

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 3763 MD

Development Credit Agreement

(Pilot Water Supply and Sanitation Project)

between

REPUBLIC OF MOLDOVA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 9, 2003

Public Disclosure Authorized



CREDIT NUMBER 3763 MD

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 9, 2003, between REPUBLIC OF MOLDOVA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) Parts A and C of the Project will be carried out by the Participating Apa Canals (as defined in Section 1.02 of this Agreement) with the Borrower's assistance, and, as part of such assistance, the Borrower will make part of the proceeds of the credit provided for in Article II of this Agreement (the Credit) available to the Participating Apa Canals, as set forth in this Agreement; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999) (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) "Environmental Management Plan" means the plan, satisfactory to the Association, prepared and adopted by the Borrower, and constituting an integral part of the PIP (hereinafter defined), describing the environmental mitigation, monitoring and institutional measures for the Project;

(b) "Financial Monitoring Report" means each report prepared in accordance with Section 4.02 of this Agreement;

- (c) “Lei” means the lawful currency of the Borrower;
- (d) “MECTD” means the Borrower’s Ministry of Environment, Construction and Territorial Development, the on-line Ministry responsible for sector policy;
- (e) “National Action Water Plan” means the action plan prepared and adopted by the Borrower by Government Decision No. 519, dated April 23, 2002, to provide a strategy and sustainable plan for the water sector;
- (f) “Participating Apa Canal” means any water utility established and operating in accordance with the applicable laws and regulations of the Borrower, meeting certain eligibility criteria and approved by the Association for participation in the Project; and “Participating Apa Canals” means collectively all Participating Apa Canals;
- (g) “PIP” means the Project Implementation Plan for the carrying out of the Project prepared and adopted by the Borrower, as the same may be amended from time to time with the agreement of the Association;
- (h) “PIU” means the Project Implementation Unit established by the Borrower under the MECTD to manage the implementation of the Project;
- (i) “Project Coordinator” means the staff member of the PIU responsible for overall management of Project implementation;
- (j) “Service Contract” means the performance-based service contract to be entered into between each of the Participating Apa Canals and a local operator, with terms and conditions satisfactory to the Association, for the operation and maintenance of the Participating Apa Canals;
- (k) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;
- (l) “Steering Committee” means the working group of a maximum of seven persons established by the Borrower within the MECTD, headed by the Minister of Environment, Construction and Territorial Development, and including representatives of the MECTD, the Ministry of Finance, the Ministry of Economy, and the State Chancellery of the Borrower, a representative of the Apa Canals and a representative of civil society, to provide policy guidance regarding Project implementation;
- (m) “Subsidiary Credit” means a credit made by the Borrower to a Participating Apa Canal under a Subsidiary Credit Agreement (hereinafter defined);
- (n) “Subsidiary Credit Agreement” means the agreement to be entered into between the Borrower, represented by its Ministry of Finance and MECTD, and each Participating Apa Canal pursuant to Section 3.01 (b) of this Agreement, as the same may

be amended from time to time, and such term includes all schedules to the Subsidiary Credit Agreement; and

(o) "Technical Advisors" means specialists, with qualifications, experience and terms of reference acceptable to the Association, who may assist the Participating Apa Canals in the carrying out of the Project.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to eight million eight hundred thousand Special Drawing Rights (SDR 8,800,000).

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

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2007 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 1 and November 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 1 and November 1 commencing November 1, 2013 and ending May 1, 2043. Each installment to and including the installment payable on May 1, 2023, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

(A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and

(B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate

agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end:

- (i) shall carry out Parts B, D and E of the Project through its MECTD and Parts A and C of the Project through the Participating Apa Canals, with due diligence and efficiency and in conformity with appropriate water supply, sanitation, environmental, administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project;
- (ii) shall assist the Participating Apa Canals to carry out Parts A and C of the Project; and
- (iii) without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause the Participating Apa Canals to perform in accordance with the provisions of their respective Subsidiary Credit Agreement all the obligations therein set forth in relation to Parts A and C of the Project, and shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources necessary or appropriate to enable the Participating Apa Canals to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) For the purposes of Parts A and C of the Project, the Borrower shall relend a portion of the proceeds of the Credit to the Participating Apa Canals under a subsidiary credit agreement (the Subsidiary Credit Agreement) to be entered into between the Borrower and each Participating Apa Canal, under terms and conditions which shall have been approved by the Association and which shall include those set forth in Schedule 5 to this Agreement.

(c) The Borrower shall exercise its rights under each Subsidiary Credit Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive a Subsidiary Credit Agreement or any provision thereof.

(d) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

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

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) (A) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account, for each fiscal year audited; and (B) cause the Participating Apa Canals to have their records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, all in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association, who shall be appointed by November 30, 2003, and who shall carry out the first such audits under (A) and (B) for the year ending on December 31, 2003;
- (ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section and certified copies of the financial statements of the Participating Apa Canals referred to in paragraph (b) (i) (B) of this Section, for such year as so audited; and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a Financial Monitoring Report for such period, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03. (a) Except as the Association shall otherwise agree, the Borrower shall take all measures necessary to ensure that each Participating Apa Canal shall maintain in the fiscal year ending on December 31, 2006, a ratio of

total operating expenses to total operating revenues not higher than 100%, decreasing to 90% by the fiscal year ending on December 31, 2007, and, thereafter, maintain said ratio for each of its fiscal years.

(b) Before October 1, 2006, and, thereafter, before October 1 in each of the Participating Apa Canal's fiscal years, the Borrower shall, on the basis of forecasts prepared by each Participating Apa Canal and satisfactory to the Association, review whether each Participating Apa Canal would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year, and shall furnish to the Association the results of such review upon its completion.

(c) If any such review shows that a Participating Apa Canal would not meet the requirements set forth in paragraph (a) for the Participating Apa Canal'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 the Participating Apa Canal's rates) in order for the Participating Apa Canal 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, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation calculated on a straight-line basis on the average current gross value of the Participating Apa Canal's fixed assets in operation, but excluding interest and other charges on debt and taxes on profit.
- (ii) the term "total operating revenues" means revenues from all sources; and
- (iii) the average current gross value of the Participating Apa Canal's fixed assets in operation shall be calculated as one-half of the sum of the gross value of the Participating Apa Canal's fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Association.

Section 4.04. (a) Except as the Association shall otherwise agree, the Borrower shall take all measures necessary to ensure that each Participating Apa Canal shall not incur any debt unless a reasonable forecast of the revenues and expenditures of the Participating Apa Canal shows that the estimated net revenues of the Participating Apa Canal for each fiscal year during the term of the debt to be incurred shall be at least 1.3 times the estimated debt service requirements of the Participating Apa Canal in such year on all debt of the Participating Apa Canal including the debt to be incurred.

(b) For purposes of this Section:

- (i) The term "debt" means any indebtedness of the Participating Apa Canal 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; 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 and taxes on profit.
- (iv) 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.
- (v) The term "reasonable forecast" means a forecast prepared by the Participating Apa Canal not earlier than twelve months prior to the incurrence of the debt in question, which both the Association and the Borrower accept as

reasonable and as to which the Association 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 Participating Apa Canal.

- (vi) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, 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 Association.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

- (a) Any Participating Apa Canal shall have failed to perform any of its obligations under the respective Subsidiary Credit Agreement.

- (b) The PIP shall have been amended, suspended, abrogated or waived without the Association's prior consent.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that the events specified in paragraphs (a) and (b) of Section 5.01 of this Agreement shall occur, and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) at least one Subsidiary Credit Agreement, satisfactory to the Association, has been executed and delivered on behalf of the Borrower and a Participating Apa Canal; and

(b) at least one Participating Apa Canal has issued a proposal, satisfactory to the Association, for expression of interest for the Service Contract.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the Subsidiary Credit Agreements referred to in Section 6.01 (a) of this Agreement have been duly authorized or ratified by the Borrower and the respective Participating Apa Canal and are legally binding upon the Borrower and each Participating Apa Canal, in accordance with their terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. 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 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
7, Cosmonautilor Street
Chisinau 2005
Republic of Moldova

Telex:

(3732) 22810

Facsimile:

(3732) 221 307

For the Association:

International Development Association
1818 H Street, N.W.

Washington, D.C. 20433
United States of America

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

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.

REPUBLIC OF MOLDOVA

By /s/ Mihail Manoli

Authorized Representative

ASSOCIATION

INTERNATIONAL

DEVELOPMENT

By /s/ Luca Barbone

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	2,600,000	80%
(2) Goods	2,560,000	100 % of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(3) Consultants' services, including auditing services, and training	570,000	100% for foreign consulting firms and foreign individual consultants, 75% for local consulting firms and local individual consultants and 100% of eligible social charges, and 100% for training
(4) Incremental Operating Costs of the PIU		
(a) PIU staff salaries	260,000	75% for local consulting firms and local individual consultants and 100% of eligible social charges
(b) Other	80,000	90%

(5) Unallocated	<u>2,730,000</u>
TOTAL	<u>8,800,000</u>

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 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 supplied from the territory of the Borrower;

(c) the term “foreign consulting firm” means a consulting firm which is registered or incorporated in the territory of any country other than that of the Borrower;

(d) the term “foreign individual consultant” means an individual consultant who is not a citizen of the territory of the Borrower;

(e) the term “local consulting firm” means a consulting firm which is registered or incorporated in the territory of the Borrower;

(f) the term “local individual consultant” means an individual consultant who is a citizen of the territory of the Borrower;

(g) the term “eligible social charges” means the employer’s contribution to social and medical charges assessed by the Borrower on employment contracts with citizens of the Borrower;

(h) the term “training” means training for Participating Apa Canals staff, MECTD staff, PIU staff and sector specialists; and

(i) the term “Incremental Operating Costs of the PIU” means expenditures incurred by the PIU on account of management of Project implementation for office supplies, rent, utilities, communications, office equipment, operating expenses, bank charges for the Special Account, and salaries of staff, including eligible social charges, but excluding salaries of civil servants, and such other expenditures as may be agreed upon by the Association.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; and (b) Categories (1) and (2) of the table set forth in paragraph 1 of this

Schedule in respect of each Participating Apa Canal, unless: (i) the Subsidiary Credit Agreement, satisfactory to the Association, has been executed and delivered on behalf of the Borrower and the respective Participating Apa Canal; (ii) the respective Participating Apa Canal has signed its Service Contract with the local operator, satisfactory to the Association; and (iii) the respective Participating Apa Canal has prepared an action plan, satisfactory to the Association, on planned expenditures for investments not identified in the procurement plan.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) works under contracts costing less than \$100,000 equivalent each; (b) goods under contracts costing less than \$100,000 equivalent each; (c) services under contracts costing less than \$100,000 equivalent each for consulting firms and \$50,000 equivalent each for individual consultants; (d) incremental operating costs of the PIU; and (e) training, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to enhance the welfare of the population living in some of the poorest rural areas and medium-sized towns and cities by improving the quality, efficiency and sustainability of water supply and sanitation services through: (a) rehabilitating and improving operations of selected water and sewerage systems to increase service quality and efficiency; (b) strengthening Participating Apa Canals to improve sustainability; (c) improving the financial viability and commercial practices of the Participating Apa Canals; (d) starting to involve the local private sector in the above; and (e) rehabilitating water and sanitation services in rural areas.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives.

Part A: Investments for Improved Urban Water Efficiency

Carrying out of least cost priority investments that are economically justified based on a broad investment strategy for system improvement and lowering energy and other operating costs, including: (a) rehabilitation of the water distribution systems, including piping and other items generally identified with water distribution systems and leak detection equipment and surveys; (b) provision of equipment and structural rehabilitation of facilities; (c) provision of water measuring equipment; and (d) provision of water supply technical and administrative support systems.

Part B: Village Water Supply

- (1) Carrying out of urgent rehabilitation and protection of village water supply and sanitation.
- (2) Carrying out of a national hygiene and sanitation promotion campaign.
- (3) Training of community groups on public hygiene focusing on the poorest areas and economically disadvantaged segments of the population.

Part C: Institutional Strengthening

(1) Carrying out of an institutional strengthening and capacity building program under the National Action Water Plan.

(2) Training of the Participating Apa Canals' personnel based on a needs assessment to be prepared by the Participating Apa Canals and the Technical Advisors.

(3) Carrying out of an assessment and piloting of potential options to facilitate the involvement of local private sector operators in the sector.

Part D: Engineering Services and Advisors

Provision of: (a) technical assistance to the Participating Apa Canals in the planning, design and implementation of programs; (b) engineering services for the preparation of final designs and bidding documents; and (c) technical assistance for procurement and for supervision of construction of the civil works.

Part E: Project Management

Provision of technical assistance and incremental operating costs to the PIU for purposes of Project management, including in the areas of procurement and financial management and auditing services.

* * *

The Project is expected to be completed by June 30, 2007.

SCHEDULE 3

Procurement

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, September 1997 and January 1999 (the Guidelines) and the provisions of the following Parts of this Section I.

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

Preference for domestically manufactured goods and domestic contractors

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 and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract 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 Procurement Guidelines.

3. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract 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.

4. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to: (i) all contracts for goods and works procured in accordance with international competitive bidding procedures, referred to in Part B above; and (ii) the first two contracts for works procured in accordance with national competitive bidding procedures, referred to in Part C.1 above, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first contract for goods procured in accordance with international shopping procedures, referred to in Part C.2 above; (ii) the first contract for goods procured in accordance with national shopping procedures, referred to in Part C.3 above; and (iii) the first two contracts for small works procured in accordance with the procedures for small works, referred to in Part C.4 above, the following procedures shall apply:

(A) prior to the selection of any supplier under shopping procedures and small works procedures, the Borrower shall provide to the

Association a report on the comparison and evaluation of quotations received;

- (B) prior to the execution of any contract under shopping procedures and small works procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (C) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of this Section.

Part B: Quality- and Cost-based Selection

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

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

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

2. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

4. Single Source Selection

Services for the National Water Action Plan which are estimated to cost less than \$100,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.8 through 3.11 of the Consultant Guidelines.

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

(c) With respect to: (i) each contract for the employment of consulting firms estimated to cost less than the equivalent of \$100,000; and (ii) each contract for the employment of individual consultants estimated to cost less than the equivalent of \$50,000, the terms of reference of the consulting firms and the individual consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

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

SCHEDULE 4

Implementation Program

1. The Borrower shall carry out the Project in accordance with the requirements set forth or referred to in the PIP.

2. (i) The Borrower shall take all measures necessary to ensure that the PIU shall be fully operational in a manner satisfactory to the Association by July 15, 2003.

(ii) The Borrower shall maintain the PIU until completion of the Project with staff, in particular, but not limited to, the Project Coordinator, procurement manager and financial officer, and resources and terms of reference satisfactory to the Association, and shall assign to it responsibility for overall Project management and coordination, including:

- (a) preparation of withdrawal applications under the Credit;
- (b) management of the Special Account referred to in Section 2.02 (b) of this Agreement;
- (c) maintenance of records and accounts related to the Project and arranging for the audit thereof;
- (d) participation in administration of bidding procedures and of contracts under the Project; and
- (e) preparation of quarterly progress reports and submission thereof to the Borrower and the Association not later than 30 days after the end of each quarter, the first such report to be furnished to the Association not later than December 31, 2003.

3. The Borrower, through the PIU, shall prepare and furnish to the Association by November 30 in each year, for its review and concurrence: (a) an annual work program for the Project for the following calendar year, including procurement and financing plans; and (b) an annual progress report.

4. The Borrower shall maintain the Steering Committee until completion of the Project, with composition and terms of reference satisfactory to the Association.

5. The Borrower shall ensure that all measures necessary for the carrying out of the Environmental Management Plan shall be taken in a timely manner and in compliance with: (a) environmental standards satisfactory to the Association; and (b) all applicable laws and regulations of the Borrower relating to health, safety and environmental

protection, and shall include adequate information on the carrying out of such measures in the quarterly progress reports referred to in paragraph 2 (e) of this Schedule.

6. The Borrower shall ensure that each Participating Apa Canal shall take, in a timely manner, all measures necessary for the carrying out of the Environmental Management Plan with respect to Parts A and C of the Project and in compliance with: (a) environmental standards satisfactory to the Association; and (b) all applicable laws and regulations of the Borrower relating to health, safety and environmental protection, and shall include adequate information on the carrying out of such measures in the quarterly progress reports referred to in paragraph 2 (e) of this Schedule.

7. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association on or about September 30, 2005, a mid-term report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by December 31, 2005, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Principal Terms and Conditions of the Subsidiary Credit Agreements

The following terms and conditions shall be included in the Subsidiary Credit Agreements entered into pursuant to Section 3.01 (b) of this Agreement:

Part A: Terms

1. Each Participating Apa Canal shall repay to the Borrower the aggregate amount of the proceeds of the Credit withdrawn from the Credit Account, from time to time, for carrying out Parts A and C of the Project (the Subsidiary Credit) over a period of not less than twenty (20) years and not to exceed forty (40) years, including a grace period of not less than five (5) years and not to exceed ten (10) years.
2. The Subsidiary Credit shall be denominated in United States Dollars and repaid to the Borrower, at least semi-annually, in Lei, at the official sale rate of exchange as determined by the National Bank of Moldova on the respective dates on which the proceeds of the Subsidiary Credit are repaid by the Participating Apa Canal.
3. The Participating Apa Canal shall pay interest on the principal amount of the Subsidiary Credit, withdrawn and outstanding from time to time, at the maximum rate of 1.5% per annum.
4. The Participating Apa Canal shall pay to the Borrower a portion of the applicable commitment charges payable under Section 2.04 of this Agreement, allocable to the part of the proceeds of the Credit relent but not withdrawn by the Participating Apa Canal.
5. All Subsidiary Credit Agreements shall be subject to the Association's prior review and agreement.
6. Except as the Borrower and the Association shall otherwise agree, each Participating Apa Canal shall enter into the respective Subsidiary Credit Agreement within six months of the Effective Date of this Agreement.

Part B: Obligations to Carry out the Project Activities

1. The Participating Apa Canal shall declare its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out, with the Borrower's assistance through the MECTD, the activities related to the Participating Apa Canal as described in Parts A and C of the Project, and in accordance with the requirements set forth or referred to in the PIP, with due diligence and efficiency and in conformity with

appropriate administrative, financial, water supply, sanitation and environmental practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Parts A and C of the Project.

2. The Participating Apa Canal shall duly perform all its obligations under the respective Subsidiary Credit Agreement. Except as the Borrower and the Association shall otherwise agree, the Participating Apa Canal shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Credit Agreement or any provision thereof.

3. The Participating Apa Canal shall, as part of its responsibility for implementation of Parts A and C of the Project prepare and furnish to the Borrower and the Association by November 30 in each year, for its review and concurrence, an annual work program for Parts A and C of the Project and prepare and furnish to the Borrower and the Association semi-annual reports on the progress of Project implementation.

4. Procurement of the goods, works and services required for Parts A and C of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

5. The Participating Apa Canal shall maintain records and procedures adequate to record and monitor the progress of Parts A and C of the Project (including its cost and the benefits to be derived from it), to identify the goods, works and services financed out of the proceeds of the Credit, and to disclose their use in the Project.

6. (a) The Participating Apa Canal shall, at the request of the Borrower and the Association, exchange views with the Borrower and the Association with regard to the progress of Parts A and C of the Project, the performance of its obligations under the respective Subsidiary Credit Agreement, and other matters relating to the purposes of the Credit and shall enable representatives of the Borrower and of the Association to visit the facilities, construction sites or other activities to be financed under the Subsidiary Credit Agreement.

(b) The Participating Apa Canal shall promptly inform the Borrower and the Association of any condition which interferes or threatens to interfere with the progress of Parts A and C of the Project, the accomplishment of the purposes of the Credit, or the performance by the Participating Apa Canal of its obligations under the Subsidiary Credit Agreement.

7. The Participating Apa Canal shall properly operate and maintain the facilities financed from the proceeds of the Credit.

Part C: Implementation Conditions

1. Not later than the signing of the Subsidiary Credit Agreement, the Participating Apa Canal shall appoint an existing employee of said Participating Apa Canal with terms of reference, qualifications and experience satisfactory to the Borrower and the Association, who shall be responsible for coordination with the Borrower's implementing agencies.
2. The Participating Apa Canal shall cooperate fully with: (a) the MECTD as an executing agency to ensure that the purposes of the Project will be accomplished; and (b) the PIU to enable the PIU to carry out its responsibilities relating to Project management, including among other things, the administration of the Special Account, Project accounting, financial management, reporting, auditing arrangements and procurement.
3. The Participating Apa Canal shall carry out the measures included in the Environmental Management Plan with respect to Parts A and C of the Project in a timely manner and shall provide to the PIU adequate information on the carrying out of such measures for inclusion in the progress reports referred to in paragraph 2 (e) of Schedule 4 to this Agreement.
4. The Participating Apa Canal shall inform the Borrower and the Association about any investment project which significantly affects the financial situation of the Participating Apa Canal, and shall inform the Borrower and the Association of the results of relevant feasibility studies in order to enable the Borrower and the Association to provide their opinion regarding said investment project.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1), (2), (3) and (4) 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, works and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

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

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

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

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

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for

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

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

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

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

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

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

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all

such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

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

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

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