

CONFORMED COPY

LOAN NUMBER 3233 YU

(Third Highway Sector Project)

among

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

SOCIAL FUND FOR ARTERIAL AND
REGIONAL ROADS OF SERBIA, BELGRADE

and

FEDERAL ASSOCIATION OF REPUBLICAN AND
PROVINCIAL ROAD ORGANIZATIONS OF
YUGOSLAVIA, BELGRADE

Dated May 7, 1991

LOAN NUMBER 3233 YU

LOAN AGREEMENT

AGREEMENT, dated May 7, 1991, among INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and SOCIAL FUND FOR ARTERIAL AND REGIONAL ROADS OF SERBIA, BELGRADE (the Borrower) and FEDERAL ASSOCIATION OF REPUBLICAN AND PROVINCIAL ROAD ORGANIZATIONS OF YUGOSLAVIA, BELGRADE (FARP).

WHEREAS (A) the Socialist Federal Republic of Yugoslavia (the Guarantor), the Borrower and FARP, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02 deleted (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) "FARP" means the Federal Association of Republican and Provincial Road Organizations of Yugoslavia, Belgrade, an association established and operating pursuant to FARP's Self-management Agreement (defined below);

(b) "FARP's Self-management Agreement" means the Self-management Agreement on Formation of the Federation of Self-managing Communities of Interest in the Field of Roads in Yugoslavia, as the same may be amended from time to time;

(c) "Action Plan" means the plan of action of the Borrower and FARP for the 1990-1992 period, as may be amended from time to time;

(d) "FARP Work Program" means the work program for FARP during the 1990-1991 period, as may be amended from time to time;

(e) "Borrower's Statutes" means the Borrower's Statutes, dated March 15, 1990, pursuant to which the Borrower has been established and is operating, as the same may be amended from time to time;

(f) "Feasibility Study Guidelines" means the guidelines followed by the Borrower and FARP set forth in the 1974 Manual on Highway Feasibility Studies to determine the feasibility of proposed roadworks; and

(g) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of fifty-five million dollars (\$55,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan and in respect of interest and other charges on the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special account in a commercial bank on terms and conditions satisfactory to the Bank. 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 December 31, 1993, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower and the Guarantor of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower and the Guarantor of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable

semiannually on June 15 and December 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

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, shall carry out the Project with due diligence and efficiency and in conformity with appropriate engineering, administrative, financial and highway transport practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall carry out, together with FARP, the Action Plan with due diligence and efficiency and in conformity with appropriate engineering, administrative, financial and highway transport practices.

Section 3.02. (a) The Borrower shall, by September 30, 1991, together with FARP, carry out a revision of the Feasibility Study Guidelines in accordance with terms of reference satisfactory to the Bank.

(b) The Borrower shall: (i) carry out a feasibility study of each roadwork to be included in the Project on the basis of the Feasibility Study Guidelines and in accordance with levels of economic analysis satisfactory to the Bank; and (ii) furnish to the Bank summaries of such proposed roadworks with the results of each feasibility study, all in accordance with an implementation schedule satisfactory to the Bank.

(c) Except as the Bank shall otherwise agree, the Borrower shall: (i) include in the Project such proposed roadworks which have been approved by the Bank and which have an economic rate of return of not less than 12% calculated on the basis of a methodology satisfactory to the Bank; and (ii) carry out such roadworks: (A) no earlier than the year in which the first year economic rate of return is not less than 10% calculated on the basis of a methodology satisfactory to the Bank; and (B) except as the Bank shall otherwise agree, in their order of priority as determined by their economic rates of return.

Section 3.03. The Borrower shall:

- (i) prepare and furnish to the Bank for review and comment, not later than October 15 of each of its fiscal years, the following information, of such scope and in such detail as the Bank shall reasonably request: (A) a report on the progress achieved in the carrying out of the roadworks included in the Project, (B) proposed revisions to the roadworks included in the Project proposed for the following calendar year, and (C) the roadworks proposed for the period through 1992.
- (ii) afford the Bank a reasonable opportunity to review and comment on such report and proposals; and
- (iii) thereafter, promptly introduce any revisions in a manner that such proposed roadworks for the following year are satisfactory to the Bank.

Section 3.04. (a) The Borrower shall:

- (i) each calendar year, allocate the revenue received from the road user charge on fuel initially to road maintenance, debt service and administrative costs

and thereafter to other roadworks;

(ii) each calendar year, allocate not less than the equivalent of \$60,000,000 in October 1989 prices to road maintenance from both the revenue received from the road user charge on fuel and from the Borrower's other sources of funds; and

(iii) provide in a timely manner from its own resources the amount needed over and above the revenue received from the road user charge on fuel to meet the requirements of the Project.

(b) For purposes of this Section:

(i) "road user charge on fuel" means the road user charge included in the retail price on gasoline and diesel fuel; and

(ii) "road maintenance" means routine road maintenance, including pavement strengthening and excluding winter maintenance and programs which are not primarily for maintenance purposes.

Section 3.05. The Borrower shall, together with FARP, by June 30, 1992, put into effect a pavement management system, on the basis of terms of reference and an action plan satisfactory to the Bank.

Section 3.06. The Borrower shall, together with FARP, carry out the study on the organization and efficiency of road maintenance in accordance with the Action Plan.

Section 3.07. The Borrower shall, together with FARP, carry out a training program under Part C of the Project, satisfactory to the Bank, in accordance with the Action Plan and on the basis of terms of reference satisfactory to the Bank.

Section 3.08. The Borrower shall, by September 30, 1991, employ one additional transport economist, or train suitably qualified staff in transport planning, in accordance with a program satisfactory to the Bank.

Section 3.09. The Borrower shall carry out roadworks financed out of the proceeds of the Loan in accordance with design standards satisfactory to the Bank.

Section 3.10. Except as the Bank 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 Loan shall be governed by the provisions of Schedule 4 to this Agreement.

ARTICLE IV

Management and Operations of the Borrower

Section 4.01. The Borrower shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering and road transport practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 4.02. The Borrower shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and highway transport practices.

Section 4.03. The Borrower shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as

shall be consistent with appropriate practice.

ARTICLE V

Financial Covenants

Section 5.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) The Borrower shall:

- (i) have its records, accounts and financial statements and the records and accounts for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year: (A) certified copies of its financial statements for such year as so audited; and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof as the Bank shall from time to time reasonably request.

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

- (i) maintain, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE VI

FARP's Covenants

Section 6.01. (a) FARP declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall take all action necessary or appropriate to enable the Borrower to perform its obligations under this Agreement and shall not take or concur in any action which would prevent or interfere with such performance.

(b) FARP shall carry on its operations and conduct its

affairs in accordance with sound administrative, financial, economic and highway transport practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers and in accordance with terms of reference satisfactory to the Bank and the Guarantor.

Section 6.02. During implementation of the Project, FARP shall carry out the FARP Work Program and the Action Plan in accordance with terms of reference satisfactory to the Bank and the Guarantor.

Section 6.03. In order to ensure the proper coordination of the implementation of the Project, the Borrower hereby designates FARP as representative of the Borrower for the purposes of taking the following actions, and FARP agrees hereby to take said actions on behalf of the Borrower:

(a) coordination of the preparation and furnishing to the Bank of withdrawal applications under the Loan and collection and furnishing to the Bank of the documents and other evidence to be furnished to the Bank in support of such applications;

(b) preparation and furnishing to the Bank of the plans, schedules and reports referred to in Sections 9.06 and 9.07 of the General Conditions, including progress reports which shall be furnished to the Bank on a quarterly basis;

(c) coordination of the procurement of goods and services required for the Project;

(d) coordination of training in accordance with the Action Plan;

(e) coordination and review of the feasibility studies of the proposed roadworks and the related summary sheets; and

(f) coordination of preparation of the proposed roadworks included in the Project and their review with the Bank.

Section 6.04. (a) FARP shall, at the request of the Bank, exchange views with the Bank with regard to the progress of the Project, the performance of its obligations under this Agreement and other matters relating to the purposes of the Loan.

(b) FARP shall promptly inform the Bank of any condition which interferes or threatens to interfere with the performance by FARP of its obligations under this Agreement.

ARTICLE VII

Remedies of the Bank

Section 7.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified:

(a) The Borrower's Statutes or any law of the Guarantor pertaining to the operations of the Borrower shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial condition of the Borrower or the ability of the Borrower to perform any of its obligations under this Agreement.

(b) FARP shall have failed to perform any of its obligations under this Agreement.

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

(d) FARP's Self-management Agreement shall have been amended, suspended, abrogated, repealed or waived so as to affect

materially and adversely the ability of FARP to perform any of its obligations under this Agreement.

(e) The Guarantor or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of FARP or for the suspension of its operations.

Section 7.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (c) of Section 7.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower; and

(b) the events specified in paragraphs (a), (b), (d) and (e) of Section 7.01 of this Agreement shall occur.

ARTICLE VIII

Termination

Section 8.01. The date one hundred twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE IX

Representative of the Borrower; Addresses

Section 9.01. (a) The Director of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

(b) Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of FARP may be taken or executed by the Director or such other person or persons as said Director shall designate in writing, and FARP shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 9.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

197688 (TRT),
248423 (RCA),
64145 (WUI) or
82987 (FTCC)

For the Borrower:

Social Fund for Arterial and Regional
Roads of Serbia, Belgrade
Bulevar Revolucije 282
Belgrade 11000
Yugoslavia

Telefax:

(011) 412-540

Telex:

12093 YU SRBPUT

For FARP:

Federal Association of Republican
and Provincial Road Organizations
of Yugoslavia, Belgrade
Ljube Cupe 5
11000 Belgrade
Yugoslavia

Telefax:

(011) 444-5557

Telex:

SSIZP YU 72548

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ E. Lari

Acting Regional Vice President
Europe, Middle East and North Africa

SOCIAL FUND FOR ARTERIAL AND REGIONAL
ROADS OF SERBIA, BELGRADE

By /s/ J. Kulisic

Authorized Representative

FEDERAL ASSOCIATION OF REPUBLICAN AND
PROVINCIAL ROAD ORGANIZATIONS OF
YUGOSLAVIA, BELGRADE

By /s/ J. Kulisic

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil works:		
(a) New construction	12,000,000	40%
(b) Rehabilitation and pavement strengthening	39,000,000	50%

(2) Equipment and spare parts for Part B of the Project	3,400,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 60% of local expenditures for other items procured locally
(3) Consultants' services, studies and training	600,000	100%
TOTAL	55,000,000	

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 Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor; and

(b) the term "local expenditures" means expenditures in the currency of the Guarantor or for goods or services supplied from the territory of the Guarantor.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$5,500,000, may be made on account of payments made for expenditures before that date but after April 1, 1990.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (i) to improve highway planning and implementation of works through rationalizing expenditure programs and financing plans, including optimizing the expenditure program for the Trans Yugoslav Highway; (ii) to institute a nationwide maintenance management system and a funding mechanism to improve operational efficiency and meet maintenance requirements on a continuing basis; (iii) to improve roads for foreign exchange generating transit and tourist traffic; (iv) to support the economic reform process in Yugoslavia, including the establishment of new forms of ownership and joint ventures in the transport sector which are economically and financially viable; and (v) to rectify incentive distortions in freight transport to improve quality, encourage the role of the private sector and reduce costs.

The Project consists of the following parts, subject to such modifications thereof as the Bank and the Borrower may agree upon from time to time to achieve such objectives:

- Part A: Construction of Section I of the Belgrade-Pancevo road.
- Part B: Adoption and implementation of a maintenance planning system, including strengthening of maintenance and planning capability through the provision of specialized equipment.
- Part C: Implementation of pavement strengthening and betterment works.
- Part D: Strengthening of the capability of highway staff and transport operators through the provision of training.

Part E: Carrying out studies on maintenance, organization requirements and reduction of noxious vehicle emissions.

* * *

The Project is expected to be completed by December 31, 1992.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each June 15 and December 15	
beginning December 15, 1995 through June 15, 2005	2,750,000

* The figure in this column represents the dollar equivalent determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a per- centage per annum) applicable to the Loan on the day of prepay- ment, multiplied by:
Not more than three years before maturity	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than eleven years before maturity	0.73
More than eleven years but not more than thirteen years before maturity	0.87
More than thirteen years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

2. Bidders for the civil works included in Part A of the Project shall be prequalified as described in paragraph 2.10 of the Guidelines.

3. Foreign contractors and suppliers shall not be required to register in Yugoslavia as a prerequisite for submitting bids. In the event that such registration shall be required after a foreign contractor or supplier has been notified that he will be awarded a contract, the Borrower and FARP shall take all measures necessary to facilitate such registration.

4. Each contract for the supply of goods or works shall include provisions whereby the Borrower shall undertake to take all measures necessary to enable the supplier of such goods or works to import such equipment, materials and specialized manpower as may be required to perform its obligations under said contract.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Yugoslavia may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Civil works estimated to cost less than the equivalent of \$3,000,000 per contract, up to an aggregate amount not to exceed the equivalent of \$74,000,000, may be procured on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Goods estimated to cost the equivalent of \$150,000 or more per contract but not more than the equivalent of \$300,000 per contract, up to an aggregate amount not to exceed the equivalent of \$1,000,000, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list of at least three qualified suppliers eligible under the Guidelines and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

3. Goods estimated to cost less than the equivalent of \$150,000 per contract, up to an aggregate amount not to exceed the equivalent of \$500,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from at least three suppliers from at least three different countries eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of prequalification:

With respect to the prequalification of bidders as provided in Part A.2 hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

2. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for civil works estimated to cost the equivalent of \$2,500,000 or more, and with respect to each contract for goods estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank

pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

3. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

Consultants' services shall be procured under contracts awarded to consultants: (a) whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank; and (b) who shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) 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 Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$5,000,000 to be withdrawn from the Loan 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 Bank 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 Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in 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 Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank 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 Bank shall, on behalf of the Borrower, withdraw from the Loan 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 made out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan 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 Bank shall reasonably request, furnish to the Bank 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 Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories less the amount of any outstanding special commitment entered into by the Bank 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 Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank 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 Bank 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 Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank 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 Bank 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 Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special

Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

