

CONFORMED COPY

CREDIT NUMBER 3890-MOG

Development Credit Agreement

(Second Ulaanbaatar Services Improvement Project)

between

MONGOLIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 23, 2004

CREDIT NUMBER 3890 - MOG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 23, 2004, between MONGOLIA (the Borrower) and the 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 Project will be carried out by the Municipality of Ulaanbaatar (MUB) 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 the MUB, as set forth 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 agreement of even date herewith between the Association and the MUB (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) "Displaced Person" means a person who, on account of the execution of the Project, has experienced or would experience direct economic and social impacts caused by: (i) the involuntary taking of land, resulting in (A) relocation or loss of shelter;

(B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not such person must move to another location; or (ii) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person, and “Displaced Persons” means, collectively, all such Displaced Persons;

(b) “Environmental Management Plan” means the MUB Environmental Management Plan, dated February 3, 2004, and adopted by the MUB on February 3, 2004, and referred to in paragraphs 10 and 12 of Schedule 2 to the Project Agreement, setting out the environmental protection measures in respect of the Project, as well as administrative and monitoring arrangements to ensure the implementation of said plan, as said plan may be revised from time to time with agreement of the Association;

(c) “Financial Monitoring Report” and “FMR” mean each report prepared in accordance with Section 4.02 of this Agreement;

(d) “Fiscal Year” means the fiscal year for the MUB and USAG, which year begins January 1 and ends December 31 of each year;

(e) “MUB” means the Municipality of Ulaanbaatar, an administrative subdivision of the Borrower, and any successor thereto;

(f) “MUB Subsidiary Loan” means the loan to be provided by the Borrower, out of the proceeds of the Credit to the MUB, for the carrying out of the Project and in accordance with the provisions of the Subsidiary Loan Agreement;

(g) “MUB Subsidiary Loan Agreement” means the agreement to be entered into between the Borrower and the MUB 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 MUB Subsidiary Loan Agreement;

(h) “Project Agreement” means the agreement between the Association and the MUB 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;

(i) “Project Management Unit” and “PMU” mean the management unit established by the MUB on July 1, 1997, and referred to in paragraph 2 of Schedule 2 to the Project Agreement, which unit is responsible for the overall coordination and supervision of Project execution, procurement, resettlement and environmental management activities;

(j) “Project Steering Committee” means the committee established by the Borrower on November 20, 2002, and referred to in paragraph 1 of Schedule 2 to the Project Agreement, which committee is responsible for providing oversight and guidance to the MUB for Project implementation;

(k) “Resettlement Action Plan” means the MUB Resettlement Action Plan, dated February 4, 2004, adopted by the MUB on February 6, 2004, and referred to in paragraphs 10 and 11 of Schedule 2 to the Project Agreement, which sets out the principles and procedures governing land acquisition from, resettlement of, and compensation to, Displaced Persons, as well as reporting and monitoring arrangements to ensure compliance with said Plan, as the same may be revised from time to time with the agreement of the Association;

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

(m) “Togrog” means the currency of the Borrower;

(n) “USAG” means the Water Supply and Sewerage Company of Ulaanbaatar, a limited liability company established and operating in accordance with the laws of the Borrower, or any successor thereto;

(o) “USAG Project Implementation Unit” means the project implementation unit established by USAG on December 5, 2003, and referred to in paragraph B.3 of Schedule 3 to the Project Agreement, which unit is responsible for the supervision of Project construction activities carried out by the MUB under Part A of the Project;

(p) “USAG Subsidiary Loan” means the loan to be provided by the MUB to USAG out of the proceeds of the MUB Subsidiary Loan, in accordance with the provisions of the USAG Subsidiary Loan Agreement; and

(q) “USAG Subsidiary Loan Agreement” means the agreement to be entered into between the MUB and USAG pursuant to paragraph 8 of Schedule 2 to the Project Agreement, as the same may be amended from time to time, and such term includes all schedules and annexes to the USAG Subsidiary Loan 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 twelve million one hundred thousand Special Drawing Rights (SDR12,100,000).

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 expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of work, goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain a special deposit account in a commercial bank, acceptable to the Association, 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 3 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2010, 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 April 15 and October 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 April 15 and October 15 commencing October 15, 2014, and ending April 15, 2044. Each installment to and including the installment payable on April 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 cause the MUB to perform in accordance with the provisions of the Project Agreement all the obligations of the MUB therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the MUB to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend the proceeds of the Credit to the MUB under a subsidiary loan agreement to be entered into between the Borrower and the MUB (the MUB Subsidiary Loan Agreement), under terms and conditions which shall have been approved by the Association, which shall include:

(i) the obligation of the MUB to establish and maintain a special and separate account in a commercial bank, acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment:

(A) to be funded with the difference in amounts between: the principal paid by USAG to the MUB pursuant to the USAG Subsidiary Loan Agreement; and the principal paid by the MUB to the Borrower pursuant to the MUB Subsidiary Loan Agreement; and

(B) use the proceeds therein deposited exclusively for the financing of investments to improve services to the urban poor in the ger areas;

(ii) the principal amount so made available to, and repayable by, the MUB shall be the equivalent in terms of Dollars (determined as of the date or respective dates of withdrawal from the Credit Account, or payment out of the Special Account, as the case may be) of the value of the currency or currencies so withdrawn or paid out on account of the cost of items required for the Project to be financed out of the proceeds of the Credit, and shall be recovered by the Borrower from the MUB in semi-annual installments in Dollars over forty years, including a grace period of ten years;

(iii) interest shall be charged on the principal amount of the MUB Subsidiary Loan withdrawn and outstanding from time to time at a rate equal to one percent (1%) per annum; and

(iv) the Borrower shall charge a commitment charge on such principal amount, not withdrawn from time to time at the rate set forth in Section 2.04(a) of the Development Credit Agreement.

(c) The Borrower shall exercise its rights under the MUB Subsidiary Loan 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 MUB Subsidiary Loan Agreement or any provision thereof.

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 carried out by the MUB in accordance with the provisions of Schedule 1 to the Project Agreement.

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 the MUB pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall, and shall cause the MUB to:

- (i) have the records, accounts and 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 such 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, 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, and shall cause the MUB to:

- (i) 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, or covering, the fiscal year in which the last withdrawal from the Credit Account was made;

- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in any audit that the Association may have requested pursuant to paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in this Agreement, the Borrower shall, and shall cause the MUB to, 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 forty five (45) days after the end of the first fiscal year 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 fiscal quarter; thereafter, each FMR shall be furnished to the Association not later than six (6) months after each subsequent half-year period, and shall cover such half-year period.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified, namely, that:

(a) The MUB shall have failed to perform any of its obligations under the Project Agreement; or

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

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified: the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower.

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 MUB Subsidiary Loan Agreement, acceptable to the Association, has been executed on behalf of the Borrower and the MUB, in accordance with the provisions of Section 3.01 (b) to this Agreement;

(b) the USAG Subsidiary Loan Agreement, acceptable to the Association, has been executed on behalf of the MUB and USAG, in accordance with the provisions of paragraph 8 of Schedule 2 to the Project Agreement;

(c) the MUB shall have entered into an agreement, acceptable to the Association and in accordance with the provisions of paragraph 7 of Schedule 2 to the Project Agreement, with a consultancy firm for the provision of technical assistance for detailed engineering designs and Project management;

(d) the Project Agreement has been duly authorized or ratified by the MUB, and is legally binding upon the MUB in accordance with its terms; and

(e) a Project financial management system acceptable to the Association, shall have been established in the PMU, in accordance with paragraph 3 of Schedule 2 to the Project Agreement.

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 the MUB, and is legally binding upon the MUB in accordance with its terms;

(b) that the MUB Subsidiary Loan Agreement has been duly executed by the Borrower and the MUB and is legally binding upon the Borrower and the MUB in accordance with its terms;

(c) that the USAG Subsidiary Loan Agreement has been duly executed by the MUB and USAG and is legally binding upon said parties in accordance with its terms; and

(d) the Environmental Management Plan and the Resettlement Action Plan have been duly approved and adopted by the MUB and are legally binding and enforceable in accordance with the Borrower's laws.

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 for Finance and Economy 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:

For the Borrower:

Ministry of Finance and Economy
Government Building - 2
United Nation's Street – 5/1
Ulaanbaatar - 210646
Mongolia

Facsimile:

976-11-320247

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 Ulaanbaatar, Mongolia, as of the day and year first above written.

MONGOLIA

By /s/ Ch Ulaan

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Dhevan Meyanathan

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) Works	1,400,000	33%
(2) Goods:		100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 65% for other items procured locally
(a) under Parts A and B of the Project	6,900,000	
(b) under Part C of the Project	2,200,000	
(3) Consultants’ services	1,100,000	94%
(4) Incremental Operating Costs	200,000	50%
(5) Unallocated	<u>300,000</u>	
TOTAL	<u>12,100,000</u>	

2. For the purposes of this Schedule, the term:

(a) “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) “incremental operating costs” means reasonable expenditures directly related to the Project, incurred by the PMU (which expenditures would not have been incurred absent the Project), including expenditures for Project staff travel and per diem,

office supplies, utilities, office rent, email internet fees, maintenance of office equipment, and operation and maintenance of PMU vehicles, but excluding PMU staff salaries; and

(c) “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments:

(a) made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR1,000,000, may be made in respect of Categories (3) and (4) on account of payments made for expenditures before that date but after February 15, 2004;

(b) made for expenditures under Categories (1) and (2)(a) unless and until the total annual operating revenues of USAG are equivalent to the sum of USAG’s operating expenses and debt-servicing costs, in accordance with the provisions of USAG Subsidiary Loan Agreement. For purposes of this Agreement and the USAG Subsidiary Loan Agreement, the term “total operating revenues” means revenues from all sources related to the operations of USAG, and the term “debt-servicing costs” means the aggregate amount of repayments of, and interest and other charges on, the debts of USAG; and

(c) made for expenditures under Category (2)(b) unless and until the USAG tariff rates are increased in Fiscal Year 2006 from the tariff rates in effect for Fiscal Year 2005 by fifteen per cent (15%), except that the tariff rates for the kiosk water supply shall be exempt from such increase.

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 \$500,000 equivalent per contract; (b) works costing less than \$700,000 equivalent per contract; (c) for services of individual consultants costing less than \$50,000 equivalent per contract; (d) for services of consulting firms under contracts costing less than \$100,000 equivalent per contract; and (e) expenditures for incremental operating costs; 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 assist the Borrower and the MUB in improving the quality of life of the urban poor in the ger areas of Bayankhoshuu, Chingeltei, Dambadarjaa, Dari-Ekh, Naran, and Uliastai in Ulaanbaatar by: (a) providing an accessible urban water supply in selected urban areas in a sustainable manner; and (b) strengthening the institutional capacity of USAG.

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 objective:

Part A: Ger Area Water Supply

Extension of the city-piped water system in the ger areas of Bayankhoshuu, Chingeltei, Dambadarjaa, Dari-Ekh, Naran, and Uliastai through:

(1) provision and installation of: about 8.2 kilometers of ductile iron pipes; and about 70 kilometers of high density polyethylene pipes, 3.8 kilometers of which are equipped with heat trace;

(2) construction of: two pre-cast concrete reservoirs with associated heating houses and access roads; three pumping stations; about 111 new water kiosks and rehabilitation of 29 water kiosks supplied by truck tankers; and water connections to about 16 public institutions, including selected hospitals, schools and clinics, and about 7,500 private residences;

(3) provision and installation of up to 10,000 water meters and various water pumps with associated electrical equipment; and

(4) provision of: 15 water tankers, associated spare parts, and spare parts for the MUB's existing fleet of water tankers; and 5 vacuum-type fecal vehicles.

Part B: City Water Supply

Rehabilitating and upgrading the city water supply network in order to: strengthen the primary network system within the ger area network; support water conservation; expand the monitoring of water flows, levels and quality; and upgrade laboratory analysis capacity through:

(1) provision and installation of: ductile-iron and steel pipes in about 12.2 kilometers of the city network; pressure-reducing and flow-control valves at various locations in the city; and water quality monitoring wells; and the upgrading of sample collection sites;

(2) upgrading the West Reservoir pumping station by providing and installing about 4 pumps, associated equipment, and pipes;

(3) upgrading the network telemetering system; and

(4) provision of spare pipes, specials and consumables to facilitate system maintenance and minor upgrades, and laboratory equipment.

Part C: Energy Efficiency Improvement

Reduction of energy consumption through the replacement of selected, obsolete, high energy-consuming electrical equipment with energy-efficient equipment, including the provision and installation of: about 90 submersible pumps; two 1,000 kilowatt transformers and control systems for intake wells at the Upper Source; and energy efficient cable to replace about 59 kilometers of overhead wire lines in the upper, central and meat complex well fields.

Part D: Institutional Development and Project Management

Provision of technical advisory assistance to USAG to strengthen its institutional development and project management capacities in:

(1) the preparation of detailed engineering designs and bidding documents, and the carrying out of its procurement activities;

(2) construction supervision, management, and quality control;

(3) the carrying out of technical, engineering, social, environmental, and financial reporting activities; and

(4) the policy areas of: customer relations; internal financial controls; house connections and metering; sanitation; private sector participation for operating kiosks and water trucks; energy efficiency; and operating costs reductions.

* * *

The Project is expected to be completed by December 31, 2009.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1) through (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 \$600,000 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 \$400,000 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 1,500,000 Special Drawing Rights (SDR1,500,000).
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.