

CONFORMED COPY

CREDIT NUMBER 3771 TA

Project Agreement

(Dar es Salaam Water Supply and Sanitation Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

DAR ES SALAAM WATER AND SEWERAGE AUTHORITY

Dated June 23, 2003

CREDIT NUMBER 3771 TA

PROJECT AGREEMENT

AGREEMENT, dated June 23, 2003, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and DAR ES SALAAM WATER AND SEWERAGE AUTHORITY (DAWASA).

WHEREAS (A) by the Development Credit Agreement of even date herewith between United Republic of Tanzania (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to forty-five million Special Drawing Rights (SDR 45,000,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that DAWASA agree to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by a Subsidiary Agreement to be entered into between the Borrower and DAWASA, part of proceeds of the Credit provided for under the Development Credit Agreement will be on-lent to DAWASA and part of the proceeds provided on a grant and equity basis, on the terms and conditions set forth in the said Subsidiary Agreement; and

WHEREAS DAWASA, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) DAWASA declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall:

- (i) carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental, water, sewerage and resettlement practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project;
- (ii) duly and punctually perform in accordance with the provisions of the Development Contract, Lease Contract and the DAWASA Subloan Agreement all its obligations therein set forth and shall exercise its rights thereunder in such manner as to protect the interests of the Borrower and the Association and accomplish the purposes of the Credit; and
- (iii) cause the Operator to carry out its obligations under the Project, Lease Contract and DAWASA Subloan Agreement with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental, water, sewerage and resettlement practices.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and DAWASA shall otherwise agree, DAWASA shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. 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 1 to this Agreement.

Section 2.03. (a) DAWASA shall carry out or cause to be carried out, the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records

and reports, maintenance and land acquisition, respectively) in respect of this Agreement.

(b) For the purposes of Section 9.06 of the General Conditions and without limitation thereto, DAWASA shall, in conjunction with the Borrower:

- (i) 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 among the Association, the Borrower and DAWASA, a plan for the future operation of the Project designed to ensure its sustainability; and
- (ii) afford the Association a reasonable opportunity to exchange views with DAWASA and the Borrower on the said plan.

Section 2.04. Without limitation to its obligations under Section 2.01 of this Agreement, DAWASA shall, for the purposes of making available the counterpart contribution to the financing of the Project:

(a) replenish the Project Account up to the initial amount of seven hundred fifty million Tanzanian Shillings (Tshs 750,000,000) at the end of each Project Quarter until the completion of the Project, or whenever its balance shall be less than two hundred fifty million Tanzanian Shillings (Tshs 250,000,000); and

(b) ensure that amounts deposited into the Project Account shall be used exclusively to make payments to meet expenditures made or to be made in respect of the reasonable cost of goods, works and services for the Project in addition to those financed from the proceeds of the Credit.

Section 2.05. DAWASA shall: (a) duly perform all its obligations under the Subsidiary Agreement and except as the Association shall otherwise agree, DAWASA shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Agreement or any provision thereof; and

(b) enter into the DAWASA Subloan Agreement with the Operator, for purposes of Part D.1 of the Project, under terms and conditions which shall have been approved by the Association which shall include the following:

- (i) the principal amount of the subloan shall be the equivalent in Tanzanian Shillings of five million five hundred thousand United

States Dollars (US\$5,500,000) and shall be repaid by the Operator to DAWASA over a period of ten (10) years, including a grace period of five (5) years with the interest capitalized and repaid under the same terms and conditions as the principal amount; and

- (ii) interest shall be charged on the outstanding balance of the subloan at a rate of eleven and one-half per cent (11^{1/2}%) per annum.

Section 2.06. (a) DAWASA shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Subsidiary Agreement, and other matters relating to the purposes of the Credit.

(b) DAWASA shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by DAWASA of its obligations under this Agreement and under the Subsidiary Agreement.

ARTICLE III

Management and Operations of DAWASA

Section 3.01. DAWASA shall or shall cause the Operator to carry on its operations and conduct its affairs in accordance with sound administrative, engineering, financial and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. DAWASA shall or shall cause the Operator to all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and environmental practices.

Section 3.03. DAWASA shall or shall cause the Operator to take out and maintain with responsible insurers, or make other provision satisfactory to the Association for insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) DAWASA shall maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Association, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project and DAWASA's general operations.

(b) DAWASA shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each Fiscal Year audited, in accordance with auditing standards acceptable to the Association, 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 copies of the financial statements referred to in paragraph (a) of this Section, for such year as so audited, and (B) an opinion on such statements and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

Section 4.02. (a) Without limitation upon DAWASA's reporting obligations set out in paragraphs 5 and 6 of Schedule 2 to this Agreement, DAWASA shall prepare and furnish to the Association a Financial Monitoring Report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;

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

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

Section 4.03. Internal Funds Generation: (a) Except as the Association shall otherwise agree, DAWASA shall produce, for each of its Fiscal Years from its Fiscal Year ending on June 30, 2006, an annual average of the funds from internal sources produced for that year and the two previous fiscal years equivalent to not less than 10% of the annual average of the DAWASA's capital expenditures incurred for that year and the two previous Fiscal Years.

(b) Before January 1 in each of its Fiscal Years, DAWASA shall, on the basis of forecasts prepared by DAWASA and satisfactory to the Association, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following Fiscal Year and shall furnish to the Association a copy of such review upon its completion.

(c) If any such review shows that DAWASA would not meet the requirements set forth in paragraph (a) for DAWASA's Fiscal Years covered by such review, DAWASA shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its rates) in order to meet such requirements.

(d) For the purposes of this Section:

- (i) The term "funds from internal sources" means the difference between:
 - (A) the sum of revenues from all sources related to operations, consumer deposits and consumer contributions in aid of construction, net non-operating

income and any reduction in working capital other than cash; and

(B) the sum of all expenses related to operations, including administration, maintenance and taxes and payments in lieu of taxes (excluding provision for depreciation and other non-cash operating charges), debt service requirements, all cash dividends and other cash distributions of surplus, increase in working capital other than cash and other cash outflows other than capital expenditures.

(ii) The term "net non-operating income" means the difference between:

(A) revenues from all sources other than those related to operations; and

(B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.

Section 4.04. Leverage: (a) Except as the Association shall otherwise agree, DAWASA shall not incur any debt, if after the incurrence of such debt the ratio of debt to total capitalization shall be greater than 1 to 3.33.

(b) For purposes of this Section:

(i) The term "debt" means any indebtedness of DAWASA maturing by its terms more than one year after the date on which it is originally incurred.

(ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(iii) The term "equity" means the sum of the total unimpaired paid-up capital, retained earnings and reserves of DAWASA not allocated to cover specific liabilities.

- (iv) The term "total capitalization" means the sum of equity, net amount of deferred grants received from the Borrower, cumulative retained earnings and any revaluation reserves.
- (v) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, 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.

Section 4.05. Debt Service Coverage: (a) Except as the Association shall otherwise agree, DAWASA shall produce for the Fiscal Year ending June 30, 2008, and each Fiscal Year thereafter, a net revenue equal to at least 1.2 times the estimated debt service requirements of DAWASA in the following Fiscal Year.

(b) Before January 1 in each Fiscal Year, DAWASA shall, on the basis of forecasts prepared by DAWASA and satisfactory to the Association, review whether it would meet the requirements set forth in paragraph (a) of this section in respect of each such Fiscal Year and the next following Fiscal Year and shall furnish to the Association a copy of such review upon its completion.

(c) If any such review shows that DAWASA would not meet the requirements set forth in paragraph (a) of this section for DAWASA's Fiscal Years covered by such review, DAWASA shall promptly take all necessary measures (including without limitation, adjustments of the structure or levels of its rates) in order to meet such requirements.

(d) For the purposes of this Section:

- (i) The term "debt" means any indebtedness of the DAWASA maturing by its terms more than one year after the date on which it is originally incurred.
- (ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

- (iii) The term "net revenues" means the difference between:
 - (A) the sum of revenues from all sources related to operations, net non-operating income and the total increase in the annual additional rental fee between that Fiscal Year and the next Fiscal Year, and for purposes of this provision, the term "additional rental fee" means the monthly payment made to DAWASA by the Operator as further defined in Appendix K of the Lease Contract; and
 - (B) the sum of all expenses related to operations including administration, maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.

- (iv) The term "net non-operating income" means the difference between:
 - (A) revenues from all sources other than those related to operations; and
 - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.

- (v) 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.

- (vi) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Association.

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of DAWASA thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) the date fifteen years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify DAWASA of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telex or facsimile to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. Deliveries made by facsimile transmission shall also be confirmed by mail. The addresses so specified are:

For the Association:

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

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

For DAWASA:

P. O Box 1573
Dar es Salaam
United Republic of Tanzania

Cable address:	Telex:	Facsimile:
		(255) 22 2110999

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of DAWASA may be taken or executed by the Chief Executive Officer or such other person or persons as the Chief Executive Officer shall designate in writing, and DAWASA shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Judy M. O'Connor

Authorized Representative

DAR ES SALAAM WATER AND SEWERAGE AUTHORITY

By /s/ Gray S. Mgonja

Authorized Representative

SCHEDULE 1

Procurement

Section I. Procurement of Good and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

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 provision shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Works estimated to cost more than \$50,000, but less than \$1,000,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines. Bidders shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Goods estimated to cost less than \$300,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping/ Procurement from UN Agencies

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$250,000 equivalent, may be procured under contracts awarded on the basis of international/national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines or from the Inter-Agency Procurement Services Organization in accordance with the provisions of paragraph 3.9 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$1,550,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

4. Procurement for Part D.1 of the Project

Works, goods and services required for Part D.1 of the Project may be procured in accordance with the provisions of paragraph 3.13 of the Guidelines.

5. Direct Contracting:

Goods and works required for emergency rehabilitation/remedial works under Part D.4 of the Project costing \$1,800,000 equivalent or less in the aggregate, may with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 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: (a) the first two contracts for works estimated to cost less than \$1,000,000 equivalent each, and thereafter, each contract estimated to cost \$1,000,000 or more; and (b) the first two contracts for goods estimated to cost less than \$300,000 equivalent, and thereafter, each contract estimated to cost \$300,000 equivalent 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 Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Section.

Part B: Quality- and Cost-based Selection

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

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

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

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

2. Selection Based on Consultants' Qualifications

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

3. Single Source Selection

Services required under Parts C and D of the Project may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

Services of individual consultants shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals.

2. Prior Review

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

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

3. Training programs prepared under Parts C.3 and D.3 of the Project shall be furnished to the Association for its prior review and approval.

4. Post Review

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

SCHEDULE 2

Implementation Program

1. Project Management:

DAWASA shall:

(a) carry out and cause the Operator to carry out Parts A.1, A.3 and A.4 of the Project in accordance with the POM, and except as the Association shall otherwise agree, shall not amend or waive, any provisions of the POM, if such amendment or waiver, may in the opinion of the Association, materially or adversely affect the implementation of the Project.

(b) maintain an Operator acceptable to the Association in accordance with the terms of the Lease Contract.

(c) appoint and retain, as necessary, until completion of the Project financial, engineering, legal, environmental and communication specialists, under terms of reference and with qualifications and experience satisfactory to the Association, in accordance with Section II of Schedule 1 to this Agreement and Part D.2 of the Project, to provide advice on issues that arise during Project implementation.

(d) without limitation to the provisions of Article 4 of the Development Credit Agreement and this Agreement, carry out technical and financial audits and submit for the review of the Association by December 31 of each Fiscal Year commencing in FY2004, a financial and technical audit report on the performance of the Operator, including but not limited to the Operator's implementation of the Delegated Works Program, management of the Connection Fund, Customer Contracts, the certification of emergency works carried out under Part D.4 of the Project, compliance with the provisions of the Lease Contract and general Project implementation.

(e) without limitation to the provisions of Article 4 of the Development Credit Agreement and this Agreement, carry out a technical and financial audit of the community water supply and sanitation program under Part C of the Project, and submit for the review of the Association by December 31 of each Fiscal Year commencing in FY2004, a financial and technical report on the status of this component.

(f) cause the Operator to submit for the review and approval of the Association an annual procurement plan for the Delegated Works Program, under Part A.3 of the Project, by March 31 of each Fiscal Year of Project implementation.

(g) collaborate with MWLD in the implementation of Parts D.3 and D.5 of the Project, such areas of collaboration including but not limited to the clearance of terms of reference, supervision of output reports and authorization of payments for completed consultancies.

(h) submit to the Association copies of all reports submitted under Article 41 of the Lease Contract including the Annual Review, the Interim Review and the Major review and any subsequent communications between EWURA and DAWASA addressing issues identified in such reviews.

(i) appoint an independent expert to carry out a review of the institutional arrangements for the provision of water and sewerage services by June 30, 2006, for discussion during the Project's midterm review, in accordance with Part D.2 (c) of the Project.

2. Safeguard Policies:

DAWASA shall:

(a) (i) ensure that the Project is carried out in accordance with the provisions of the Resettlement Policy Framework and the EMP, and except as the Association shall otherwise agree, shall not amend or waive any provision of the aforementioned, if such amendment or waiver may, in the opinion of the Association materially or adversely affect the implementation of the Project; and (ii) ensure that resettlement action plans are prepared, as needed, in accordance with the Resettlement Policy Framework, and submitted to the Association for its approval, prior to implementation of such plans.

(b) ensure that an environmental adviser with qualifications, experience and terms of reference that are satisfactory to the Association is retained, as necessary, throughout Project implementation, as required under Part D.2 of the Project to provide advice on environmental issues that arise during Project implementation and ensure that the Project is implemented in accordance with the provisions of the EMP and the Resettlement Policy Framework.

3. Subprojects under Part C of the Project:

(a) Management

DAWASA shall maintain until completion of the Project: (i) a Community Liaison Office acceptable to the Association responsible for the management and coordination of Part C of the Project; and (ii) a Steering Committee comprising

membership from DAWASA, the Dar es Salaam city council, municipal councils and the Operator, with terms of reference acceptable to the Association, including inter alia the overall supervision of the implementation of Part C of the Project, approval of Subproject proposals and budgets, and the provision of operating guidelines to the Community Liaison Office, as set forth in Part F of the POM.

(b) NGOs

In order to be eligible for the award of contracts under procedures referred to in Schedule 1 to this Agreement, NGOs participating in Part C of the Project shall meet criteria including but not limited to the following: (i) proven experience in comparable community development activities in the territory of the Borrower and in participatory project design and implementation; (ii) proven technical expertise in their area of intervention; (iii) adequate financial and administrative capacity; and (iv) compliance with registration requirements under the laws of the Borrower.

(c) Procedures for the Preparation, Evaluation, Approval and Implementation of Subprojects

- (i) Potential Beneficiaries shall be assisted in the preparation of Subproject proposals by NGOs selected for this purpose in accordance with the criteria stipulated in paragraph 3 (b) above.
- (ii) Subproject proposals shall be submitted for the review and approval of the Steering Committee and selected Subprojects must satisfy the eligibility criteria set forth in Part F of the POM, including inter alia, the following:
 - (A) that the Subproject is economically, financially and technically viable in accordance with standards set forth therein;
 - (B) that an environmental impact assessment has been carried out and an environment management plan prepared to mitigate against any potential risks to the environment;
 - (C) that each potential Beneficiary shall provide a counter-part contribution in cash or in kind, and if in cash, open a bank account for the deposit of such contribution, which shall be an amount equivalent to 5% of the cost of the

Subproject, whether such contribution is in cash or in kind;

- (D) that the Beneficiary has agreed to assume all the operation and maintenance costs with respect to the Subproject; and
 - (E) that the Subproject is in compliance with the standards set forth in the applicable laws of the Borrower relating to health, safety and environmental protection.
- (iii) The Steering Committee shall approve Subprojects semi-annually, and the selected Subprojects shall constitute the proposed work program for the year.
- (iv) After the selection of the Subproject Beneficiaries, the selected NGOs shall inter alia:
- (A) assist the Beneficiaries in the establishment and registration of WUAs to manage the implementation of the Subprojects on behalf of the Beneficiaries;
 - (B) supervise the implementation of the Subproject on behalf of the Beneficiary with due diligence and efficiency, in accordance with the POM and sound technical, financial, environmental and managerial standards;
 - (C) maintain adequate records reflecting the operations, resources and expenditures incurred under the Subproject in accordance with sound accounting practices acceptable to the Association, and submit such records to DAWASA to facilitate preparation of Project financial statements;
 - (D) procure works to be financed from the proceeds of the Credit in accordance with the procedures set forth in Schedule 1 to this Agreement on behalf of DAWASA for use exclusively in the implementation of the Subprojects; and

- (E) prepare for each Subproject quarterly progress reports and a final completion report.
- (v) DAWASA shall enter into a Subproject Agreement with the WUA for each Beneficiary under terms and conditions which shall include the following:
- (A) financing for the Subprojects shall be on a grant basis, with procurement of goods and services carried out for the Beneficiary by DAWASA, and of works by selected NGOs, on behalf of DAWASA, in accordance with the procedures set forth in Schedule 1 to this Agreement;
 - (B) maintenance of adequate records reflecting the operations, resources and expenditures incurred under the Subproject in accordance with sound accounting practices acceptable to the Association, shall be carried out by the selected NGO for the Beneficiary to facilitate the preparation of Project financial statements by DAWASA;
 - (C) the right of DAWASA to inspect by itself or jointly with the Association, if the Association shall so request, the goods, works and operations for the Subproject, and any relevant records or documents;
 - (D) quarterly progress reports and a final completion report for the Subproject shall be prepared by a selected NGO on behalf of a Beneficiary;
 - (E) the right to suspend or terminate the right of the Beneficiary to benefit from the use of the proceeds of the Credit for the Subproject, upon failure by the Beneficiary to perform any of its obligations under the Subproject Agreement; and
 - (F) that the Beneficiary has agreed to assume all the operation and maintenance costs with respect to the Subproject.

4. Studies under Part E of the Project:

DAWASA shall:

(a) prepare a national urban water supply and sanitation strategy by June 30, 2005;

(b) carry out a feasibility study on surface and ground water options for water production for the DAWASA Designated Area and prepare a regional environmental assessment and mitigation plan, both acceptable to the Association, by June 30, 2006;

(c) carry out a water demand assessment, feasibility studies and the design work for the construction of additional water production, transmission and distribution facilities by June 30, 2007;

(d) develop a strategic sanitation plan on waste management and storm water drainage by June 30, 2006; and

(e) carry out a feasibility study for the construction of waste water management facilities and associated design work by June 30, 2007.

5. Annual Reviews:

DAWASA shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 5 to the Development Credit Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) submit to the Association, no later than six months after the close of each Fiscal Year, commencing FY 2003/2004, an annual report reviewing the progress in Project implementation during the previous year, having regard to the monitoring indicators referred to in subparagraph (a) of this paragraph; and

(c) following the submission of each annual report, act promptly and diligently to take any corrective action agreed with the Association to remedy any shortcomings identified in Project implementation, in furtherance of the objectives of the Project.

6. Midterm Review:

DAWASA shall:

(a) carry out jointly with the Association and the Borrower, no later than June 30, 2006, a midterm review to assess the status of Project implementation, as measured against the performance monitoring indicators set forth in Schedule 5 of the Development Credit Agreement;

(b) prepare, jointly with the Borrower, after the aforementioned review and under terms of reference satisfactory to the Association, a report to be submitted to the Association 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 the 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, jointly with the Association and the Borrower, the report referred to in paragraph (b) of this Section, and thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.