

**CONFORMED**

**COPY**

**CREDIT NUMBER 3971 GH**

# **Development Credit Agreement**

**(Small Towns Water Supply and Sanitation Project)**

**between**

**REPUBLIC OF GHANA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated August 13, 2004**

**CREDIT NUMBER 3971 GH**

**DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated August 13, 2004, between REPUBLIC OF GHANA (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, has requested the Association to assist in the financing of the Project;

(B) the Association has received a letter dated June 4, 2004 from the Borrower describing a program of actions, objectives and policies designed to strengthen its water and sanitation sector (the "Program") and declaring the Borrower's commitment to the execution of the Program;

(C) the Borrower has requested that the Association support its execution of the Program through a series of Credits over a period of nine years, the proceeds of such Credits to be utilized by the Borrower for implementing the Program;

(D) the Parts B and C of the Project will be carried out by the Community Water and Sanitation Agency (CWSA) with the Borrower's assistance, and as part of such assistance, the Borrower will make available to CWSA a portion of the proceeds of the Credit as provided in this 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 Project Agreement of even date herewith between the Association and CWSA;

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 May 1, 2004), with the modification set forth below) (the General Conditions) constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

"Except as otherwise provided in the Development Credit Agreement, the proceeds of the Credit may be withdrawn to pay for taxes levied by, or in the

territory of, the Borrower on the goods or services to be financed under the Credit, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association's policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Credit is excessive or otherwise unreasonable, the Association may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Credit Agreement as required to be consistent with such policy of the Association."

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

(a) "Affected Persons" means a person who on account of the acquisition of land, including plantation land, for purposes of establishing relocation sites under the Project had or would have his or her: (i) standard of living adversely affected; or (ii) right, title or interest in any house, or interest in or right to use any land (including premises, agricultural and grazing land) or right in annual or perennial crops and trees or any other fixed or movable asset, acquired or possessed, temporarily or permanently; or (iii) business, occupation, work or place of residence or habitat adversely affected, temporarily or permanently, and "Affected Persons" means, collectively, all persons who qualify as an Affected Person;

(b) "AC" means an Area Council, established and operating pursuant to the Borrower's Local Government Act, No. 462 of 1993;

(c) "Beneficiary" means a CBO, Local Government Unit, group of individuals, a small town, a district or a community to whom or for whose benefit a Grant (as hereinafter defined) is made, or proposed to be made, for a Subproject under the Project;

(d) "CBO" means a Community-Based Organization;

(e) "Cedis" means the currency of the Borrower;

(f) "CWSA" means Community Water and Sanitation Agency, established and operating pursuant to the Borrower's Community Water and Sanitation Act 564 of 1998;

(g) "DA" means a District Assembly established pursuant to the Borrower's Local Government Act, No. 462 of 1993;

(h) “Decentralization Secretariat” means the secretariat under the MLGRD (as hereinafter defined) for implementation and coordination of the Decentralization Action Plan of the Borrower;

(i) “DWST” means District Water and Sanitation Teams, appointed by the respective DAs;

(j) “Environmental and Social Management Framework” means the set of mitigation, enhancement, monitoring, and institutional measures to be taken during design, implementation and operation of a Subproject to eliminate any adverse environmental and social impacts, offset them, or reduce them to acceptable levels, or to enhance positive impacts;

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

(l) "Grant" means an amount, out of the proceeds of the Credit to be made available to CBOs, Local Government Units, groups of individuals, small towns, districts and communities for the purpose of carrying out Subprojects;

(m) "Grant Agreement" means an agreement to be entered into between CWSA and a DA or between a DA and a legally constituted local community group for the purpose of carrying out a Subproject; and

(n) “Local Government Service Act” means the Borrower’s Act No. 656 of 2003;

(o) “MLGRD” means the Borrower’s Ministry of Local Government and Rural Development;

(p) “MOEYS” means the Borrower’s Ministry of Education, Youth and Sports;

(q) “MOFEP” means the Borrower’s Ministry of Finance and Economic Planning;

(r) “MOH” means the Borrower’s Ministry of Health;

(s) “National Community Water and Sanitation Program” means the Borrower’s program established in 1994 to achieve sustainability in the provision of water supply and sanitation facilities and hygiene promotion services through the adoption of a community ownership and management strategy;

(t) “MWH” means the Borrower’s Ministry of Works and Housing;

(u) “National Decentralization Action Plan” means the Borrower’s strategy for implementation of decentralization programs in the territory of the Borrower;

(v) “NGO” means a nongovernmental organization;

(w) “Project Agreement” means the agreement between the Association and CWSA 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;

(x) “POM” means the Project Operational Manual referred to in Section 6.01 (a) of this Agreement containing, inter alia, work programs, training programs, monitoring and performance indicators and procedures to be used for the purposes of implementation of the Project, as the same may be amended from time to time, in consultation with, and with the approval of, the Association, and such term includes any schedules to the Project Operational Manual;

(y) “Resettlement Policy” means the Policy Framework for Land Acquisition, Resettlement and Rehabilitation of Affected Persons, satisfactory to the Association, approved by MWH dated May 2004;

(z) “RCC” means a Regional Coordinating Council, established and operating pursuant to the Borrower’s Local Government Act, No. 462 of 1993;

(aa) “RWST” means Regional Water and Sanitation Teams established by, and as regional departments of CWSA;

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

(cc) “Subproject” means a specific development project pertaining to the construction, repair, or rehabilitation of water and sanitation infrastructure facilities, or community training in water and sanitation matters financed, or proposed to be financed, through a Grant extended to a DA under Part A of the Project; and

(dd) “Subsidiary Grant Agreement” means the agreement to be entered into between the Borrower and CWSA pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Grant Agreement.

## 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 seventeen million eight hundred thousand Special Drawing Rights (SDR 17,800,000).

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 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, to be paid) by CWSA on account of withdrawals made with respect to a Subproject under a Grant to meet the reasonable cost of goods and services required for a Subproject to be financed under Part A of the Project and in respect of which the withdrawals from the Credit Account are requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in 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 5 to this Agreement.

Section 2.03. The Closing Date shall be April 30, 2009 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 March 15 and September 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 March 15 and September 15 commencing on September 15, 2014 and ending March 15, 2044. Each installment to and including the installment payable on March 15, 2024 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, and, to this end, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall carry out the Project with due diligence and efficiency, and in conformity with appropriate engineering, environmental and administrative practices, and shall cause CWSA to perform, in accordance with the provisions of the CWSA Project Agreement, all the obligations of CWSA therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services, and other resources necessary or appropriate to enable CWSA to perform such obligations, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make part of the proceeds of the Credit, allocated from time to time to the DAs and local communities, under Grant Agreements to be entered into between CWSA and each DA, or between a DA and local communities, respectively, under conditions which shall have been approved by the Association, which shall include those set forth in paragraphs 7 and 8 of Schedule 4 to this Agreement.

(c) CWSA, DAs, and legally constituted local community groups shall exercise their respective rights under each Grant Agreement in such manner as to protect the interests of CWSA, the DAs, legally constituted local community groups and the Association and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, the CWSA, the DAs, and legally constituted local community groups shall not assign, amend, abrogate or waive the Grant Agreements or any provision thereof.

(d) The Borrower shall make available a portion of the proceeds of the Credit to CWSA as a grant under a Subsidiary Grant Agreement to be entered into



between the Borrower and CWSA (the Subsidiary Grant Agreement) under such terms and conditions as shall have been approved by the Association.

(e) The Borrower shall exercise its rights under the Subsidiary Grant 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 Grant Agreement or any provision thereof.

(f) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. The Borrower shall, prior to commencing work on any community infrastructure and prior to any displacement of any Affected Persons from such works:

(a) undertake the acquisition of all necessary land and other property, compensation therefor and resettlement for such works in accordance with the principles and institutional procedures established in the Resettlement Policy;

(b) ensure that Affected Persons from such works shall be compensated, resettled and rehabilitated in accordance with the Resettlement Policy;

(c) for provision of water and sanitation infrastructure involving resettlement of more than 20 persons, prepare and furnish to the Association, a detailed resettlement action plan acceptable to the Association documenting the implementation arrangements for resettlement arising from such works, including compensation, relocation and rehabilitation of Affected Persons; and

(d) complete the implementation of such resettlement action plan in a manner satisfactory to the Association.

Section 3.04. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

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

#### **ARTICLE IV**

##### **Financial Covenants**

Section 4.01. (a) The Borrower shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, 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 (or such other period agreed to by the Association): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

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

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and

- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) The Borrower 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.

## **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 shall have arisen which will make it improbable that the Program or a significant part thereof will be carried out.

(b) The Local Government Act (No. 462) of 1993 shall have been amended, suspended, abrogated, repealed or waived, so as to affect materially and adversely the ability of DAs to perform any of their respective obligations under their respective Grant Agreements.

(c) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of any of the DAs or for the suspension of their respective operations.

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

## **ARTICLE VI**

### **Effective Date; Termination**

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Borrower has adopted a Project Operational Manual, in form and substance satisfactory to the Association, specifying, inter alia, performance indicators, procedures and other arrangements for the purpose of implementation of the Project; and

(b) the Subsidiary Grant Agreement has been duly executed between the Borrower and CWSA.

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 or ratified by CWSA, and is legally binding upon CWSA in accordance with its terms; and

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

6.03. The date one hundred and twenty (120) 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 for Finance and Economic Planning of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

Ministry of Finance and Economic Planning  
P.O. Box M40  
Accra, Ghana

Cable address:	Telex:	Facsimile:
ECONOMICON Accra	2205 MIFAEP GH	233-21-667069  233-21-663854

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 Accra, Republic of Ghana as of the day and year first above written.

REPUBLIC OF GHANA

By /s/ Yaw Osafo-Mafo

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Mats Karlsson

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 SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Grants for Subprojects	13,700,000	100% of amounts disbursed
(2) Goods	250,000	100% of foreign expenditures and 90% of local expenditures
(3) Consultants Services and training	1,400,000	90%
(4) Management Fee Under Part C of the Project	1,250,000	100%
(5) Unallocated	1,200,000	
TOTAL	<u>17,800,000</u> =====	

2. For the purposes of this Schedule:

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

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "Management Fee" means the remuneration provided to CWSA on account of its services to be rendered for the Project implementation as provided in the Subsidiary Grant Agreement.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 1,000,000, may be made on account of payments made for expenditures before that date but after June 3, 2004; and (b) under Category 1 unless the Subprojects have been prepared in accordance with the procedures and terms and conditions set forth or referred to in Schedule 4 to this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$150,000 equivalent per contract; (b) works costing less than \$250,000 equivalent per contract; (c) for services of individual consultants costing less than \$50,000 equivalent per contract; and (d) for services of consulting firms under contracts costing less than \$100,000 equivalent per contract, all 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 increase access to sustainable water supply and sanitation services in small towns in six regions of the Borrower.

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: Community Subprojects

The promotion, appraisal, design, carrying out, supervision, monitoring, evaluation and provision of Grants for the financing of Subprojects prepared and submitted by Beneficiaries, including, inter alia, communal boreholes equipped with hand pumps; mechanized boreholes with overhead tank, limited distribution networks and communal stand pipes; surface water supply systems storage and distribution network with standpipes; protected spring sources, with or without simple distribution networks and storage; household and school latrines; and all other water and sanitation technologies which meet all technical, environmental, financial, and sustainability requirements as specified in the POM.

#### Part B: Sector Strengthening

1. Providers of Goods and Services: Provision of training and logistical support to NGOs and private service providers, to ensure that there is a competitive and efficient private sector to provide quality goods, works and services to communities under the Project, including simplification of procedures to encourage the participation of the small-scale entrepreneur, particularly to drilling contractors, drilling consultants and supervisors, spare parts suppliers, sanitation contractors, area mechanics, latrine artisans, small town water system operators, and providers of training and community development services.

2. Public Sector: Provision of support to MWH, RCCs, DAs, ACs, DWSTs, and small towns to: (a) deliver cost-effective water and sanitation systems to small towns; (b) manage, monitor, evaluate and maintain water and sanitation systems in a sustainable manner through: (i) the provision of technical advisory services, training, logistical support; and (ii) the organization of orientation courses for DA personnel and orientation sessions to be implemented by the RWSTs for DA staff, education officers, school health program coordinators, and other relevant personnel covering information pertaining to the Project, the demand-based nature of the Project, contracting arrangements, financial management and production and distribution of easy-to-use district-level POMs; and (iii) the provision of technical advisory services, equipment and training to support the



development of the Borrower's National Community Water and Sanitation Program, including, inter alia, initial equipment and vehicles for RWSTs.

3. Provision of support at the national level, including participatory program reviews by stakeholders, topical research, mass media campaigns for disseminating hygiene education, external impact assessments, exchanges with other countries, and special studies for strategies to reduce the costs of investments and sustainable operation and maintenance and spare parts distribution.

4. Strengthening the operational capacities of DWST's to manage project implementation at district levels.

Part C: Program Management

Strengthening the operational capacity of CWSA to enable it to implement the Program, including information and promotion, identification of small towns, assistance with proposal formulation, appraisal, and monitoring and evaluation, through the provision of technical advisory services and the payment of a Management Fee.

\* \* \*

The Project is expected to be completed by October 31, 2008.

### **SCHEDULE 3**

#### **Procurement**

##### Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

##### Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

##### B. Other Procurement Procedures

###### 1. National Competitive Bidding

Goods estimated to cost less than \$250,000 equivalent per contract, and works estimated to cost less than \$2,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.

###### 2. Shopping

Goods estimated to cost less than \$30,000 equivalent per contract and works estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting

Goods which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection

1. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality-and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Quality-based Selection

Services for assignments which the Association agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Least-cost Selection. Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

4. Single Source Selection

Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

5. Individual Consultants

Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV: Review by the Association of Procurement Decisions

1. Except as the Association shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods estimated to cost the equivalent of \$150,000 or more; (b) each contract for works estimated to cost the equivalent of \$250,000 or more; (c) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more; and (d) the first contract for consultants' services with respect to the Resettlement Framework Policy and Environmental Management Plan.

2. With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, single-source selection, and training, the qualifications, experience, 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.

3. All other contracts shall be subject to Post Review by the Association.

## **SCHEDULE 4**

### **Implementation Program**

1. (a) Coordination of all Project implementation activities shall be carried out by an interministerial Steering Committee, comprising the Chief Director or Executive of MOFEP, MWH, MOEYS, MOH, MLGRD, and Ministries of Environment, Science and Technology, and CWSA. The Steering Committee shall provide overall policy guidance and advise the various implementing agencies accordingly.

(b) The Steering Committee shall be chaired by the Minister for MWH, or his deputy, and shall meet quarterly in the first year of project implementation and bi-annually in subsequent years.

(c) Not later than November 30 of each year, the Steering Committee shall review the progress made in respect of Project implementation, institutional issues, procurement, disbursements, the involvement of the private sector, the achievements of the DAs according to the performance criteria referred to in the Project Operational Manual during the preceding year, and progress towards the objectives for the preceding year.

(d) The Borrower shall transmit to the Steering Committee, with a copy to the Association, at least 30 days prior to such review, a report, in scope and detail satisfactory to the Steering Committee and to the Association, prepared by CWSA and each Assembly, describing the status of progress regarding the items listed in paragraph (c) above and of Project implementation generally.

2. (a) The Borrower shall implement the Project in accordance with the procedures set out in the Project Operational Manual, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any provision thereof so as to materially and adversely affect the implementation of the Project.

(b) CWSA shall, not later than August 15 of each year, commencing from August 15, 2005, carry out jointly with the Association, and in conjunction with the Borrower, a comprehensive annual project implementation review aimed at: (i) documenting progress towards realization of the objectives of the Project; (ii) identifying and resolving obstacles to Project implementation; (iii) adjusting targets to reflect progress achieved in the implementation of the Project in the prior years and ensuring responsiveness to changes to effectively achieve the objectives of the Project; and (iv) discussing the work program and budget for the forthcoming year.

(c) CWSA shall, not later than four weeks prior to the review referred to in (b) above, furnish to the Association a report, in such detail as the Association shall reasonably request, including an evaluation of the progress achieved in Project implementation.

(d) Promptly after completing such reviews, CWSA shall carry out recommendations arising out of said reviews with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

3. (a) CWSA shall be responsible for providing overall guidance and for promoting, facilitating, supervising, monitoring, evaluating, and reporting on all Project activities. CWSA shall carry out Parts B(3) and C(1) of the Project directly through its own agents and staff.

(b) The District Assemblies or small towns, as the case may be, shall be responsible for the execution of Subprojects.

4. Eligibility for Subprojects:

(a) All districts and small towns which meet the following criteria shall be eligible for Grants under the Project and shall be allocated an investment ceiling each year by the regional water and sanitation team (RWST), in consultation with the regional authorities:

(i) In the case of districts, DAs shall have: (A) contributed 5% of the investment cost of the anticipated Subprojects for the district, (B) appointed qualified technical staff to manage the implementation of Subprojects, (C) prepared a rolling district water and sanitation plan (DWSP), and (D) submitted acceptable community Subproject proposals and associated procurement plans which meet the criteria described in the POM.

(ii) In the case of small towns: (A) the small towns shall have been selected initially by the DA based on criteria including poverty, service coverage, and conformity to the district development plans, and (B) the small towns shall have expressed willingness to contribute 5% of the cost, and to assume full responsibilities for, the operation and maintenance of selected facilities. Only small towns that have submitted an application shall receive technical assistance to prepare a funding proposal. Proposals that fully meet the appraisal criteria shall be funded, on a first-come, first-serve basis.

(b) All Subprojects shall include technical assistance and community development activities to enable the community to make informed choices, organize and ensure Subproject implementation (including contracting and works supervision) in a

participatory manner, administer funds, and achieve the effective and sustained use of their facilities and to include clearly defined hygiene and sanitation promotion activities.

(c) The Subproject shall comply with the environmental requirements described in the POM, Environmental and Social Management Framework, and Resettlement Policy.

(d) Notwithstanding the provisions of subparagraphs (a) through (c) above, the investment cost of water and sanitation Subprojects shall be financed through a 10% contribution from the DA and the community (the community paying at least 5%).

5. CWSA shall ensure that Beneficiaries are involved in all stages of the Subproject cycle. To that effect, each time a decision affecting a Subproject is made by the DA, on behalf of the Beneficiary, the Beneficiary shall be consulted and involved, through the appropriate channels, and in accordance with procedures specified in the POM, in approving all official documentation pertaining to Subproject implementation (contract award, payment certificates, completion certificates). In this respect, CWSA shall enter into a Grant Agreement with a DA as specified in the POM.

6. The terms and conditions of the Grant Agreements shall include the following obligations of the DAs to:

(a) carry out or cause the Project to be carried out with due diligence and efficiency, in conformity with appropriate administrative, financial and engineering practices, with due regard to environmental factors, and in accordance with the Resettlement Policy, Environmental and Social Management Framework, and Project Operational Manual; and provide, or cause to be provided, promptly as needed, the facilities, services and other resources required for said Parts of the Project, including their counterpart contributions at levels satisfactory to the Association;

(b) comply with the procedures for hiring of consultants and the Procurement of goods and works set forth in Schedule 3 to this Agreement;

(c) comply with the record keeping, auditing and report requirements set forth in Section 4.01 of this Agreement, including the annual auditing of its accounts and financial statements (balance sheets, statements of income and expenses and related statements) required by the Borrower to meet its obligations under Section 4.01 of this Agreement;

(d) make provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice;

(e) in accordance with Section 3.04 of this Agreement: (i) participate in the review of the progress made in carrying out the Project, and (ii) thereafter prepare and

implement an action plan, satisfactory to the Association, for the further implementation of the Project;

(f) at the request of the Borrower or the Association, exchange views with the Borrower and the Association with regard to the progress of the Project and the performance of their obligations under their respective Grant Agreements;

(g) promptly inform the Borrower and the Association of any condition which interferes or threatens to interfere with the progress of the Project or the performance by the DAs or local community groups of their obligations under the respective Grant Agreements; and

(h) except as the Borrower and the Association shall otherwise agree, neither take nor concur in any action which would have the effect of amending, abrogating, assigning or waiving their respective Grant Agreements.

7. Prior to implementation of the Project, each Assembly shall execute a Grant Agreement with the Borrower. The Grant Agreements shall include provisions to the effect that each Assembly shall:

(a) prior to signing works or goods contracts for the Project or Grant Agreements: (i) establish and maintain a financial management system satisfactory to the Association; (ii) establish a project team, with staff in adequate numbers and with qualifications and experience satisfactory to the Association; and (iii) appoint key staff, with qualifications and experience satisfactory to the Association; and

(b) provide the required information to CWSA for the preparation of the Financial Monitoring Report referred to in Section 4.02 within thirty days of the end of each quarter.

8. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about October 31, 2006, 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

(c) review with the Association, by February 28, 2007, or such later date as the Association shall request, 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 5**

### **Special Account**

1. For the purposes of this Schedule:
  - (a) the term “eligible Categories” means Categories (1), (2), (3), and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement ;
  - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
  - (c) the term “Authorized Allocation” means an amount equivalent to \$2,500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule.
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.