

CONFORMED COPY

LOAN NUMBER 3807 SW

Loan Agreement

(Urban Development Project)

between

KINGDOM OF SWAZILAND

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 28, 1995

LOAN NUMBER 3807 SW

LOAN AGREEMENT

AGREEMENT, dated July 28, 1995, between KINGDOM OF SWAZILAND (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS: (A) the Borrower has issued a statement dated September, 1993, describing a program of action, objectives and policies designed to achieve the adjustment of the Borrower's urban sector (hereinafter called the Program), and declaring the Borrower's commitment to the execution of the Program;

(B) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

(C) Part B.1 of the Project will be carried out by Mbabane City Council (MbCC), Part B.2 of the Project will be carried out by Manzini City Council (MzCC), Part C of the Project will be carried out by Swaziland Water Services Corporation (SWSC), and Part D of the Project will be carried out by the National Housing Board (SNHB) all with the Borrower's assistance and, as part of such assistance, the Borrower will make available to

MbCC, MzCC, SWSC and SNHB the proceeds of the Loan as provided in this 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, in the SWSC Project Agreement of even date herewith between the Bank and SWSC, and in the SNHB Project Agreement of even date herewith between the Bank and SNHB;

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" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

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

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

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

(a) "SWSC Project Agreement" means the agreement between the Bank and Swaziland Water Services Corporation of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the SWSC Project Agreement;

(b) "SNHB Project Agreement" means the agreement between the Bank and National Housing Board of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the SNHB Project Agreement;

(c) "SWSC Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and SWSC pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the SWSC Subsidiary Loan Agreement;

(d) "MbCC Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and MbCC pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the MbCC Subsidiary Loan Agreement;

(e) "MzCC Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and MzCC pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the MzCC Subsidiary Loan Agreement.

(f) "SNHB Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and SNHB pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the SNHB Subsidiary Loan Agreement;

- (g) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (h) "SWSC" means Swaziland Water Services Corporation, established pursuant to the Water Services Corporation Act, No. 12 of 1992;
- (i) "MbCC" means Mbabane City Council, established pursuant to the Urban Government Act, No. 8 of 1969;
- (j) "MzCC" means Manzini City Council, established pursuant to the Urban Government Act, No. 8 of 1969;
- (k) "SNHB" means the National Housing Board established pursuant to the National Housing Board Act, No. 3 of 1988;
- (l) "MHUD" means the Ministry of Housing and Urban Development of the Borrower;
- (m) "PSC" means the Project Steering Committee, referred to in paragraph 1 of Schedule 5 to this Agreement;
- (n) "PCU" means Project Coordination Unit within MHUD, referred to in paragraph 2 of Schedule 5 to this Agreement;
- (o) "TSU" means the Technical Support Unit established pursuant to paragraph 3 of Schedule 5 to this Agreement;
- (p) "SNL" means Swazi Nation Land, being land held by the King in trust for the Swazi Nation;
- (q) "FY or Fiscal Year" means the Borrower's fiscal year starting April 1 and ending March 31 of the following year; and
- (r) "Project Preparation Advance" means the project preparation advances granted by the Bank to the Borrower pursuant to letters dated October 1, 1992, and June 23, 1993, from the Bank to the Borrower and countersigned by the Borrower on February 8, 1993 and July 2, 1993, respectively.

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 this Agreement, various currencies that shall have an aggregate value equivalent to the amount of twenty-nine million dollars (\$29,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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 shall, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, 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 6 to this Agreement.

(c) Promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount required to repay the principal amount of

the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be March 31, 2002, 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 the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(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 Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period

commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on January 15 and July 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 Program and Project as set forth in Schedule 2 to this Agreement, and, to this end:

- (i) shall carry out Part A of the Project through MHUD, cause MbCC to carry out Part B.1 of the Project, MzCC to carry out Part B.2 of the Project and the Swaziland Electricity Board to carry out Part B.3 of the Project, all with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and urban development practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project; and
- (ii) without limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall cause SWSC and SNHB to perform in accordance with the provisions of the SWSC Project Agreement and the SNHB Project Agreement, respectively, all the obligations of SWSC and SNHB therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable SWSC and SNHB to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Without limitation upon the provisions of paragraph (a) of this Section, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out and cause to be carried out Parts A, B.1, B.2 and B.3 of the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

(c) The Borrower shall relend: (i) \$2,200,000 equivalent of the proceeds of the Loan for Part B.1 of the Project to MbCC, (ii) \$1,900,000 equivalent of the proceeds of the Loan for Part B.2 of the Project to MzCC, (iii) \$11,800,000 equivalent of the proceeds of the Loan for Part C of the Project to SWSC, and (iv) \$2,000,000 equivalent of the proceeds of the Loan for Part D of the Project to SNHB, under subsidiary loan agreements to be entered into between the Borrower and MbCC, MzCC, SWSC and SNHB respectively, all under terms and conditions which shall have been approved by the Bank, which shall include, inter alia, an interest rate equivalent to the rate of inflation plus two percentage points per annum, principal repayable in 18 years including a grace period of five years, for MbCC, MzCC and SWSC, principal repayable in six years including a grace period of three years for SNHB, and institutional action plans and performance targets satisfactory to the Bank. For purposes of this Section "rate of inflation" means the rate established at the beginning of the Borrower's Fiscal Year, based on the average consumer price index, published by the Borrower's Central Statistics Office, for the preceding calendar year.

(d) The Borrower shall make available as a grant: (i) \$1,400,000 equivalent of the proceeds of the Loan for Part B.1 of the Project to MbCC; and (ii) \$5,400,000 equivalent of the proceeds of the Loan for Part C of the Project to SWSC.

(e) The Borrower shall exercise its rights under the MbCC, MzCC, SWSC and SNHB Subsidiary Loan Agreements, respectively, in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the MbCC, MzCC, SWSC or SNHB Subsidiary Loan Agreements or any provision thereof.

(f) The Borrower shall cause MbCC and MzCC to duly perform all their obligations under their respective Subsidiary Loan Agreements. Except as the Bank shall otherwise agree the Borrower shall ensure that neither MbCC nor MzCC shall take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the MbCC or MzCC Subsidiary Loan Agreements or any provision thereof.

Section 3.02. 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 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of: (a) Part C of the Project shall be carried out by SWSC pursuant to Section 2.03 of the SWSC Project Agreement; and (b) Part D of the Project shall be carried out by SNHB pursuant to Section 2.03 of the SNHB Project Agreement.

Section 3.04. (a) The Borrower shall ensure that the Project is carried out in accordance with its resettlement and compensation policy, satisfactory to the Bank, adopted on May 6, 1994.

(b) The Borrower shall, prior to commencing construction on each upgrading site under Part D of the Project, furnish to the Bank resettlement and compensations plans satisfactory to the Bank, for each such upgrading site.

Section 3.05. The Borrower, shall with MbCC and MzCC, not later than February 1, 1995, adopt an Urban Government Policy Framework, satisfactory to the Bank.

Section 3.06. The Borrower shall ensure that, in each year, adequate provision is made in its budget, for its share of the costs of Parts B, C and D of the Project and the costs of its agencies carrying out said Parts of the Project, which are reflected in its budget.

Section 3.07. The Borrower shall ensure the MbCC and MzCC, respectively, shall consult with the Borrower and the Bank, prior to incurring any new long-term debt obligation.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall, (i) 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; and (ii) cause MbCC and MzCC to maintain records and accounts adequate to

reflect in accordance with sound accounting practices the operation and financial condition of MbCC and MzCC, and the operations, resources and expenditures in respect of Parts B.1 and B.2 of the Project.

(b) The Borrower shall, and shall cause MbCC and MzCC to:

- (i) have the records, accounts and financial statements (balance sheets, statements of income and expenses, and related statements), 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 Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year: (A) certified copies of said financial statements 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 and the audit thereof as the Bank shall from time to time reasonably request.

(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, and shall cause MbCC and MzCC to:

- (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 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, for FY 1995/1996 and FY 1996/1997, provide a mix of real tariff increases and subventions to SWSC, to enable SWSC to cover its total operating costs and interest expenses, and to enable SWSC to cover such costs without subventions from FY 1997/1998 onwards, with the exception of subventions for direct recurrent expenses of the water supply schemes in Siteki and Nhlanguano. For the purposes of this Section, the term "total operating costs" means all costs related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation on a current cost accounting basis or other basis in accordance with generally accepted accounting principles but excluding interest and other charges on debt.

Section 4.03. The Borrower shall ensure that from FY 1995/1996 onwards, there are sufficient adjustments to user charges for solid waste disposal to enable MbCC and MzCC to cover operating costs, including depreciation and interest expense.

ARTICLE V

Management and Operations of MbCC and MzCC

Section 5.01. The Borrower shall cause MbCC and MzCC respectively, to carry on their operations and conduct their affairs in accordance with sound administrative, financial and urban sector practices under the supervision of qualified and experienced management assisted by adequate levels of competent staff.

Section 5.02. The Borrower shall ensure that MbCC and MzCC shall at all times operate and maintain their plant, 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 and urban sector practices.

Section 5.03. The Borrower shall ensure that MbCC and MzCC shall 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 (1) of the General Conditions, the following additional events are specified:

(a) SWSC or SNHB shall have failed to perform any of their obligations under the SWSC or SNHB Project Agreements, respectively.

(b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that SWSC or SNHB will be able to perform their obligations under the SWSC or SNHB Project Agreements, respectively.

(c) The Water Services Corporation Act of 1992, and National Housing Board Act of 1988 shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of SWSC and SNHB respectively, to perform any of their obligations under their respective Project Agreement.

(d) MbCC or MzCC shall have failed to perform any of their obligations under the Project.

(e) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that MbCC or MzCC respectively, shall be able to perform their obligations under the Project.

(f) The Urban Government Act of 1969, shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of MbCC or MzCC respectively, to perform any of their obligations under the Project.

(g) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or

disestablishment of SWSC, SNHB, MbCC or MzCC respectively, or for the suspension of their operations.

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

(a) any event specified in paragraphs (a), (b), (d) and (e) of Section 6.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower; and

(b) any event specified in paragraphs (c), (f) and (g) of Section 6.01 of this Agreement shall occur.

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) the MbCC, MzCC, SWSC and SNHB Subsidiary Loan Agreements have been executed on behalf of the Borrower and MbCC, MzCC, SWSC and SNHB, respectively;

(b) the Borrower shall have enacted a new Rating Act, satisfactory to the Bank;

(c) the Borrower shall have acquired the land for sewage treatment facilities in Mbabane and Manzini under Part C.4 of the Project;

(d) the Borrower shall have approved the model leasehold agreement for Swazi Nation Land, satisfactory to the Bank;

(e) the Borrower shall have appointed the staff of the PCU and TSU required for the commencement of Project implementation, with experience, qualifications and terms of reference satisfactory to the Bank; and

(f) the Borrower shall have completed the Project Implementation Manual, satisfactory to the Bank.

Section 7.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the SWSC and SNHB Project Agreements have been duly authorized or ratified by SWSC and SNHB, respectively, and are legally binding upon SWSC and SNHB, respectively, in accordance with their terms;

(b) that the MbCC, MzCC, SWSC and SNHB Subsidiary Loan Agreements have been duly authorized or ratified by the Borrower and MbCC, MzCC, SWSC and SNHB, respectively and are legally binding upon the Borrower and MbCC, MzCC, SWSC and SNHB respectively in accordance with their terms;

Section 7.03. 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 VIII

Representatives of the Borrower; Addresses

Section 8.01. The Minister at the time responsible for Finance 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:

Ministry of Finance
P.O. Box 443
Mbabane, Swaziland

Cable address:

MINFIN
Mbabane

Telex:

2109 WD

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

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

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.

KINGDOM OF SWAZILAND

By /s/ Mary Kanya

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Edward V.K. Jaycox

Regional Vice President
Africa

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:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil Works:		85%
(a) for Part B.1	2,300,000	

	(b) of the Project		
(b)	for Part B.2 (b) of the Project	700,000	
(c)	for Part C of the Project	14,300,000	
(d)	for Part D of the Project	1,700,000	
(2)	Equipment	1,500,000	100% of foreign expenditures
(3)	Consultants' services, and training	2,700,000	85%
(4)	Refunding of Project Preparation Advance	1,500,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(5)	Unallocated	4,300,000	
	TOTAL	29,000,000	=====

2. For the purposes of this Schedule 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.

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) payments made for expenditures under Categories (1)(b) and (2) until the Borrower has completed acquisition of land required for the Manzini solid waste disposal site; and (c) payments made for expenditures under Category (1)(d) until the Borrower has furnished to the Bank the resettlement and compensation plan, satisfactory to the Bank, for the site concerned.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for goods, works and services not exceeding \$50,000 equivalent, 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 (i) provide a basis for sustainable urban development through emphasis on policy reform, institutional development, pilot land reform, participatory development and housing solutions for moderate and low income urban households; and (ii) address critical urban infrastructure needs.

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: Policy and Institutional Reform

1. Support for the development of urban government policies and legislation including:

(a) an urban government policy to define the framework within which local authorities will operate;

(b) review and enactment of urban sector legislation and regulations;

(c) review of urban and peri-urban land policies; and

(d) assessment of the feasibility of establishing a secondary market for mortgages.

2. Improving the long-term effectiveness and efficiency of urban sector institutions through: (a) assistance to build a cadre of trained and experienced planning professionals and to support long-term capacity building in MHUD, including the provision of workshops and study tours; (b) institutional strengthening of MbCC and MzCC, including twinning arrangements and training programs for staff; (c) institutional strengthening of SNHB, including, inter alia, project and financial management capabilities, human resources development and the provision of regional workshops and study tours; (d) institutional strengthening of the restructured SWSC including, inter alia, expertise and overseas training of SWSC staff, a staff training program and the automation of the accounting and Management Information Systems.

3. (a) Building capacity in the coordination of land survey activities in the Surveyor-General's Office.

(b) Building capacity for examination and registration of deeds at the Registrar of Deeds Office.

(c) Building capacity for carrying out environmental monitoring by the Swaziland Environment Authority.

(d) Supervision of investment contracts and preparation of preliminary layout of areas to be included in the next phase of the Borrower's urban development program.

Part B: Rehabilitation and Expansion of City Roads and Services

1. For Mbabane:

(a) Rehabilitation, upgrading and extension of about 4.8 km of roads in Mbabane, together with improved drainage and road maintenance programs.

(b) Development of a new waste disposal site and reclamation of existing sites.

(c) Acquisition of solid waste vehicles and equipment.

2. For Manzini:

(a) Rehabilitation, upgrading and extension of about 5.4 km of roads, together with improved drainage and road maintenance programs.

(b) Development of a new waste disposal site and reclamation of the existing site.

(c) Acquisition of solid waste vehicles and equipment.

3. Relocation of about 15 km of power lines and upgrading of about 4 km of 11 kv feeders for Mbabane and relocation of about 7 km of power lines and upgrading of about 4 km of 11 kv feeders for Manzini.

Part C: Rehabilitation and Expansion of the Water and Sewerage Services

1. In Mbabane, (a) construction of a new raw water intake and pumping station together with about 6.8 km rising mains from the intake to the treatment works, (b) extension to the Woodlands water treatment plant, (c) construction of a new booster pumping station at Checkers, a 3.2 Ml service reservoir in Mahwalala and about 4.5 km distribution mains.
2. In Manzini, construction of a 3 Ml reservoir coupled with about 6 km reticulation.
3. Leak detection and mains replacement in both Mbabane and Manzini to reduce system losses.
4. In Mbabane: (a) construction of new sewage treatment works and associated outfalls, (b) rehabilitation of the Ghobolo ponds for treatment of waste water, and (c) construction of about 2.5 km of sewage reticulation.
5. In Manzini, construction of: (a) new sewage treatment works and associated outfalls, and (b) about 2 km of sewage reticulation.
6. Decommissioning of existing Quarantine and Zakhele ponds and site reclamation.

Part D: Residential Housing Sites Including On-Site Infrastructure

1. Construction and upgrading of on-site infrastructure including roads, footpaths, drainage, water supply, sanitation (including sewers, where applicable), communal structures such as water points, wash areas, refuse collection points, street lighting and landscape works and resettlement, where applicable, for the following informal urban housing sites:
 - (a) about 1350 existing homesteads, about 430 in-fill residential and about 80 non-residential plots in Msunduza, in Mbabane;
 - (b) about 730 existing homesteads, about 1050 in-fill residential and about 50 non-residential plots in Nkwalini in Mbabane; and
 - (c) about 160 existing homesteads, about 310 in-fill residential and about 30 non-residential plots in Moneni in Manzini.
2. Provision for the servicing of about 500 plots in remaining sections of Nkwalini in Mbabane and about 300 plots in a portion of Mhobodleni in Manzini.

* * *

The Project is expected to be completed by September 30, 2001.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each January 15 and July 15	
beginning July 15, 2000 through July 15, 2014	965,000
And on January 15, 2015	1,015,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C 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 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods and works in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

2. To the extent practicable, contracts for works shall be grouped into bid packages estimated to cost the equivalent of \$800,000 or more, and for goods into bid packages estimated to cost the equivalent of \$100,000 or more.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Swaziland 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: Other Procurement Procedures

Items or groups of items for works estimated to cost the equivalent of \$800,000 or less per contract, up to an aggregate amount equivalent to \$1,200,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

Part D: Review by the Bank of Procurement Decisions

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

(a) With respect to each contract for works and goods estimated to cost the equivalent of \$100,000 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 the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank 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 the Special Account, said 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 Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the

evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Loan 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

1. In order to assist the Borrower, MbCC, MzCC, SWSC and SNHB in carrying out the Project, the Borrower, MbCC, MzCC, SWSC and SNHB respectively, shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank 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 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 5

Implementation Program

1. The Borrower shall maintain, until completion of the Project, the PSC comprised of representatives from all agencies and departments involved in the implementation of the Project and chaired by the Principal Secretary of MHUD.

2. (a) The Borrower shall establish and maintain, the PCU within MHUD to, inter alia, coordinate and supervise Project implementation. The PCU shall, inter alia, be responsible for the following:

- (i) coordination of implementation by other executing agencies, monitoring key targets and indicators and evaluation of overall project performance;
- (ii) management and coordination of institutional strengthening (training and technical assistance), resettlement and compensation, review of environmental monitoring, community participation, and monitoring project impacts;

- (iii) identification of implementation gaps and ensuring the appropriate action is taken, confirmation of the availability of counterpart funding for the proposed project; and
- (iv) coordination of procurement, preparation of consolidated project accounts, management of the special account and disbursement of funds and preparation of quarterly progress reports to be submitted to the Bank;

(b) the PCU shall, at a minimum, be staffed with a full-time coordinator, a senior planning officer, a community liaison officer and an accountant, all with experience and qualifications and according to terms of reference satisfactory to the Bank, as well as administrative staff.

3. The Borrower shall establish and maintain until completion of the Project, a TSU with staff and terms of reference satisfactory to the Bank, to assist: (a) the PCU with Project implementation; and (b) where required, MHUD, MbCC, MzCC, SWSC and SNHB with their institutional strengthening programs.

4. The Borrower shall, no later than two months after the Effectiveness Date, carry out with the Bank, MbCC, MzCC, SWSC and SNHB, a Project Launch Workshop. Community representatives, supporting institutions, including the Swaziland Building Society, the Swaziland Electricity Board and Borrower agencies responsible for community facilities, shall also participate in the Project Launch Workshop.

5. The Borrower shall: (a) by July 31 in each year carry out with the Bank, MbCC, MzCC, SWSC, SNHB, Swaziland Building Society, Swaziland Electricity Board and other Borrower agencies responsible for the construction of community facilities and community representatives, a Project Implementation review;

(b) such reviews shall monitor, inter alia; (i) overall Project execution with regard to the implementation status of the policy, institutional and physical investment components of the Project, (ii) the effectiveness of Project implementation arrangements, (iii) actual performance compared to Project and institutional targets and institutional action plans, (iv) the Borrower's budgetary commitments for the following year, including funding for community facilities, (v) status of implementation of community facilities, and (vi) provision of mortgage and home improvement loans for Project beneficiaries; and

(c) following each such review, detailed action plans will be prepared for the next year of Project implementation, including measures to implement the recommendations arising from the policy and legislative reviews under Part A of the Project.

6. (a) The Borrower shall by no later than December 31, 1996, carry out jointly with the Bank, MbCC, MzCC, SWSC, SNHB, Swaziland Building Society, Swaziland Electricity Board and other Borrower agencies responsible for the construction of community facilities and community representatives, a mid-term review of the Project. Such review shall, inter alia, focus on: (i) overall project performance against monitorable performance indicators; (ii) an assessment of Project sustainability; (iii) implementation status of the policy, institutional and physical investment components of the Project; (iv) the effectiveness of Project implementation arrangements; (v) actual performance compared to project and institutional targets and action plans; (vi) funding for and status of implementation of community facilities; (vii) provision of mortgage and home improvement loans, for Project beneficiaries; and (viii) appropriateness of

Project objectives and components.

(b) The Borrower shall three months prior to such review prepare and furnish to the Bank the reports needed to undertake this review.

(c) Promptly after the completion of the mid-term review referred to above, the Borrower shall take all necessary actions to implement the recommendations emanating from such review, including the preparation of action plans for the implementation of the remainder of the Project.

7. The Borrower shall cause MbCC and MzCC to carry out Parts B.1 and B.2 respectively of the Project and monitor their performance in accordance with their respective Institutional Action Plans and performance targets, satisfactory to the Bank, including, inter alia, the performance targets set forth in the Annex to this Schedule.

ANNEX

Performance Targets for MbCC and MzCC, referred to in Paragraph 7 of Schedule 5 to this Agreement

	FY95/96	FY96/97	FY97/98	FY98/99	FY99/00
Rates Collected (%)	70	75	75	75	75
Increase in Rates Revenues (%)					
Mbabane	35	25	15	15	15
Manzini	35	25	15	15	10
Equipment Availability (%)	60	70	75	75	75
Vehicle Availability (%)	60	70	75	75	75

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (3) 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 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 \$800,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

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 a deposit or deposits 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; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment 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 paragraph 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.

