

CONFORMED COPY

LOAN NUMBER 2954 MOR

(Second Small- and Medium-Scale Irrigation Project)

between

KINGDOM OF MOROCCO

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated January 27, 1989

LOAN NUMBER 2954 MOR

LOAN AGREEMENT

AGREEMENT, dated January 27, 1989, between KINGDOM OF MOROCCO (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; and

(B) the Borrower intends to obtain from external sources (the Cofinanciers) funds in an aggregate amount equivalent to \$11,800,000 (the Cofinance) to assist in financing part of the Project on the terms and conditions set forth in agreements (the Cofinancing Agreements) to be entered into between the Borrower and each of the Cofinanciers; 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 have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Sub-project" means any project for the rehabilitation and/or upgrading of an irrigation scheme to be carried out by the Borrower through a DPA or an ORMVA under Part A of the Project in accordance with the provisions of Section 3.02 (b) of this Agreement;

(b) "MARA" means the Borrower's Ministry of Agriculture and Agrarian Reform;

(c) "DER" means the Directorate for Rural Engineering within MARA;

(d) "SPMH" means the unit within the Rural Development Division of DER responsible for the development of small- and medium-scale irrigation schemes;

(e) "DPAs" means the Provincial Directorates of Agriculture within MARA and "DPA" means individually, any of the DPAs;

(f) "ORMVAs" means the Regional Agricultural Development Authorities established and operating pursuant to the Borrower's Law (Dahir) No. 1-74-238 dated April 23, 1975 and Decrees (Decret) No. 827-66, 828-66, 829-66, 830-66, 831-66, 832-66 or 833-66, each dated October 22, 1966 and No. 2-70-157 dated October 8, 1970; and "ORMVA" means individually, any of the ORMVAs;

(g) "Consultative Coordinating Committee" means the committee established and maintained in accordance with the provisions of paragraph 1 of Schedule 5 to the Loan Agreement dated June 29, 1983 between the Borrower and the Bank for a Small- and Medium-Scale Irrigation Project (Loan No. 2253 MOR);

(h) "Project Coordination and Monitoring Unit" means the unit established within SPMH and maintained in accordance with the provisions of paragraph 2 of Schedule 5 to the Loan Agreement dated June 29, 1983 between the Borrower and the Bank for a Small- and Medium-Scale Irrigation Project (Loan No. 2253 MOR);

(i) "Irrigation Water Users' Association" means, in respect of each Sub-project, an association of all farmers utilizing water distributed through the irrigation scheme to be rehabilitated or upgraded under such Sub-project, established pursuant to Part B of Section II of Schedule 5 to this Agreement;

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

(k) "ha" means hectares; and

(l) "DH" or "Dirhams" means the currency of the Borrower.

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 twenty-three million dollars (\$23,000,000).

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 Dirhams a special account in the Treasury of the Borrower's Ministry of Finance 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 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1994 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 semiannually on February 15 and August 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. 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 administrative, financial, technical, engineering and irrigation

practices, and appropriate safety, health and environmental standards satisfactory to the Bank, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall:

(a) coordinate, supervise and monitor the overall carrying out of the Project in accordance with guidelines satisfactory to the Bank, including those set forth or referred to in Section I of Schedule 5 to this Agreement; and

(b) ensure that Sub-projects shall be appraised and carried out in accordance with guidelines satisfactory to the Bank, including those set forth or referred to in Section II of said Schedule 5.

Section 3.03. 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

Financial and Other 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 the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section, including those 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, 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 and accounts and 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 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 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.

Section 4.02. (a) Except as the Borrower and the Bank shall otherwise agree: (a) in respect of each Sub-project, the Borrower shall: (i) establish and thereafter at all times maintain a system of charges designed to ensure the recovery of 100% of the expenditures incurred by the Borrower on account of the costs of operation and maintenance of the irrigation scheme rehabilitated and/or upgraded under such Sub-project and not less than 10% of the expenditures incurred by the Borrower on account of the capital costs of said scheme, over a period of 30 years from the date of completion of such Sub-project at an interest rate of at least 4% per annum, including a grace period of 3 years; and (ii) collect, commencing on the date of completion of such Sub-project, such charges from the Irrigation Water Users' Association established in respect of said irrigation scheme.

- (b) (i) prepare and not later than December 31 of each year commencing December 31, 1990, furnish to the Bank for the Bank's review, the proposed system of charges to be established and collected pursuant to paragraph (a) of this Section during the following next year, together with all such information pertaining thereto as the Bank may reasonably request; (ii) in the preparation of said schedule, ensure that, insofar as practicable, said charges are progressive, and take account, inter alia, of the financial capacity of the members of the Irrigation Water Users' Association and incentives to participation, and are based upon realistic values obtained by revaluation at appropriate intervals; (iii) review, with the Bank, at intervals of not more than three years, the nature and levels of the elements included in such charges, taking account of changing price levels, and to the extent that the conclusions of said review shall so indicate, revise such charges appropriately; and (iv) maintain separate accounts for the costs recovered from the Irrigation Water Users Association by such charges, and furnish to the Bank annual reports thereon.

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) The Cofinancing Agreements shall have failed to become effective by June 30, 1990, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that 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.

(b) (i) Subject to subparagraph (ii) of this paragraph: (A) the right of the Borrower to withdraw the proceeds of any grant or loan, including the Cofinance, made to the Borrower for the financing of the Project shall have been suspended, cancelled 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 agreed maturity thereof. (ii) Sub-paragraph (i) shall not apply if the Borrower establishes to the satisfaction of the Bank 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 (h) of the General Conditions, the following additional event is specified, namely that the event specified in paragraph (b) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b) (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 Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely that the staff referred to in Section I B.2 (b) of Schedule 5 to this Agreement have been appointed to the Project Coordination and Monitoring Unit in accordance with the provisions of said Section I.

Section 6.02. 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
Rabat
Kingdom of Morocco

Cable address:

MINISTERE FINANCES

Telex:

31936M

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.

KINGDOM OF MOROCCO

By /s/ A. Bengelloun
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ K. Dervis
Acting Regional Vice President
Europe, Middle East and North Africa

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	16,900,000	80%
(2) Equipment, vehicles and materials	2,600,000	100% of foreign expenditures, 100% of local expenditures (ex- factory cost) and 65% of local expenditures for other items procured locally
(3) Training and consultants' services	1,000,000	100%
(4) Unallocated	2,500,000	
TOTAL	<u>23,000,000</u>	

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 \$250,000, may

be made in respect of Category (3) on account of payments made for expenditures before that date but after May 15, 1987.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (1) increase agricultural production through the rehabilitation and maintenance of traditional small- and medium-scale irrigation schemes; and (2) strengthen institutional capabilities in relation to the rehabilitation, operation and maintenance of such schemes.

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: Irrigation Schemes

The preparation and carrying out through the ORMVAs and DPAs, in accordance with the guidelines set forth or referred to in Section II of Schedule 5 to this Agreement, of projects to rehabilitate and/or upgrade irrigation schemes.

Part B: Equipment and Vehicles

(1) The provision to the ORMVAs and DPAs of earth-moving transport and related equipment required for the maintenance and repair of flood irrigation systems.

(2) The provision to the DPAs, of office equipment and supplies and light vehicles required in the carrying out of Sub-projects.

(3) The provision to SPMH of light vehicles, canal gauging material and office equipment and supplies.

Part C: Training and Studies

(1) The carrying out of a training program to enhance the skills of the staff of DER and the DPAs.

(2) The carrying out through DER of a field study to develop appropriate methods of farming in areas irrigated by floods.

* * *

The Project is expected to be completed by December 31, 1993.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)
February 15, 1994	420,000
August 15, 1994	435,000
February 15, 1995	455,000
August 15, 1995	470,000
February 15, 1996	490,000
August 15, 1996	505,000
February 15, 1997	525,000
August 15, 1997	545,000
February 15, 1998	570,000
August 15, 1998	590,000
February 15, 1999	615,000
August 15, 1999	635,000
February 15, 2000	660,000
August 15, 2000	685,000
February 15, 2001	715,000
August 15, 2001	740,000
February 15, 2002	770,000

August 15, 2002	800,000
February 15, 2003	830,000
August 15, 2003	860,000
February 15, 2004	895,000
August 15, 2004	930,000
February 15, 2005	965,000
August 15, 2005	1,005,000
February 15, 2006	1,040,000
August 15, 2006	1,080,000
February 15, 2007	1,125,000
August 15, 2007	1,165,000
February 15, 2008	1,210,000
August 15, 2008	1,270,000

* 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 eleven years before maturity	0.55
More than eleven years but not more than sixteen years before maturity	0.80
More than sixteen years but not more than eighteen years before maturity	0.90
More than eighteen 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. To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost the equivalent of \$200,000 or more each.

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 the Kingdom of Morocco 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. (a) Except as provided in sub-paragraph (b) of this paragraph 1, works estimated to cost less than the equivalent of \$1,500,000 per contract may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

(b) Works estimated to cost less than the equivalent of \$55,000, to be carried out under an individual Sub-project, up to an aggregate amount not to exceed the equivalent of \$3,000,000 for all Sub-projects, may be carried out by the Borrower's own forces, in accordance with procedures satisfactory to the Bank.

2. (a) Goods estimated to cost the equivalent of \$12,500 or more per contract but less than the equivalent of \$200,000 per contract, up to an aggregate amount not to exceed the equivalent of \$300,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

(b) Goods estimated to cost less than the equivalent of \$12,500 per contract, up to an aggregate amount not to exceed the equivalent of \$300,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable 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 for works estimated to cost the equivalent of \$300,000 or more, and with respect to each contract for goods estimated to cost the equivalent of \$200,000 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, said 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.

(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 this Agreement.

2. The figure of 20% 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

Implementation Program

Section I: Project Organization

The guidelines set forth in this Section I shall apply for purposes of Section 3.02 (a) of this Agreement.

A. In order to ensure the proper coordination of the departments and agencies of the Borrower responsible for the carrying out of the Project, the Borrower shall maintain at all times the Consultative Coordination Committee with organization, membership and terms of reference satisfactory to the Bank. The Consultative Coordination Committee shall meet at least once a year to review progress in carrying out the Project and to resolve policy and other issues which may arise during Project implementation.

B. 1. In order to ensure the proper carrying out of the Project, the Borrower shall maintain at all times throughout the implementation of the Project, a Project manager with qualifications, experience, powers and terms of reference satisfactory to the Bank, to be responsible, inter alia, for the selection, appraisal, and coordination and supervision of the carrying out of, Sub-projects. The Project manager shall be responsible to the chief of the SPMH and shall be assisted at all times by competent staff in such numbers as shall be necessary for the proper execution of his responsibilities.

2. To this end, the Borrower shall: (a) maintain at all times the Project Coordination and Monitoring Unit with terms of reference satisfactory to the Bank and with qualified and experienced staff in adequate numbers, to assist the Project manager in appraisals, monitoring and evaluation of Sub-projects; and (b) without limitation upon the foregoing, appoint to the Project Coordination and Monitoring Unit and thereafter at all times maintain, the following qualified and experienced staff: one civil engineer specialized in irrigation, one agro-economist and one sociologist.

Section II: Sub-projects: Guidelines for Approval and Implementation

The guidelines set forth in this Section II shall apply for purposes of Section 3.02 (b) of this Agreement and Part A of the Project.

Each Sub-project shall be carried out only after:

A. The Borrower shall have determined, on the basis of a feasibility study carried out in accordance with guidelines satisfactory to the Bank, that:

1. at least 60% of the farms served by the irrigation scheme included in the Sub-project are smaller than: (a) 10 ha., if said scheme is supplied by perennial sources of water; or (b) 20 ha., if said scheme is supplied by other sources of water;

2. at least 50% of the area served by said scheme consists of farms which satisfy the criteria set forth in paragraph (1) of this Part;

3. the Sub-project is technically feasible;

4. the Sub-project is calculated to: (i) have an economic rate of return of at least 12% if the area served by said scheme is at least 100 ha.; or (ii) cost not more than the equivalent of \$1,500 (in constant 1987 prices) per ha. if the area served by said scheme is less than 100 ha.;

5. the Sub-project is estimated to be completed in a period not exceeding 2 years; and

6. the Sub-project is designed in accordance with appropriate safety, health and environmental standards satisfactory to the Bank.

B. An Irrigation Water Users' Association has been established and the Borrower has concluded arrangements with said Irrigation Water Users' Association satisfactory to the Bank designed to ensure the proper carrying out of said Sub-project, the proper operation and maintenance of said scheme and the establishment and application of a system of charges which satisfies the requirements set forth in Section 4.02 of this Agreement.

C. The Bank shall have notified the Borrower of the Bank's agreement to the carrying out of such Sub-project.

SCHEDULE 6

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 DH 12,000,000 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.

