

CONFORMED COPY

LOAN NUMBER 4315 TU

Loan Agreement

(Cesme-Alacati Water Supply and Sewerage Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

CESME-ALACATI UNION

Dated May 8, 1998

LOAN NUMBER 4315 TU

LOAN AGREEMENT

AGREEMENT, dated May 8, 1998, between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and the CESME-ALACATI UNION (the Borrower).

WHEREAS (A) Republic of Turkey (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan 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 Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through December 2, 1997) (the General Conditions) constitutes an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, 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) "Borrower's Statutes" means Decree No. 97/9933 of September 8, 1997, of the Council of Ministers of the Guarantor providing for the establishment of the Borrower in accordance with the provisions of Articles 133-148 of Municipal Law 1580 of the Guarantor;

(b) "Guarantor's Laws" means Municipal Law No. 1580 and Municipal Revenue Law No. 2464 of the Guarantor;

(c) "private operator" means the enterprise with which the Borrower shall enter into a management contract to operate the Borrower's water supply and sewerage systems in accordance with paragraph 1 of Schedule 5 to this Agreement;

(d) "Project Implementation Guidelines" means the guidelines for implementation of the Project adopted by the Borrower on March 13, 1998, as such Project Implementation Guidelines may be amended from time to time in agreement with the Bank; and

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

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to thirteen million one hundred thousand Dollars (\$13,100,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank 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 Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in the Central Bank of the Guarantor or a commercial bank acceptable to the Bank on terms and conditions satisfactory to the Bank including protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2003, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal

amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) one half of one percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Guarantor and the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Guarantor and the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable June 15 and December 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial,

engineering, environmental and public utility practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and the Borrower shall otherwise agree, the Borrower shall carry out the Project in accordance with the Project Implementation Guidelines and with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. For the purpose of financing expenditures required for the Project, the Borrower shall: (a) not later than December 31, 1998, open and maintain an account in a commercial bank with an initial deposit of not less than the equivalent of one hundred thousand Dollars (\$100,000); (b) not later than December 31, 1999, increase said deposit to not less than the equivalent of three hundred thousand Dollars (\$300,000); and (c) not later than the last day of each calendar quarter until Project completion, replenish the amount in said account to the level of the amount on the first day of the respective calendar quarter.

Section 3.03. Except as the Bank 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 Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.04. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) 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 Bank who shall be employed by September 30, 1998.

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) 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 Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof as the Bank shall from time to time have reasonably requested.

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

(i) maintain, in accordance with paragraph (a) of this Section, records and account reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. The Borrower shall:

(a) furnish to the Bank, by October 31 of each calendar year, the proposed tariff policy to be put into effect the following calendar year;

(b) establish tariffs which would allow the Borrower, under conditions of efficient operation at reasonable levels of capacity utilization, to cover: (i) the operating costs of the Borrower; (ii) the charges of the private operator for recurrent costs arising from operating the water supply and sewerage systems and providing services, including, inter alia, personnel, energy, general maintenance, chemicals and other consumables; (iii) contributions by the Borrower, satisfactory to the Bank, to its future investment program; and (iv) all debt service payments of the Borrower;

(c) adjust said tariffs each month to reflect changes in the Consumer Price Index of the Guarantor or other indicator acceptable to the Bank during the previous month; and

(d) without limitation upon the foregoing, during the months of July and August starting in the 2000 calendar year, charge tariffs that are two times the tariffs charged during the previous month of June.

Section 4.03 The Borrower shall: (a) following review and agreement with the private operator, furnish to the Bank for its review and approval, not later than October 31 of each calendar year, its investment plan for the next calendar year, together with the tentative investment plan until completion of the Project; (b) ensure that said investment plans separate the investment plan for utilization of funds allocated to investments in urgent repairs and upgrading of the water supply and sewerage systems; (c) put into effect the investment plan for the next calendar year as agreed with the Bank; and (d) utilize the resources allocated to the urgent repairs and upgrading of the water supply and sewerage systems under Parts B (5) and C (4) of the Project only after the execution of the management contract with the private operator.

Section 4.04 (a) Except as the Bank shall otherwise agree, the

Borrower shall: (i) not incur any debt maturing by its terms more than one year after the date on which it is originally incurred; and (ii) not make any loan to any other entity, including the municipalities of Cesme and Alacati.

(b) For purposes of this Section, debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the dates the agreement providing for such guarantee has been entered into.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall:

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

(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, financial, environmental and public utility practices and in close coordination with the private operator; and

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

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

(a) The Guarantor's Laws or the Borrower's Statutes shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement or to achieve the objectives of the Project.

(b) The Borrower shall have failed to take, to the satisfaction of the Bank, the corrective measures required to ensure that the quality and quantity of the water discharged from the Alacati sea outfall meets the standards agreed with the Bank.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 6.01 of this Agreement shall occur; and

(b) the event specified in paragraph (b) of Section 6.01 of this Agreement shall occur and shall continue for a period of sixty 60 days after notice thereof shall have been given by the Bank to the Borrower.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) that the Municipalities of Cesme and Alacati have furnished to the Bank a letter of undertaking to provide funds to the Borrower required for the implementation of the Project; and

(b) that consultants have been appointed, under terms of reference satisfactory to the Bank and pursuant to Part B.1 of Section II of Schedule 4 to this Agreement, for the purposes of assisting the Borrower in the employment of the private operator.

Section 7.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. The President of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Cesme-Alacati Union
Cevre Koruma Altyapi Tesisleri
Yapma ve Isletme Birligi
Cumhuriyet Meydani No: 2
Cesme-Izmir
Republic of Turkey

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INDEVAS
Washington, D.C.

Telex:

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 Ankara, Republic of Turkey, as of the day and year first above written.

CESME-ALACATI UNION

By /s/ Nuri Ertan

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Ajay Chhibber

Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

| Expenditures Category Financed | Amount of the Loan Allocated (Expressed in Dollar Equivalent) | % of to be |
|--|--|--|
| (1) Civil works | | |
| (a) under Part B of the Project (except Part B (5)) | 400,000 | 85% |
| (b) under Part C of the Project(except Part C (4)) | 7,300,000 | 61% |
| (c) under Parts B (5) and C (4) of the Project | 400,000 | 85% |
| (2) Goods: | | |
| (a) under Part A (1) 100% of foreign of the Project (office expenditures, 100% equipment), under Part B local expenditures of the Project (except (ex-factory cost and 85% Part B (5)) and under expenditures Part C of the Project procured (except Part C (4)) | 600,000 | of of local for other items locally |
| (b) under Parts B (5) and C (4) of the Project | 400,000 | |
| (3) Consultant services auditing services, training and private operator fees | 4,000,000 | 100% |

TOTAL

13,100,000

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 payments made for expenditures prior to the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) contracts for goods and works not exceeding \$100,000 equivalent; (b) contracts for employment of consulting firms not exceeding \$100,000 equivalent; and (c) contracts for employment of individual consultants not exceeding \$50,000 equivalent, each under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) develop new institutional arrangements for management of water supply and sewerage services in the Cesme-Alacati area; (b) increase efficiency in the delivery of said services through the operation of said services by a private operator; and (c) improve water quality, sewerage service and environmental conditions in said area.

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

Part A: Institutional Development

(1) Establishment of the Borrower's technical and financial management systems, including auditing, and the provision of consultants' services, training and office equipment for the purpose.

(2) Assisting the Borrower in the employment and monitoring of the performance of the private operator for improved water and sewerage services through the provision of consultants' services.

(3) Strengthening the Borrower in Project supervision activities through the provision of consultants' services.

(4) Strengthening the Borrower in environmental matters, including the monitoring and protection of sea water quality, through the provision of consultants' services.

Part B: Water Supply System

(1) Carrying out of hydrogeological investigations of the wells in the Ildir area and improvements in district metering and chlorination.

(2) Relocation of the wells in the Ildir area and rehabilitation of the pumping stations to improve their operational condition.

(3) Construction of a water barrier about 500m long comprised of about

330 injection wells to an average depth of about 40m to protect the aquifer in the Ildir area from sea water intrusion.

(4) Supply and installation of equipment for water production, district metering and chlorination.

(5) Urgent repairs to and upgrading of the water supply system.

(6) Minor service extensions of the water supply system.

Part C: Sewerage Works

(1) Development and improvement of the sewerage network, consisting of upgrading and expansion of the sewerage network through the construction of the main sewer pipes from the Cesme area to Ilica, and the construction of the sewerage networks, including house discharges, in the areas of Cesme, Alacati and Ilica.

(2) Acquisition and installation of equipment for four selected pumping stations.

(3) Construction of a pre-treatment sewerage plant for the combined waste water flow from Cesme and Alacati to discharge into the sea through the existing Alacati sea outfall.

(4) Urgent repairs to and upgrading of the sewerage system.

* * *

The Project is expected to be completed by June 30, 2003.

SCHEDULE 3

Amortization Schedule

| Date Payment Due | Payment of Principal (Expressed in Dollars)** |
|---|--|
| On each June 15 and December 15 beginning December 15, 2003 through December 15, 2014 | 545,000 |
| On June 15, 2015 | 565,000 |

* The figures in this column represent the amount in Dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement

Section I. Procurement of Good and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 and September 1997 (the Guidelines) and the following provisions of this Section.

Part B: International Competitive Bidding

Except as otherwise provided in Part C of this Section, works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix I thereto.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$3,500,000 equivalent per contract, up to an aggregate amount not to exceed \$4,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines;

2. International Shopping

Goods estimated to cost less than \$400,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost less than \$100,000 equivalent per contract, up to an aggregate not to exceed \$500,000 equivalent, may be procured under lumpsum, fixed price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant

drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotations for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect: (i) to all contracts awarded on the basis of the provisions of Part B of this Section; and (ii) the first contract and all contracts estimated to cost the equivalent of \$1,000,000 or more awarded on the basis of the provisions of Part C.1 of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first contract awarded on the basis of the provisions of Part C.4 of this Section, the following procedures shall apply:

(i) prior to the execution of the contract, the Borrower shall provide the Bank a copy of the specifications and the draft contract; and

(ii) in addition, the procedures set forth in paragraphs 2 (f) and 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

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

2. The following provisions shall apply to consultants services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services for

construction supervision and auditing estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for auditing under Part A of the Project estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Individual Consultants

Services for financial and engineering service assistance under Part A of the Project shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

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

3. Post Review

With respect to each contract not governed by paragraph 1 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 5

Implementation Program

1. Except as the Borrower shall otherwise agree, the Borrower shall, by March 31, 1999, employ the private operator to operate the water and sewerage systems on the basis of a management contract with terms and condition satisfactory to the Bank.

2. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the

indicators agreed upon between the Borrower and the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, by October 31 of each year, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;

(c) review with the Bank, by December 31 of each year, the report referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank views on the matter.

3. The Borrower shall, until completion of the Project and thereafter as environmentally required: (a) monitor, on a regular basis and in accordance with standards and procedures satisfactory to the Bank, the quality of the water near the sea outfall at Alacati, including the sampling of water for specific parameters, to assess the physical condition of said sea outfall; and (b) if corrective action is required, promptly take all measures necessary in a timely manner to restore the quality of the water to standards acceptable to the Bank.

4. The Borrower shall, by September 30, 1998, prepare and furnish to the Bank a plan, satisfactory to the Bank, providing for the phase-out of privately-owned wells for which legal permits have not been issued or which are being operated in violation of municipal or national health requirements.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) set forth 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 Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

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

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

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

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

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank 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 Bank shall, on behalf of the Borrower, withdraw from the Loan 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 Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank 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 Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan 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 Bank, within the period of time specified in Section 4.01 (b) (iii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

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

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank 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 Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank 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 Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

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

