

CONFORMED COPY

LOAN NUMBER 3743 AL

Loan Agreement

(Water Supply and Sewerage Rehabilitation Project)

between

DEMOCRATIC AND POPULAR REPUBLIC OF ALGERIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 16, 1994

LOAN NUMBER 3743 AL

LOAN AGREEMENT

AGREEMENT, dated June 16, 1994, between DEMOCRATIC AND POPULAR REPUBLIC OF ALGERIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower has furnished to the Bank a letter dated March 19, 1994, setting out policies designed to further the development of the Borrower's water and sewerage sector;

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" 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) "AGEP" means the National Authority for Potable and Industrial Water and Sewerage of the Borrower (Agence Nationale de l'Eau Potable et Industrielle et de l'Assainissement), a public authority established pursuant to Decree No. 85-164 of the Borrower, dated June 11, 1985, as the same may be amended from time to time;

(b) "ANB" means the National Authority for Dams of the Borrower (Agence Nationale des Barrages), a public authority established pursuant to Decree No. 85-163 of the Borrower, dated June 11, 1985, as the same may be amended from time to time;

(c) "ANRH" means the National Authority for Hydraulic Resources of the Borrower (Agence Nationale des Ressources Hydrauliques), a public authority established pursuant to Decree No. 81-167 of the Borrower, dated July 25, 1981, as the same may be amended from time to time;

(d) "Banque d'Algerie" means the Bank of Algeria, the Borrower's central bank, operating pursuant to the Borrower's Law No. 90-10, dated April 14, 1990, as the same may be amended from time to time;

(e) "DHW" means, in connection with each Wilaya (as this term is hereafter defined), the Directorate of Hydraulic Resources of such Wilaya (Direction de l'Hydraulique de la Wilaya);

(f) "EPEA" means the water authority for the Annaba region (Etablissement de Production, de Gestion et de Distribution d'Eau d'Annaba), a public authority established pursuant to Decree 92-100 of the Borrower, dated March 3, 1992, as the same may be amended from time to time;

(g) "EPEOR" means the water authority for the Oran region (Etablissement de Production, de Gestion et de Distribution d'Eau d'Oran), a public authority established pursuant to Decree 92-100 of the Borrower, dated March 3, 1992, as the same may be amended from time to time;

(h) "Fiscal Year" means the fiscal year of the Borrower commencing January 1 and ending December 31;

(i) "Concession Agreement" means the agreement to be entered into between the Borrower and a Water Authority (as this term is hereafter defined) pursuant to Section 3.03 (a) of this Agreement;

(j) "MOE" means the Ministry of Equipment of the Borrower;

(k) "New Public Authority" means the public authority to be established pursuant to the provisions of Section 3.04 of this Agreement;

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

(m) "Water Authority" means a regional or local water authority established from time to time in the Borrower's territory, and this term shall include EPEA and EPEOR; and

(n) "Wilaya" means an administrative division of the Borrower organized pursuant to the Borrower's Wilaya Law (Loi Relative a la Wilaya), No. 90-09, dated April 7, 1990, as the same may be amended from time to time.

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, various currencies that shall have an aggregate value equivalent to the amount of one hundred ten million dollars (\$110,000,000), 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 Banque d'Algerie 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.

Section 2.03. The Closing Date shall be December 31, 2001, 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 semi-annually 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 MOE with due diligence and efficiency and in conformity with appropriate administrative, financial, technical 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 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. 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. (a) The Borrower shall, not later than January 1, 1997, enter into, and thereafter maintain in effect, a Concession Agreement with each Water Authority pursuant to which the Borrower shall grant to the Water Authority the right to operate all of the water production, supply and distribution systems located in the geographic area serviced by said Authority against the payment by the Water Authority of a rent, all in accordance with terms and conditions satisfactory to the Bank, including, without limitation, those set forth in Schedule 7 to this Agreement.

(b) The Borrower shall exercise its rights under each Concession Agreement in such a manner as to protect the interest of the Borrower and the Bank and to accomplish the objectives of the Project.

Section 3.04. The Borrower shall take all action necessary on its part to establish, not later than July 1, 1996, an industrial and commercial public authority (etablissement public a caractere industriel et commercial), as this term is defined under Article 44 of Law No. 88-01 of the Borrower, dated January 12, 1988, as amended, whose objective shall be to further the institutional development of the Water Authorities and to supervise the implementation of the Concession Agreements.

Section 3.05. (a) The Borrower shall select, from its investment program for the water and sewerage sector, sub-projects for the rehabilitation of sewage treatment plants to be financed out of the proceeds of the Loan under Part C of the Project, on the basis of the criteria and in accordance with the procedures set forth in Schedule 8 to this Agreement.

(b) In connection with each sub-project selected in accordance with the provisions of Section 3.05 (a) of this Agreement, the Borrower shall (i) designate a sewerage authority to be responsible for the operation and maintenance of the sewage treatment plant to be rehabilitated under said sub-project; and (ii) secure the funds necessary to finance the operation and maintenance costs of said sewage treatment plant.

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 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.

Section 4.02. (a) Except as the Borrower and the Bank shall otherwise agree, the Borrower shall establish, not later than January 1, 1997, and thereafter maintain, a system of regional tariffs, to be collected by the Water Authorities from customers in the respective geographic areas serviced by such Authorities, at levels sufficient to recover, in the case of each Water Authority, the Authority's operating expenditures and the rent due the Borrower under the Authority's Concession Agreement therewith.

(b) For purposes of Section 4.02 (a):

- (i) The term "operating expenditures" shall mean expenditures incurred on account of (x) the operation, maintenance and administration of the water production, supply and distribution systems to be managed by the Water Authority, including those to be rehabilitated under Parts A and B of the Project; (y) debt service requirements; and (z) performance bonuses.
- (ii) The expression "debt service requirements" shall mean the aggregate amount of amortization (including sinking fund payments, if any), and interest and other charges on debt.
- (iii) The expression "performance bonuses" shall mean the payments made by a Water Authority to its employees to reward efficiency and productivity.
- (iv) The term "rent" shall mean the annual amount necessary to amortize, over a period of fifty (50) years, the current value of the water production, supply and distribution systems operated by the Water Authority.
- (v) The expression "current value of the water production, supply and

distribution systems" shall mean the capital expenditures necessary to replace said systems at their current cost.

ARTICLE V

Effective Date; Termination

Section 5.01. 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 the Borrower has entered into Concession Agreements with each of EPEA and EPEOR.

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 Minister of Finance 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:

Ministry of Finance
Zighout Youssef Palace
Algiers
Democratic and Popular Republic
of Algeria

Cable address:

FINPLAN
Algiers

Telex:

67073

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:

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

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.

DEMOCRATIC AND POPULAR REPUBLIC OF ALGERIA

By /s/ Nourredine Zerhouni

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Daniel G. Ritchie

Acting Regional Vice President
Middle East and North 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: | | |
| (a) under Parts A and B of the Project | 22,400,000 | 60% |
| (b) under Part C of the Project | 10,600,000 | 60% |
| (2) Equipment and materials | 38,300,000 | 100% of foreign expenditures and 80% of local expenditures |
| (3) Consultants' services: | | |
| (a) under Part D of the Project | 10,800,000 | 80% |
| (b) under Parts A, B, C and E of the Project | 16,900,000 | 70% |
| (4) Unallocated | 11,000,000 | |
| TOTAL | 110,000,000 | |

2. For the purposes of this Schedule:

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

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made:

(a) in respect of payments made prior to the date of this Agreement; and

(b) under Category 1 (b), unless the Borrower provides evidence satisfactory to the Bank of (i) the existence of a sewerage authority willing to operate and maintain a sewage treatment plant to be rehabilitated under a sub-project selected in accordance with the provisions of Section 3.05 (a) of this Agreement; and (ii) the availability of adequate funds to finance the operation and maintenance costs of the said sewage treatment plant.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for such expenditures for goods, works and services under

contracts not exceeding \$300,000 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 assist the Borrower in: (a) rehabilitating its urban water supply and sewage systems; (b) improving the distribution of water in urban areas; and (c) rationalizing the institutional arrangements in the water sector with a view to achieving full cost recovery through the establishment of efficient, self-financing Water Authorities.

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 System Rehabilitation

Rehabilitation of the water supply systems in the cities of Annaba, Ain Temouchent, Bejaia, Jijel, Mascara, Oran, Relizane, Sidi Bel Abbes, Setif and Tlemcen through leak detection and repairs, meter installation, gauging, establishment of effective billing and collection procedures, and the preparation and periodical updating of a listing of water customers.

Part B: Water Distribution Network

Relooping, mapping and balancing of the Borrower's water distribution network.

Part C: Sewage System Rehabilitation

Rehabilitation of about twenty-four (24) sewage treatment plants, together with related installations, throughout the territory of the Borrower.

Part D: Feasibility Studies and Environmental Impact Assessments

Carrying out feasibility studies and environmental impact assessments in respect of future water and sewerage projects to be carried out in the territory of the Borrower.

Part E: Institutional Development Program

1. Strengthening AGEP's management capabilities to plan and implement sub-projects to be carried out under Parts A and B of the Project, as well as its capabilities to review feasibility studies and environmental impact assessments, and development of suitable operational procedures for AGEP, the New Public Authority and the Water Authorities.

2. Strengthening ANB's capabilities to review feasibility studies and environmental impact assessments.

3. Modernization of the equipment and operational procedures of ANRH.

4. Provision of training to the staff of (i) AGEP in the areas referred to under paragraph 1 of this Part E; (ii) ANB in the areas referred to under paragraph 2 of this Part E; (iii) ANRH in the areas referred to under paragraph 3 of this Part E; and (iv) the New Public Authority and the Water Authorities in the areas referred to under paragraphs 1, 2 and 3 of this Part E.

Part F: Operational Equipment

Provision of operational equipment to AGEP, ANB, ANRH, the New Public Authority and the Water Authorities.

* * *

The Project is expected to be completed by December 31, 2000.

SCHEDULE 3

Amortization Schedule

| Date Payment Due | Payment of Principal (expressed in dollars)* |
|--------------------------------------------------------------------------------------------|-------------------------------------------------|
| On each May 15 and November 15 beginning November 15, 1999 through November 15, 2010 | 4,585,000 |
| And on May 15, 2011 | 4,545,000 |

* 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 applicable to of prepayment by: | Premium The interest rate (expressed as a percentage per annum) the Loan on the day multiplied |
|------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
| Not more than three years before maturity | 0.18 |
| More than three years but not more than six years before maturity | 0.35 |
| More than six years but not more than eleven years before maturity | 0.65 |
| More than eleven years but not more than fifteen years before maturity | 0.88 |
| More than fifteen 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.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in the territory of the Borrower 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

Civil works contracts estimated to cost the equivalent of less than \$2,000,000 each, up to an aggregate amount equivalent to \$19,700,000, may be 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 civil works estimated to cost the equivalent of \$2,000,000 or more, and each contract for equipment and materials estimated to cost the equivalent of \$300,000 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 in the carrying out of the Project, the Borrower 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 contracts estimated to cost less than \$100,000 equivalent each. However, this exception to prior Bank review shall not apply to the terms of reference for such contracts or to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Bank or to amendments of contracts raising the contract value to \$100,000 equivalent or above.

SCHEDULE 5

Implementation Program

A. Project Implementation

The overall responsibility for carrying out the Project shall be vested in MOE which shall carry out Parts A, B, C and F of the Project through AGEF and the DHWs, in cooperation with the Water Authorities, Part D of the Project through AGEF and ANB, Part E.1 of the Project through AGEF and the New Public Authority, Part E.2 of the Project through ANB and Part E.3 of the Project through ANRH. AGEF shall ensure that procurement under the Project shall be carried out in accordance with the provisions of Schedule 4 to this Agreement.

B. Progress Reports

Without prejudice to the provisions of Section 9.07 of the General Conditions, the Borrower, through AGEF, shall, not later than January 31, April 30, July 31 and October 31 of each year until completion of the Project, commencing April 30, 1995, prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, describing the progress achieved in the implementation of the Project. Without limiting the generality of the foregoing, said report shall (a) describe the progress achieved in procurement under the Project and, where appropriate, revise the procurement time schedule of the Project; (b) describe the progress achieved in carrying out the Project; (c) detail the expenditures incurred under the Project; (d) provide updated cost estimates for activities remaining to be carried out under the Project; and (e) describe, on the basis of monitoring indicators acceptable to the Bank, the performance of EPEA and EPEOR under their respective Management Agreements.

C. Mid-Term Review

1. The Bank shall prepare and furnish to the Bank, not later than July 1, 1997, a report, of such scope and in such detail as the Bank shall reasonably request, on the progress achieved in carrying out the Project.

2. The Borrower shall take thereafter all action which the Borrower and the Bank shall have agreed to be required on the Borrower's part to attain the objectives of the Project.

D. Consultants

The Borrower shall, not later than March 31, 1996, employ consultants, in accordance with the provisions of paragraph 1 of Section II of Schedule 4 to this Agreement, to assist (i) the DHWs in supervising the rehabilitation works to be carried out under Parts A, B and C of the Project; (ii) AGEF and the New Public Authority in carrying out Parts D, E.1 and E.4 of the Project; (iii) ANB in carrying

out Parts D, E.2 and E.4 of the Project; and (iv) ANRH in carrying out Parts E.3 and E.4 of the Project.

E. Water Authorities' Records and Accounts

1. The Borrower shall cause the Water Authorities to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures of the Water Authorities.

2. The Borrower shall, commencing Fiscal Year 1994 in the case of EPEA and EPEOR, and Fiscal Year 1997 for all remaining Water Authorities (a) cause to have the records and accounts referred to in paragraph 1 of this Section for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank; (b) furnish to the Bank as soon as available, but in any case not later than nine months after the end of Fiscal Year 1994 in the case of EPEA and EPEOR, and Fiscal Year 1997 for all remaining Water Authorities, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and (c) 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.

F. AGEP and the New Public Authority

The Borrower shall furnish to the Bank for its review and comments a draft plan for the reorganization of AGEP and the creation of the New Public Authority, and shall, after consultation with the Bank, implement such plan not later than January 1, 1997.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) Set forth in 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 \$7,000,000 to be withdrawn from the Loan Account and deposited into 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 in 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 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.

SCHEDULE 7

Principal Terms and Conditions of a Concession Agreement

A Concession Agreement shall:

(a) have a six (6) year term which shall be automatically renewable for similar durations;

(b) describe the geographical area within which the Water Authority shall provide water supply services;

(c) describe the water production, supply and distribution systems to be operated by the Water Authority;

(d) determine the standards and norms which the Water Authority shall apply in

providing water supply services;

(e) specify that tariffs to be collected on account of water supplied by the Water Authority shall be calculated in accordance with the provisions of Section 4.02 (a) of this Agreement;

(f) establish criteria for the identification of the fixed assets and items of equipment whose renewal costs shall be borne by the Borrower and those whose renewal costs shall be borne by the Water Authority;

(g) establish criteria for the identification of the rehabilitation works to be carried out by the Borrower and those to be carried out by the Water Authority;

(h) not limit the power of the Water Authority to recruit and dismiss staff, set its own salary scale and discontinue water supply services to non-paying customers; and

(i) describe the nature and extent of the Borrower's control over the operations of the Water Authority, and the content of the technical and financial reports to be periodically furnished by the Water Authority to the Borrower.

SCHEDULE 8

Sub-Projects under Part C of the Project Selection Criteria; Procedures

1. Selection Criteria

A sewage treatment plant to be rehabilitated under Part C of the Project shall be adequately designed:

(a) to treat incoming wastewater at a level consistent with recognized discharge standards; and

(b) to provide environmental protection of a water source used for supply, recreational or aesthetic purposes.

2. Procedures

A request by the Borrower for approval of a sub-project under Part C of the Project shall be in writing and shall include:

(a) a brief description of the physical characteristics and condition of the sewage treatment plant to be rehabilitated, including the facilities to dispose of effluents and sludge;

(b) a brief description of the quality and quantity of water to be treated at the sewage plant, such description to cover industrial waste, if any, and the need, if any, for pre-treatment;

(c) a cost estimate of the works necessary to rehabilitate the sewage treatment plant;

(d) a cost estimate of the operating expenditures necessary to maintain the sewage treatment plant to be rehabilitated;

(e) a brief assessment of the impact on the environment of the effluents and sludge to be disposed of;

(f) a copy of the instrument conferring the authority to operate the sewage treatment plant upon a duly established entity; and

(g) details of the availability and amount of funds to finance the operation and maintenance costs of the sewage treatment plant.

