

CONFORMED COPY

CREDIT NUMBER 2372 UNI

Development Credit Agreement

(Multi-State Water Project)

between

FEDERAL REPUBLIC OF NIGERIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 14, 1992

CREDIT NUMBER 2372 UNI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 14, 1992, between the FEDERAL REPUBLIC OF NIGERIA (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;

(B) Parts A through C of the Project will be carried out by the Borrower through Kaduna and Katsina States of Nigeria (the Project States) and with the assistance of the Borrower; and

(C) the Borrower will, as part of such assistance, relend the proceeds of the Credit allocated to Categories (1) through (3) in Schedule 1 hereto to the Project States as hereinafter provided; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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

(a) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(b) "Project Account" means the account referred to in Section 3.01 (b) (i) of this Agreement;

(c) "Project State" means either Kaduna State of Nigeria (Kaduna State) or Katsina State of Nigeria (Katsina State);

(d) "KDSWB" means the Kaduna State Water Board established and operating under the Kaduna State Water Board Edict, 1971 as amended to the date of this Agreement;

(e) "KTSWB" means the Katsina State Water Board established and operating under the Katsina State Water Board Edict, 1987 as amended to the date of this Agreement;

(f) "Water Boards" means KDSWB and KTSWB;

(g) "Water Boards Edicts" means any of the Edicts under which KDSWB and KTSWB were established and are operating;

(h) "FMF&ED" means the Federal Ministry of Finance and Economic Development of the Borrower;

(i) "FMWR" means the Federal Ministry of Water Resources of the Borrower;

(j) "First Subsidiary Loan Agreements" means the agreements between the Borrower and the Project States referred to in Section 3.01 (c) (ii) of this Agreement;

(k) "Second Subsidiary Loan Agreements" means the agreements between the Project States and the Water Boards referred to in Section 3.01 (c) (ii) (E) of this Agreement;

(l) "Subsidiary Loan Agreements" means the First Subsidiary Loan Agreements and the Second Subsidiary Loan Agreements;

(m) "Project Period" means the period between the date of effectiveness of this Agreement and the Closing Date; and

(n) "Naira" means the currency of the Borrower.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to seventy-four million seven hundred thousand Special Drawing Rights (SDR 74,700,000).

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 described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain, or cause to be opened and maintained, in dollars a special deposit account in a commercial bank for each Water Board and for FMWR on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, each Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 1999 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or 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 April 1 and October 1 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 semi-annual installments payable on each April 1 and October 1 commencing October 1, 2002 and ending April 1, 2027. Each installment to and including the installment payable on April 1, 2012 shall be one and one-fourth percent ($1-1/4\%$) of such principal amount, and each installment thereafter shall be two and one-half percent ($2-1/2\%$) of such principal amount.

(b) Whenever (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five 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, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out Parts A through C of the Project through the Project States and Part D of the Project through FMWR with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and public utility practices, and shall with respect to Parts A through C of the Project cause the Project States to provide, promptly as needed, the funds, facilities, services and other resources required for the said Parts of the Project.

(b) The Borrower shall cause each Project State: (i) to open and maintain in a commercial bank a project account (the Project Account) to be used exclusively for Project expenditures; and (ii) to pay into the Project Account its monthly counterpart contributions to the costs of the Project, namely Naira 4,200,000 by Kaduna State and Naira 5,000,000 by Katsina State, by way of having given an irrevocable letter of authority to FMF&ED to deduct the Project State's monthly counterpart contribution from the allocation due to the Project State out of the Federation Account and to transfer such funds into the respective Project Account until the completion of the Project. The Borrower, the Project States and the Association presently estimate the said contributions to amount over the Project Period to the Naira equivalent of \$24,000,000 by Kaduna State and \$27,500,000 by Katsina State.

(c) The Borrower shall out of the proceeds of the Credit relend to: (i) Kaduna State \$47,500,000 equivalent or the proceeds of the Credit allocated to Categories (1)(a), (2)(a) and (3)(a) in Schedule 1 to this Agreement; and (ii) Katsina State \$51,500,000 equivalent or the proceeds of the Credit allocated to Categories (1)(b), (2)(b) and (3)(b) in said Schedule (the said amounts being hereinafter referred to as the State Loans) under agreements (the First Subsidiary Loan Agreements) to be entered into between the Borrower and the Project States on terms and conditions which shall have been approved by the Association. Each First Subsidiary Loan Agreement shall include provisions requiring each Project State to:

- (A) pay annual interest at the prevailing variable rate applicable to loans made by the Bank to its borrowers for developmental purposes;
- (B) repay the principal amount of the State Loan in 20 years (including 5 years of grace);
- (C) assume any foreign exchange risk on the State Loan;
- (D) make available to its Water Board, as a grant, such amounts of the State Loan as shall be required by the

Water Board to finance technical assistance and rural water supply under the Project; and

- (E) onlend the remaining amounts of the State Loan to the Water Board under an agreement (the Second Subsidiary Loan Agreement) to be entered into between the Project State and the Water Board on terms and conditions which shall have been approved by the Association including provisions requiring the Water Board to (1) pay annual interest of 15% on the loan made to it, (2) repay the principal amount of such loan in 25 years (including 6 years of grace), and (3) carry out the actions described in Part A of Schedule 5 to this Agreement.

(d) The Borrower shall cause each Project State to carry out the actions described in Part B of Schedule 5 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. The Borrower shall by December 31, 1994, carry out jointly with the Association, the Project States and the Water Boards a mid-term review of the Project to ascertain progress made in the execution of the Project. Such mid-term review shall, among other things: (i) determine (A) the effectiveness or otherwise of Project management, (B) progress made in meeting the targets set out in the action plan referred to in Part A.3 (c) of Schedule 5 to this Agreement, (C) with the help of the performance indicators referred to in the said Part A.3 (c), the development thus far attained by the Water Boards, and (D) the adequacy of the monthly counterpart contribution by the Project States; and (ii) recommend such remedial actions as may be considered necessary to assure the attainment of the Project's objectives.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Part D of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account 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 six months after the end of each such year, a certified copy of 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 the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

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) the Project States and/or the Water Boards shall have failed to perform any of their obligations under the Subsidiary Loan Agreements;

(b) a change shall have been made in any of the Water Boards Edicts or any law of the Borrower or the Project States governing the establishment, organization, powers, financial structure and operations of the Water Boards so as to materially and adversely affect the carrying out of the Project; and

(c) as a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Project States and/or the Water Boards will be able to perform their obligations under the Subsidiary Loan Agreements.

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

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

(b) the event specified in Section 5.01 (b) of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

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

(a) consultants have been employed by a Water Board to assist in: (i) supervising construction under the Project, and (ii) improving the efficiency of the Water Board;

(b) the Subsidiary Loan Agreements relating to the Water Board referred to in (a) above have been duly executed by all the

parties thereto;

(c) the Project State to which (a) and (b) above relate has: (i) opened its Project Account; and (ii) commenced the payment of the monthly amount referred to in Section 3.01 (b) of this Agreement into said account after having given an irrevocable letter of authority to FMF&ED to that effect.

Section 6.02. The following is specified as an additional matter, 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, namely, that the Subsidiary Loan Agreements mentioned in Section 6.01 (b) above have been duly authorized or ratified by all the parties thereto, and are legally binding upon each such party in accordance with their 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.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance and Economic Development 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:

The Honourable Minister
Federal Ministry of Finance
and Economic Development
P.M.B. 12591
Federal Secretariat, Ikoyi
Lagos, Nigeria

Cable address:

FEDMINFIN
Lagos

Telex:

21248 (ITT)

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

197688 (TRT)
248423 (RCA)
64145 (WUI) or
82987 (FTCC)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

FEDERAL REPUBLIC OF NIGERIA

By /s/ Zubair M. Kazaure

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V.K. Jaycox
Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil Works including supply and installation of electrical equipment:		75%
(a) Kaduna State	26,300,000	
(b) Katsina State	28,900,000	
(2) Operational equipment and water meters:		100% of foreign expenditures and 70% of local expenditures
(a) Kaduna State	1,600,000	
(b) Katsina State	1,600,000	
	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(3) Consultants' services, construction supervision and training:		100% of foreign expenditures
(a) Kaduna State	3,700,000	
(b) Katsina State	3,700,000	
(4) Project Preparation (FMWR)	1,500,000	100%
(5) Unallocated:		
(a) Kaduna State	3,500,000	
(b) Katsina State	3,900,000	

TOTAL	74,700,000 =====	

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;

(b) expenditures made by a Project State until that Project State has furnished to the Association evidence showing that:

(i) it has employed the consultants described in Section 5.01 (a) of this Agreement;

(ii) the Subsidiary Loan Agreements to be entered into by the Borrower, the Project State and its Water Board have been duly executed by the parties thereto; and

(iii) it has commenced the payment of the monthly amount referred to in Section 3.01 (b) of this Agreement into its Project Account after having given an irrevocable letter of authority to FMF&ED to that effect; and

(c) expenditures made by Kaduna State until Kaduna State has furnished to the Association evidence showing that it has taken adequate action to restructure KDSWB's capital and long-term debt obligations to Kaduna State through the conversion: (i) of the said liabilities into equity; and (ii) into grant of all subsequent debt service payments made by Kaduna State on behalf of KDSWB during the period ending on December 31, 1996.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist: (i) the Project States in (A) improving (1) the quantity and reliability of water supplied by the Water Boards to their urban areas, and (2) the health, productivity, and living and health standards and conditions of women and all other persons residing in such areas; and (B) strengthening, and making financially self-sufficient, their Water Boards; and (ii) the Borrower in preparing water projects for States of Nigeria other than the Project States.

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: Kaduna State

(1) Completion of the water treatment plant, and construction of transmission and distribution pipelines and system storage at Ikara.

(2) Construction of new regional water supply systems at Kwoi and Zonkwa, including: (A) intake works, water treatment plants, transmission mains and distribution systems for each of the two systems; and (B) a small dam for the Zonkwa system.

- (3) Provision to KDSWB of maintenance vehicles, tools and operational equipment, and water meters.
- (4) Limited rehabilitation of some rural water supply systems.

Part B: Katsina State

- (1) Completion of: (a) about 15 km of water transmission and 65 km of distribution pipelines; and (b) elevated storage in Katsina town and nearby areas.
- (2) Construction of a new system to increase the existing water supply at Funtua including a new dam, a water treatment plant, transmission pipeline to Funtua, system storage and an extended distribution system.
- (3) Limited expansion of the Daura water supply system including new boreholes to increase water production.
- (4) Remedial construction of the dam at Malumfashi.
- (5) Provision to KTSWB of maintenance vehicles, tools and operational equipment, water meters, and meter testing and repair facilities.
- (6) Limited rehabilitation of some rural water supply systems.

Part C: Strengthening of Water Boards

Institutional and financial strengthening of the Water Boards including provision of technical assistance to each Water Board to enable it to: (i) improve its operational and maintenance practices and procedures, and its management information systems; (ii) carry out a tariff study which, among other things, shall investigate the alternatives of collecting revenue from public standpipe users; (iii) carry out a public relations and hygiene education program to increase public awareness of the benefits to be derived by, and the obligations that fall upon, users of public water supply systems; (iv) assist with the reorganization of rural water supply; (v) prepare State-wide water resources master plans and design studies; and (vi) develop plans for sullage disposal, drainage and improved sanitation.

Part D: Preparation of Future Projects

Preparation by FMWR of future water projects for States of Nigeria other than the Project States.

* * *

The Project is expected to be completed by December 31, 1998.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part D hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Nigeria may be granted a margin of preference in accordance with, and subject to,

the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A hereof, the Borrower may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part D: Other Procurement Procedures

1. Works estimated to cost less than \$500,000 equivalent per contract (up to an aggregate amount not to exceed \$1,000,000 equivalent per Project State) and goods estimated to cost less than \$200,000 equivalent per contract (up to an aggregate amount not to exceed \$600,000 equivalent per Project State) may be procured under contracts awarded on the basis of competitive bidding advertised locally in accordance with procedures satisfactory to the Association.

2. Goods estimated to cost \$100,000 equivalent per contract (up to an aggregate amount not to exceed \$600,000 equivalent per Project State) may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

Part E: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract estimated to cost \$200,000 equivalent or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of a Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to paragraph 2 (d) of said Appendix shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of a Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 of said Appendix shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall cause consultants to be employed whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as

Executing Agency" published by the Bank in August 1981.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to: (i) \$1,500,000 for each Water Board; and (ii) \$200,000 for FMWR to be withdrawn from the Credit Account and deposited into each Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of a Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that a Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of a Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of 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; or

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories less the amount of any outstanding special commitment 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 a 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 a Special Account.

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

SCHEDULE 5

Actions referred to in Section 3.01 (c) and
(d) of this Agreement

Part A: Actions relating to the Water Boards

1. Each Water Board shall:

(a) carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering and public utility practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers;

(b) at all times operate and maintain its plants, machinery, equipment and other property, and from time to time, promptly as

needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering and financial practices; and

(c) take out and maintain with responsible insurers, or make other provision satisfactory to the Association, for insurance against such risks and in such amounts as shall be consistent with appropriate practice.

2. Each Water Board shall:

(a) maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures of the departments or agencies of the Water Board responsible for carrying out the Project or any part thereof;

(b) have the records and accounts referred to in paragraph (a) above including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(c) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested;

(d) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request; and

(e) for all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) above, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) above and the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

3. (a) Each Water Board shall, except as the Association shall otherwise agree, take all necessary action (including the adjustment of the structure or levels of its tariffs) to produce for each of its fiscal years following after its fiscal year ending on December 31, 1991 total revenues (including the revenues specified in subparagraph (b) below) adequate to meet: (i) its cash operating expenses; and (ii) the amount of annual debt service requirements.

(b) The revenues to be included in the total revenues required under subparagraph (a) above shall be as follows:

A. KDSWB

Revenues as a Percentage of:

Fiscal Year	Recurrent Cost	Recurrent and Debt Service Cost
1992	81%	33%
1993	100%	44%
1994	100%	55%
1995	100%	66%
1996	100%	77%
1997	100%	88%
1998	100%	100%

B. KTSWB

Revenues as a Percentage of:

Fiscal Year	Recurrent Cost	Recurrent and Debt Service Cost
1992	46%	46%
1993	65%	59%
1994	92%	69%
1995	100%	70%
1996	100%	80%
1997	100%	90%
1998	100%	100%

(c) Each Water Board shall, during its fiscal years 1992 through 1999, carry out the agreed-upon implementation program and adhere to the agreed-upon performance indicators.

4. (a) Each Water Board shall, before October 31 prior to each of the fiscal years specified in paragraph 3 above, on the basis of forecasts prepared by the Water Board and satisfactory to the Association, review whether it would meet the requirements set forth in the said paragraph in respect of such year and the next following fiscal year and shall furnish to the Borrower and the Association the results of such review upon its completion.

(b) If any such review shows that the Water Board would not meet the requirements set forth in paragraph 3 above for the Water Board's fiscal years covered by such review, the Water Board shall promptly take all necessary measures (including adjustments of the structure or levels of its tariffs) in order to meet such requirements.

5. For the purposes of this Section:

- (i) the term "total revenues" means the sum of total operating revenues and net non-operating income;
- (ii) the term "total operating revenues" means all revenues derived from operations;
- (iii) the term "net non-operating income" means the difference between:
 - (A) revenues from all sources other than those related to operations; and
 - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above; and
- (iv) the term "cash operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes.

6. Each Water Board shall:

(a) in the procurement of goods, works and services under the Project use, as a model, the standard bidding documents developed for procurement under the Borrower's National Water Rehabilitation Project;

(b) carry out the Project's technical assistance components using terms of reference satisfactory to the Association;

(c) apply to the Borrower for participation in the Borrower's National Water Rehabilitation Project and, to that end, take all action necessary to meet the eligibility criteria prescribed for such participation;

(d) from time to time exchange views with the Borrower and the Association with regard to the progress of the Project, the purposes of the Credit and the performance of the Water Board under the Project and furnish to the Borrower and the Association all such information related thereto as the Association shall reasonably request; and

(e) promptly inform the Borrower, the Association and the Project State of any condition which interferes with, or threatens to interfere with, the matters referred to in (d) above.

7. Each Water Board shall: (i) jointly with the Borrower, its Project State and the Association carry out the mid-term review of the Project referred to in Section 3.03 of this Agreement; and (ii) take all actions necessary to carry out any remedial measures recommended by such review.

Part B: Actions relating to the Project States

1. Each Project State shall:

(a) prepare and furnish to the Association by June 30, 1994, and carry out by December 31, 1994, a plan satisfactory to the Association for the reorganization of its rural water supply sector including the transfer of responsibility for rural water supply from the Water Boards to local government and community level authorities;

(b) cause its Water Board to participate in the Borrower's National Water Rehabilitation Project;

(c) develop and furnish to the Association a plan, satisfactory to the Association, to mitigate any adverse environmental impacts of the dams to be constructed under the Project at Funtua and Zonkwa;

(d) cause the said plan to be put into effect and adhered to and, to that end, employ by December 31, 1992 in accordance with Section II of Schedule 3 to this Agreement a public health specialist to assist in the carrying out of the plan; and

(e) cause its Water Board to carry out the actions described in Part A above.

2. Each Project State shall: (i) jointly with the Borrower, its Water Board and the Association carry out the mid-term review of the Project referred to in Section 3.03 of this Agreement; and (ii) take all actions necessary to implement any remedial measures recommended by such review.

