

CONFORMED COPY

CREDIT NUMBER 3002 EGT

Development Credit Agreement

(East Delta Newlands Agricultural Services Project)

between

ARAB REPUBLIC OF EGYPT

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 12, 1998

CREDIT NUMBER 3002 EGT

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated February 12, 1998, between ARAB REPUBLIC OF EGYPT (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 Borrower intends to contract from the International Fund for Agricultural Development (IFAD) a loan (the IFAD Loan) in an amount equivalent to twenty-five million dollars (\$25,000,000) to assist in financing the Project on the terms and conditions set forth in an agreement (the IFAD Loan Agreement) to be entered into between the Borrower and IFAD;

(C) Part B of the Project will be carried out by the Principal Bank for Development and Agricultural Credit (PBDAC), established and operating pursuant to its Statutes (as defined in Section 1.02 (a) of this Agreement) with the Borrower's assistance, and as part of such assistance, the Borrower will make available to PBDAC part 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 PBDAC;

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, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.
- (b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

- (c) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Association. If (a) the right of the Borrower to make withdrawals from the Credit Account shall have been suspended with respect to any amount of the Credit for a continuous period of thirty days, or (b) at any time, the Association determines, after consultation with the Borrower, that an amount of the Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Credit, or (c) at any time, the Association determines, with respect to any contract to be financed out of the proceeds of the Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (d) at any time, the Association determines that the procurement of any contract to be financed out of the proceeds of the Credit is inconsistent with the procedures set forth or referred to in the Development Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (e) after the Closing Date, an amount of the Credit shall remain unwithdrawn from the Credit Account, the Association may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be cancelled."

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) "Statutes" means Presidential Decree No. 117 of 1976, pertaining to the establishment and operation of PBDAC, as amended to the date of this Agreement;
- (b) "Beneficiary" means a farmer, agribusiness enterprise or an agricultural input and output trader to which PBDAC proposes to make or has made a Subloan;
- (c) "Sub-project" means a specific development project to be carried out under Part B (2) of the Project by a Beneficiary utilizing the proceeds of a Subloan;
- (d) "Project Agreement" means the agreement between the Association and PBDAC 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;
- (e) "Special Accounts" means the accounts referred to in Section 2.02 (b) of

this Agreement;

(f) "Statement of Policy" means the statement of lending and investment policy, adopted by the Board of Directors of PBDAC on September 15, 1994, as amended to the date of this Agreement;

(g) "Subloan" means a loan made or proposed to be made by PBDAC to a Beneficiary for a Sub-project, in part out of the equivalent of the proceeds of the Credit relented to PBDAC under the Subsidiary Loan Agreement; and

(h) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and PBDAC pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules supplemental to the Subsidiary Loan Agreement, and "Subsidiary Loan" means the loan to be made pursuant to the 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 eleven million one hundred thousand Special Drawing Rights (SDR11,100,000).

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: (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 Parts A and B (1) of the Project and to be financed out of the proceeds of the Credit; and (ii) amounts paid (or, if the Association shall so agree, amounts to be paid) by PBDAC on account of withdrawals made by a Beneficiary under a Subloan to meet the reasonable cost of goods and services required for the Sub-project in respect of which the withdrawal from the Credit Account is requested.

(b) The Borrower may open and maintain in dollars a special deposit account: (i) in the Central Bank of Egypt for the purposes of Part A of the Project, and (ii) in PBDAC for the purposes of Part B of the Project, on terms and conditions satisfactory to the Association. Deposits into, and payments out of the Special Accounts, shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2004, or such later date as the Association shall establish. The Association shall promptly notify the Borrower and PBDAC 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 (60) 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 cancelled; 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 January 1 and July 1 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 January 1 and July 1 commencing January 1, 2008 and ending July 1, 2032. Each installment to and including the installment payable on July 1, 2017 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) 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 (6) 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 (5) 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.

Section 2.09. PBDAC is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions in respect of the proceeds of the Credit allocated from time to time to Category (4) of the table set forth in paragraph 1 of Schedule 1 to this Agreement.

Section 2.10. The Borrower represents that it has designated its Ministry of Finance for the purposes of handling, on behalf of the Borrower, debt service payments with respect to the Credit.

ARTICLE III

Description of the Project; Use of the Proceeds of the Credit

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:

(i) shall carry out Part A of the Project, through the Borrower's Ministry of Agriculture and Land Reclamation, with due diligence and efficiency and in conformity with appropriate administrative, financial, agricultural and environmental

practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for said Part; and

(ii) without limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause PBDAC to perform in accordance with the provisions of the Project Agreement all the obligations of PBDAC 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 PBDAC to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Without limitation upon the provisions of paragraph (a) of this Section, and except as the Borrower and the Association shall otherwise agree, the Borrower shall: (i) coordinate the overall implementation of the Project; and (ii) carry out Part A of the Project, in accordance with the Implementation Program set forth in Schedule 3 to this Agreement.

(c) The Borrower shall relend the proceeds of the Credit allocated from time to time to Category (4) of the table set forth in paragraph 1 of Schedule 1 to this Agreement to PBDAC under a subsidiary loan agreement to be entered into between the Borrower and PBDAC under terms and conditions which shall have been approved by the Association, including that:

(i) the principal amount of the Subsidiary Loan shall be the equivalent (determined as of the date, or the respective dates, of repayment) of the value of the currency or currencies withdrawn from the Credit Account, on account of expenditures under Part B (1) of the Project and payments under Sub-loans, expressed in terms of Special Drawing Rights as of the respective dates of withdrawals.

(ii) the Subsidiary Loan shall be (A) charged, on the principal amount thereof withdrawn and outstanding from time to time, interest at the rate of 0.875% per annum, (B) charged, on the principal amount thereof not withdrawn from time to time, a commitment charge at the same rate applicable to the Credit pursuant to Section 2.04 (a) of this Agreement, and (C) repaid over a term of 35 years, including a grace period of ten years.

(d) The Borrower shall exercise its rights under the 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 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 Parts A and B (1) of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 4 to this 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) in respect of Part B of the Project shall be carried out by PBDAC pursuant to Section 2.04 of the Project Agreement.

Section 3.04. For the purposes of Section 9.07 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 maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Part A of the Project of the departments or agencies of the Borrower responsible for carrying out said Part.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section and those for the Special Accounts for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association, as soon as available, but in any case not later than six (6) months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

(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) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

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

(iii) enable the Association'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 V

Remedies of the Association

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

(a) PBDAC shall have failed to perform any of its obligations under the Project Agreement.

(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 PBDAC will be able to perform its obligations under the Project Agreement.

(c) The Statutes or the Statement of Policy shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial condition of PBDAC or its ability to carry out the Project or to perform any of its obligations under the Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of PBDAC or for the suspension of its operations.

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

(A) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or

(B) any such loan shall have become due and payable prior to the maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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

(a) The event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower and PBDAC.

(b) Any event specified in paragraph (c) or (d) of Section 5.01 of this Agreement shall occur.

(c) The event specified in paragraph (e) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the provisions of paragraph (e) (ii) of that Section.

ARTICLE VI

Effective Date; Termination

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

(a) the Subsidiary Loan Agreement has been entered into by the Borrower and PBDAC, respectively;

(b) the Project Management Unit, the Regional Working Committee and the National Coordinating Committee, referred to in paragraph 1 of Schedule 3 to this Agreement, have been established with resources and terms of reference satisfactory to the Association; and

(c) all conditions precedent to the effectiveness of the IFAD Loan Agreement have been fulfilled, other than those related to the effectiveness of this 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 PBDAC,

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

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

Section 6.03. 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 VII

Representatives of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.09 of this Agreement, the Minister of State for International Cooperation and the Head of the Sector for International and Regional Financing Organizations of the Ministry of International Cooperation of the Borrower are severally designated as representatives 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 International Cooperation
(International and Regional Financing
Organizations Sector)
8 Adly Street
Cairo
Arab Republic of Egypt

Cable address:

Ministry of International
Cooperation
Cairo

Fax:

391-5167

For the Bank:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Cairo, Arab Republic of Egypt, as of the day and year first above written.

ARAB REPUBLIC OF EGYPT

By /s/ Zafer El-Bishry

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Khalid Ikram

Acting Regional Vice President
Middle East and North Africa

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Works for Part A of the Project	3,680,000	17%
(2) Goods for Part A of the Project	1,480,000	32.5% of foreign expenditures, 32.5% of local (ex-factory costs) and 28.5% of local expenditures for other locally items procured
(3) Consultants' services and training for Part A of the Project	740,000	50%
(4) for Part B of the Project:		
(a) Sub-loans	4,460,000	23% of amounts paid by PBDAC
(b) Goods, works and training for subpart (1) thereof	740,000	60%
TOTAL	11,100,000	

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

(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.

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 SDR1,100,000, may be made on account of payments made for expenditures before that date but after December 31, 1996.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure, under such terms and conditions as the

Association shall specify by notice to the Borrower: (a) under contracts not exceeding (i) \$200,000 equivalent for goods, (ii) \$500,000 equivalent for works, and (iii) \$50,000 for services of consultants and training; and (b) for payments made by PBDAC under Sub-loans.

SCHEDULE 2

Description of the Project

The objective of the Project is to provide essential support services to facilitate the settlement, improved agricultural production and increased farm incomes of about 29,000 low income families settling on newly developed lands in the East Delta.

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:

(1) Strengthening of institutional capability to facilitate the efficient coordination and supervision of Project execution and the monitoring and evaluation of soil and water quality thereunder, and the provision therefor of staff and staff training, technical assistance, office equipment, vehicles and incremental operating costs.

(2) Establishment and initial operation of effective agricultural extension and applied research services, and the provision therefor of specialized and field extension staff, field research, technical assistance and staff training, inputs for experimental and demonstration plots, multimedia extension materials, and equipment for a soil and water research station.

(3) Construction of on-farm tertiary irrigation and drainage systems for smallholders on about 20,000 feddans through the contribution by the beneficiary smallholders of about 20% of the cost thereof in labor for land leveling, canals and drains earthworks.

(4) Construction and equipping of a water treatment plant and primary water distribution network to provide piped water supplies to villages in South Hussainya and North Hussainya.

(5) Establishment of community organizations to assist farmers with group access to agricultural credit and in the development of water user associations, and the provision therefor of office equipment, vehicles, technical assistance, community development personnel and personnel training.

Part B:

(1) Construction, equipping and staffing, including the provision therefor of staff training, of four new village banks by PBDAC.

(2) Provision by PBDAC of loans to: (a) farmers for the purchase of agricultural inputs and farm machinery; (b) enterprises for the establishment and expansion of operations of agribusinesses; and (c) traders for the establishment and expansion of operations of agricultural input and output trade.

* * *

The Project is expected to be completed by December 31, 2003.

SCHEDULE 3

Implementation Program

The provisions of this Schedule shall apply for the purposes of Section 3.01 (b) of this Agreement.

1. The Borrower shall, through its Ministry of Agriculture and Land Reclamation, maintain arrangements, satisfactory to the Association, for the overall coordination and supervision of the implementation of the Project and for the carrying out of Part A thereof. For this purpose, the Borrower shall, inter alia, establish, pursuant to Section 6.01 (b) of this Agreement, and thereafter maintain, with resources and terms of reference satisfactory to the Association:

(a) a Project Management Unit in the East Delta, headed by a full time Project Director, to be responsible for the day to day management and supervision of the implementation of Part A of the project;

(b) a Regional Working Committee, headed by the Project Director and comprising of representatives of the Borrower's departments and agencies in the East Delta involved in the carrying out of the Project and representatives of farmers benefiting thereunder, to be responsible for the coordination of the implementation of Part A of the Project; and

(c) a National Coordination Committee, headed by a National Coordinator and comprising of representatives of PBDAC and the Borrower's Ministry of Agriculture and Land Reclamation and its Agricultural Research Center and Central Administration for Agricultural Extension Services, Ministry of Public Works and Water Resources, Ministry of Planning, to be responsible for provision of policy guidance under the Project.

2. The Borrower shall:

(a) employ consultants with qualifications and terms of reference satisfactory to the Association, to assist in the carrying out of the Project; and

(b) carry out the training under the Project in accordance with guidelines agreed with the Association.

3. 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, including the measures undertaken to ensure the provision of irrigation water in the East Delta in quantities and quality adequate for the achievement of such objectives;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about December 31, 2000, 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 April 30, 2001, 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, including the adequate provision of irrigation water therefor, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 (the Guidelines) and the

following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Preference for Domestically Manufactured Goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

(b) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$750,000 equivalent, and works under Parts A (3) and B (1) of the Project, may be procured under contracts awarded on the basis of National Competitive Bidding procedures in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$20,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Commercial Practice

Goods to be procured by Beneficiaries under Part B (2) of the Project, may be procured in accordance with the normal commercial practices of such Beneficiaries at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for goods estimated to cost the equivalent of \$200,000 or more and for works estimated to cost the equivalent of \$500,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Procedures for the Selection of Consultants

Services under Part A of the Project shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part C: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, 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. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 5

Special Accounts

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 in respect of the Special Account for Part A of the Project and Category (4) set forth in said table in respect of the Special Account for Part B of the Project;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for Parts A and B (1) of the Project and payments made by PBDAC on account of Sub-loans made under Part B (2) of 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 \$500,000 in respect of the Special Account for Part A of the Project and an amount equivalent to \$400,000 in respect of the Special Account for Part B thereof, to be withdrawn from the Credit Account and deposited into the Special Accounts pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the respective 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 respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective 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 respective 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 respective Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Association requests for deposits into the respective 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 respective 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 respective Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Category, 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 respective 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 any 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 Accounts;

(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 Category for the respective Special Account, 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 respective Parts of 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 Category 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 respective 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 any 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 respective 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 any 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 any 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 Accounts.

(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.

