

CONFORMED COPY

LOAN NUMBER 4254-MOR

Loan Agreement
(Rural Water Supply and Sanitation Project)

between

KINGDOM OF MOROCCO

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated October 5, 1998

LOAN NUMBER 4254-MOR

LOAN AGREEMENT

AGREEMENT, dated October 5, 1998, between KINGDOM OF MOROCCO (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Bank. If (a) the right of the

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

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

(a) "Beneficiaries" means the rural population living in the Priority Provinces who will benefit from the project;

(b) "DGH" means the Direction Generale de l'Hydraulique (Directorate General of Hydraulics) in the MoPW;

(c) "Dollar Loan Tranche" means the amount specified in Section 2.01 (a) of this Agreement;

(d) "DPTP" means the Direction Provinciale des Travaux Publics (Provincial Division of Public Works) in the MoPW;

(e) "DRH" means the Direction de Region Hydraulique (Regional Directorate of Hydraulics) in the MoPW;

(f) "Fiscal Year" means the twelve (12) month period corresponding to any of the Borrower's fiscal years, which period starts on July 1 and ends on June 30 in each calendar year;

(g) "French Franc" and "FRF" each means the lawful currency of the Republic of France;

(h) "French Franc Loan Tranche" means the amount specified in Section 2.01 (b) of this Agreement;

(i) "Loan Tranche" means either of the Dollar Loan Tranche or the French Franc Loan Tranche;

(j) "MPT" means a Mobile Participation team composed of government staff and consultants trained with a view to encourage and facilitate the participation of Beneficiaries in the conception and realization of the water and sanitation units for the Project;

(k) "MoPW" means the Borrower's Ministry of Public Works, (Ministère de l'Équipement) or any successor thereto;

(l) "ONEP" means Office National de l'Eau Potable (National Office of Potable Water) established by and operating under Dahir No. 1-72-103 dated April 3, 1972;

(m) "Priority Provinces" means the following selected provinces of the Borrower: El Jadida, Ouarzazate, Zagora, Sidi Kacem, Safi, Tata, Taroudant, Al Hoceima, Jerada, Oujda-Angad, Azilal, Khenifra, Beni Mellal, Khouribga, Essaouira, Marrakech, S.Y Ben Ali, Boulmane, Fes-Jdid, Sefrou, Nador, Errachidia, Meknes;

(n) "Public Water Point", means a system of public supply in rural potable water, including equipped wells and public water fountains;

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

(p) "WUA" means a Water Users Association composed of a group of people interested in the water supply from the same water point, established and operating under the Dahir No. 1-58-376 dated November 15, 1958.

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:

(a) an amount equal to five million Dollars (\$5,000,000); and

(b) an amount equal to twenty-nine million five hundred thousand French Francs (FRF29,500,000).

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

(b) The Borrower may, for the purposes of the Project, open and maintain in Dirham a special deposit account in its General Treasury 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 a Loan Tranche not withdrawn from time to time.

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

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring

on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) one half percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(v) "PIBOR Base Rate" means, for each Interest Period, the Paris interbank offered rate for six-month deposits in French Francs for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(vi) "PIBOR Total Spread" means, for each Interest Period: (A) one half percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the Paris interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

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

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

Section 2.06. Interest and other charges shall be payable semiannually on September 15 and March 15 in each year.

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental, and technical 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. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank and furnish to Bank at a date on or around October 31, 2001, or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

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

(a) of this (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 report of such audit referred to in paragraph (b) of this Section and that the report contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Effective Date; Termination

Section 5.01. The following event is specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely that a Project implementation manual, acceptable to the Bank, promoting a participatory approach for the implementation of the Project shall have been prepared by the Borrower.

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 and Foreign Investment 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:

Ministere de l'Economie et des Finances
Rabat 1000
Kingdom of Morocco

Cable address: Telex:
36715 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 (MCI) or
Washington, D.C. 64145 (MCI)

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

KINGDOM OF MOROCCO

By /s/ Fathallah Oualalou

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Kemal Dervis

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 Dollar Loan Tranche Allocated	Amount of the Franc Loan Tranche Allocated	% of Expenditures to be Financed
(1) Civil Works	3,600,000	21,200,000	80%
(2) Equipment	750,000	4,400,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 80% of local expenditures for other items procured locally
(3) Consultants' Services and Training	150,000	900,000	100%
(4) Unallocated	500,000	3,000,000	
TOTAL	5,000,000	29,500,000	

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 in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed the equivalent of \$500,000 may be made on account of payments made for expenditures before that date but after July 1, 1997.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for goods under contracts not exceeding \$400,000 equivalent, for works under contracts not exceeding \$750,000 equivalent, for consulting firms under contracts not exceeding \$100,000 equivalent and for individual consultants under contracts not exceeding \$50,000 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 reduce disparities between rural and urban areas and to ease poverty through the provision of improved access to safe drinking water to rural populations in the Priority Provinces, in order to: (i) increase rural families access to potable water, (ii) improve their health and productivity, (iii) upgrade their sanitary conditions, and (iv) promote a participatory approach encompassing the training and sensitization of Beneficiaries and their involvement in hygiene and health education.

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 objective:

Part A: Rural Water Supply and Sanitation

1. Construction and rehabilitation of about two thousand (2,000) Public Water Points with a capacity to deliver about 20,000 cubic meters of safe potable water per day, in communities and villages, with Beneficiaries' participation. 2. Construction of about eighty five thousand (85,000) safe household-based wastewater and excreta disposal systems and of twenty (20) block latrines for schools and health centers.

Part B: Local Institutional Strengthening

Development of village-level institutions for efficient operations and maintenance of rural water points, through the designation of one (1) DRH technical coordinator for each of the Priority Provinces, the creation of one (1) MPT in each of the Priority Provinces and of a WUA or any other management mechanism acceptable to the Bank, in each village under the Project.

Part C: Institutional Support at the Central and Provincial Levels

Provision of a monitoring and evaluation system for the decentralized rural water supply and sanitation components of the Project, and support for the different DRHs and DPTPs involved in the Project by building and sustaining MPTs at the provincial level.

* * *

The Project is expected to be completed by June 30, 2001.

SCHEDULE 3

Amortization Schedule Dollar Loan Tranche

Date Payment Due	Payment of Principal of the Dollar Loan Tranche*
March 15, 2003	105,000
September 15, 2003	110,000
March 15, 2004	110,000
September 15, 2004	115,000
March 15, 2005	120,000
September 15, 2005	120,000
March 15, 2006	125,000
September 15, 2006	130,000
March 15, 2007	135,000
September 15, 2007	135,000
March 15, 2008	140,000
September 15, 2008	145,000
March 15, 2009	150,000
September 15, 2009	155,000
March 15, 2010	160,000
September 15, 2010	165,000
March 15, 2011	170,000
September 15, 2011	175,000
March 15, 2012	180,000
September 15, 2012	185,000
March 15, 2013	190,000
September 15, 2013	195,000
March 15, 2014	200,000
September 15, 2014	210,000
March 15, 2015	215,000
September 15, 2015	220,000
March 15, 2016	225,000
September 15, 2016	235,000

March 15, 2017	240,000
September 15, 2017	240,000

French Franc Loan Tranche

Date Payment Due	Payment of Principal of the French Franc Loan Tranche*
March 15, 2003	750,000
September 15, 2003	765,000
March 15, 2004	775,000
September 15, 2004	790,000
March 15, 2005	805,000
September 15, 2005	820,000
March 15, 2006	835,000
September 15, 2006	850,000
March 15, 2007	865,000
September 15, 2007	880,000
March 15, 2008	895,000
September 15, 2008	915,000
March 15, 2009	930,000
September 15, 2009	945,000
March 15, 2010	965,000
September 15, 2010	980,000
March 15, 2011	1,000,000
September 15, 2011	1,015,000
March 15, 2012	1,035,000
September 15, 2012	1,055,000
March 15, 2013	1,070,000
September 15, 2013	1,090,000
March 15, 2014	1,110,000
September 15, 2014	1,130,000
March 15, 2015	1,150,000
September 15, 2015	1,170,000
March 15, 2016	1,195,000
September 15, 2016	1,215,000
March 15, 2017	1,235,000
September 15, 2017	1,265,000

SCHEDULE 4

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 (the Guidelines) and the following provisions of this Section.

Part B: International Competitive Bidding

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

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B: namely that for preference for domestically manufactured goods the provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$400,000 per contract and Works estimated to cost less than \$3,000,000 equivalent per contract and may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National/International Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraph 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost \$100,000 equivalent or less per contract, and not to exceed \$1,000,000 equivalent in the aggregate, shall be procured under lump sum, fixed price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to successfully complete the contract.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts for each of the Borrower's Fiscal Years, the proposed procurement calendar for the Project for said Fiscal Year shall be furnished to the Bank 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 calendar and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for goods estimated to cost the equivalent of \$400,000 or more, and each contract for works estimated to cost the equivalent of \$750,000 or more, the procedures set forth in paragraphs 2 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 the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

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, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions 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 for services for local institutional strengthening and

technical and investment support under Parts B and C of the Project, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants Qualifications Services for local institutional strengthening under Part B of the Project 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.

2. Individual Consultants Services for technical assistance and investment support under Part C of the Project shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals for each of the Borrower's Fiscal Years, the proposed calendar for the selection of consultants under the Project for said Fiscal Year shall be furnished to the Bank in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection calendar and with the provisions of said paragraph.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

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

SCHEDULE 5

Implementation Program

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

1. DGH and ONEP shall have overall responsibility for the carrying out of this Project. For this purpose, the Borrower shall, through DGH and ONEP:

(a) prepare, no later than March 31 of each year, in consultation with the Beneficiaries a detailed program for construction and rehabilitation of rural water supply and sanitation systems, including a plan for allocation of budgetary and non-budgetary local resources, to be implemented during the following Fiscal Year and finalized before the September 30 of that year taking into account the observations of

the Bank;

(b) prior to the start of works in the villages, take all necessary measures for the setting up of a WUA or any other management mechanism satisfactory to the bank in each village and reach an agreement satisfactory to the Bank on operation and maintenance responsibility with the WUA or said management mechanism;

(c) ensure that appropriate training for operation and monitoring is provided to a representative of each WUA or other management mechanism acceptable to the Bank, prior to the handing over of the rural water supply system to be operated by the said WUA; and

(d) Set up an MPT in each of the Priority Provinces, that shall consist of three (3) members, one of them being, when possible, a woman.

2. The Borrower Shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators agreed upon between the Borrower and the Bank the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, through the monitoring and evaluation units of DGH and ONEP, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about June 30, 1999, a mid term review report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by September 30, 2000, or such later date as the Bank shall request, the report referred to in sub-paragraph (b) above, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) 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 one million two hundred thousand Dollars (\$1,200,000) to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to seven hundred and fifty thousand Dollars (\$750,000) until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of three million dollars (\$3,000,000).

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

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

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

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

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

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

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

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

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

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

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

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

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

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

