

CONFORMED COPY

CREDIT NUMBER 4233-ZA

Project Agreement

(Water Sector Performance Improvement Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

LUSAKA WATER AND SEWERAGE COMPANY

Dated December 22, 2006

PROJECT AGREEMENT

Agreement dated December 22, 2006, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and LUSAKA WATER AND SEWERAGE COMPANY (“Project Implementing Entity”) (“Project Agreement”) in connection with the Financing Agreement of same date between the Republic of Zambia (“Recipient) and the Association (the “Financing Agreement”). The Association and the Project Implementing Entity hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to the Financing Agreement) constitute an integral part of this Agreement.
- 1.02 Unless the context requires otherwise, the capitalized terms used in the Project Agreement have the meanings ascribed to them in the Financing Agreement or the General Conditions.

ARTICLE II — PROJECT

- 2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall carry out Part A of the Project in accordance with the provisions of Article IV of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for its Respective Part of the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out its Respective Part of the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III — TERMINATION

- 3.01 For purposes of Section 8.05 (c) of the General Conditions, the date on which the provisions of this Agreement shall terminate is 20 years after the date of this Agreement.

ARTICLE IV — REPRESENTATIVE; ADDRESSES

- 4.01. The Project Implementing Entity’s Representative is its Managing Director.

4.02. The Association's Address is:

International Development Association

1818 H Street, NW
Washington, DC 20433
United States of America

Cable:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

4.03. The Project Implementing Entity's Address is:

Lusaka Water and Sewerage Company Limited
Plot 871/2 Katemo Road, Rhodespark,
P.O. Box 50198,
Lusaka 10101
Zambia

Facsimile: 260-1-251712

AGREED at Lusaka, Republic of Zambia, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Ohene O. Nyanin

Authorized Representative

LUSAKA WATER AND SEWERAGE COMPANY

By: /s/ George Ndongwe

Authorized Representative

SCHEDULE

Execution of the Project Implementing Entity's Respective Part of the Project

Section I. Implementation and other Arrangements

A. Development Financing Agreement for Performance Enhancement Review Committee

The Project Implementing Entity shall maintain its participation in the Development Financing Agreement for Performance Enhancement Review Committee in a manner satisfactory to the Association.

B. Development Financing Agreement for Performance Enhancement

The Project Implementing Entity shall: (a) discharge all of its obligations under the Development Financing Agreement for Performance Enhancement with due diligence and in accordance with all time-tables and performance targets set forth therein; (b) carry out, or cause to be carried out, jointly with the MLGH the Performance Audit; (c) furnish, or cause to be furnished, to the Association the Performance Audit report not later than six months following the completion of its annual implementation period for review and comments by the Association; and (d) promptly thereafter implement the recommendations resulting from the Performance Audit as agreed upon with the Association.

C. ESMF, EMP and RPF

1. The Project Implementing Entity shall, during Project implementation, carry out the ESMF and EMP, and shall:
 - (a) prior to commencing of any rehabilitation works, carry out an environmental impact assessment in accordance with the procedures set forth in the ESMF and EMP, and in a form satisfactory to the Association;
 - (b) in the event that an environmental impact assessment determines that such civil works, if carried out, would have in the opinion of the Association a potential for negative environmental impact, the Project Implementing Entity shall not carry out such rehabilitation works until an appropriate action has been discussed and agreed upon by the Recipient, the Project Implementing Entity and the Association to mitigate such potential negative impact; and
 - (c) thereafter the Project Implementing Entity shall carry out such agreed mitigation plan referred to in sub-paragraph (b) above.

2. Prior to commencement of any civil works involving resettlement or involuntary resettlement or acquisition of land, the Project Implementing Entity shall, during Project implementation, prepare and implement appropriate resettlement plans for compensation, resettlement and rehabilitation of Displaced Persons, in accordance with the RPF, and in form and substance satisfactory to the Association.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

The Project Implementing Entity shall monitor and evaluate the progress of its Respective Part of the Project and prepare Project Reports for its Respective Part of the Project in accordance with the provisions of Section 4.08 (b) of the General Conditions and on the basis of indicators set forth in Section II.A.2 of Schedule 2 to the Financing Agreement. Each such Project Report shall cover the period of one calendar quarter, and shall be furnished to the Recipient not later than two weeks after the end of the period covered by such report for incorporation and forwarding by the Recipient to the Association of the overall Project Report.

B. Financial Management, Financial Reports; Audits

1. The Project Implementing Entity shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to its Respective Part of the Project.
2. The Project Implementing Entity shall have its financial statements referred to above audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of these financial statements shall cover the period of one fiscal year of the Project Implementing Entity. The audited financial statements for each period shall be furnished to the Association not later than six months after the end of the period.

Section III. Procurement

All goods, works and services required for the Project Implementing Entity's Respective Part of the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the provisions of Section III of Schedule 2 to the Financing Agreement.

Section IV. Other Undertakings

1. The Project Implementing Entity shall ensure that all payments for services or goods received are made in full within 60 days of receipt of such claims.

2. (a) Except as the Association shall otherwise agree, the Project Implementing Entity shall not declare any dividend or make any other distribution with respect to its share capital, unless: (i) it has produced a positive operational cost coverage; and (ii) after such dividend has been paid or other distribution has been made, the current assets of the Project Implementing Entity would equal or exceed 1.2 times the current liabilities of the Project Implementing Entity.

(b) For the purposes of this paragraph 2:
 - (i) The term “current assets” means cash, all assets which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next fiscal year.
 - (ii) The term “current liabilities” means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.
 - (iii) The term “operational cost coverage” means the difference between: (a) the sum of revenue from water and sewerage charges, connection, disconnection and reconnection fees during that financial year, less an amount equivalent to one-sixth of the total of such revenue; and (b) the sum of all expenses related to operations, excluding debt service requirements and provision for depreciation amortization and other non-cash operating charges.
 - (iv) The term “debt service requirements” means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
 - (v) Whenever for the purposes of this paragraph it shall be necessary to value, in terms of the currency of the Recipient, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in

the absence of such rate, on the basis of a rate of exchange acceptable to the Association.

3. (a) Except as the Association shall otherwise agree, the Project Implementing Entity shall not, during implementation of the Project, incur any debt.
- (b) For purposes of this paragraph 3:
 - (i) The term “debt” means any indebtedness of the Project Implementing Entity maturing by its terms more than one year after the date on which it is originally incurred.
 - (ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
 - (iii) Whenever for the purposes of this paragraph it shall be necessary to value, in terms of the currency of the Recipient, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Association.