations.
2. Strengthening the capacity of PURC as an autonomous regulatory agency, including preparation of special tariffs and other measures to address the needs of low income customers of GWCL through provision of advisory and consulting services.
3. Strengthening the capacity of MWH to further develop and then implement a new policy and regulatory framework for the water sector.
4. Providing support to the Project Management Unit for Project implementation.
5. Carrying out the Environmental Management Plan and the Resettlement Policy Framework, through the provision of advisory and consulting services.
6. The carrying out of a public awareness and stakeholder communication program to develop consensus for reform among the Recipient's policymakers and civil society, and improve

the general public's understanding and acceptance of the objectives and benefits of public-private partnership in water supply.

Part D: Severance Program

1. Increasing GWCL's productivity through a staff retrenchment program which provides Severance Payments for retrenched staff in accordance with the provisions of the Severance Program.
2. Carrying out training programs for the redeployment of retrenched staff; provision of outplacement assistance, and carrying out surveys to monitor placement of staff after completion of said programs.

* * *

The Project is expected to be completed by June 30, 2010 .

SCHEDULE 3**Procurement**

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Recipient and works to be carried out by domestic contractors.

B. Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$250,000 equivalent per contract, and works estimated to cost less than \$2,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.

2. Shopping

Goods estimated to cost less than \$30,000 equivalent per contract and works estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting

Goods which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

Section III. Particular Methods of Procurement of Consultants' Services

A.: Quality- and Cost-based Selection

1. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality-and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract may comprise entirely national consultants.

B: Other Procedures

1. Quality-based Selection

Services for assignments which the Association agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Single Source Selection

Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. Individual Consultants

Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV: Review by the Association of Procurement Decisions

1. Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods estimated to cost the equivalent of \$500,000 or more (b) each contract for works estimated to cost the equivalent of \$1,000,000 or more, (c) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$200,000 or more, and (d) the first contract for consultants' services with respect to the Resettlement Framework Policy and Environmental Management Plan.

2. With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$100,000 or more, single-source selection, and training, 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.

3. All other contracts shall be subject to Post Review by the Association.

SCHEDULE 4

Implementation Program

1. The Recipient shall carry out the Project or cause the Project to be carried out in accordance with the procedures set out in the Project Implementation Manual, and shall not, except as the Association may otherwise agree, amend or waive any provision thereof.
2. The PURC shall be assisted to complete implementation of two well targeted programs for the supply of potable water to the poor.
3. The Recipient shall establish a Retrenchment Committee for oversight of the Severance Program and shall ensure that employees of GWCL that are retrenched shall receive Severance Payments in accordance with the Severance Program. The Recipient shall use its best efforts to ensure that employees who receive Severance Payments will not be hired as civil servants.
4. The Recipient shall, not later than February 15 of each year, commencing from February 15, 2005, carry out jointly with the Association, a comprehensive annual project implementation review aimed at: (a) documenting progress towards realization of the objectives of the Project; (b) identifying and resolving obstacles to Project implementation; (c) adjusting targets to reflect progress achieved in the implementation of the Project in the prior years and ensuring responsiveness to changes to effectively achieve the objectives of the Project; and (d) discussing the work program and budget for the forthcoming year. Thereafter, the Recipient shall provide in its annual budget, in each year during the carrying out of the Project, amounts sufficient to cover its counterpart contributions to the cost of the Project.
5. The Recipient 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 Association, 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 June 30, 2007, 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 July 31, 2007, 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.