

CONFORMED COPY

LOAN NUMBER 2838 CHA

(Fertilizer Rationalization Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated December 28, 1987

LOAN AGREEMENT

AGREEMENT, dated December 28, 1987, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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 Bank to assist in the financing of the Project;

(B) Part A of the Project will be carried out by Yunnan Xuanwei Chemical Fertilizer Company (hereinafter called YXCFC) with the Borrower's assistance, and as part of such assistance, the Borrower will make available to YXCFC part of the proceeds of the Loan as hereinafter provided;

(C) Part B of the Project will be carried out by Yuanping Chemical Fertilizer Company (hereinafter called YCFC), Luoyang Chemical Fertilizer Company (hereinafter called LCFC), Xuanhua Chemical Fertilizer Company (hereinafter called XCFC), and Beijing Chemical Experimental Company (hereinafter called BCEC), with the Borrower's assistance, and as part of such assistance, the Borrower will make available to each of YCFC, LCFC, XCFC and BCEC part of the proceeds of the Loan as hereinafter provided;

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. Whenever used in this Agreement, 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) "MCI" means the Borrower's Ministry of Chemical Industry or any successor thereto;

(b) "YXCFC" means Yunnan Xuanwei Chemical Fertilizer Company, a state-owned enterprise of the Borrower established and operating pursuant to its Charter;

(c) "YCFC" means Yuanping Chemical Fertilizer Company, a state-owned enterprise of the Borrower established and operating pursuant to its Charter;

(d) "LCFC" means Luoyang Chemical Fertilizer Company, a state-owned enterprise of the Borrower established and operating pursuant to its Charter;

(e) "XCFC" means Xuanhua Chemical Fertilizer Company, a state-owned enterprise of the Borrower established and operating pursuant to its Charter;

(f) "BCEC" means Beijing Chemical Experimental Company, a state-owned enterprise of the Borrower established and operating pursuant to its Charter;

(g) "Companies" means YXCFC, YCFC, LCFC, XCFC, and BCEC and "Company" means any of the Companies;

(h) "Charter" means the YXCFC Charter, the YCFC Charter, the LCFC Charter, the XCFC Charter and the BCEC Charter dated December 27, 1986, December 30, 1986, November 18, 1986, November 19, 1986 and November 17, 1986, respectively;

(i) "Project Agreement" means the agreement between the Bank and the Companies of even date herewith, as the same may be amended from time to time, and such term includes all agreements supplemental to the Project Agreement;

(j) "YXCFC Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and YXCFC, pursuant to Section 3.02 (a) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the YXCFC Subsidiary Loan Agreement;

(k) "YCFC Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and YCFC pursuant to Section 3.02 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the YCFC Subsidiary Loan Agreement;

(l) "LCFC Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and LCFC pursuant to Section 3.02 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the LCFC Subsidiary Loan Agreement;

(m) "XCFC Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and XCFC pursuant to Section 3.02 (d) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the XCFC Subsidiary Loan Agreement;

(n) "BCEC Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and BCEC pursuant to Section 3.02 (e) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the BCEC Subsidiary Loan Agreement;

(o) "Subsidiary Loan Agreements" means the YXCFC Subsidiary Loan Agreement, the YCFC Subsidiary Loan Agreement, the LCFC Subsidiary Loan Agreement, the XCFC Subsidiary Loan Agreement and the BCEC Subsidiary Loan Agreement;

(p) "BICEM" means Beijing Institute for Chemical Engineering and Management, established and operating under the supervision of MCI;

(q) "Special Account" means the account to be opened and thereafter maintained pursuant to Section 2.02 (b) of this Agreement;

(r) "tpd" means metric tons per day; and

(s) "tpy" means metric tons per year.

## 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, an amount in various currencies equivalent to ninety-seven million four hundred thousand dollars (\$97,400,000).

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.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars, a special account in a bank acceptable to the 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 June 30, 1993 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower 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 per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

(i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.

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

Section 2.06. Interest and other charges shall be payable semi-annually on March 15 and September 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 Part C of the Project through MCI with due diligence and efficiency and in conformity with appropriate administrative and financial practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall cause each of the Companies to perform all its obligations set forth in the Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable each of the Companies to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

Section 3.02. (a) The Borrower shall relend the equivalent of forty-two million three hundred thousand dollars (\$42,300,000) out of the proceeds of the Loan to YXCFC under a subsidiary loan agreement to be entered into between the Borrower and YXCFC under the terms and conditions which shall have been approved by the Bank and which shall include, inter alia, those specified in paragraph (f) of this Section.

(b) The Borrower shall relend the equivalent of thirteen million eight hundred thousand dollars (\$13,800,000) out of the proceeds of the Loan to YCFC under a subsidiary loan agreement to be entered into between the Borrower and YCFC under the terms and conditions which shall have been approved by the Bank and which shall include, inter alia, those specified in paragraph (f) of this Section.

(c) The Borrower shall relend the equivalent of fourteen million dollars (\$14,000,000) out of the proceeds of the Loan to LCFC under a subsidiary loan agreement to be entered into between the Borrower and LCFC under the terms and conditions which shall have been approved by the Bank and which shall include, inter alia, those specified in paragraph (f) of this Section.

(d) The Borrower shall relend the equivalent of thirteen million four hundred thousand dollars (\$13,400,000) out of the proceeds of the Loan to XCFC under a subsidiary loan agreement to be entered into between the Borrower and XCFC under the terms and conditions which shall have been approved by the Bank and which shall include, inter alia, those specified in paragraph (f) of this Section.

(e) The Borrower shall relend the equivalent of twelve million six hundred thousand dollars (\$12,600,000) out of the proceeds of the Loan to BCEC under a subsidiary loan agreement to be entered into between the Borrower and BCEC under the terms and conditions which shall have been approved by the Bank and which shall include, inter alia, those specified in paragraph (f) of this Section.

(f) Except as the Bank shall otherwise agree, the relending terms and conditions between the Borrower and the Companies shall, inter alia, include: (i) interest rate of 7.92% per annum; (ii) commitment charge calculated in accordance with Section 2.04 of this Agreement; (iii) repayment period of 15 years, including a grace period of five years; and (iv) each of the Companies shall bear the foreign exchange risk for its subsidiary loan.

(g) In addition to proceeds of the Loan relent to the Companies pursuant to Section 3.02 (a) through (f) above, the Borrower shall relend to each Company under the respective Subsidiary Loan Agreement the equivalent of ninety thousand dollars (\$90,000) for consultants' services under Part C (i) of the Project, on the following terms and conditions: (i) service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum; (ii) commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum; (iii) repayment period of 15 years, including grace period of 5 years; and (iv) the Company shall bear the foreign exchange risk.

(h) The Borrower shall exercise its rights under the Subsidiary Loan Agreements in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreements to affect the provisions of paragraph (f) above.

Section 3.03. The Borrower shall maintain the Project Coordination Unit established within MCI to coordinate implementation of the Project, with staff and responsibilities acceptable to the Bank.

Section 3.04. Except as the Bank shall otherwise agree, procurement of the goods and employment of engineering firms and consultants required for the Project, to be financed out of the proceeds of the Loan, shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.05. The Bank and the Borrower hereby agree that the obligations set forth in Sections 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 and maintenance, respectively) in respect of Parts A and B of the Project, shall be carried out by each of the Companies pursuant to Section 2.04 of the Project Agreement.

Section 3.06. The Borrower shall allow the Companies to sell their entire output of fertilizer outside the state allocation plan, at market-related prices.

Section 3.07. The Borrower shall carry out the management efficiency study under Part C (i) of the Project in accordance with terms of reference agreed with the Bank, and shall complete and review such study with the Bank not later than June 30, 1989.

Section 3.08. The Borrower shall carry out the program for strengthening BICEM under Part C (ii) of the Project in accordance with the scope agreed with the Bank, and shall complete such program not later than December 31, 1990.

#### 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 C of the Project.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section, including 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 copy of 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 accounts and the audit thereof and said reports 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 or cause to be maintained, in accordance with paragraph (a) of this Section, separate 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 separate accounts are included in the annual audit referred to in \_\_\_\_\_ paragraph (b) of this Section and that the report thereof contains, in respect of \_\_\_\_\_ such separate accounts, a separate opinion by said auditors as to whether the \_\_\_\_\_ proceeds of the Loan withdrawn in respect of such expenditures have been used for \_\_\_\_\_ the purpose for which they were provided.

#### ARTICLE V

##### Remedies of the Bank

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

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

(b) as a result of events which occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that any of the Companies will be able to perform its obligations under the Project Agreement;

(c) any of the Charters shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the respective Company to perform any of its obligations under the Project Agreement; and

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

Section 5.02. Pursuant to Section 7.01 (h) 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 (60) days after notice thereof shall have been given by the Bank to the Borrower and the respective Company; and

(b) any event specified in paragraphs (c) and (d) of Section 5.01 of this Agreement shall occur.

#### ARTICLE VI

##### Effective Date; Termination

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

(a) the Borrower's State Council has approved the Loan Agreement; and

(b) each of the Subsidiary Loan Agreements has been executed on behalf of the Borrower and the respective Company.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) the Project Agreement has been duly authorized or ratified by, executed and delivered on behalf of each of the Companies, and is legally binding upon each of the Companies in accordance with its terms; and

(b) each of the Subsidiary Loan Agreements has been duly authorized or ratified by the Borrower and the respective Company, and is legally binding upon the Borrower and such Company in accordance with its terms.

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 of Finance 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  
Sanlihe  
Beijing  
People's Republic of China

Cable address:

FINANMIN  
Beijing

Telex:

22486 MFPRC CN

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:

440098 (ITT)  
248423 (RCA) or  
64145 (WUI)

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.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Han Xu

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Bilsel Alisbah

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
Parts A and B of the Project		
(1) Equipment and materials	75,000,000	100% of foreign expenditures, and 100% of local expenditures (ex-factory)
(2) Engineering, licensing and technical services	9,300,000	100% of foreign expenditures
(3) Overseas visits by local staff	1,000,000	100%
(4) Overseas training	1,200,000	100%
(5) Unallocated	9,600,000	
Part C of the Project		
(6) Equipment and materials	420,000	100% of foreign expenditures, and 100% of local expenditures (ex-factory)
(7) Consultants' services for Part C (i)	450,000	100%
(8) Consultants' services and overseas training for Part C (ii)	430,000	100%
TOTAL	97,400,000	

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 \$2,100,000, may be made in respect of Categories (2) and (3) on account of payments made for expenditures before that date but after February 1, 1987.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are (a) improvement in production efficiency of existing medium-size plants through technical renovation and energy saving measures; (b) reduction of nutrient imbalances through capacity expansion of phosphate fertilizers; and (c) improvement of institutional efficiency of the fertilizer sector through the introduction of modern economic, financial and operational systems and techniques.

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

#### Part A: Phosphate Fertilizer Development

(i) installation of a 200,000 tpy pyrites-based sulfuric acid plant, an 80,000 tpy P2O5 phosphoric acid plant with a 4,200 tpy fluoride processing capacity, and a 240,000 tpy DAP/NPK granulation plant;

(ii) establishment of utilities and offsites including raw material handling and storage facilities and a site for phosphogypsum disposal;

(iii) implementation of energy saving measures in the existing coal-based ammonia plant;

(iv) overseas and local training for operations and technical staff; and

(v) overseas visits by local staff in relation to Project implementation.

#### Part B: Nitrogenous Fertilizer Rationalization and Expansion

(i) provision of energy saving modifications in existing coal-based ammonia plants;

(ii) expansion of ammonia capacities to 80,000 tpy;

(iii) installation of a 132,000 tpy (400 tpd) urea plant, based on most appropriate current international technology;

(iv) installation of all utilities/off-sites required for smooth plant operation, including storage facilities for 800 m<sup>3</sup> of ammonia and 3,000 tons of bagged urea;

(v) training in operations and maintenance; and

(vi) overseas visits by local staff in relation to Project implementation.

#### Part C: Institutional Development

(i) carrying out a management efficiency study to design improved management systems for BCEC and YXCFC on a pilot basis; for the Companies, and implement such systems and

(ii) carrying out a program to strengthen the quality of training at BICEM through curriculum restructuring, overseas training of

teaching staff, and provision of equipment.

consultants' services and

\* \* \*

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

SCHEDULE 3

Amortization Schedule

Date of Payment Due	Payment of Principal (expressed in dollars)*
On each March 15 and September 15 beginning March 15, 1993 through March 15, 2007	3,245,000
On September 15, 2007	3,295,000

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\* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30

More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

#### SCHEDULE 4

#### Procurement and Consultants' Services

##### Section I. Procurement of Goods and Works

##### Part A: International Competitive Bidding

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).

##### Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A of this Schedule, goods manufactured in China 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. Equipment for which there are only limited number of suppliers, as determined by the Bank, estimated to cost the equivalent of not more than \$500,000 per contract, up to an aggregate amount not exceeding the equivalent of \$9,500,000, 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 qualified suppliers, to be agreed with the Bank, 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).

2. Items or groups of items estimated to cost the equivalent of not more than \$250,000 per contract, up to an aggregate amount not exceeding the equivalent of \$8,000,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from at least three qualified suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

3. Proprietary items estimated to cost up to an aggregate amount of \$5,300,000 equivalent may be purchased directly under negotiated contracts in accordance with procedures satisfactory to the Bank.

##### Part D: Review by the Bank of Procurement Decisions

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

(a) With respect to each contract estimated to cost the equivalent of more than \$750,000, 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 required 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 5 to the Loan Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of the Loan Agreement and Section 4.01 (c) (ii) of the Project Agreement.

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

## Section II. Employment of Consultants

1. In order to assist in carrying out the Project, the Borrower shall employ engineering firms and consultants, whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank.

2. Such consultants 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), (3), (4), (6), (7) and (8) 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 \$4 million to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, 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 may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, 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) The Borrower shall furnish to the Bank requests for replenishment of the Special Account at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments 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 the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Bank when either of the following situations first arises:

(i) 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

(ii) the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus 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 be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) 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 any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Bank, 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. No further deposit by the Bank into the Special Account shall be made until the Borrower has made such deposit or refund.

(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 for crediting to the Loan Account.

