

CONFORMED COPY

CREDIT NUMBER 3041 KH

Development Credit Agreement

(Urban Water Supply Project)

between

KINGDOM OF CAMBODIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 20, 1998

CREDIT NUMBER 3041 KH

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated March 20, 1998, between KINGDOM OF CAMBODIA (the "Borrower") and INTERNATIONAL DEVELOPMENT ASSOCIATION (the "Association").

WHEREAS: (A) 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;

WHEREAS: (B) Part A of the Project will be carried out by the Phnom Penh Water Supply Authority ("PPWSA") with the Borrower's assistance and, as part of such assistance, the Borrower will relend to PPWSA part of the proceeds of the Credit as provided in this Agreement;

WHEREAS: (C) Part B of the Project will be carried out by the Borrower through the Sihanoukville Water Supply Authority ("SWSA") with the assistance of the Borrower's Ministry of Industry, Mining and Energy ("MIME"), and Part C of the Project will be carried out by MIME, and, as part of such assistance, the Borrower will make available to SWSA through MIME and to MIME part of the proceeds of the Credit as provided in this Agreement; and

WHEREAS: (D) 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 and in the Project Agreement of even date herewith between the Association and PPWSA.

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, with the modifications thereto set forth below (the "General Conditions") constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(c) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Association. If (a) the right of the Borrower to make withdrawals from the Credit Account shall have been suspended with respect to any amount of the Credit for a continuous period of thirty days, or (b) at any time, the Association determines, after consultation with the Borrower, that an amount of the Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Credit, or (c) at any time, the Association determines, with respect to any contract to be financed out of the proceeds of the Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (d) at any time, the Association determines that the procurement of any contract to be financed out of the proceeds of the Credit is inconsistent with the procedures set forth or referred to in the Development Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (e) after the Closing Date, an amount of the Credit shall remain unwithdrawn from the Credit Account, the Association may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be cancelled."

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, wherever used in this Agreement, have the following meanings:

(a) "Business Plan" means PPWSA's business investment program and related financing plan for the period 1998-2001, to be prepared and adopted by PPWSA pursuant to the provisions of Section 2 of Schedule 2 to the Project Agreement;

(b) "Coordinating Committee" means the Borrower's Coordinating Committee for the Water and Sanitation Sector, established pursuant to the Borrower's Council of Ministers Decision No. 47 dated November 11, 1997, and composed of senior representative of MIME (chair), and the Borrower's Ministry of Public Works, Ministry of Economy and Finance, Ministry of Environment, Ministry of Rural Development, Council for the Development of Cambodia, the Phnom Penh Municipality and PPWSA;

(c) "Decree" means the Borrower's Sub-Decree No. 52 dated December 19, 1996, on the Creation of the Phnom Penh Water Supply Authority as an autonomous public enterprise of the Borrower, responsible for the production and distribution of water within the Borrower's capital city of Phnom Penh;

(d) "Fiscal Year" means the twelve (12)-month period corresponding to any of the Borrower's or PPWSA's or SWSA's Fiscal Years, which period commences on January 1 and ends on December 31 in each calendar year, and the term "Fiscal Years" means, collectively, more than one Fiscal Year;

(e) "MIME" means the Borrower's Ministry of Industry, Mines and Energy, and such term includes any successor thereto;

(f) "NBC" means the National Bank of Cambodia, the Borrower's central bank, and such term includes any successor thereto;

(g) "PPWSA" means the Phnom Penh Water Supply Authority, a public enterprise of the Borrower possessing financial and operational autonomy, established and operating pursuant to the Borrower's Sub-Decree No. 52 dated December 19, 1996;

(h) "Project Agreement" means the agreement between the Association and PPWSA, 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;

(i) "Riel" means the unit of currency of the Borrower;

(j) "SWSA" means the Sihanoukville Water Supply Authority, a departmental provincial authority of MIME, established and operating as a quasi-governmental entity pursuant to the Borrower's Ministerial Decree No. 524 dated September 2, 1996;

(k) "Special Account A" and "Special Account B" mean the accounts referred to in Section 2.02 (b) of this Agreement, the term "Special Accounts" means, collectively, Special Account A and Special Account B, and the term "Special Account" means any one of the Special Accounts;

(l) "Subsidiary Loan" means the loan provided under the Subsidiary Loan Agreement;

(m) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and PPWSA pursuant to Section 3.02 of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement; and

(n) "Turnkey Contract" means the contract for the detailed design, supply, installation, construction and commissioning of the Chruoy Chang War Water Treatment Plant under Part A (1) of the Project.

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 this Agreement, an amount in various currencies equivalent to twenty-two million seven hundred thousand Special Drawing Rights (SDR 22,700,000).

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 expenditures made (or, if the Association shall so agree, to be made) 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.

(b) The Borrower may, for the purposes of Part A of the Project, and Parts B and C of the Project, respectively, open and maintain in United States Dollars two (2) separate special deposit accounts in NBC, on terms and conditions satisfactory to the Association, to be known as Special Account A and Special Account B. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2002, 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 (60) 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 cancelled; 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) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 15 and September 15, commencing March 15, 2008 and ending September 15, 2037. Each installment to and including the installment payable on September 15, 2017 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 gross national product per capita, as determined by the Association, shall have exceeded seven hundred ninety dollars (\$790) in constant 1985 dollars for five (5) consecutive years 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 terms of repayment of installments under paragraph (a) above by 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. If so requested by the Borrower, the Association may revise such modification 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.

(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, without any limitation or restriction upon any of its other obligations under this Agreement, shall: (i) cause PPWSA to perform in accordance with the provisions of the Project Agreement all of the obligations of PPWSA therein set forth in respect of Part A of the Project; (ii) carry out Part B of the Project through SWSA under the authority of MIME; and (iii) carry out Part C of the Project through MIME; all with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental and public water supply utility practices. The Borrower shall take, or cause to be taken, all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable PPWSA to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(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 take, or cause to be taken, all action necessary or otherwise required on its part to ensure that: (i) Part A of the Project is carried out by PPWSA in accordance with the provisions of the Project Agreement; (ii) Part B of the Project is carried out through SWSA with the assistance of MIME, in accordance with Part A of the Implementation Program set forth in Schedule 3 to this Agreement; and (iii) Part C of the Project is carried out by MIME in accordance with Part B of the Implementation Program set forth in Schedule 3 to this Agreement.

Section 3.02. (a) The Borrower shall relend the proceeds of the Credit, allocated from time to time to Categories (1) (A), (2) (A), (3) (A), (4) and (5) (A) set out in the table in Paragraph 1 of Schedule 1 to this Agreement, and available to finance Part A of the Project, to PPWSA under a Subsidiary Loan Agreement to be entered into between the Borrower and PPWSA, under terms and conditions which shall have been approved by the Association which shall include, inter alia, the terms and conditions set forth in Schedule 5 to this Agreement.

(b) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

(c) The Borrower shall, through MIME, promptly enter into an agreement or make the necessary arrangements, as the case may be, satisfactory to the Association, with SWSA providing for its respective obligations in carrying out Part B of the Project.

(d) The Borrower shall promptly enter into an agreement or make the necessary arrangements, as the case may be, satisfactory to the Association, with MIME providing for its respective obligations in carrying out Part C of the Project.

Section 3.03. 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 1 to the Project Agreement.

Section 3.04. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part A of the Project shall be carried out by PPWSA pursuant to Section 2.03 of the Project Agreement.

Section 3.05. (a) The Borrower shall maintain, until completion of the Project, the Coordinating Committee pursuant to terms of reference satisfactory to the Association. The Borrower shall ensure that the Committee shall be chaired by the Minister of MIME, and that it shall develop, not later than December 31, 1999, a medium-to-long-term comprehensive national strategy for the appropriate development of efficient and cost-effective national water supply and sanitation sector services and the rationalization and streamlining of related institutional arrangements and governmental responsibilities.

(b) On the basis of the strategy to be developed by the Coordinating Committee under Paragraph (a) above, the Borrower shall, not later than December 31, 2000, furnish to the Association for its review a proposed Letter of Sector Policy specifying in detail the policy actions and related institutional arrangements for improving the capacity and efficiency of the Borrower's national water supply and sanitation sector.

(c) Promptly upon its receipt of the Association's comments and recommendations pursuant to the review referred to hereinabove, the Borrower shall formally adopt and then take all measures necessary to implement said Policy with due diligence and efficiency, incorporating the Association's comments and recommendations thereon.

(d) The Borrower and the Association shall, from time to time, at the request of either party, exchange views with regard to the Borrower's national policy for pricing and setting tariffs for urban and rural water supply and for the provision of related sanitation services, and its plans in respect of the overall development of its national water supply and sanitation sectors.

Financial Covenants

Section 4.01. (a) Without limitation or restriction upon any of its obligations under this Agreement, the Borrower shall, through MIME, cause SWSA to: (i) maintain records and separate accounts adequate to reflect, in accordance with sound accounting practices the operations, resources and expenditures of SWSA in respect of carrying out Part B of the Project, or any part thereof, and the operations and financial condition of SWSA; and (ii) register separately the operations, resources and expenditures related to the Project.

(b) The Borrower shall, through MIME, cause SWSA to:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than nine (9) months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) above for such year as so audited; and (B) the report of such audit by said auditors of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Association shall from time to time reasonably request.

Section 4.02. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditures, the Borrower shall, through MIME, cause SWSA to:

- (i) maintain, in accordance with sound accounting practices, records and accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one (1) year after the Association has received the audit report for the Fiscal Year in which the last withdrawal from the Credit Account was made; and
- (iii) enable the Association's representatives to examine such records.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) (i) of this Section, and those for the Special Accounts, for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than nine (9) months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including 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; and
- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

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:

(a) PPWSA shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that PPWSA will be able to perform its obligations under the Project Agreement.

(c) The Decree shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of PPWSA to perform any of its obligations under the Project Agreement.

(d) The Borrower, or any other authority having jurisdiction, shall have taken any action for the dissolution or dis-establishment of PPWSA or SWSA, or for the suspension of any of their respective operations.

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

(a) The event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower; and

(b) The events specified in paragraphs (c) and (d) of Section 5.01 of this Agreement shall occur.

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 Agreement has been executed on behalf of the Borrower and PPWSA, and has duly entered into effect in accordance with its terms and conditions.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) That the Project Agreement has been duly authorized or ratified by PPWSA, and is legally binding upon PPWSA in accordance with its terms; and

(b) That the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and PPWSA and is legally binding upon the Borrower and PPWSA in accordance with its terms.

Section 6.03. 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.

Section 6.04. The obligations of the Borrower under Sections 4.01 (a) (i) of this Agreement, and the provisions of Section 5.02 of this Agreement, shall cease and determine on the date on which this Agreement shall terminate or on the date twenty (20) years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Economy and Finance of the Borrower 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 Economy and Finance
92nd Street

Phnom Penh
Kingdom of Cambodia

Telex:

(583) 17770101 CMPP

For the Association:

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

Cable address:

Telex:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

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 City of Phnom Penh, Kingdom of Cambodia, as of the day and year first above written.

KINGDOM OF CAMBODIA

By /s/ Keat Chhon

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ngozi Ojonjo-Iweala

Authorized Representative

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil Works		
(A) For Turnkey Contract under Part A of the Project	15,100,000	100% of foreign expenditures and 50% of local expenditures
(B) Under Part B of the Project	1,800,000	100% of foreign expenditures and 30% of local expenditures
(2) Goods		
(A) Under Part A of the Project	1,990,000	100% of foreign expenditures

	(B) Under Part B of the Project	40,000	100% of foreign expenditures
	(C) Under Part C of the Project	130,000	100% of foreign expenditures
(3)	Consultants' Services		
	(A) Under Part A of the Project	1,390,000	100%
	(B) Under Part B of the Project	700,000	100%
	(C) Under Part C of the Project	980,000	100%
(4)	Connection fees under Part A (4) of the Project	190,000	100%
(5)	Training		
	(A) Under Part A of the Project	280,000	100%
	(B) Under Part B of the Project	100,000	100%
		<hr/>	
	TOTAL	22,700,000	

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; and

(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.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; and (b) Categories (1) (B), (2) (B) and (5) (B) until after the Association shall have communicated to the Borrower its acceptance of evidence furnished that the Borrower's level and structure of water tariffs for SWSA have been revised in accordance with the provisions of Section 5 of Schedule 3 to 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: (a) goods under contracts costing less than the equivalent of two hundred thousand dollars (\$200,000) each; (b) works under contracts costing less than the equivalent of two hundred thousand dollars (\$200,000) each; (c) consultants' services under contracts awarded to consulting firms costing less than the equivalent of one hundred thousand dollars (\$100,000) each; and (d) consulting services under contracts awarded to individual consultants costing less than the equivalent of fifty thousand dollars (\$50,000) each, all under such terms and conditions as the Association shall specify by notice to the Borrower.

* * * * *

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) increase water supply and improve drinking quality and access in the two largest metropolitan cities of the Borrower (namely, Phnom Penh and Sihanoukville); (ii) improve the institutional, technical and financial performance of the water utilities in these two cities; (iii) enhance availability of water supply for individual and commercial purposes to spur economic growth in said cities; and (iv) assist the Borrower to develop and implement an appropriate policy framework, institutional structure and prioritized investment

program for its national water supply and sanitation sectors.

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: Phnom Penh Water Supply and Institutional Development

1. Designing, rehabilitating and extending the Chruoy Chang War Water treatment plant, including: (i) constructing new sedimentation plants and reservoirs; (ii) installing pipes and mechanical and electrical equipment; (iii) providing drainage, road, fencing and lighting works; (iv) installing transmission mains; and (v) providing construction supervision consultancy services.
2. Installing about eighty-five kilometers (85km) of pipes and related fittings for piped water supply in the Phnom Penh southern district of Chamcar Morn, including the provision of leak detection and rectification equipment.
3. Enhancing PPSA's administrative and managerial capabilities, through the provision of the specialized technical assistance services of: (i) a financial expert; (ii) an unaccounted for water expert; (iii) training experts and technicians; (iv) technicians specializing in water quality; and (v) accounting and computer technicians.
4. Carrying out a pilot program for household water supply connections.
5. Establishing a water and sanitation sector training center.
6. Provision of goods, equipment and technical services necessary to carry out the foregoing.

Part B: Sihanoukville Water Supply and Institutional Development

1. Constructing a weir crest against an existing bridge abutment to increase SWSA's surface raw water reservoir storage capacity.
2. Drilling four (4) new wells, and undertaking related works and connections to the water distribution network, including supply and installation of pipes and related equipment.
3. Improving existing production, treatment and distribution systems and undertaking related works, including: (i) improving raw water pumping system; (ii) improving raw water treatment facilities; (iii) constructing clear water storage reservoirs; (iv) improving water distribution networks, including supply and installation of pipes fittings and related equipment; and (v) installing three (3) tanker water filling points and twenty (20) water selling points.
4. Enhancing SWSA's administrative, managerial and technical capabilities, through the provision of the specialized technical assistance services of: (i) a project planning and management engineer; (ii) an accounting expert; (iii) a computer technician; (iv) a procurement specialist; and (v) a training specialist.
5. Carrying out: (i) a socio-economic survey to establish water customer base and effective demand for water; (ii) an engineering study to determine design of groundwater deferrination plant and expansion of reticulation systems; and (iii) studies on long term water resources in Sihanoukville; all through the provision of consultants' services.
6. Provision of goods, equipment and technical services necessary to carry out the foregoing.

Part C: Water Supply and Sanitation Sector Policy Framework Development

1. Developing and carrying out a national water and sanitation sector policy, with the support of the provision to the Coordinating Committee of the technical assistance services of: (i) a policy consultant; and (ii) an institutional consultant.
2. Developing and carrying out: (i) a sanitation and waste water management study; and (ii) a long-term investment program for water and sanitation (both rural and urban).
3. Provision of goods, equipment and technical services necessary to carry out the

foregoing.

* * * * *

The Project is expected to be completed by June 30, 2002.

SCHEDULE 3

Implementation Program For Parts B and C of the Project

Part A:

The provisions of Part A of this Schedule shall apply for the purposes of Sections 3.01(b) (ii) of this Agreement in respect of Part B of the Project.

1. In order to ensure the proper carrying out of Part B of the Project, the Borrower shall, through MIME, cause SWSA to maintain the following, throughout the period of Project implementation, with terms of reference, membership and other resources acceptable to the Association.

2. Without limitation upon the provisions of Section 9.06 of the General Conditions, the Borrower shall, through MIME, cause SWSA to:

(a) Maintain operational procedures adequate to enable it to monitor and evaluate, in accordance with indicators acceptable to the Association, the progress achieved in carrying out Part B of the Project.

(b) Prepare, in accordance with terms of reference acceptable to the Association, and furnish to the Association: (i) an annual report, not later than March in each Fiscal Year, beginning Fiscal Year 1998, summarizing the monitoring and evaluation activities carried out pursuant to sub-paragraph (a) above in respect of the preceding Fiscal year, and setting forth proposed measures, as indicated by said monitoring and evaluation activities, to further the objectives of the Project; and (ii) a mid-term report, not later than December 31, 2000, setting forth any proposed measures, as indicated by said monitoring and evaluation activities, to further the objectives of the Project.

(c) Exchange views with the Association on each report furnished pursuant to sub-paragraphs (a) and (b) above, and thereafter take all measures in relation thereto as shall have been agreed between the Borrower and the Association.

3. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall cause SWSA, through MIME, to:

(i) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Association and the Borrower, a plan for the future operation of Part B of the Project; and

(ii) afford the Association a reasonable opportunity to exchange views with the Borrower, MIME and SWSA on said plan.

4. Without limitation or restriction upon any of its obligations under this Agreement, the Borrower shall, through MIME, cause SWSA carry out the obligations set forth in Section 4.01 of this Agreement.

5. The Borrower shall, through MIME, take any and all action required to enable SWSA to maintain the structure and level of its water supply tariffs, in accordance with a sound and consistently applied methodology acceptable to the Association, so that under conditions of efficient operation at reasonable levels of capacity utilization SWSA shall cover its operating costs (including taxes), earn an adequate return on funds invested, meet its financial obligations (including, but without limitation, those provided in paragraphs 5 and 6 above), and otherwise make a reasonable contribution to future investment for expansion of capacity. The Association, Borrower MIME and SWSA shall, from time to time at the request of either party, exchange views with respect to the adequacy of said tariffs.

6. (a) Not later than October 1 in each Fiscal Year, beginning in Fiscal Year 1998, the Borrower, and representatives of MIME and SWSA shall exchange views and review with the Association the adequacy of the structure and levels of SWSA's water tariffs, referred to in paragraph 5 above.

(b) Based upon said review, the Borrower shall propose for the Association's comments any proposed adjustment to the structure or levels of SWSA's water tariffs in respect of the following Fiscal Year.

(c) Promptly thereafter, the Borrower shall, through MIME, taking into account the Association's views and recommendations, cause said tariffs to be adjusted as needed and cause SWSA to carry out the recommendations of said review with due diligence and efficiency.

7. The Borrower through MIME shall cause SWSA to carry out, not later than December 31, 1998, a revaluation of its fixed assets in operation as of December 31, 1997, all in accordance with sound and consistently applied method of valuation acceptable to the Association.

8. (a) Not later than June 30, 1999, the Borrower shall, through MIME, cause SWSA to carry out the socio-economic survey, engineering study, and such other studies referred to in Part B (5) of the Project, all in accordance with terms of reference satisfactory to the Association.

(b) Not later than December 31, 1999, the Borrower, through MIME, shall cause SWSA to (i) exchange views with the Association on each of said socio-economic survey, engineering study, and other studies, furnished pursuant to sub-paragraph (a) above, and (ii) thereafter take all measures in relation thereto as shall have been agreed with the Association.

Part B:

The provisions of Part A of this Schedule shall apply for the purposes of Sections 3.01 (b) (iii) of this Agreement in respect of Part C of the Project.

1. In order to ensure the proper carrying out of Part C of the Project, the Borrower shall cause MIME to maintain appropriate and adequate institutional arrangements, throughout the period of Project implementation, with terms of reference, personnel and other resources acceptable to the Association.

2. Without limitation upon the provisions of Section 9.06 of the General Conditions, the Borrower shall cause MIME to:

(a) Maintain operational procedures adequate to enable it to monitor and evaluate, in accordance with indicators acceptable to the Association, the progress achieved in carrying out Part C of the Project.

(b) Prepare, in accordance with terms of reference acceptable to the Association, and furnish to the Association: (i) an annual report, not later than November 30 in each Fiscal Year, summarizing the monitoring and evaluation activities carried out pursuant to sub-paragraph (a) above in respect of the preceding Fiscal year, and setting forth proposed measures, as indicated by said monitoring and evaluation activities, to further the objectives of the Project; and (ii) a mid-term report, not later than November 30, 2000, setting forth any proposed measures, as indicated by said monitoring and evaluation activities, to further the objectives of the Project.

(c) Exchange views with the Association on each report furnished pursuant to sub-paragraphs (a) and (b) above, and thereafter take all measures in relation thereto as shall have been agreed between the Borrower and the Association.

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SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) The term "Eligible Categories" means Categories (1) (A), (2) (A), (3) (A), (4) and (5) (A) for Special Account A, and Categories (1) (B), (2) (B) and (C), (3) (B) and (C) and (5) (B) for Special Account B, 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: (i) an amount equivalent to seven hundred thousand dollars (\$700,000) to be withdrawn from the Credit Account and deposited into Special Account A pursuant to paragraph 3(a) of this Schedule; and (ii) an amount equivalent to four hundred thousand dollars (\$400,000) to be withdrawn from the Credit Account and deposited into Special Account B pursuant to paragraph 3(a) of this Schedule; provided, however, that unless the Association shall otherwise agree, the Authorized Allocation for Special Account A shall be limited to an amount equivalent to three hundred fifty thousand dollars (\$350,000) and the Authorized Allocation for Special Account B shall be limited to an amount equivalent to two hundred thousand dollars (\$200,000) 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 one million four hundred seventy thousand Special Drawing Rights (SDR 1,470,000).

2. Payments out of the Special Accounts 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 a Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish such 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 such 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 such Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of such Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Accounts 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 a 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 a 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 respective 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 a 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 such 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 a 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.

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SCHEDULE 5

Terms and Conditions of the Subsidiary Loan Agreement

The Subsidiary Loan Agreement to be entered into between the Borrower and PPWSA, pursuant to the provisions of Section 3.02 (a) of this Agreement and Section 2.04 of the Project Agreement, shall include, inter alia, the following principal terms and conditions:

1. PPWSA shall repay to the Borrower the aggregate amount of the proceeds of the Credit withdrawn from time to time from the Credit Account allocated to Categories (1) (A), (2) (A), (3) (A), (4) and (5) (A) set out in the table in Paragraph 1 of Schedule 1 to the Development Credit Agreement and available to finance the carrying out of Part A of the Project (the "Subsidiary Loan") over a period not to exceed seventeen (17) years, including a grace period not to exceed five (5) years.

2. The Subsidiary Loan shall be denominated in United States dollars and repaid by PPWSA to the Borrower in Riels, at least semi-annually at the official rate of exchange as determined by NBC on the respective dates on which the proceeds of the Subsidiary Loan are withdrawn from the Credit Account.

3. PPWSA shall pay interest on the principal amount of the Subsidiary Loan, withdrawn and outstanding from time to time, at a fixed rate per annum equal to eight and one half percent (8 1/2%).

4. PPWSA shall pay to the Borrower the commitment charges payable under Section 2.06 of the Development Credit Agreement, allocable to the part of the proceeds of the Credit relent but not withdrawn by PPWSA.

