

CONFORMED COPY

LOAN NUMBER 3664 MOR

Loan Agreement

(Fifth Water Supply Project - Kingdom)

between

KINGDOM OF MOROCCO

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 3, 1993

LOAN NUMBER 3664 MOR

LOAN AGREEMENT

AGREEMENT, dated December 3, 1993, between KINGDOM OF MOROCCO (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS: (A) 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;

(B) the Borrower and/or ONEP (as defined in whereas (D) of this Agreement) intend to contract from other external sources of funds (the Cofinanciers) one or more loans (the Cofinanciers' Loans) in an aggregate amount equivalent to eighty-four million dollars (\$84,000,000) to assist in financing the Project on the terms and conditions set forth in agreements (the Cofinanciers' Loan Agreements) to be entered into between the Borrower and/or ONEP and the Cofinanciers;

(C) Part B of the Project will be carried out by the Participating Utilities (as defined in Section 1.02 (c) of this Agreement) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Participating Utilities the proceeds of the Loan as provided in this Agreement; and

(D) the Bank has agreed to make a loan to the National Water Supply Authority (ONEP), to be guaranteed by the Borrower, to assist in the financing of activities related to the Project, upon the terms and conditions set forth in a loan agreement of even date herewith between the Bank and the National Water Supply Authority (the ONEP Loan Agreement) and a guarantee agreement of same date between the Borrower and the Bank (the ONEP Guarantee Agreement); and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreements of even date herewith between the Bank and the Participating Utilities;

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) "RAD" means the Water and Electricity Distribution Authority of Casablanca (Regie Autonome Intercommunale de Distribution d'Eau et d'Electricite de Casablanca), established and operating pursuant to the Borrower's Dahir No. 1-61-218 dated October 21, 1961, as the same may be amended from time to time;

(b) "RADEEF" means the Water and Electricity Distribution Authority of Fes (Regie Autonome Intercommunale de Distribution d'Eau et d'Electricite de Fes); "RED" means the Water and Electricity Distribution Authority of Rabat-Sale (Regie Autonome Intercommunale de Distribution d'Eau et d'Electricite de Rabat-Sale); "RADEEM" means the Water and Electricity Distribution Authority of Meknes (Regie Autonome Intercommunale de Distribution d'Eau et d'Electricite de Meknes); "RADEEMA" means the Water and Electricity Distribution Authority of Marrakech (Regie Autonome Intercommunale de Distribution d'Eau et d'Electricite de Marrakech); "RAK" means the Water and Electricity Distribution Authority of Kenitra (Regie Autonome Intercommunale de Distribution d'Eau et d'Electricite de Kenitra); all such utilities established and operating pursuant to the Decree (Decret) No. 2-64-394 dated September 29, 1964, issued by the Borrower, as the same may be amended from time to time;

(c) "Participating Utilities" means, collectively, the six entities referred to in paragraphs (a) and (b) of this Section, and "Participating Utility" means, individually, any one of the Participating Utilities;

(d) "its Respective Part of the Project" means, in respect of:

- (i) RAD, Parts B.1 (a) and B.2 (a) of the Project;
- (ii) RADEEF, Parts B.1 (b) and B.2 (b) of the Project;
- (iii) RED, Parts B.1 (c) and B.2 (c) of the Project;
- (iv) RADEEM, Parts B.1 (d) and B.2 (d) of the Project;
- (v) RADEEMA, Parts B.1 (e) and B.2 (e) of the Project; and
- (vi) RAK, Parts B.1 (f) and B.2 (f) of the Project.

(e) "Project Agreements" means, collectively, the agreements between the Bank and each Participating Utility of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreements; and "Project Agreement" means, individually, any one of the Project Agreements;

(f) "Subsidiary Loan Agreements" means, collectively, the agreements to be entered into between the Borrower and the Participating Utilities pursuant to Part A. 1 (a) of Schedule 4 to this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreements; and "Subsidiary Loan Agreement" means, individually, any one of the Subsidiary Loan Agreements;

(g) "Subsidiary Loans" means the loans provided for under the Subsidiary Loan Agreements;

(h) "Basic Legislation" means the Dahir and the Decree referred to in paragraphs (a) and (b) of this Section, all as the same may be amended from time to time;

(i) "Special Accounts" means the accounts referred to in Section 2.02 (b) of this Agreement;

(j) "Fiscal Year" means the twelve month period commencing on January 1 and ending on December 31;

(k) "Category" means a withdrawal category set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(l) "Performance Contracts" means, collectively, the contracts to be concluded between the Borrower and the Participating Utilities pursuant to Part A. 2 of Schedule 4 to this Agreement and Section 1 of Schedule 2 to the Project Agreements, as the same shall be updated in accordance with the provisions of Section 2 (c) of Schedule 2 to the Project Agreements and Part B of Schedule 4 to this Agreement; and "Performance Contract" means, individually, any one of the Performance Contracts; and

(m) "Investment, Financial and Operational Targets" means, in respect of each Participating Utility, the investment, financial and operational targets set forth in the Performance Contract between the Borrower and such Participating Utility, as the same may be revised from time to time in accordance with the provisions of Section 2 of Schedule 2 to the Project Agreement.

(n) "ONEP Loan Agreement" means the loan agreement of even date herewith between the Bank and the National Water Supply Authority (Office National de l'Eau Potable) for a Fifth Water Supply Project - ONEP (Loan No. 3665 MOR).

(o) "ONEP Guarantee Agreement" means the guarantee agreement of even date herewith between the Borrower and the Bank for a Fifth Water Supply Project - ONEP (Loan No. 3665 MOR).

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 twenty-eight million dollars (\$128,000,000), 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, works and services required for Part B of 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 Part B of the Project, open and maintain in dirhams one special deposit account for each Participating Utility in its General Treasury. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 3 to the Project Agreements.

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 February 1 and August 1 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 Part A of the Project with due diligence and efficiency and in conformity with appropriate administrative, economic, financial and public utility practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for Part A of the Project. The Borrower shall cause the Participating Utilities, through the issuance of appropriate regulations, to carry out Part B of the Project with due diligence and efficiency and in conformity with appropriate administrative, economic, financial and public utility practices.

(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 Part A of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

ARTICLE IV

Financial and Other Covenants

Section 4.01. Except as the Bank may otherwise agree, the Borrower shall:

(a) pay the balance of all water bills due and payable as of December 31, 1992, in full in Fiscal Year 1993 for the Administration and in three installments, the first one of 33% to be paid in Fiscal Year 1993, the second one of 33% to be paid in Fiscal Year 1994; and the third one of 34% to be paid in Fiscal Year 1995, for the collectivites locales. In order to avoid the recurrence of arrears, the Borrower shall maintain the right of the Participating Utilities to curtail water supply to any administration or collectivite locale; and

(b) pay its water bills when due and payable and assist the Participating Utilities in the recovery of outstanding water bills

of public enterprises.

Section 4.02. (a) The Borrower and the Bank shall, from time to time, at the request of either party, exchange views with regard to the Borrower's policies in respect of the overall development of the water supply sector.

(b) In order to enable the Participating Utilities and ONEP to comply with their respective obligations set forth in: (i) Section 4.02 and Section 4.03 of, and Section 1 (c) of Schedule 2 to, the Project Agreements; and (ii) Sections 5.02 and 5.03 of, and Section 3 of Schedule 5 to, the ONEP Loan Agreement, the Borrower shall take all action required to enable the Participating Utilities and ONEP to annually adjust as and when needed the structure or levels of their respective rates.

Section 4.03. The provisions of Section 1. C. (2) (a) of Schedule 4 to the Loan Agreement between the Borrower and the Bank dated July 27, 1987 (Loan No. 2825 MOR - National Water Supply Rehabilitation Project) are hereby amended with respect to the Participating Utilities to read as set forth in Section 4.02 of the Project Agreements.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) Any Participating Utility shall have failed to perform any of its respective obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that any Participating Utility will be able to perform its respective obligations under the Project Agreement.

(c) The Basic Legislation shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of any Participating Utility to perform any of its respective obligations under the Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of any Participating Utility or for the suspension of its operations.

(e) The proceeds of the financing provided under the Cofinanciers' Loan Agreements shall not have become available to the Borrower for Part A of the Project by July 1, 1997; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for Part A of the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(f) (i) Subject to sub-paragraph (ii) of this paragraph:

- (A) the right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of Part A of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms thereof, or
- (B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Sub-paragraph (i) of this paragraph shall not

apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for Part A of the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) The event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower.

(b) Any event specified in paragraph (c) or paragraph (d) of Section 5.01 of this Agreement shall occur.

(c) The event specified in paragraph (f) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the provisions of paragraph (f) (ii) of said Section.

ARTICLE VI

Effective Date; Termination

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

(a) the Subsidiary Loan Agreements shall have been executed on behalf of each of the parties thereto;

(b) all conditions precedent to the effectiveness of the ONEP Loan Agreement and the ONEP Guarantee Agreement, other than those related to the effectiveness of this Agreement, shall have been fulfilled; and

(c) the Performance Contracts shall have been executed on behalf of each of the parties thereto.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Project Agreements have been duly authorized or ratified by each Participating Utility, and are legally binding upon each Participating Utility in accordance with their respective terms; and

(b) that the Subsidiary Loan Agreements have been duly authorized or ratified by, and are legally binding upon, the parties thereto in accordance with their respective 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

Representatives 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:

Ministere des Finances
Direction du Tresor et des
Finances Exterieures
Rabat 10000
Kingdom of Morocco

Telex:

36147 M
36860 M

For the Bank:

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

Cable address:

Telex:

INTBAFRAD 248423 (RCA)
Washington, D.C. 82987 (FTCC)
 64145 (WUI) or
 197688 (TRT)

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

KINGDOM OF MOROCCO

By /s/ Mohamed Benaissa
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Caio Koch-Weser
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 and supply and	55,000,000	RAD: 60% RED: 65%

installation of pipelines:		RADEEF: 72%
		RADEEMA: 72%
		RADEEM: 78%
		RAK: 78%
(2) Supply and installation of material and equipment:	19,000,000	75%
(3) Goods:	24,000,000) 100% of foreign) expenditures,) 100% of local) expenditures) (ex-factory) cost) and 80%) of local) expenditures for) other items) procured locally
	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(4) Consultants' services and training:	14,000,000	100%
(5) Unallocated	16,000,000	
TOTAL	128,000,000 =====	

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, works 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, works or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$3,000,000, may be made on account of payments made for expenditures before that date but after May 6, 1993.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in strengthening institutional capabilities in the water supply sector and improving the delivery of potable water in urban and rural areas.

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: Borrower

Ministry of Public Works - Hydraulics Administration.

(1) Carrying out of hydrogeological studies and the drilling of boreholes to expand the urban and rural water supply; provision of equipment to measure hydrological and hydrogeological data and to

test water quality and acquisition of computer hardware and software, as required to study and evaluate the Borrower's water resources; and development and carrying out of training programs to strengthen the technical skills of staff of the Hydraulics Administration of the Borrower's Ministry of Public Works.

Ministry of Public Works - National Meteorology Directorate.

(2) Extension and development of the network of measurement of meteorological data through the construction of automatic meteorological stations, of aerologic stations, of meteorological sectors for rainfalls and of equipment for the reception of satellite data. Installation of computer systems for the analysis and the treatment of meteorologic scope implementation of training programs to strengthen the technical capabilities of the National Meteorology Directorate to improve the assistance the National Meteorology Directorate can give to the socio-economic sectors.

Ministry of Public Health.

(3) Carrying out of a program to sensitize the Borrower's populations living in endemic areas on public health issues and water-borne diseases and to evaluate and improve the quality of potable water in rural areas; provision of equipment, supplies and vehicles required therefor; and construction and/or equipment of epidemiological diagnoses of laboratories.

Ministry of Interior.

(4) Carrying out of a program to rehabilitate water supply facilities and install, operate and maintain pumps in rural areas, including the provision of equipment, vehicles, workshop vehicles and training required therefor.

Part B: Participating Utilities

(1) Rehabilitation, extension and strengthening in the areas serviced by the Participating Utilities listed below, of water production and distribution systems, for the connection of houses to said systems, provision and/or repair of equipment and vehicles required therefor, and provision of equipment required for leak detection in said areas:

- (a) area serviced by RAD;
- (b) area serviced by RADEEF;
- (c) area serviced by RED;
- (d) area serviced by RADEEM;
- (e) area serviced by RADEEMA; and
- (f) area serviced by RAK.

(2) Carrying out of a program to strengthen the organization, management and operations of each of: (a) RAD, (b) RADEEF, (c) RED, (d) RADEEM, (e) RADEEMA, and (f) RAK, consisting, for said Participating Utility of: the development and utilization of appropriate management information systems, cost accounting systems and methodologies for the valuation of assets; the provision of computer hardware and software required therefor; and the carrying out of training programs to strengthen the skills of staff said Participating Utility.

Part C: ONEP

(1) Carrying out of a program to rehabilitate, extend and strengthen water production and distribution systems in cities and centers supplied by the Borrower.

(2) Carrying out of a program to strengthen the organization,

management and operations of the Borrower, consisting of:

- (a) design and implementation of a program to computerize the Borrower's functions, including the provision of computer hardware and software required therefor;
- (b) the provision of laboratory equipment required to test water quality;
- (c) construction of a center for documentation relating to water supply;
- (d) preparation of a sewerage master plan; and
- (e) the development and carrying out of a training program to strengthen the technical skills of the Borrower's staff.

* * *

The Project is expected to be completed by December 31, 2000.
SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
August 1, 1999	2,395,000
February 1, 2000	2,480,000
August 1, 2000	2,575,000
February 1, 2001	2,670,000
August 1, 2001	2,770,000
February 1, 2002	2,870,000
August 1, 2002	2,980,000
February 1, 2003	3,090,000
August 1, 2003	3,205,000
February 1, 2004	3,325,000
August 1, 2004	3,445,000
February 1, 2005	3,575,000
August 1, 2005	3,705,000
February 1, 2006	3,845,000
August 1, 2006	3,990,000
February 1, 2007	4,135,000
August 1, 2007	4,290,000
February 1, 2008	4,450,000
August 1, 2008	4,615,000
February 1, 2009	4,785,000
August 1, 2009	4,965,000
February 1, 2010	5,150,000
August 1, 2010	5,340,000
February 1, 2011	5,535,000
August 1, 2011	5,745,000
February 1, 2012	5,955,000
August 1, 2012	6,180,000
February 1, 2013	6,405,000
August 1, 2013	6,645,000
February 1, 2014	6,885,000

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

Premiums on Prepayment

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

Time of Prepayment

Premium

The interest rate (expressed

as a percentage per annum)
applicable to the Loan on the
day of prepayment multiplied
by:

Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

SCHEDULE 4
Implementation Program

The provisions of this Schedule shall apply for the purposes
of Section 3.01 (b) of this Agreement.

A. Part B of the Project.

1. For the purpose of carrying out Part B of the Project, the
Borrower shall:

(a) relend the proceeds of the Loan allocated from time to
time to Categories (1), (2), (3) and (4) to the Participating
Utilities under subsidiary loan agreements to be entered into
between the Borrower and each of the Participating Utilities, under
terms and conditions which shall have been approved by the Bank and
which shall include those set forth in the Annex to this Schedule 4;

(b) take all necessary administrative measures as may be
required on its part to enable the Participating Utilities and ONEP
to carry out the Project and to comply with their other obligations
under each Project Agreement and the ONEP Loan Agreement,
respectively; and

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

2. Without limitation upon the provisions of Section 1 of this
Part A, the Borrower shall:

(a) conclude with each Participating Utility the performance
contract referred to in Section 1 (b) of Schedule 2 to the Project
Agreement; and

(b) duly perform its obligations under each such Performance
Contract and, except as the Bank shall otherwise agree, not take or
concur in any action which would have the effect of amending,
abrogating, assigning or waiving said Performance Contract or any
provision thereof.

3. The Bank and the Borrower hereby agree that the obligations
set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the
General Conditions (relating to insurance, use of goods, works and
services, plans and schedules, records and reports, maintenance and

land acquisition, respectively) in respect of Part B of the Project shall be carried out by the Participating Utilities pursuant to Section 2.03 of the Project Agreement.

B. Project Monitoring.

The Borrower shall: afford the Bank a reasonable opportunity to exchange views with the Borrower and the Participating Utilities on each report furnished pursuant to Section 2 of Schedule 2 of each Project Agreement, and thereafter, not later than December 31 of each Fiscal Year conclude with each Participating Utility such updated Performance Contract as shall have been agreed between the Borrower, the Bank and the Participating Utility party to said Performance Contract, and take all other action which the Borrower and the Bank shall have agreed to be required on the Borrower's part to further the progress in the carrying out of the Project.

ANNEX TO SCHEDULE 4

Principal Terms of the
Subsidiary Loan Agreements

The principal terms set forth in this Annex shall apply for the purposes of Part A. 1 (a) of Schedule 4 to this Agreement.

1. The principal amount of each Subsidiary Loan to a Participating Utility shall be the equivalent in terms of the currency of the Borrower (determined on the date or respective dates of repayment by said Participating Utility) of the value of the currency or currencies withdrawn from the Loan Account or paid out of a Special Account on account of the cost of goods, works and services required for said Participating Utility's respective Part of the Project, and to be financed out of the proceeds of the Loan allocated from time to time to Categories (1), (2), (3) and (4).

2. The principal amount of each Subsidiary Loan shall be repaid over a period not exceeding 20 years, inclusive of a grace period not exceeding 5 years.

3. Interest will be charged on the principal amount of each Subsidiary Loan withdrawn and outstanding from time to time at a rate not less than the rate applicable from time to time to the Loan pursuant to the provisions of Section 2.05 of this Agreement.

