

CONFORMED COPY

CREDIT NUMBER 3771 TA

Development Credit Agreement

(Dar es Salaam Water Supply and Sanitation Project)

between

UNITED REPUBLIC OF TANZANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 23 , 2003

CREDIT NUMBER 3771 TA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 23, 2003, between UNITED REPUBLIC OF TANZANIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Association has received a letter from the Borrower dated March 28, 2003, describing a program of actions, objectives and policies to improve the performance of its water supply and sanitation sector (the Program) and declaring the Borrower's commitment to the execution of such Program;

(C) the Project will be carried out by the Dar es Salaam Water and Sewerage Authority (DAWASA) with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the credit provided for in Article II of this Agreement (the Credit) available to DAWASA as set forth in this Agreement;

(D) the Borrower also intends to contract additional loans from: (i) the African Development Bank (AfDB) (the AfDB loan) to assist in the financing of the Project under terms and conditions to be set forth in an agreement to be entered between the Borrower and AfDB (the AfDB Loan Agreement); and (ii) the European Investment Bank (EIB) (the EIB loan) to assist in the financing of the Project under terms and conditions to be set forth in an agreement to be entered into between the Borrower and EIB (the EIB Loan Agreement); and

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 and in the agreement of even date herewith between the Association and DAWASA (the Project 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 (as amended through October 6, 1999 (the General Conditions), constitute an integral part of this Agreement.

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

(a) “Annual Review” means the review referred to in Article 41.5 of the Lease Contract (as hereinafter defined);

(b) “Beneficiary” means a local community group(s), represented by a WUA (as hereinafter defined) within the DAWASA Designated Area (as hereinafter defined), to which or for whose benefit a Subproject Grant (as hereinafter defined) is to be given for the implementation of a Subproject (as hereinafter defined) under Part C.1 of the Project, and Beneficiaries shall mean all such Beneficiaries collectively;

(c) “CBO” means a Community-Based Organization operating under the laws of the Borrower and meeting the criteria provided in the POM (as hereinafter defined);

(d) “Community Liaison Office” means the office referred to in paragraph 3 (a) (i) of Schedule 2 to the Project Agreement;

(e) “Connection Fund” means a fund to be established by the Operator, on behalf of DAWASA, from customer tariffs and used to finance the construction of first-time domestic water supply connections within the DAWASA Designated Area (as hereinafter defined), and referred to in paragraph 1 (d) of Schedule 2 to the Project Agreement;

(f) “Customer Contract” means a contract to be entered into between the Operator (as hereinafter defined) and a customer for the provision of water and/or sewerage services, and referred to in paragraph 1 (d) of Schedule 2 to the Project Agreement;

(g) “DAWASA” means the Dar es Salaam Water and Sewerage Authority, established pursuant to the DAWASA Act No. 20 of 2001;

(h) “DAWASA Designated Area” means the designated area of Project implementation for purposes of Parts A, B, C, D, E.1, E.2 and E.3 of the Project, covering Dar es Salaam and part of the Coast region, as further defined in the Lease Contract (as hereinafter defined);

(i) “DAWASA Subloan Agreement” means an agreement to be entered into between DAWASA and the Operator (as hereinafter defined), setting forth the terms and conditions under which a subloan shall be provided by DAWASA to the Operator (as hereinafter defined) for the procurement of goods, works and services under Part D.1 of the Project;

(j) “Delegated Works Program” means the activities referred to in Part A.3 of Schedule 2 to this Agreement, to be carried out by the Operator (as hereinafter defined) on behalf of DAWASA, as further described in the Lease Contract (as hereinafter defined);

(k) “Development Contract” means a contract to be entered into between the Borrower and DAWASA in a form and substance that is satisfactory to the Association, outlining inter alia the terms and conditions under which the water supply and sewerage services are to be developed by DAWASA, details of the capital investment programs and their financing, and the tariff structure;

(l) “EMP” means the environmental management plan dated January 2003, satisfactory to the Association, describing measures for the mitigation of the environmental impact of the Project, as the same may be updated from time to time with the approval of the Association;

(m) “EWURA” means the Energy and Water Utilities Regulatory Authority established pursuant to section 4 of the EWURA Act No. 11 of 2001;

(n) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of the Project Agreement;

(o) “Fiscal Year” or “FY” means DAWASA’s fiscal year which commences on July 1 of each calendar year and ends on June 30 of the following calendar year;

(p) “Interim Review” means the review referred to in Article 41.4 of the Lease Contract (as hereinafter defined);

(q) “Lease Contract” means the ten-year contract, dated February 19, 2003, entered into between DAWASA and the Operator (as hereinafter defined) specifying the terms and conditions under which DAWASA has contracted out its commercial and technical operations to the Operator (as hereinafter defined);

(r) “Major Review” means the review referred to in Article 41.3 of the Lease Contract;

(s) “MWLD” means the Borrower’s Ministry of Water and Livestock Development;

(t) “NGO” means a non-governmental organization established and operating under the Societies Ordinance, Chapter 337 of the laws of the Borrower;

(u) “Non-delegated Works Program” means the activities referred to in Parts A.2 and B.1 of the Project, to be carried out by DAWASA, as further described in the Lease Contract;

(v) “Operator” means City Water Services Limited, a company established and operating under the Companies Ordinance, Chapter 212 of the laws of the Borrower, or its successor, to carry out on behalf of DAWASA its commercial and technical operations, as further defined in the Lease Contract;

(w) “POM” means the Project operations manual, satisfactory to the Association, which collectively consists of: Part A: Project Implementation Plan; Part B: Financial Management Manual; Part C: Procurement Manual; Part D: Project Administration Manual; Part E: Safeguards Manual; and Part F: Community Water Supply & Sanitation Program Manual, as the same may be amended from time-to-time with the concurrence of the Association;

(x) “Priority Works Program” means the emergency rehabilitation activities referred to in Part A.1 of Schedule 2 to this Agreement to be carried out by the Operator on behalf of DAWASA, as further described in the Lease Contract;

(y) “Project Account” means the account referred to in Section 3.04 of this Agreement;

(z) “Project Agreement” means the agreement between the Association and DAWASA of even date herewith, as the same may be amended from time-to-time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(aa) “Project Preparation Advances” means the two project preparation advances granted by the Association to the Borrower pursuant to the respective terms of the letter agreements signed on behalf of the Association on November 4, 1998 and June 21, 1999 and on behalf of the Borrower on November 12, 1998 and July 2, 1999;

(bb) “Project Quarter” means the three-month period beginning from the Effective Date and ending three months thereafter (the First Project Quarter) and any subsequent three-month period thereafter;

(cc) “Resettlement Policy Framework” means the framework dated January 2003, agreed with the Association for the compensation of persons affected by the construction activities to be implemented under the Project;

(dd) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;

(ee) “Steering Committee” means the committee referred to in paragraph 3 (a) (ii) of Schedule 2 to the Project Agreement;

(ff) “Subproject” means a specific water and/or sanitation Subproject financed or to be financed by a Subproject Grant (as hereinafter defined) provided from the proceeds of the Credit under Part C.1 of the Project;

(gg) “Subproject Agreement” means an agreement to be entered into between DAWASA and the Beneficiary’s WUA (as hereinafter defined), and referred to in paragraph 3 (c) (v) of Schedule 2 to the Project Agreement;

(hh) “Subproject Grant” means a grant made or proposed to be made by DAWASA to, or for the benefit of a Beneficiary, finance a Subproject;

(ii) “Subsidiary Agreement” means the agreement to be entered into between the Borrower and DAWASA pursuant to Section 3.01 (c) of this Agreement with respect to both the loan and grant portions of the proceeds of the Credit, as the same may be amended from time-to-time, and such term includes all schedules to the Subsidiary Agreement;

(jj) “Tanzanian Shillings” or “Tshs” means the currency of the Borrower;
and

(kk) "WUA" means a Water User Association established by a Beneficiary under the Societies Ordinance, Chapter 337 of the laws of the Borrower, to plan and manage water and sanitation facilities on its behalf.

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 forty-five million Special Drawing Rights (SDR 45,000,000).

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: (i) 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 and to be financed out of the proceeds of the Credit; and (ii) amounts paid (or if the Association shall so agree, amounts to be paid) under Part C of the Project to meet the reasonable costs of goods, works and services required for a Subproject in respect of which withdrawal from the Credit Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in United States Dollars a separate special deposit account in a commercial bank 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 Account shall be made in accordance with the provisions of Schedule 4 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 Advances withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amounts of the Project Preparation Advances shall thereupon be canceled.

Section 2.03. The Closing Date shall be December 31, 2008, 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 and 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 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), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 15 and November 15 commencing November 15, 2013 and ending May 15, 2043. Each installment to and including the installment payable on May 15, 2023 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 per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; 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 repayment of installments under paragraph (a) above by:

- (A) 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; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above 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.

(d) 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. To this end, without any limitation or restriction upon any of its other obligations under this Agreement, the Borrower shall:

- (i) duly and punctually perform in accordance with the provisions of the Development Contract 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

- (ii) cause DAWASA to perform in accordance with the provisions of the Project Agreement and the Development Contract all the obligations of DAWASA therein set forth, take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable DAWASA to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) 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 or cause the Project to be carried out in accordance with the implementation program set forth in Schedule 3 to this Agreement.

(c) The Borrower shall enter into a Subsidiary Agreement with DAWASA, under terms and conditions which shall have been approved by the Association, and shall include the following:

- (i) part of the proceeds of the Credit in the amount of forty million United States Dollars equivalent (US\$40,000,000), shall be provided by the Borrower on a grant or equity basis to finance the expenditures under Categories 1, 2, 3 and 4 of Schedule 1 to this Agreement for Parts A, B, C, D and E of the Project;
- (ii) part of the proceeds of the Credit in the amount of twenty-one million five hundred thousand United States Dollars equivalent (US\$21,500,000) shall be re-lent to DAWASA to finance the expenditures under Categories 1, 2, 3 and 5 of Schedule 1 to this Agreement for Parts A, B, C, D and E of the Project, under terms and conditions that shall have been approved by the Association which shall include the following:
 - (A) the principal amount of the subsidiary loan shall be repaid by DAWASA in Tanzanian Shillings to the Borrower over fifteen (15) years, including a grace period of five (5) years, with the interest incurred during such grace period capitalized and repaid under the same terms and conditions as the principal amount;

- (B) the principal amount of the subsidiary loan repayable by DAWASA shall be the equivalent in Tanzanian Shillings of the value of the currency or currencies withdrawn from the Special Account, determined as of the date, or respective dates of withdrawal from such account;
- (C) interest shall be charged on the outstanding balance of the subsidiary loan at a rate of eleven and one-half per cent ($11\frac{1}{2}\%$) per annum; and
- (D) the foreign exchange risk shall be borne by the Borrower; and

(iii) for purposes of Section 3.01 (c) (i), grants received for DAWASA's capital expenditures shall be recorded as equity.

(d) 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.

Section 3.02. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall, in conjunction with DAWASA:

(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 designed to ensure its sustainability; and

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

Section 3.03. The Borrower and the Association hereby agree that 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) shall be carried out by DAWASA pursuant to Section 2.03 of the Project Agreement.

Section 3.04. The Borrower shall for purposes of making the counterpart contribution to the financing of the Project:

(a) open and thereafter maintain, until the completion of the Project, a Project Account in Tanzanian Shillings in a commercial bank on terms and conditions satisfactory to the Association;

(b) deposit into the Project Account an initial contribution of five hundred million Tanzanian Shillings (Tshs 500,000,000) by the Effective Date, as provided in Section 6.01 (f) of this Agreement, and an additional deposit of two hundred fifty million Tanzanian Shillings (Tshs 250,000,000) within the First Project Quarter;

(c) thereafter cause DAWASA to replenish the said 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

(d) 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.

ARTICLE IV

Financial Covenants

Section 4.01. (a) 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 sound accounting practices, records and separate accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained 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 was made; and
- (iii) enable the Association's representatives to examine such records.

(b) The Borrower shall or cause DAWASA to:

- (i) have the records and accounts referred to in paragraph (a) (i) of this Section and 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 the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including 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; and
- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (l) 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 Borrower shall have failed to perform an obligation under the Development Contract which in the opinion of the Association would have a material and adverse effect on the implementation of the Project, or shall have amended or caused to be amended any of the provisions of the Development Contract without the prior approval of the Association.

(c) DAWASA shall have failed to perform any of its obligations under the Project Agreement and the Development Contract, or shall have amended or caused to be amended any of the provisions of the Development Contract without the prior approval of the Association.

(d) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that DAWASA will be able to perform its obligations under the Project Agreement.

(e) DAWASA or the Operator shall have failed to perform their respective obligations under the Lease Contract or the DAWASA Subloan Agreement, or shall have amended or caused to be amended any of the provisions of the said contract or agreement without the approval of the Association.

(f) DAWASA or the Operator shall, have in the opinion of the Association, changed its legal character, ownership or control from that prevailing as of the Effective Date of this Agreement, so as to materially and adversely affect the ability of DAWASA or the Operator to perform any of their respective obligations arising under or entered into pursuant to this Agreement, or to achieve the objectives of the Project.

(g) The DAWASA Act or the EWURA Act shall have been amended, suspended, abrogated, repealed or waived so as to, in the opinion of the Association, affect materially and adversely the ability of DAWASA and EWURA to perform their respective obligations with respect to the Project.

(h) EWURA shall have revoked the licenses of DAWASA and/or the Operator.

(i) The AfDB Loan or the EIB Loan shall have failed to become effective within twelve (12) months of the Effective Date of this Agreement.

(j) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of the EIB Loan or the AfDB Loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the respective terms of the EIB Loan Agreement and the AfDB Loan Agreement; or

(B) the EIB Loan or the AfDB Loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that:

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

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

- (a) any of the events specified in paragraphs (b), (c) and (e) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Association to the Borrower;
- (b) any of the events specified in paragraphs (f), (g) (h) and (i) of Section 5.01 of this Agreement shall occur; and
- (c) the event specified in paragraph (j) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (j) (ii) of that Section.

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) the Subsidiary Agreement has been executed on behalf of the Borrower and DAWASA;
- (b) the Development Contract has been executed on behalf of the Borrower and DAWASA;
- (c) the DAWASA Subloan Agreement has been executed on behalf of DAWASA and the Operator;

(d) an initial contribution to the capital stock of the Operator in the amount of two million five hundred thousand United States Dollars equivalent (US\$2,500,000) has been paid by the Operator;

(e) DAWASA has appointed an engineering and a financial advisor, a financial and technical auditor, and construction supervision consultants to assist in Project implementation, in accordance with the provisions of Schedule 1 to the Project Agreement, and with qualifications and experience that are satisfactory to the Association; and

(f) DAWASA has opened a Project Account and the initial contribution of Tshs 500,000,000 has been deposited therein.

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

(a) that the Project Agreement has been duly authorized by DAWASA, and is legally binding upon DAWASA in accordance with its terms;

(b) that the Subsidiary Agreement has been duly authorized or ratified by the Borrower and DAWASA and is legally binding upon the Borrower and DAWASA in accordance with its terms;

(c) that the execution and delivery of the Development Contract have been duly authorized or ratified by the Borrower and DAWASA by all necessary action and are legally binding upon the Borrower and DAWASA in accordance with their respective terms;

(d) that the execution and delivery of the DAWASA Subloan Agreement have been duly authorized or ratified by DAWASA and the Operator by all necessary action and are legally binding upon DAWASA and the Operator in accordance with their respective terms; and

(e) that the execution and delivery of the Lease Contract has been duly authorized or ratified by DAWASA and the Operator by all necessary action and are legally binding upon DAWASA and the Operator in accordance with their respective terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of the Borrower responsible for Finance 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:	Facsimile:
TREASURY Dar es Salaam	41329	(255) 222 11 77 90

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

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/ Gray S. Mgonja

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Judy M. O'Connor

Authorized Representative

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:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDRs)</u>	<u>% of Expenditures to be Financed</u>
(1) Works for Parts A, C and D.5 of the Project	14,250,000	100% of foreign expenditures and 80% of local expenditures
(2) Goods for Parts A, C, D.4 and D.5 of the Project	6,300,000	100% of foreign expenditures and 80% of local expenditures
(3) Consultants' Services (including audits) for Parts A, B.2, C, D.2, D.5 and Part E of the Project	16,900,000	93%
(4) Training for Parts C.3 and D.3 of the Project	350,000	100%
(5) Operating Costs of the Operator under Part D.1 of the Project	4,000,000	85%
(6) Refunding of Project Preparation Advance	850,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(7) Unallocated	2,350,000	
	<u>45,000,000</u>	
TOTAL	=====	

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods, works or services supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower for goods, works, or services supplied from the territory of the Borrower; provided, however, that, if the currency of the Borrower is also that of another country from the territory of which goods, works or services are supplied, expenditures in such currency for such goods, works or services shall be deemed to be “foreign expenditures; and

(c) “Operating Costs” means the following costs incurred by the Operator in carrying out commercial and technical operations on behalf of DAWASA, as further defined in the Lease Contract: water and sanitation equipment, spare parts, chemicals, construction of offices and depots, vehicles, office equipment, software, mapping, utilities, and short term consultancies.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for contracts for: (a) consulting firms not exceeding \$100,000 equivalent each; (b) individual consultants not exceeding \$50,000 equivalent each; (c) works not exceeding \$500,000 equivalent each; (d) goods not exceeding \$300,000 equivalent each; and (e) training, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to provide reliable, affordable and sustainable water supply and sanitation services in the DAWASA Designated Area through: (a) rehabilitation of facilities for production, transmission, storage and distribution of drinking water, and waste water collection and treatment; (b) extension of piped water supplies; and (c) reorganization of DAWASA's operations to achieve effective service delivery and financial sustainability.

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 Extension of Water Supply Facilities

1. Priority Works Program: (a) emergency rehabilitation of the Upper Ruvu, Lower Ruvu and Mtoni water supply production units and transmission mains; and (b) acquisition of approximately one hundred seventy-three thousand (173,000) customer meters.
2. Non-delegated Works Program: (a) rehabilitation of: (i) water supply production units and transmission mains on the Upper Ruvu, Lower Ruvu and the Mtoni water production units, including inter alia washouts, valves, flow meters, pressure reducers, chambers, thrust blocks and river crossings; and (ii) water storage reservoirs at the University of Dar es Salaam and Kimara; and (b) construction of a 5,000 m³ water storage reservoir in Mbezi.
3. Delegated Works Program: (a) rehabilitation of secondary distribution pipes, approximately 135,000 connections, and water kiosks; and (b) extension of secondary distribution pipes including the construction of approximately 900 kilometers of small diameter pipes, 35,000 new connections, and 250 water kiosks.
4. Provision of technical advisory services for the supervision of the implementation of this component.

Part B: Rehabilitation and Extension of Sewerage and Waste Water Treatment Facilities

1. (a) Desludging and rehabilitation of nine stabilization ponds; (b) rehabilitation of approximately 170 kilometers of sewers, 3,100 manholes, a one kilometer marine outfall, 15 pumping stations and the Buguruni casting facility.
2. Provision of technical advisory services for the supervision of the implementation of this component.

Part C: Community Water Supply and Sanitation Facilities

1. Provision of Subproject Grants to Beneficiaries to finance the cost of civil works, equipment and technical advisory services for the implementation of Subprojects, including inter alia bulk supply points, stand alone boreholes, pump houses, water storage facilities and distribution networks.
2. Carrying out of a hygiene awareness campaign through the development of media programs and community consultations.
3. Carrying out of training to CBOs and NGOs selected to provide assistance to Beneficiaries on inter alia the identification, design and implementation of Subprojects, management of water and sanitation facilities, monitoring and evaluation, and financial management.

Part D: Institutional Strengthening

1. Assistance to the Operator, including the construction of offices and depots, and the provision of goods and services.
2. (a) Provision of financial, engineering, legal, environmental and communication technical advisory services to assist DAWASA in its operations; (b) technical and financial audits; and (c) an assessment of the institutional arrangements for the provision of water and sewerage services.
3. Provision of training to staff from DAWASA and MWLD on regulation and pricing of water and sanitation services, procurement and project management.
4. Strengthening the operational capacity of DAWASA through: (a) the acquisition of office and operational equipment, spare parts and vehicles; and (b) maintenance of water supply and sanitation infrastructure.

5. Strengthening the operational capacity of the Wami/Ruvu river Basin Office through: (a) the construction of gauging stations; and (b) provision of technical advisory services, vehicles, computers and flow measurement equipment.

Part E: Preparation of a Medium-Term Water Supply and Sanitation Development Program

1. (a) Carrying out of a feasibility study on surface and ground water options for water production for the DAWASA Designated Area, including an assessment of the capacity of aquifers and the identification of future raw water sources; and (b) the preparation of an environmental assessment and mitigation plan.

2. Carrying out of a water demand assessment, feasibility studies and the design work for the construction of additional water production, transmission and distribution facilities.

3. (a) development of a strategic sanitation plan on waste management and storm water drainage; and (b) carrying out of a feasibility study and design work for the construction of waste management facilities; and

4. Development of a national urban water supply and sanitation strategy.

* * *

The Project is expected to be completed by June 30, 2008.

SCHEDULE 3

Implementation Program

1. Project Management:

The Borrower shall:

(a) ensure that the Project is carried out 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; and

(b) cause MWLD to collaborate with DAWASA 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.

2. Safeguard Policies:

The Borrower shall:

(a) (i) ensure that the Project is implemented 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, until the completion of the Project as provided 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. Reporting:

(a) General

The Borrower shall cause DAWASA to provide to the Association copies of all reports submitted under Article 41 of the Lease Contract relating to the review of the Operator tariff including the Annual Review, the Interim Review and the Major Review, and subsequent communications between EWURA and DAWASA addressing issues identified in such reviews.

(b) Midterm Review

The Borrower shall:

- (i) 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 this Agreement, the carrying out of the Project and the achievement of the objectives thereof;
- (ii) participate in the midterm review referred to in paragraph 6 of Schedule 2 to the Project Agreement to take place by June 30, 2006, and in the preparation of a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and
- (iii) review, jointly with the Association and DAWASA, 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.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories 1, 2, 3, 4 and 5 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, works 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 \$5,000,000 to be withdrawn from the Credit Account and deposited into the Special Account 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 \$4,000,000 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 10,000,000.

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

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

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

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account 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 payments in respect of which 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 such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the 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 the 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 the 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;

- (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, minus the total amount of all outstanding special commitments 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 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 the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the 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 (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 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 the 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.

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

SCHEDULE 5

Performance Monitoring Indicators

1. Outcome/Impact Indicators

(a) Reliability of Service

- (i) 70% of the customers obtain 24 hour water supply service under adequate pressure.
- (ii) 100% of the water samples taken meet the water quality standards specified in the Lease Contract.
- (iii) 80% of the sewage collected is treated and 95% of effluent samples meet standards specified in the Lease Contract.

(b) Affordability of Service

- (iv) A life-line tariff for domestic customers is fully implemented.

(c) Sustainability of Service

- (v) Revenues from water and sewerage services cover all operations and maintenance costs, and allow for a 10% contribution to the construction costs of the Project.

2. Output Indicators

(a) Reliability of Service

- (i) Production capacity guaranteed at 9,000 m³/d (Mtoni); 82,000 m³/d (Upper Ruvu); and 180,000 m³/d (Lower Ruvu) by the year 2008.
- (ii) 1,040 kilometers of distribution pipes installed by the year 2008.
- (iii) 26,000 m³/day of collected sewage is treated to meet standards specified in the Lease Contract before discharge.

(b) Affordability of Service

- (i) construction of 250 new water kiosks by 2008.
- (ii) at least 80% of the new domestic water supply connections installed under the Project are financed from the Connection Fund by the year 2008.
- (iii) 50 community water and sanitation Subprojects are constructed and operating by the year 2008.

(c) Sustainability of Service

- (i) 173,000 meters installed by the year 2008.
- (ii) Unaccounted for water reduced to 35% by the year 2008.
- (iii) Combined collection ratio of private and public water supply and sewerage bills increased to 90% by the year 2008.
- (iv) Water resource management and corresponding environmental assessment carried out by the year 2007.
- (v) Water supply feasibility study and preliminary designs completed by the year 2007.
- (vi) Strategic sanitation plan completed by the year 2006.
- (vii) Sanitation feasibility study and preliminary designs completed by year 2007.
- (viii) National urban water supply and sewerage strategy prepared by year 2005.