



Date: 22-Jul-2020

Mr. Jonathan Kampata
Managing Director
Lusaka Water and Sewerage Company
Lusaka
Republic of Zambia

**Re: Republic of Zambia: Lusaka Sanitation Project
Credit Number 5646-ZM
Amendment to the Project Agreement**

Dear Managing Director:

We refer to the Project Agreement entered into between the Lusaka Water and Sewerage Company (“Project Implementing Entity”) and the International Development Association (“Association”) dated March 17, 2016, for the above-mentioned Project. We also refer to the letters dated May 22, 2019 and June 26, 2019, respectively, requesting a restructuring of the Project.

We are pleased to inform you that the Association concurs with the request and hereby inserts the following Section IV to the Schedule of the Project Agreement as follows:

“Section IV. Other Undertakings”

1. Except as the Association shall otherwise agree, the Project Implementing Entity shall produce for each of its fiscal years after its fiscal year ending December 31, 2020, Total Revenues equivalent to not less than the sum of its (i) Total Operating Expenses; and (ii) Debt Service Requirements.
2. Before January 31 in each of its fiscal years, the Project Implementing Entity shall, based on forecasts prepared by the Project Implementing Entity and satisfactory to the Association, review whether it will expect to meet the requirements set forth in the preceding subparagraph in respect of such year and the next following fiscal year and shall furnish to the Association the results of such review upon its completion.
3. If any such review shows that the Project Implementing Entity will not meet said requirements for the Project Implementing Entity’s fiscal years covered by such review, the Project Implementing Entity shall promptly take all necessary measures (including, without limitation, financial restructuring, promotion of private sector participation, promotion of efficiency, and making a

request of adjustments of the structure or levels of its tariffs and/or of financial assistance to the Recipient) in order to meet such requirements.

4. For purposes of this Section:

- (a) The term “Total Revenues” means the sum of Total Operating Revenues and Net Non-operating Income.
- (b) The term “Total Operating Revenues” means revenues from all sources related to operations.
- (c) The term “Net Non-operating Income” means the difference between: (a) revenues from all sources other than those related to operations; and (b) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in the preceding subparagraph.
- (d) The term “Total Operating Expenses” means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation on a straight-line basis at a rate of not less than two percent (2%) per annum of the average current gross value of the Project Implementing Entity’s fixed assets in operation, or other basis acceptable to the Association, but excluding interest and other charges on debt.
- (e) The average current gross value of the Project Implementing Entity’s fixed assets in operation shall be calculated as one half of the sum of the gross value of its fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Association.
- (f) The term “Debt Service Requirements” means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt expected to be included in the balance sheet during the fiscal year.
- (g) Whenever for the purposes of this Section IV it shall be necessary to value, in terms of the currency of the Recipient, debt payable in another currency, such valuation shall be based on the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, a rate of exchange acceptable to the Association.”

All other provisions of the Agreements, except as herein amended, shall remain in full force and effect.

Please indicate your agreement with the foregoing amendment by signing and dating this letter and returning it to us, while keeping one original for your records. This amendment will become effective as of the date of this letter.

Very truly yours,
INTERNATIONAL DEVELOPMENT ASSOCIATION

Sahr J. Kpundeh

Sahr John Kpundeh
Country Manager for Zambia
Africa Region

AGREED:
LUSAKA WATER AND SEWERAGE COMPANY

By: *Jmkampata*

Name: Jonathan Kampata

Title: Managing Director

Date: 23-Jul-2020