

CONFORMED COPY

CREDIT NUMBER 3124 BD

Development Credit Agreement

(Arsenic Mitigation - Water Supply Project)

between

PEOPLE'S REPUBLIC OF BANGLADESH

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 21, 1998

CREDIT NUMBER 3124 BD

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 21, 1998, between PEOPLE'S REPUBLIC OF BANGLADESH (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) the Borrower intends to obtain from the Government of Switzerland acting through the Swiss Agency for Development and Cooperation (SDC) a grant in an amount equivalent to three million dollars (\$3,000,000) (the Swiss Grant) to assist in financing part of the Project on terms and conditions set forth in an agreement (the Swiss Grant Agreement) to be entered into between the Borrower and SDC; and

(C) Switzerland and the Association intend to enter into an agreement (the Administration Agreement) making arrangements for the Association to process applications for withdrawal of the proceeds of the financing to be provided by Switzerland under the Swiss Grant Agreement and regulating certain other matters of common interest in connection with such financing.

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, (as amended through December 2, 1997), with the modifications set forth below (the General Conditions) constitute an

integral part of this Agreement.

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 10 of Resolution No. 183 of the Board of Governors of the Association, adopted on June 26, 1996; and 'Participating Countries' means, collectively, all such countries.

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

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country 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."

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

(a) "LGD" means the Local Government Division within the Ministry of Local Government, Rural Development and Cooperatives of the Borrower;

(b) "DPHE" means the Department of Public Health Engineering under LGD;

(c) "PMU" means the Project Management Unit to be established and maintained pursuant to paragraph 3 of Schedule 4 to this Agreement;

(d) "TK" or "Taka" means the currency of the Borrower;

(e) "FY" and "Fiscal Year" means the fiscal year of the Borrower commencing on July 1 and ending on June 30 of the following year; and

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

## ARTICLE II

### The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to twenty-four million two hundred thousand Special Drawing Rights (SDR 24,200,000).

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 may, for the purposes of the Project, open and maintain in Taka a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 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 days after

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

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

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

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

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each January 15 and July 15 commencing January 15, 2009 and ending July 15, 2038. Each installment to and including the installment payable on July 15, 2018 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

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

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

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

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and health practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section

and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

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

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

#### 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 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, 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 and 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 report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

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

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

#### ARTICLE V

## Remedies of the Association

Section 5.01. (a) Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely, that subject to paragraph (b) of this Section:

- (i) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or
- (ii) any such loan shall have become due and payable prior to the agreed maturity thereof.

(b) Paragraph (a) of this Section shall not apply if the Borrower establishes to the satisfaction of the Association that:

- (i) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and
- (ii) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraph (a) (ii) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b) of that Section.

## 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) all conditions precedent to the effectiveness of the Swiss Grant Agreement have been fulfilled, other than those related to the effectiveness of this Agreement; and

(b) the Borrower (i) has issued the letter of invitation for selection of an internationally recruited consulting firm to assist the Borrower in the carrying out of the Project, and (ii) has appointed the key staff for the PMU in a manner satisfactory to the Association.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

## ARTICLE VII

### Representative of the Borrower; Addresses

Section 7.01. The Secretary, or the Additional Secretary, or any Joint Secretary, Joint Chief, Deputy Secretary, Deputy Chief, Senior Assistant Secretary, Assistant Secretary, Assistant Chief of the Economic Relations Division of the Ministry of 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:

Economic Relations Division  
Ministry of Finance  
Government of the People's Republic of Bangladesh  
Dhaka, Bangladesh

Cable address:

Telex:

BAHIRSAMPAD  
Dhaka

642226 SETU BJ  
672796 SETU BJ

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:

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 Dhaka, Bangladesh, as of the day and year first above written.

PEOPLE'S REPUBLIC OF BANGLADESH

By /s/ S.A.M.S. Kibria

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Pierre Landell-Mills

Country Director, Bangladesh

SCHEDULE 1

Withdrawal of the Proceeds of the Credit and the Swiss Grant

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

	Amount of the Credit Allocated (Expressed in SDR Equivalent)	Amount of Swiss Grant Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Works	3,440,000	_____	80%
(2) Goods foreign	2,310,000	_____	100% of expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures
for			other items procured locally
(3) Consultants' services	2,640,000	_____	100%
(4) Training	2,390,000	3,000,000	51%

	and studies			
(5)	Services for interventions under Part A of the Project	8,950,000	_____	100%
(6)	Incremental staff salaries	1,570,000	_____	100%
(7)	Incremental administrative costs	390,000	_____	80%
(8)	Unallocated	2,510,000	_____	
	TOTAL	24,200,000	3,000,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

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

(c) the term "incremental staff salaries" means the cost of additional staff employed exclusively by PMU for purposes of the Project;

(d) the term "incremental administrative costs" means the cost of operation and maintenance of offices, vehicles and equipment procured under the Project; and

(e) the term "services for interventions under Part A of the Project" means services provided by NGOs, consultants and government agencies to do surveys, pre-feasibility studies, community development activities, health and education awareness activities, subproject feasibility analysis, subproject design and construction supervision.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 1,300,000, may be made on account of payments made for expenditures before that date but after January 1, 1998.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures: (a) for goods and works under contracts costing less than \$200,000 equivalent each; (b) for consultants' services under contracts not exceeding the equivalent of \$100,000, in the case of firms, and \$50,000 in the case of individuals; and (c) under categories 4, 5, 6 and 7, under such terms and conditions as the Association shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objective of the Project is to reduce mortality and morbidity in rural and urban population caused by arsenic contamination of groundwater within sustainable water supply, health, and water management strategies. This Project is the first phase of a long-term effort to mitigate the impact of naturally occurring arsenic contamination of Bangladesh's groundwater.

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: On-site Mitigation

1. Community organization for planning and implementing field level subprojects through training and social mobilization support.

2. Emergency screening of groundwater quality and arsenic content on a national

scale.

3. Emergency health interventions including screening of arsenicosis patients and training of medical personnel to complement activities in the health sector.
4. Emergency water supply interventions for temporary relief, including national water quality screening campaigns and low cost water treatment and storage systems, while more sustainable water supply is being planned.
5. Planning and implementation of financially sustainable rural water supply through the formation of village level organizations and the carrying out of cost recovery mechanisms in arsenic affected areas as a priority.
6. Development of a pond/surface water reservoir, exclusively for drinking purposes, as an alternative water supply option for each community in the rural areas, wherever possible.
7. Planning of urban water supply systems in arsenic affected areas and implementation of interventions in water treatment for arsenic.
8. Community education and awareness campaigns in prevention and alleviation of arsenic contamination.
9. Support to central and regional Project implementation entities through the establishment of a PMU, three Regional Project Management Units, contracting of Non-Governmental Organizations (NGOs), and establishment of a collaborative subproject appraisal process.

Part B: Improved Understanding of the Arsenic Problem

1. Collection and dissemination of information on arsenic contamination and on sustainable solutions to the arsenic crisis.
2. Studies and research in arsenic affected areas on priority issues including: participatory planning and implementation of appropriate technology for water supply and sanitation, cost-recovery in rural and urban schemes, appropriate technology for arsenic testing and treatment, hydrogeology and geochemistry of arsenic in groundwater, and inter-sectoral impacts of water use on arsenic impact on water quality and the food chain.

Part C: Strengthening of Implementation Capacity

1. Studies on the need for carrying out institutional reform in the water supply and sanitation sector.
2. Capacity building in project management and subproject appraisal through the carrying out of training and provision of technical assistance.
3. Capacity building on arsenic mitigation and participatory water supply and sanitation at the level of communities and villages, local and central government, DPHE, private and government laboratories, NGOs, health workers, physicians and medical students through the carrying out of training and provision of technical assistance.
4. Establishment of a National Arsenic Mitigation Information Center in DPHE under PMU to facilitate the networking of national and international entities working on the problem of arsenic contamination.
5. Establishment of a Technical Assessment Group for the evaluation and promotion of cost-effective technologies for the detection and treatment of arsenic in groundwater and the implementation of alternative water supply solutions.
6. Support to internal (in-project) and external monitoring and evaluation systems for the Project.

\* \* \*

The Project is expected to be completed by December 31, 2001.

SCHEDULE 3

Procurement and Consultants' Services



Section I. Procurement of Goods and Works

Part A: General

1. Goods and works shall be procured in accordance with (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 and September 1997, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Guidelines), and (b) the provisions of the following Parts of this Section I.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country."

Part B: Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$2,800,000 equivalent, and works estimated to cost more than \$30,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

Goods estimated to cost less than \$20,000 equivalent per contract, up to an aggregate amount not to exceed \$2,400,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Works costing \$30,000 equivalent or less per contract up to an aggregate amount not to exceed \$500,000 equivalent, may, with the Association's prior approval, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost equal or less than \$30,000 equivalent per contract may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation, provided that the aggregate amount of such works does not exceed \$5,000,000 equivalent. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part C: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for or award any contracts, the proposed procurement plan for the Project for the first fiscal year of the Project period shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. The proposed procurement plans for subsequent fiscal years shall be furnished to the Association, for its review and approval, one month prior to the dates specified in paragraph 2 (a) of Schedule 4 to this Agreement. Procurement of all goods and works shall be undertaken in accordance with such procurement plans as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) In each fiscal year, with respect to the first two contracts for civil works and the first two contracts for goods procured under national competitive bidding procedures, and thereafter each contract for works or goods estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to all contracts under direct contracting and the first two contracts procured under shopping procedures in each fiscal year, the following procedures shall apply:

(i) prior to the selection of any supplier/execution of any such contract under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;

(ii) prior to the execution of any such contract procured under direct contracting or shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and

(iii) the procedures set forth in paragraphs 2(f), 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

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

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country."

### Part B: Quality- and Cost-based Selection

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

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants 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. Selection Under a Fixed Budget

Services 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 3.5 of the Consultant Guidelines.

#### 2. Least-cost Selection

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

#### 3. Single Source Selection

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

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project for the first fiscal year of the Project period shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. The proposed plans for the selection of consultants for subsequent fiscal years shall be furnished to the Association, for its review and approval, one month prior to the dates specified in paragraph 2 (a) of Schedule 4 to this Agreement. Selection of all consultants' services shall be undertaken in accordance with such selection plans as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

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

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

3. Post Review

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

SCHEDULE 4

Implementation Program

1. The Borrower shall implement in a timely fashion an Action Plan, satisfactory to the Association, for the carrying out of the Project.

2. The Borrower shall:

(a) commencing in 1999, by June 30 of each year or such other date as the Borrower and the Association may agree, until completion of the Project, carry out an annual review of the Project jointly with the Association; and

(b) one month prior to such review furnish to the Association: (i) a Subprogram for the following fiscal year, for approval by the Association; (ii) a report on the project monitoring indicators; (iii) a review of the implementation of the Action Plan, indicating progress achieved and suggesting remedial actions where needed; (iv) a report assessing progress in achieving the project objectives through participatory means; (v) a review of NGO participation in the programs of LGD and the coordination between the Borrower and such NGOs; and (vi) an assessment of the types of needs and the possibility of additional funding for the Project.

3. The Borrower shall promptly establish and maintain until completion of the Project a Project Management Unit (PMU) which shall assist LGD in the planning, monitoring and coordination of the Project. In view of the nature of the Project, the PMU will have a level of gender balance reflecting the important role of women in rural water supply management.

4. The Borrower shall ensure that all Project works are implemented by community based organizations (hereinafter called CBOs) and according to standard agreements, satisfactory to the Association, between these CBOs and the PMU.

5. The Borrower shall:

(a) furnish, by December 31, 1998, to the Association for its review a draft report on detailed and exhaustive eligibility criteria for subproject investments based on participatory, environmental and cost-effective principles. Such criteria as shall be agreed upon shall be applied in all subproject interventions; and

(b) by March 1, 1999, inform the Association that the procedures for environmental and social review of subprojects are in place as well as all other support mechanisms to ensure the timely development and implementation of subprojects.

6. The Borrower shall commence by January 15, 1999, a review of the activities of the institutions involved in the water and sanitation sector and subsequently implement a plan, in consultation with the Association, for increased efficiency and capacity building in the sector with a view to increasing the demand-responsive nature of the sector.

7. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about March 1, 2001, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by April 1, 2001, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

#### SCHEDULE 5

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1 through 7 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 TK 94,000,000, to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to TK 47,000,000 until the aggregate amount of withdrawals from the Credit Account shall be equal to or exceed the equivalent of SDR 5,000,000.

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

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

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

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

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

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

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

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

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

including the General Conditions.

