

CONFORMED COPY

CREDIT NUMBER 2867 TA

Development Credit Agreement
(Urban Sector Rehabilitation Project)

between

UNITED REPUBLIC OF TANZANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 9, 1996

CREDIT NUMBER 2867 TA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 9, 1996, between UNITED REPUBLIC OF TANZANIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter, dated March 25, 1996, from the Borrower, describing a program of actions, objectives and policies, designed to achieve reforms in the Borrower's urban sector (hereinafter called the Program), and declaring the Borrower's commitment to the execution of the Program;

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

(C) the Borrower has requested from the Government of the Federal Republic of Germany, through the Kreditanstalt fur Wiederaufbau (KfW), a grant (the KfW Grant) in an amount of DM 30,850,000 to assist in financing Part A.4 of the Project;

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, with the modifications thereto set forth below (the General Conditions) constitute an integral part of this Agreement.

- (a) The last sentence of Section 3.02 is deleted.
- (b) the second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawal shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities or any imports of goods, if such payment or import, to the knowledge of the Bank is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations".

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) "FY" means the Borrower's fiscal year, beginning July 1 and ending on June 30 of the following year;
- (b) "LAAM" means the Local Authorities Accounting Manual to be introduced in the Project Towns;
- (c) "MIP" means the Management Improvement Plans, satisfactory to the Association, to be prepared by the Project Towns, the UWSDs and NUWA (as hereinafter defined), which shall include operational plans for personnel administration, finance and technical services, financial management and services management;
- (d) "MOU" means any of the following Memorandum of Understanding, satisfactory to the Association, to be entered into between PMO and each of the Project Towns, PMO and Dar es Salaam or MOW and each of the UWSDs, specifying, inter alia, their respective roles in Project implementation, as provided for in paragraphs 4 and 1 (c) respectively of Schedule 4 to this Agreement;
- (e) "MOW" means the Borrower's Ministry of Water;
- (f) "NUWA" means the National Urban Water Authority, a body corporate established and operating pursuant to the Urban Water Supply Act, No. 7 of 1981;
- (g) "Participating Community" means a community in one of the infrastructure deficient settlements in Dar es Salaam, meeting the criteria for participation in Part B.1 of the Project, as provided for in the PIP, as hereinafter defined;
- (h) "PMO" means the Borrower's Prime Minister's Office, the office responsible for local government affairs;
- (i) "PMU" means the Project Management Unit within PMO, established pursuant to the provisions of paragraph 2 of Schedule 4 to the Development Credit Agreement, dated October 31, 1991, between the Borrower and the Association (Urban Sector Engineering Project);
- (j) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to letters dated January 4, 1995, and September 11, 1995, respectively from the Association and confirmed by the

Borrower on January 26, 1995, and October 4, 1995, respectively;

(k) "Project Towns" means the towns of Arusha, Iringa, Mbeya, Morogoro, Moshi, Mwanza, Tabora and Tanga and such other towns as may be included in the Project by agreement between the Borrower and the Association;

(l) "PIP" means the Project Implementation Plan, adopted by the Borrower on April 1, 1996, specifying, inter alia, procedures and other arrangements for the implementation of the Project, referred to in paragraph 2 of Schedule 4 to this Agreement;

(m) "PSU" means a Project Support Unit referred to in paragraph 1 c) of Schedule 4 to this Agreement;

(n) "Resettlement Program" means the program, satisfactory to the Association, adopted by the Borrower on April 1, 1996, for the resettlement of persons displaced by Project activities in the town of Mwanza;

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

(p) "Subsidiary Agreement" means the agreement to be entered into between the Borrower and NUWA pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes any schedules to the Subsidiary Agreement;

(q) "Urban Water and Sewerage Recurrent Expenditure Account" means the account established by the Borrower under the Exchequer and Audit Ordinance, Chapter 439 of 1961, for the UWSB, as hereinafter defined, in each Project Town, to be used for operations and maintenance expenditures;

(r) "UWSB" means an Urban Water and Sewerage Board, established by the Borrower in the Project Towns and Dodoma with responsibility for deciding key management issues, including tariff levels for the UWSBs; and

(s) "UWSD" means an Urban Water and Sewerage Department, a semi-autonomous department in the Project Towns and Dodoma under the supervision of MOW.

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 seventy-two million three hundred thousand Special Drawing Rights (SDR 72,300,000).

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 described in Schedule 2 to this Agreement 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 three special deposit accounts (Special Account A for Parts A.1 through 3, B.1, C.1, C.3, C.4 and D of the Project, Special Account B for Parts A.4, A.5 and C.2 of the Project and Special Account C for Part B.2 of the Project) in commercial banks 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 Accounts shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be

canceled.

Section 2.03. The Closing Date shall be June 30, 2004, 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 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 or 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 payment 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 15 and November 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each May 15 and November 15 commencing November 15, 2006, and ending May 15, 2036. Each installment to and including the installment payable on May 15, 2016, 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 gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years; 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 terms of repayment of installments under paragraph (a) above by 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. If so requested by the Borrower, the Association may revise such modification 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.

(c) 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, shall: (i) carry out Parts A, B.1, C and D of the Project through PMO, with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, urban and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project; and (ii) cause NUWA to carry out Part B.2 of the Project with due diligence and efficiency, in conformity with appropriate administrative, financial, engineering and water sector practices, and provide promptly as needed the funds, facilities, services and other resources required for such Part of the Project.

(b) The Borrower shall make the proceeds of the Credit, allocated from time to time to Categories (1) (d), (2) (a), (3) (a) and (4) (a) of the table set forth in paragraph 1 of Schedule 1 to this Agreement, available to NUWA as a grant under a subsidiary agreement to be entered into between the Borrower and NUWA under terms and conditions which shall have been approved by the Association and which shall include those set forth in paragraph 6 of Schedule 4 to this Agreement.

(c) The Borrower shall exercise its rights under the Subsidiary 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 the Subsidiary 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 and cause to be carried 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 9.07 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.

Section 3.04. The Borrower shall ensure that until completion of the Project, the portion of funds allocated for urban local governments in the Road Fund established by the Borrower pursuant to a Parliamentary Resolution, dated August 8, 1991, shall be paid to the Project Towns on a quarterly basis.

Section 3.05. The Borrower shall ensure that, commencing not later than six months after its establishment, each UWSB shall annually review water and sewerage tariffs in the Project Towns and Dodoma, and adjust them as required, to ensure that operations and maintenance costs for the Project Towns and the town of Dodoma are recovered by no later than March 31, 1999.

Section 3.06. The Borrower shall ensure that, not later than March 31, 1999, the UWSBs in the Project Towns and Dodoma, reach a billing and collection efficiency of 80% of all customers.

Section 3.07. (a) The Borrower shall carry out, not later than March 31, 1999, jointly with the Association, a mid-term review of the Project. This review shall cover, inter alia: (i) experience with the implementation performance in each Project Town, as well as, Dodoma and Dar es Salaam; (ii) progress of Project implementation as measured by the key performance indicators as defined in the PIP and contained in the MOUs; (iii) performance and use of technical advisory personnel; (iv) status and

results of training activities carried out under the Project; and (v) provision for future sustainability of the investments financed from the proceeds of the Credit;

(b) the Borrower shall furnish to the Association, at least thirty days prior to such review, a report, in scope and detail, satisfactory to the Association, describing the status of progress regarding the items listed in paragraph (a) above and of Project implementation generally; and

(c) based on such review, the Borrower shall promptly prepare an action plan, acceptable to the Association, for the further implementation of the Project, and shall thereafter implement such action plan.

Section 3.08. The Borrower shall by, March 31, 1999, present draft legislation to its National Assembly amending: (a) the Water Works Ordinance to grant management and financial autonomy to UWSDs; and (b) the Local Government Service Act, No 10 of 1982 and the Local Government Act, No. 23 of 1991, to strengthen the financial management, accountability, autonomy and viability of urban local authorities.

Section 3.09. The Borrower shall, by June 30, 1997, present draft legislation to the National Assembly amending the statutes of NUWA, to limit its area of responsibility to Dar es Salaam and to grant it greater managerial and financial autonomy.

Section 3.10. The Borrower shall carry out the Resettlement Program in accordance with the plan of action and timetable contained therein.

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 Association;

(ii) furnish to the Association, as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the 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 said records, accounts and the audit thereof as the Association shall 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 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 or payment out of the Special 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. The Borrower shall ensure that annually:

- (a) the Project Towns and UWSDs have their institutional accounts audited;
- (b) such audited accounts are furnished to PMO within six months of the end of the Fiscal Year; and
- (c) a summary of such audited accounts are furnished to the Association by PMO within ten months of the end of the Fiscal Year.

ARTICLE V

Remedies of the Association

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

- (a) a situation has arisen which shall make it improbable that the Program or a significant part thereof, will be carried out;
- (b) the Local Government Service Act, No. 10 of 1982, and the Local Government, Act No. 23 of 1991, shall have been amended, suspended, abrogated repealed or waived, so as to affect materially and adversely the ability of the Project Towns to perform any of their respective obligations under the Project; and
- (c) (i) subject to subparagraph (ii) of this paragraph the right of the Borrower to withdraw the proceeds of the KFW Grant shall have been suspended, canceled or terminated in whole in part, pursuant to the terms thereof; and
- (ii) subparagraph (i) of this Section shall not apply if the Borrower establishes to the satisfaction of the Association that (A) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely that any event specified in paragraph (b) of Section 5.01 of this Agreement shall occur.

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) MOUs have been signed between PMO and at least five of the Project Towns; and
- (b) the Borrower shall have selected a Project Accountant and a Senior Procurement Specialist for the PMU in accordance with the provisions of Section II of Schedule 3 to this Agreement.

Section 6.02. 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 VII

Representatives of the Borrower; Addresses

Section 7.01. The Minister at the time responsible for 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
P.O. Box 9111
Dar es Salaam, Tanzania

Cable address:	Telex:
TREASURY Dar es Salaam	41329

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:
INDEVAS Washington, D.C.	248423 (RCA) 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.

UNITED REPUBLIC OF TANZANIA

By /s/ Mustafa Nyang'anyi

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto E. Madavo

Regional Vice President

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works		
(a) for Parts A.1 through A.3 of the Project	15,690,000	100% of foreign expenditures and 60% of local expenditures
(b) for Parts A.4 and A.5 of the Project	12,110,000	100% of foreign expenditures and 60% of local expenditures
(c) for Part B.1 of the Project	3,170,000	100% of foreign expenditures and 60% of local expenditures
(d) for Part B.2 of the Project	690,000	100% of foreign expenditures and 60% of local expenditures
(2) Goods		
(a) for Part B.2 of the Project	890,000	100% of foreign expenditures, 100% of local expenditures (ex-factory costs) and 80% of local expenditures for other items procured locally
(b) for the other Parts of the Project	8,600,000	100% of foreign expenditures, 100% of local expenditures (ex-factory costs) and 80% of local expenditures for other items procured locally
(3) Consultants' services and training		
(a) for Part B.2 of the Project	690,000	100%

	(b)	for Parts A.4 and A.5 of the Project	1,100,000	100%
	(c)	for the other Parts of the Project	7,430,000	100%
(4)		Studies		
	(a)	for Part B.2 of the Project	1,860,000	100%
	(b)	for the other Parts of the Project	2,410,000	100%
(5)		Operations and maintenance costs	2,060,000	90% during FY 1997 and 1998, 60% during FY 1999 and 2000, and 30% thereafter
(6)		Incremental operating costs		
	(a)	for Parts A.4 and A.5 of the Project	400,000	100%
	(b)	for the other Parts of the Project	2,350,000	100%
(7)		Refunding of Project Preparation Advance	1,310,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(8)		Unallocated	11,540,000	
		TOTAL	72,300,000	

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;

(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;

(c) the term "operations and maintenance costs" means expenditures for operations and maintenance of the assets created or rehabilitated under Parts A.1 through A.3 of the Project, to be undertaken under contracts for goods and works procured on the basis of National Competitive Bidding; and

(d) the term "incremental operating costs" means expenditures incurred for fuel, maintenance and insurance of vehicles, office supplies and minor office equipment, utilities and field and travel allowances for Project staff.

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;

(b) payments made for expenditures under Category (1) (a) for any Project Town, until such Project Town has: (i) signed an MOU with PMO, except those Project Towns referred to under Section 6.01 (a); (ii) established the PSU for such Project Town; (iii) introduced LAAM; and (iv) submitted an MIP, acceptable to the Association;

(c) payments made for expenditures under Category (1) (b) for any Project Town under Parts A.4 and A.5 of the Project until: (i) the Borrower has opened an Urban Water and Sewerage Recurrent Expenditure Account for such Project Town; (ii) appointed an Urban Water and Sewerage Engineer within UWSD; (iii) established an Urban Water and Sewerage Board and appointed the members of such Board; (iv) furnished evidence, satisfactory to the Association, of land rights for Parts A.4 and A.5 of the Project; and (v) MOW has signed an MOU acceptable to the Association with the UWSD concerned; and

(d) payments made for expenditures under Category (1) (d) until: (i) NUWA has furnished to the Association an MIP, satisfactory to the Association; and (ii) the Subsidiary Agreement has been duly executed by the Borrower and NUWA.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for goods and works under contracts not exceeding \$100,000 equivalent, for consultants' contracts not exceeding \$100,000 equivalent for firms and \$ 50,000 equivalent for individuals, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower to achieve sustainable economic development and urban poverty alleviation through: (i) rehabilitation of basic infrastructure and expansion into high priority under-served areas in the Project Towns, Dodoma and Dar es Salaam; (ii) improvement of urban local government management and financing capacity.

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: Rehabilitation and Expansion of Infrastructure Services

1. Rehabilitation and construction of roads and storm water drainage in the Project Towns through: (a) carrying out of spot improvements, (b) improving key arterial and collector roads, (c) resealing roads, (d) improving bus stands, (e) incorporating facilities for non-motorized transport; (f) improving municipal workshops; and (g) improving road and primary storm water drainage.

2. (a) Promotion of private sector interventions to facilitate the supply of sanitation components to residents in Project Towns through the acquisition of sanitation equipment.

(b) Acquisition of vehicles and equipment to improve the capability of the municipal councils of the Project Towns to provide adequate and sustainable latrine and septic tank emptying services.

(c) Construction of latrines in schools and other institutions in the Project Towns.

3. (a) Establishment of improved refuse collection arrangements in the Project Towns, through the acquisition of appropriate vehicles and equipment for the operation of a communal collection and transportation system.

(b) Establishment or improvement in the Project Towns of commercial refuse collection from industries, business establishments, institutions, and hospitals, as well as, street sweeping and door-to-door collection arrangements from high income areas.

(c) Rehabilitation and improvement of existing dump sites and access roads, development of new sanitary land-fill sites and construction of concrete skip pads in the Project Towns.

4. (a) Rehabilitation and expansion, of the water supply systems in Arusha, Moshi, Tanga, Morogoro, Tabora and Dodoma.

(b) Strengthening the management capacity of, provision of training and technical advisory services to, and acquisition of tools and equipment for, the UWSDs in the Project Towns and Dodoma.

5. (a) Rehabilitation and extension of sewerage systems in Arusha, Moshi, Tanga, Morogoro, Mwanza and Tabora, construction of a sewerage system in Iringa and construction of sludge treatment facilities in the Project Towns.

(b) Site preparation, including road and drainage construction, water and electricity supply for the resettlement of people displaced by Project activities in Mwanza.

Part B: Dar es Salaam

1. Carrying out of a community infrastructure upgrading program in Participating Communities in Dar es Salaam, including, inter alia, the construction of local distributor roads, access roads, storm water drainage, sewer laterals and connections, local water supply and distribution, and other minor urban infrastructure.

2. (a) Rehabilitation of the Dar es Salaam water supply system, through the acquisition and installation of urgently needed equipment, spare parts and water meters.

(b) Provision of technical advisory services to NUWA for the improvement of financial management and the water supply system.

(c) Carrying out studies for future rehabilitation and expansion of water supply and improved environmental sanitation in Dar es Salaam.

Part C: Institutional Strengthening

1. (a) Carrying out a training program for the Project Towns and PMO involving: (i) senior management training and organizational development; (ii) development of the proposed Local Government Training Unit; (iii) technical training for technical personnel of Project Towns; (iv) rating and valuation training; (v) economists skill upgrading for municipal economists in the development of service management plans and use of information technology; (vi) strengthening the Department of Local Government in PMO; and (vii) information technology training.

(b) Provision of technical advisory services and information technology to PMO and PSUs.

2. (a) Carrying out of a technical training program for the technical personnel of MOW and the UWSDs.

(b) Provision of technical advisory services and information technology to MOW and the UWSDs.

3. Establishment of a maintenance management system for roads in the Project Towns.

4. Acquisition of vehicles and equipment to support above activities.

Part D: Studies

1. Carrying out studies for the preparation of future projects in the Urban Sector.

2. Carrying out community-based pilot interventions in other towns.

* * *

The Project is expected to be completed by December 31, 2003.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and Works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

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

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

(a) Grouping of contracts

To the extent practicable, contracts for works and goods shall be grouped into bid packages estimated to cost the equivalent of \$500,000 or more each and \$200,000 or more each, respectively.

(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 \$500,000 equivalent per contract up to an aggregate amount not to exceed \$34,800,000 equivalent, and goods estimated to cost less than \$200,000 equivalent per contract up to an aggregate amount not to exceed \$6,800,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract and up to an aggregate amount not to exceed \$1,400,000 equivalent, 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.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the 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

With respect to each contract estimated to cost the equivalent of \$300,000 or more for works and \$100,000 or more for goods, 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

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Association shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Association, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4

Implementation Program

1. (a) PMO shall be responsible for the overall implementation of the Project, through PMU, which shall be headed by a Project Manager, with adequate staffing, satisfactory to the Association.

(b) The Borrower shall establish and maintain until completion of the Project, a Project Steering Committee, which shall meet quarterly, to address inter-sectoral policy issues affecting the Project, review major reports and take staffing decisions. It shall be chaired by the Principal Secretary of PMO, and include the Principal Secretaries of MOW, the Ministries of Finance, Works, Land, Housing and Urban Development, Natural Resources and Tourism, Health, Justice and Constitutional Affairs and the Planning Commission.

(c) As part of the PMU, the Borrower shall establish a PSU in each Project Town which shall, inter alia, (i) support the urban local authorities in the Project Towns in the implementation of the Project and the supervision of contracts; (ii) undertake procurement management and administration of contracts for works procured on the basis of National Competitive Bidding costing \$50,000 and above; and (iii) assist in improving Project accounting, financial management and control.

(d) MOW shall implement Parts A.4 and A.5 of the Project, including supporting the UWSDs, monitoring their performance and preparing progress reports. For this purpose, MOW shall enter into MOUs with all UWSDs. In addition MOW shall provide technical support for the implementation of Parts A.2 and B.2 of the Project.

(e) Dar es Salaam City Council shall carry out Part B.1 of the Project, including identifying Participating Communities in accordance with criteria agreed with the Association, collecting baseline demographic and spatial data. Dar es Salaam City Council shall execute agreements with the Participating Communities, specifying the division of responsibilities, the works to be undertaken and the respective financial contribution and accountability of the Participating Communities.

2. The Borrower shall implement the Project in accordance with the procedures set out in the PIP and, except as the Association shall otherwise agree, the Borrower shall not amend, abrogate or waive any provision thereof, which in the opinion of the Association may materially and adversely affect the implementation of the Project.

3. The Borrower shall: (a) by February 15 and August 15 in each year, beginning February 15, 1997, furnish to the Association progress reports on the Project, including the status of procurement and the financial and management performance of each of the Project Towns and UWSDs; and (b) by March 15 in each year, beginning March 15, 1997, hold an implementation review workshop.

4. PMO shall enter into MOUs, satisfactory to the Association, with each Project Town and Dar es Salaam City Council, with respect to the implementation Parts A, B.1 and C of the Project, specifying, inter alia, the respective role of each organization in Project implementation, as well as reporting and accounting responsibilities.

5. The Borrower shall ensure that, until completion of the Project, the following positions in each of the Project Towns are filled with regular staff, whose qualifications are acceptable to the Association: the municipal director, treasurer, municipal engineer and head of manpower development.

Terms and Conditions of Subsidiary Agreement pursuant to Section 3.01 (b) of this Agreement

6. The terms and conditions of the Subsidiary Agreement shall include the following obligations of NUWA to:

(a) carry out Part B.2 of the Project with due diligence and efficiency, in conformity with appropriate administrative, financial and engineering practices, with due regard to environmental factors, and in accordance with the PIP referred to in paragraph 2 above; and provide, or cause to be provided, promptly as needed, the facilities, services and other resources required for said Part of the Project, including counterpart contributions at levels satisfactory to the Association.

(b) comply with the procedures for procurement of goods, works and services set forth in Schedule 3 to this Agreement;

(c) comply with record keeping, auditing and reporting requirements set forth in Section 4.01 of this Agreement and paragraph 3 of this Schedule, with respect to Part B.2 of the Project;

(d) furnish to the Association the annual audits of its accounts and financial statements (balance sheets, statements of income and expenses and related statements), not later than nine months after the end of its fiscal year;

(e) carry out its operations and conduct its affairs in accordance with sound administrative, financial and engineering practices;

(f) take out and maintain with responsible insurers, or make other provision satisfactory to the Association for, insurance against risks and in such amounts as shall be consistent with appropriate practice;

(g) in accordance with Section 3.07 of this Agreement, (i) participate in the review of the progress made in carrying out Part B.2 of the Project, and (ii) thereafter prepare and implement an action plan, satisfactory to the Association, for the further implementation of said Part of the Project;

(h) at the request of the Borrower or the Association, exchange views with the Borrower and the Association with regard to the progress of Part B.2 of the Project and the performance of their obligations under the Subsidiary Agreement;

(i) promptly inform the Borrower and the Association of any condition which interferes or threatens to interfere with the progress of Part B.2 of the Project or the performance by the NUWA of its obligations under the Subsidiary Agreement;

(j) except as the Borrower and the Association shall otherwise agree, neither take nor concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Agreements;

(k) improve its billing and collection efficiency at least by 20% per year in FY 1997 and FY 1998, and by 10% per year thereafter, and ensure that by March 31, 1999

the average number of days of its arrears does not exceed 90 days; and

(1) complete implementation of an MIP, acceptable to the Association, by March 31, 1999.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) (a), (1) (c), (2) (b), (3) (c), (4) (b), (5) and (6) (b) for Special Account A, Categories (1) (b), (3) (b) and (6) (a) for Special Account B and Categories (1) (d), (2) (a), (3) (a) and (4) (a) for Special Account C, 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 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 \$2,000,000 for Special Account A, \$1,200,000 for Special Account B and \$600,000 for Special Account C, to be withdrawn from the Credit Account and deposited into the Special Account concerned 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 \$1,000,000 for Special Account A, \$600,000 for Special Account B and \$400,000 for Special Account C 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 10,500,000 for Special Account A and SDR 7,000,000 for Special Account B and SDR 1,400,000 for Special Account C, respectively.

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

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

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

(b) (i) For replenishment of the Special Accounts, the Borrower shall furnish to the Association requests for deposits into the Special Account concerned 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 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 concerned 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 concerned 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 any 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 any 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 concerned;

(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, less the amount of any outstanding special commitment 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 concerned 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 any Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the 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 concerned (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 concerned 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 any 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 concerned.

(d) Refunds to the Association made pursuant to paragraph 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.

