

CONFORMED COPY

LOAN NUMBER 4171 TM

Loan Agreement

(Water Supply and Sanitation Project)

between

TURKMENISTAN

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated May 29, 1997

LOAN NUMBER 4171 TM

LOAN AGREEMENT

AGREEMENT, dated May 29, 1997, between TURKMENISTAN (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS 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; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, with the modification of Section 6.03 set forth below (the General Conditions) constitute an integral part of this Agreement:

"Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous

period of thirty days, or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be canceled."

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

- (a) "CCs" means the Component Coordinators to be maintained in accordance with the provisions of paragraph 3(c) of Schedule 5 to this Agreement;
- (b) "Dashkhovuz Velayet" means the Borrower's Dashkhovuz region;
- (c) "DWWA" means the Dashkhovuz Regional Water and Wastewater Authority to be established under Part C(2) of the Project;
- (d) "Manat" means the lawful currency of the Borrower;
- (e) "MOH" means the Borrower's Ministry of Health and Medical Industries;
- (f) "MWR" means the Borrower's Ministry of Land Reclamation and Water Management;
- (g) "Participating Etraps" and "Participating Etrap" mean collectively the urban centers and individually each urban center, namely, Akdepe, Boldumsaz, Gubadagh, Kune-Urgench, Niyazovsk, Tagta, and Yilanly, within Dashkhovuz Velayet;
- (h) "PCC" means the Project Coordination Committee to be maintained in accordance with the provisions of paragraph 3(b) of Schedule 5 to this Agreement;
- (i) "PIM" means the Borrower's Project Implementation Manual for the carrying out of the Project, to be adopted pursuant to paragraph 2 of Schedule 5 to this Agreement, as the same may be amended from time to time with the agreement of the Bank;
- (j) "PIU" means the Project Implementation Unit, established within the MWR, and to be maintained in accordance with the provisions of paragraph 3(a) of Schedule 5 to this Agreement;
- (k) "Project Account" means the account to be opened by the Borrower, for the purposes of making available its counterpart contribution to the financing of the Project, in accordance with the provisions of Section 5.01(c) of this Agreement and maintained in accordance with the provisions of Section 3.02 of this Agreement;
- (l) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to an exchange of letters dated November 5, 1996, and November 21, 1996, between the Borrower and the Bank; and
- (m) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to thirty million three hundred thousand Dollars (\$30,300,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in its Central Bank on terms and conditions satisfactory to the Bank. 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 canceled.

Section 2.03. The Closing Date shall be February 28, 2004, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
- (ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.
- (iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) "LIBOR Total Spread" means, for each Interest Period: (A) one half of one percent ( $1/2$  of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

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

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

Section 2.06. Interest and other charges shall be payable on May 15 and November 15 in each year. Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through MOH and MWR with due diligence and efficiency and in conformity with appropriate water supply and sanitation, environmental, administrative and financial 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 Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Without any limitation upon the provisions of Section 3.01 of this Agreement, the Borrower shall, for the purposes of making available its counterpart contribution to the financing of the Project:

(a) maintain in Manat a Project Account in a commercial bank on terms and conditions satisfactory to the Bank;

(b) following the initial deposit provided for in Section 5.01(c) of this Agreement, thereafter replenish the Project Account by depositing additional amounts equivalent to: (i) \$300,000 on July 1, 1998; (ii) \$600,000 on July 1, 1999; (iii) \$600,000 on July 1, 2000; (iv) \$600,000 on July 1, 2001; and (v) \$312,000 on July 1, 2002; and

(c) ensure that amounts deposited into the Project Account shall be used exclusively to make payments to meet expenditures made or to be made in respect of the reasonable cost of goods and services required for the Project.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

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

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

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

### ARTICLE IV

#### Financial Covenants

Section 4.01. (a) The Borrower shall maintain 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 Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year, 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 and accounts 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:

(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.

## ARTICLE V

### Effective Date; Termination

Section 5.01. 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 Borrower has employed, pursuant to Section II of Schedule 4 to this Agreement, consultants to assist the PIU in carrying out the activities under the Project;

(b) the Borrower has submitted to the Bank the draft PIM, satisfactory to the Bank; and

(c) the Borrower has opened in Manat, through the PIU, the Project Account in a commercial bank on terms and conditions satisfactory to the Bank and has deposited into said account an initial amount equivalent to \$200,000.

Section 5.02. 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 VI

### Representative of the Borrower; Addresses

Section 6.01. The Deputy Chairman of the Cabinet of Ministers of the Borrower, specially authorized for this purpose by the Cabinet of Ministers of the Borrower, is

designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Cabinet of Ministers  
17 Bitarap Turkmenistan St.  
Ashghabat,  
Turkmenistan - 744000

Telex:

116201 (MEKAN)

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 (MCI) or  
64145 (MCI)

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

TURKMENISTAN

By /s/ Halil Ugur

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Yukon Huang

Acting Regional Vice President  
Europe and Central Asia

#### SCHEDULE 1

#### Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Works	19,000,000	90%
(2) Goods	2,400,000	100% of foreign expenditures, 100% of local

			expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(3)	Consultants' services	4,400,000	100%
(4)	Training	300,000	100%
(5)	Operating costs	400,000	100%
(6)	Refunding of Project Prepara- tion Advance	430,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(7)	Unallocated	3,370,000	
	TOTAL	30,300,000 =====	

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; and

(c) the term "operating costs" means expenditures in respect of the Project for PIU salaries, utilities, supplies, equipment, and office rent.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures: (a) prior to the date of this Agreement; and (b) under Category 5 of the table set forth in paragraph 1 of this Schedule, in excess of \$80,000 equivalent during any calendar year during the period of Project implementation.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure, under such terms and conditions as the Bank shall specify by notice to the Borrower, for expenditures for: (a) goods, under contracts costing less than \$300,000 equivalent each with the exception of the first three contracts for goods, awarded on the basis of international shopping procedures; (b) works, under contracts costing less than \$50,000 equivalent each with the exception of the first two contracts for small works costing the equivalent of \$20,000 or more each; and (c) services, under contracts costing less than \$100,000 equivalent each for consulting firms and \$50,000 equivalent each for individual consultants.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to: (a) improve water supply and sanitation in Participating Etraps and selected collective farms in the Dashkhovuz Velayet; and (b) initiate institutional changes in the water supply and sanitation sectors.

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: Water Supply Improvements

- (1) Urban Water Supply System Improvements  
Rehabilitation of water supply systems in the Participating Etraps.
- (2) Rural Water Supply System Improvements

Rehabilitation and expansion of water supply systems in about nine collective farms in the Dashkhovuz Velayet.

(3) Operational Support

Provision of supplies, spare parts, tools, chemicals and other equipment essential for operation and maintenance of the water supply systems.

Part B: Sanitation and Health

(1) Improvement of Rural Sanitation and Hygiene

Rehabilitation of latrines and installation of hand-washing basins in schools and markets in the Participating Etraps, and provision of equipment and training for improved sanitation techniques.

(2) Health Promotion and Hygiene Education in Rural Areas

(a) Health promotion and hygiene education in schools and markets and provision of equipment and training in health promotion; and

(b) rehabilitation and improvement of operations of the Dashkhovuz Center of Health.

(3) Water Quality Monitoring and Sanitation and Hygiene Surveillance in the Dashkhovuz Velayet

Provision of technical assistance, training and equipment for: (a) improvement of the water quality monitoring system and sanitation and hygiene surveillance systems; (b) upgrading of the Sanitary and Epidemiological Services laboratories in the Dashkhovuz Velayet; and (c): (i) improvement of data collection analysis and reporting; (ii) conducting of epidemiological studies; and (iii) training for Sanitary and Epidemiological Services laboratories staff in data collection and analysis methods.

Part C: Institutional Strengthening

Provision of technical assistance, training, equipment and supplies for:

(1) identification of national sector reforms through a national sector reform study to recommend improvements and develop an action plan to strengthen, on the national level, the capacity of the Borrower to provide water and wastewater services;

(2) (a) establishment of the Dashkhovuz Regional Water and Wastewater Authority (DWWA) to provide sector services to the population of the Dashkhovuz Velayet; and (b) institutional strengthening of said Authority in the areas, inter alia, of operation and maintenance of facilities, management, collection and dissemination of information, finance, administration, personnel, customer relations and cost recovery; and

(3) a public awareness campaign to: (a) inform beneficiaries of the Project in the Dashkhovuz Velayet of improvements in water supply services and cost recovery initiatives; and (b) educate the population of the Dashkhovuz Velayet in: (i) water conservation; (ii) proper operation of the new water supply systems; and (iii) safe water usage and storage practices.

Part D: Project Management and Supervision of Construction

Provision of technical assistance, training, equipment and operating costs for: (1) strengthening of the capabilities of the PIU for Project management; and (2) supervision of construction of water supply improvements under Part A of the Project.

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The Project is expected to be completed by August 31, 2003.

SCHEDULE 3

Amortization Schedule

Payment of Principal



(Expressed in Date Payment Due  
Dollars)\*

November 15, 2002	640,000
May 15, 2003	660,000
November 15, 2003	680,000
May 15, 2004	700,000
November 15, 2004	720,000
May 15, 2005	740,000
November 15, 2005	765,000
May 15, 2006	785,000
November 15, 2006	810,000
May 15, 2007	835,000
November 15, 2007	860,000
May 15, 2008	885,000
November 15, 2008	910,000
May 15, 2009	935,000
November 15, 2009	965,000
May 15, 2010	995,000
November 15, 2010	1,020,000
May 15, 2011	1,055,000
November 15, 2011	1,085,000
May 15, 2012	1,115,000
November 15, 2012	1,150,000
May 15, 2013	1,185,000
November 15, 2013	1,215,000
May 15, 2014	1,255,000
November 15, 2014	1,290,000
May 15, 2015	1,330,000
November 15, 2015	1,370,000
May 15, 2016	1,410,000
November 15, 2016	1,450,000
May 15, 2017	1,485,000

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

#### SCHEDULE 4

##### Procurement and Consultants' Services

###### Section I. Procurement of Goods and Works

###### Part A: General

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

###### Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

###### (a) Prequalification

Bidders for the water supply rehabilitation contract shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

###### (b) Grouping of contracts

To the extent practicable, contracts for water supply and sanitation equipment and related supplies, furniture and vehicles shall be grouped in bid packages estimated to cost \$300,000 equivalent or more each.

(c) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

(d) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. International Shopping

Goods estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$1,500,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, up to an amount not to exceed \$500,000 equivalent, 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. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to each contract for goods and works to be procured on the basis of international competitive bidding procedures, estimated to cost the equivalent of \$300,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first three contracts for goods to be procured on the basis of international shopping procedures; and (ii) the first two contracts for small works to be procured on the basis of the procedures set forth in paragraph 3 of Part C of this Section, estimated to cost the equivalent of \$20,000 or more, the following procedures shall apply: (A) prior to the selection of any supplier under international shopping procedures and any contractor under procedures for small works, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received; (B) prior to the execution of any contract procured under international shopping procedures or procedures for small works, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and (C) in addition, the procedures set forth in paragraphs 2 (f) and 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

## Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions 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, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

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 individual consultants 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 carry out Parts A and C of the Project through MWR and Part B of the Project through MOH in accordance with the requirements and details set forth or referred to in the PIM.

2. By December 31, 1997, the Borrower shall adopt the PIM, satisfactory to the Bank.

3. The Borrower shall, with resources and under terms of reference satisfactory to the Bank:

(a) maintain, until completion of the Project, the PIU and assign to it responsibility for overall Project management and coordination;

(b) maintain, until completion of the Project, the PCC and assign to it responsibility to oversee Project implementation and provide policy guidance for the implementation of the Project; and

(c) maintain, until completion of the Project, the CCs and a Regional CC and assign to them responsibility to assist the PIU with Project management.

4. The Borrower shall implement the institutional strengthening measures under Part C of the Project under a time schedule which shall ensure:

(a) the employment by December 31, 1997, pursuant to Section II of Schedule 4 to this Agreement, of consultants with qualifications, experience and terms of reference satisfactory to the Bank, required to prepare the national sector reform study referred to in Part C (1) of the Project;

(b) the preparation and discussion with the Bank of the findings and recommendations of said study by December 31, 1998;

(c) the preparation on the basis thereof of the action plan, satisfactory to the Bank;

(d) the preparation and discussion with the Bank by June 30, 1998, of the draft legal instrument for the establishment of the DWWA, which shall provide, inter alia, for: (i) appropriate organizational and budgetary structures and an autonomous legal form for DWWA; and (ii) the capacity of DWWA to charge tariffs for water supply services at such rates as shall enable it to recover by the time the facilities under the Project are completed its operation and maintenance costs; and

(e) the establishment and operation of the DWWA no later than December 31, 1998, or such other date as the Borrower and the Bank may agree upon in light of progress in Project implementation.

5. The Borrower shall take all measures necessary to ensure that, upon its establishment and operation, the DWWA shall begin to charge tariffs for water supply services as provided in paragraph 4(d)(ii) above in each Participating Etrap when the water supply systems under the Project for the particular Etrap shall become operational.

6. The Borrower shall prepare, in accordance with guidelines satisfactory to the Bank, and furnish to the Bank for review and comment: (a) by December 31, 1997, and subsequently by October 31 of each calendar year, draft annual work programs and budgets for the Project; (b) quarterly reports on Project execution; and (c) by February 15, 1998, and subsequently by February 15 of each calendar year, annual reports on the implementation of the Project.

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 acceptable to the Bank the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about March 31, 2000, 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 Bank, by July 31, 2000, or such later date as the Bank 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 Bank's views on the matter.

#### SCHEDULE 6

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4), and (5) 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 equal to \$500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equal to \$200,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$3,000,000.

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

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

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

from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

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

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

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

- (a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;
- (b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01(b)(ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;
- (c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or
- (d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

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

Bank such outstanding amount.

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

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

