

CONFORMED COPY

LOAN NUMBERS 4032-0 POL
4032-1 POL

Loan Agreement

(Bielsko-Biala Water and Wastewater Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

MUNICIPAL COMPANY "AQUA" S.A. OF BIELSKO BIALA

Dated September 20, 1996

LOAN NUMBERS 4032-0 POL
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LOAN AGREEMENT

AGREEMENT, dated September 20, 1996, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and MUNICIPAL COMPANY "AQUA" S.A. OF BIELSKO BIALA (the Borrower).

WHEREAS: (A) Republic of Poland (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to provide assistance in the financing of the Project through provision of the Loan;

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

(C) the National Fund for Environmental Protection and Water Management (NFEP) intends to make a Loan to the Borrower pursuant to an agreement (the NFEP Loan Agreement) in an amount equivalent to seven million dollars (\$7,000,000) to assist in financing the Project on the terms and conditions set forth therein; 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 (the General Conditions) constitute an integral part of this 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) "Statutes" means the corporate statutes of the Borrower dated March 12, 1990, as amended to the date of this Agreement;

(b) "Performance Agreement" means the agreement dated January 30, 1995, between the Borrower and the Municipality of Bielsko-Biala, as amended to the date of this Agreement;

(c) "Deutsche Mark" and "DEM" each means the lawful currency of the Federal Republic of Germany;

(d) "USD Loan Tranche" means the amount of the Loan in Dollars provided for in Section 2.01 of this Agreement;

(e) "DEM Loan Tranche" means the amount of the Loan in Deutsche Marks provided for in Section 2.01 of this Agreement;

(f) "Loan Tranche" means any of the USD Loan Tranche or the DEM Loan Tranche; and

(g) "Special Account" means any of the accounts referred to in Section 2.02 (b) of this Agreement, and "USD Special Account" and "DEM Special Account" mean the Special Accounts to be maintained in Dollars and Deutsche Marks, 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 the Loan Agreement, the following amounts:

(a) an amount equal to twelve million dollars (\$12,000,000); and

(b) an amount equal to thirteen million two hundred thousand Deutsche Marks (DEM 13,200,000).

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 the currency of each Loan Tranche a special deposit account, each in a commercial bank acceptable to the 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 Accounts shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2003 or such later date as the

Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor 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:
(i) the USD Loan Tranche withdrawn and outstanding from time to time, at a rate for each Interest Period equal to USD LIBOR Base Rate, plus USD LIBOR Total Spread; and
(ii) the DEM Loan Tranche withdrawn and outstanding from time to time, at a rate for each Interest Period equal to DEM LIBOR Base Rate plus DEM 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) "USD 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) "USD 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 USD Loan Tranche; as reasonably determined by the Bank and expressed as a percentage per annum.

(v) "DEM LIBOR Base Rate" means for each Interest period the London interbank offered rate for six-month deposits in Deutsche Marks 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.

(vi) "DEM 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 DEM Loan Tranche; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower and Guarantor of USD LIBOR Base Rate, USD LIBOR Total Spread, DEM LIBOR Base Rate and DEM 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 amounts of the Loan not yet withdrawn 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 semiannually on April 15 and October 15 in each year.

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

ARTICLE III

Execution of the Project

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

Management and Operations of the Borrower

Section 4.01. The Borrower shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering and public utility practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 4.02. The Borrower shall at all times operate and maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and public utility practices.

Section 4.03. The Borrower 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 V

Financial Covenants

Section 5.01. (a) The Borrower shall maintain records and accounts adequate to

reflect in accordance with sound accounting practices its operations and financial condition.

(b) The Borrower shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for the Special Accounts 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 its 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 as well as 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, 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 or payment out of the Special Accounts 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 5.02. (a) Except as the Bank shall otherwise agree, the Borrower shall maintain, for each of its fiscal years after its fiscal year ending on December 31, 1995, a ratio of total operating expenses to total operating revenues not higher than 0.65.

(b) Before December 31, in each of its fiscal years, the Borrower shall, on the basis of forecasts prepared by the Borrower and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) above in respect of such year and the next following fiscal year, and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that the Borrower would not meet the requirements set forth in paragraph (a) above for the Borrower's fiscal years covered by such review, the Borrower shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its rates) in order to meet such requirements.

(d) For the purposes of this Section:

(i) The term "total operating expenses" means all expenses related to operations, including administration and adequate maintenance, but excluding depreciation and other non-cash operating charges and taxes and interest and other charges on debt.

(ii) The term "total operating revenues" means revenues from all sources related to operations.

Section 5.03. (a) Except as the Bank shall otherwise agree, the Borrower shall not incur any debt unless a reasonable forecast of the revenues and expenditures of the Borrower shows that the estimated net revenues of the Borrower for each fiscal year during the term of the debt to be incurred shall be at least 1.5 times the estimated debt service requirements of the Borrower in such year on all debt of the Borrower including the debt to be incurred.

(b) For purposes of this Section:

(i) The term "debt" means any indebtedness of the Borrower maturing by its terms more than one year after the date on which it is originally incurred.

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

(iii) The term "net revenues" means the difference between: (A) the sum of revenues from all sources related to operations and net non-operating income; and (B) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.

(iv) The term "net non-operating income" means the difference between: (A) revenues from all sources other than those related to operations; and (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.

(v) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

(vi) The term "reasonable forecast" means a forecast prepared by the Borrower not earlier than twelve months prior to the incurrence of the debt in question, which both the Bank and the Borrower accept as reasonable and as to which the Bank has notified the Borrower of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of the Borrower.

(vii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

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) the Statutes shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement.

- (b) (i) Subject to paragraph (ii) of this Section:
 - (A) the right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or
 - (B) any such loan shall have become due and payable prior to the agreed maturity thereof.
- (ii) Paragraph (b) (i) of this Section shall not apply if the Borrower establishes to the satisfaction of the Bank that:
 - (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and
 - (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.
- (c) Any authority having jurisdiction over the Borrower shall have taken any action for the dissolution or disestablishment of the Borrower or the suspension of its operations.

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

- (a) the event specified in Section 6.01 (b) (i) of this Agreement shall occur, subject to the proviso of Section 6.01 (b) (ii) of this Agreement; and
- (b) any event specified in paragraphs (a) or (c) of Section 6.01 of this Agreement shall occur.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely that all conditions precedent to the effectiveness of the NFEP Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

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

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. The General Manager 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 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)

For the Borrower:

Municipal Company "AQUA" S.A.
of Bielsko-Biala
ul. 7 Maja 23
43-300 Bielsko-Biala
Republic of Poland

Telex:

035531

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 city of Warsaw, Republic of Poland, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Paul Knotter

Authorized Representative

MUNICIPAL COMPANY "AQUA" S.A. OF
BIELSKO BIALA

By /s/ Bogdan Traczyk

Authorized Representative

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)	Amount of the Loan Allocated (Expressed in Deutsche Marks)	% of Expenditures to be Financed
(1) Goods	4,200,000	4,400,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(2) Works under	2,800,000	3,200,000	70%

	Parts A.2, A.3 and B.3 of the Project			
(3)	Works under Part B.2 of the Project	1,100,000	1,200,000	30%
(4)	Consultants' Services and training under Part C of the Project	400,000	600,000	90%
(5)	Engineering Services under Part D of the Project	1,800,000	2,000,000	90%
(6)	Unallocated	1,700,000	1,800,000	
	TOTAL	12,000,000	13,200,000	

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 Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor; and

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$1,000,000 equivalent may be made in respect of Categories (2) and (5) on account of payments made for expenditures before that date but after August 1, 1995.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for goods under contracts not exceeding \$300,000 equivalent and works under contracts not exceeding \$500,000 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: (a) improve the safety, reliability and quality of water supply services of Bielsko-Biala; (b) improve the efficiency of water production, transmission and distribution systems; (c) improve the safety, reliability and efficiency of the sewer system; (d) reduce pollution of local surface water from combined sewer overflows; (e) reduce pollutant emissions into the Biala river; and (f) enhance the Borrower's institutional capabilities.

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

Upgrading of water treatment plants and the water transmission and distribution network consisting of: (1) expansion/improvement of service to Zloty Lany area; (2) upgrading of existing Wapienica, Szczyrk and Sola water treatment plants; and (3) carrying out a program for rehabilitating and improving the efficiency of the transmission-pumping-storage-distribution system, including programs of leak detection and repair and water main rehabilitation/replacement.

Part B: Wastewater

Upgrading and expansion of the wastewater system consisting of: (1) expansion of Wapienica and Industrial wastewater collectors; (2) expansion of Komorowice

(additional capacity of 60,000 m3/day of primary and secondary biological treatment) and Wapienica (to a capacity of 8,000 m3/day primary and secondary biological treatment) wastewater treatment plants; and (3) carrying out a program for rehabilitating and improving the efficiency of the sewer system, including programs for sewer rehabilitation/replacement, infiltration/inflow reduction, pumping station refurbishment and energy savings and combined sewer overflow reduction.

Part C: Technical Assistance and Training

Strengthening the institutional capabilities of the Borrower through technical assistance and training consisting of carrying out a program to improve the organizational structure, cost accounting system, management information and control systems, tariff setting and management, demand management, commercial operations, personnel management, business planning and asset management.

Part D: Engineering Design and Construction Supervision

(1) Identification, design and implementation of cost effective programs for water and sewer system rehabilitation and operations improvements financed under Parts A (3) and B (3) of the Project; and (2) preparation of studies, final designs, tender documents, tendering and supervision of construction under Parts A and B of the Project.

* * *

The Project is expected to be completed by December 31, 2002.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in Dollars)*	Payment of Principal (Expressed in Deutsche Marks)**
October 15, 2001	500,000.000	550,000.000
April 15, 2002	500,000.000	550,000.000
October 15, 2002	500,000.000	550,000.000
April 15, 2003	500,000.000	550,000.000
October 15, 2003	500,000.000	550,000.000
April 15, 2004	500,000.000	550,000.000
October 15, 2004	500,000.000	550,000.000
April 15, 2005	500,000.000	550,000.000
October 15, 2005	500,000.000	550,000.000
April 15, 2006	500,000.000	550,000.000
October 15, 2006	500,000.000	550,000.000
April 15, 2007	500,000.000	550,000.000
October 15, 2007	500,000.000	550,000.000
April 15, 2008	500,000.000	550,000.000
October 15, 2008	500,000.000	550,000.000
April 15, 2009	500,000.000	550,000.000
October 15, 2009	500,000.000	550,000.000
April 15, 2010	500,000.000	550,000.000
October 15, 2010	500,000.000	550,000.000
April 15, 2011	500,000.000	550,000.000
October 15, 2011	500,000.000	550,000.000
April 15, 2012	500,000.000	550,000.000
October 15, 2012	500,000.000	550,000.000
April 15, 2013	500,000.000	550,000.000
TOTALS	12,000,000.000	13,200,000.000

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

** The figures in this column represent the amount in Deutsche Marks 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 (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 Komorowice plant supply and installation 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 equipment of water and wastewater treatment plants, pipes and accessories, pumps and electrical equipment, water meters and computer equipment shall be grouped in bid packages.

(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 Guarantor.

Part C : Other Procurement Procedures

1. International Shopping

Goods estimated to cost \$300,000 equivalent or less per contract and \$1,000,000 equivalent or less in the aggregate, 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 \$50,000 equivalent or less per contract and \$1,000,000 equivalent or less in the aggregate, 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. National Competitive Bidding

Works estimated to cost \$1,000,000 equivalent or less per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost \$200,000 equivalent or less per contract, and not to

exceed \$2,000,000 in the aggregate, shall be procured under lump sum, fixed price contracts awarded on the basis of quotations obtained from three 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 successfully complete the contract.

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

With respect to: (a) each contract for goods estimated to cost the equivalent of \$300,000 or more; (b) the first two contracts for works estimated to cost the equivalent of \$300,000 or more; and (c) each contract for works estimated to cost the equivalent of \$500,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 of 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:

(a) establish and thereafter maintain until completion of the Project the Project Implementation Unit (PIU) headed by a full-time Project Implementation Manager with qualifications, experience and terms of reference satisfactory to the Bank, with overall responsibility for all aspects of Project implementation, who shall report directly to the General Manager of the Borrower;

(b) by February 28, 1997, employ in accordance with Schedule 4, Section II of this Agreement, consultants with qualifications, experience and terms of reference satisfactory to the Bank to assist in the institutional reorganization and

strengthening of the Borrower under Part C of the Project;

(c) by January 31, 1997, employ in accordance with Schedule 4, Section II of this Agreement, consultants with qualifications, experience and terms of reference satisfactory to the Bank to assist in the carrying out of programs for water and sewer network rehabilitation and efficiency improvements under Part D (1) of the Project; and

(d) except as otherwise agreed with the Bank, by January 31, 1997, employ in accordance with Schedule 4, Section II of this Agreement, consultants with qualifications, experience and terms of reference satisfactory to the Bank to assist in the preparation of studies, final designs, tender documents, tendering and supervision of construction under Part D (2) of the Project.

2. The Borrower shall comply with the provisions of the Performance Agreement, including, without limitation, those pertaining to the productivity targets and tariff adjustments. Except as the Borrower and the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Performance Agreement or any provision thereof.

3. The Borrower: (a) shall, by June 30 of each calendar year, beginning on June 30, 1996, furnish to the Bank for its approval a plan which includes the description, justification and estimated costs of and procurement arrangements for the investments for systems rehabilitation and operations improvement to be undertaken by the Borrower during the next calendar year; and (b) shall not undertake any new investments estimated to cost more than \$5,000,000 equivalent without the prior concurrence of the Bank.

4. Notwithstanding the provisions of Section 9.07 of the General Conditions, the Borrower shall by March 31 and September 30 of each calendar year, furnish to the Bank for review and comment a report on the progress made in Project implementation during the preceding semester.

5. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the 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 September 31, 1998, 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 December 31, 1998, 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 said report and the Bank's views on the matter.

SCHEDULE 6

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means the following Categories, set forth in the table in paragraph 1 of Schedule 1 to this Agreement: for the USD Special Account, (1), (2), (3), (4), and (5); and for the DEM Special Account, (1), (2), (3), (4), and (5);

(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 to be withdrawn from the Loan Account and deposited in the Special Accounts pursuant to paragraph 3 (a) of this Schedule, equal to \$1,000,000 for the USD Special Account and DEM 1,500,000 for the DEM Special Account, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equal to \$500,000 for the USD Special Account and DEM 800,000 for the DEM Special Account 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 \$5,000,000.

2. Payments out of the Special Accounts 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 a Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish such 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 such Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of such Special Account, the Borrower shall furnish to the Bank requests for deposits into such 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 such 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 such 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 any 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 a 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) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 5.01 (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 such 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 Tranche 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 such Loan Tranche, shall equal the equivalent of twice the amount of the corresponding Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the respective Loan Tranche 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 respective 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 any 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 such 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 such 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 any 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 any 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.

