

LOAN NUMBER 2825 MOR

Loan Agreement

(National Water Supply Rehabilitation Project)

between

KINGDOM OF MOROCCO

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 27, 1987

LOAN NUMBER 2825 MOR

LOAN AGREEMENT

AGREEMENT, dated July 27, 1987, between KINGDOM OF MOROCCO (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 through the Local Utilities, as defined in Section 1.02 (e) of this Agreement, with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Local Utilities part of the proceeds of the Loan as provided in this Agreement;

(C) Part B of the Project will be carried out by the National Water Supply Authority (ONEP), 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 ONEP part of the proceeds of the Loan as provided in this Agreement; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement;

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "ONEP" means the National Water Supply Authority (Office National de l'Eau Potable), a public enterprise established and operating pursuant to the Borrower's Law (Dahir) No. 1-72-103 dated April 3, 1972, as the same may be amended from time to time;

(b) "Project Agreement" means the agreement between the Bank and ONEP 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;

(c) "Subsidiary Loan" means the loan made by the Borrower out of the proceeds of the Loan referred to in Section 3.01 (d) of this Agreement to ONEP for Part B of the Project;

(d) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and ONEP pursuant to Section 3.01 (d) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement;

(e) "Local Utility" means any of the municipal or inter-municipal public enterprises providing water supply, electricity and sewerage services in the urban areas of the Borrower's territory, operating pursuant to the Borrower's Decree (Decret) No. 2-64-394 dated September 29, 1964 and to which the Borrower proposes to make or has made a Sub-loan;

(f) "Sub-loan" means a loan made or proposed to be made by the Borrower out of the proceeds of the Loan referred to in Section 3.01 (c) of this Agreement to a Local Utility for a Rehabilitation and Institutional Restructuring Project;

(g) "Rehabilitation and Institutional Restructuring Project" means a specific rehabilitation and institutional restructuring project referred to in Part A of the Project, to be carried out by a Local Utility utilizing the proceeds of a Sub-Loan;

(h) "Sub-loan Agreement" means any of the agreements to be entered into between the Borrower and a Local Utility 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 to such Sub-loan Agreement;

(i) "RAD" means the Casablanca Water and Electricity Distribution Authority (Regie Autonome Intercommunale de Distribution d'Eau et d'Electricite de Casablanca), a Local Utility established and operating pursuant to the Borrower's Law (Dahir) No. 1-61-218 dated October 21, 1961, as the same may be amended from time to time;

(j) "RED" means the Rabat Water and Electricity Distribution Authority (Regie Autonome Intercommunale de Distribution d'Eau et d'Electricite de Rabat), a Local Utility established and operating pursuant to the Borrower's Decisions (Arretes) dated March 1, 1965 and August 21, 1969, as the same may be amended from time to time;

(k) "DRSC" means the department within the Borrower's Ministry of the Interior responsible for the oversight of the Local Utilities (Direction des Regies et des Services Concedes);

(l) "AH" means the office within the Borrower's Ministry of Equipment, Vocational Training and Staff Training responsible for the study and development of national water resources (Administration de l'Hydraulique);

(m) "Project Unit" means the unit to be established and maintained by the Borrower for purposes of Part A of the Project in accordance with the provisions of Section 3.02 (b) of this Agreement;

(n) "Action Plan" means the action plan for the carrying out of Parts A and C of the Project, referred to in Section 3.02 (a) of this Agreement;

(o) "Category" means a category of items to be financed out of the proceeds of the Loan as set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(p) "Basic Legislation" means the Borrower's Law (Dahir) No. 1-72-103 dated April 3, 1972 establishing ONEP; the Borrower's Decree (Decret) No. 2-64-394 dated September 29, 1964 pursuant to which Local Utilities are operating; the Borrower's Law (Dahir) No. 1-61-218 dated October 21, 1961, establishing RAD; the Borrower's Decisions (Arretes) dated March 1, 1965 and August 21, 1969 pursuant to which RED is operating; and the Borrower's Laws (Dahirs) No. 1-59-271 dated April 14, 1960 and No. 1-61-402 dated June 30, 1962 governing the Borrower's financial control of its public enterprises, including ONEP and the Local Utilities;

(q) "Cofinanciers" means, in respect of each Local Utility, the external sources, referred to in Part A (3) of Section I of Schedule 4 to this Agreement, from which such Local Utility intends to contract or has contracted one or more loans, in addition to a Sub-loan, to assist in the financing of such Local Utility's Rehabilitation and Institutional Restructuring Project;

(r) "Cofinancing Agreements" means the agreement or agreements setting forth the terms and conditions upon which the Cofinanciers shall make one or more loans to a Local Utility to assist in the financing of such Local Utility's Rehabilitation and Institutional Restructuring Project;

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

(t) "Bank of Morocco" means the Borrower's central bank (Bank al Maghrib); and

(u) "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 sixty million dollars (\$60,000,000).

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 dollars a special account in the Bank of Morocco 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 7 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1995 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 per cent ($3/4$ 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 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 April 1 and October 1 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 and, through the Local Utilities, Part A of the Project, with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and public utility practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for said Parts of the Project.

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

(c) For the purpose of carrying out Part A of the Project, the Borrower shall relend to the Local Utilities the proceeds of the Loan allocated from time to time to Category (1) under sub-loan agreements to be entered into between the Borrower and the Local Utilities, under terms and conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in Section I of Schedule 4 to this Agreement.

(d) For the purpose of carrying out Part B of the Project, the Borrower shall relend to ONEP the proceeds of the Loan allocated from time to time to Category (2) under a subsidiary loan agreement to be entered into between the Borrower and ONEP, under terms and conditions which shall have been approved by the Bank and which shall include, without limitation, those set forth in Section II of Schedule 4 to this Agreement.

(e) The Borrower shall: (i) exercise its rights under the Subsidiary Loan Agreement and each of the Sub-loan Agreements in such 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 Agreement, any Sub-loan Agreement, or any provision thereof; and (ii) cause each of the Local Utilities to perform in accordance with the provisions of its Sub-loan Agreement all the obligations of the Local Utility therein set forth and shall take all action necessary or appropriate to enable the Local Utility to perform such obligations, and shall not take or permit to be taken any such action which would prevent or interfere with such performance.

Section 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement the Borrower shall:

(a) take all measures necessary to ensure that Parts A and C of the Project shall, except as the Borrower and the Bank may otherwise agree, be carried out in accordance with the Action Plan set forth in Schedule 5 to this Agreement; and

(b) establish and thereafter maintain a project unit with organization, membership, terms of reference and resources satisfactory to the Bank, to be responsible for appraising the Rehabilitation and Institutional

Restructuring Projects to be carried out under Part A of the Project, and for supervising and monitoring the carrying out thereof by the Local Utilities.

Section 3.03. In order to assist the Borrower in the technical appraisals of, the coordination and supervision of procurement for, and the supervision and monitoring of the carrying out by the Local Utilities of, the Rehabilitation and Institutional Restructuring Projects under Part A of the Project, the Borrower shall employ consultants whose qualifications, experience and terms of reference shall be satisfactory to the Bank.

Section 3.04. Except as the Bank shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 6 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, 9.08 and 9.09 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 ONEP pursuant to Section 2.03 of the Project 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 and 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, 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) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained 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;
- (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 to the related withdrawals.

Section 4.02. The Borrower shall prepare, and not later than December 1 of each of its fiscal years, furnish to the Bank the Borrower's plan of investments for the water supply sector during the next five following fiscal years. The Borrower and the Bank shall exchange views on said plan and the Borrower shall, on the basis of said exchange of views, thereafter take all measures necessary to ensure that said plan shall be carried out for such fiscal year with due diligence and efficiency and in conformity with sound administrative, financial, economic, engineering and water supply management practices.

Section 4.03. (a) Except as the Bank may otherwise agree, the Borrower shall take all measures necessary to ensure that:

- (i) the balance of the water bills due and payable as at December 31, 1986 by its public agencies to ONEP and each of the Local Utilities shall be paid to ONEP, or the Local Utility concerned, as the case may be, on the basis of guidelines and in accordance with a schedule satisfactory to the Bank;
- (ii) each of its public agencies shall pay its water bills, other than the bills referred to in subparagraph (1) of this paragraph, promptly when due, in accordance with procedures satisfactory to the Bank; and
- (iii) budgetary allocations shall be made for each fiscal year in the relevant budget or budgets of its public agencies in amounts sufficient to ensure the fulfillment of the obligations set forth in subparagraphs (i) and (ii) of this paragraph.

(b) For purposes of this Section:

- (i) the term "public agencies" means the political or administrative subdivisions of the Borrower, or entities owned or controlled by, or operating for the

account or benefit of, the Borrower or any of its political or administrative subdivisions; and

- (ii) the term "water bills" means, in respect of each of the public agencies, the amounts periodically billed by ONEP and the Local Utilities to such agency for the supply of water and related services by ONEP or the Local Utilities, as the case may be, to such agency.

Section 4.04. Without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower shall take all action necessary on its part to enable: (a) each of the Local Utilities to comply with its obligations referred to in Part C (2) (a) (i) of Section I of Schedule 4 to this Agreement; and (b) ONEP to comply with its obligations referred to in Sections 3.02(b) and 4.02 of the Project Agreement.

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) ONEP shall have failed to perform any of its obligations under the Project Agreement or any of the Local Utilities shall have failed to perform any of its obligations under its Sub-loan Agreement.

- (b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that ONEP will be able to perform its obligations under the Project Agreement or that any of the Local Utilities will be able to perform any of its obligations under its Sub-loan Agreement.

- (c) The Basic Legislation or any other law, decree or decision of the Borrower pertaining to the establishment or operations of ONEP or of any of the Local Utilities shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of ONEP to perform any of its obligations under the Project Agreement or of any of the Local Utilities to perform any of its obligations under its Sub-loan Agreement.

- (d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of ONEP or of any of the Local Utilities or for the suspension of the operations of ONEP or of any of the Local Utilities.

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 days after notice thereof shall have been given by the Bank to the Borrower; and

- (b) the events specified in paragraphs (c) and (d) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

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/ M. Bargach
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Kemal 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) of the Project:	For Part A	
(a) pipes and repairs thereof	10,622,000	47%
(b) goods for Part A (1) thereof (other than pipes and repairs thereof)	8,012,000	100% of foreign expenditures, 54% of local expenditures
(c) pipelaying and installation of water meters and appurtenances	4,898,000	38%
(d) works other than those referred to in Category (1) (c)	6,368,000	36%
(e) data processing equipment and related software	344,000	62%
(f) consultants' services training, equipment and	5,289,000	100% of foreign expenditures and 50% of local ex- penditures

fellowships

(2) For Part B of the Project:

(a)	pipes and repairs thereof	2,978,000	47%
(b)	goods for Part A (1) thereof (other than pipes) and repairs thereof	6,689,000	100% of foreign expenditures, 54% of local expenditures
(c)	pipelaying and installation of water meters and appurtenances	1,202,000	38%
(d)	works other than those referred to in Category (2) (c)	1,332,000	36%
(e)	data processing equipment and related software	479,000	62%
(f)	consultants' services training, equipment and fellowships	1,145,000	100% of foreign expenditures and 50% of local expenditures

(3) For Part C of the Project:

(a)	data processing equipment and related software	977,000	62%
(b)	consultants' services, training and fellowships	4,165,000	100% of foreign expenditures and 50% of local expenditures

(4) Unallocated 5,500,000

TOTAL 60,000,000

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the 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:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$1,000,000, may be made in respect of Categories (2) (e), (2) (f) and (3) (a) on account of payments made for

expenditures before that date but after October 31, 1985;

(b) expenditures, in respect of a Rehabilitation and Institutional Restructuring Project for which a Sub-loan has been made to a Local Utility, to be financed out of the proceeds of the Loan allocated to Category (1) unless and until:

- (i) the Rehabilitation and Institutional Restructuring Project shall have been approved by the Bank in accordance with the provisions of Part A (4) of Section I of Schedule 4 to this Agreement; and
- (ii) evidence (including one or more legal opinions) satisfactory to the Bank shall have been furnished to the Bank, establishing that (A) a Sub-loan Agreement has been executed on behalf of, and is legally binding upon, the Borrower and the Local Utility, in accordance with its terms, and (B) if one or more loans from Cofinanciers is or are required to assist in financing the Rehabilitation and Institutional Restructuring Project, the Local Utility shall have concluded Cofinancing Agreements, on terms and conditions satisfactory to the Bank, with all such Cofinanciers; and

(c) expenditures to be financed out of the proceeds of the Loan allocated to Category (1) unless and until:

- (i) the Project Unit shall have been established in accordance with the Provisions of Section 3.02 (b) of this Agreement; and
- (ii) the consultants referred to in Section 3.03 of this Agreement shall have been employed in accordance with the provisions of said Section.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist in the carrying out of programs to: (1) improve the efficiency of the water supply systems in the Borrower's territory; (2) improve water resources management and investment planning in the water sector; and (3) strengthen the institutional structures of the water sector, including the organization, management, operations and financial performance of public enterprises operating in the water supply sector.

Part A: Local Utilities

Provision by the Borrower to Local Utilities of Sub-loans for the carrying out of the following rehabilitation and institutional restructuring projects:

- (1) Rehabilitation
 - (a) Rehabilitation of water production and distribution facilities, including provision or repair of pipes and other equipment required therefor;
 - (b) construction or rehabilitation of service reservoirs, including provision or repair of

equipment required therefor; and

- (c) provision of equipment and vehicles required for leak detection.

(2) Institutional Restructuring

- (a) Carrying out of studies to develop and/or update master plans for the production and distribution of water resources, to develop suitable leak detection and repair programs and preventive maintenance programs and to identify future investment programs;
- (b) development and carrying out of a program to introduce and apply: (i) an appropriate management information system; and (ii) suitable accounting systems, including cost accounting systems, and an appropriate methodology for the valuation of assets; and provision of data processing equipment and related software required for said systems;
- (c) development and carrying out of training programs to upgrade the technical skills of the staff of the Local Utilities, including expansion of the training center for such staff, provision of training equipment required therefor and provision of fellowships to said staff; and
- (d) establishment and staffing of a permanent procurement committee in accordance with the program implemented by the Borrower pursuant to Part C (3) of the Project.

Part B: ONEP

(1) Rehabilitation

- (a) Rehabilitation of water production and distribution facilities and of well fields, including provision or repair of pipes and other equipment required therefor;
- (b) construction or rehabilitation of service reservoirs, including provision or repair of equipment required therefor; and
- (c) provision of equipment and vehicles required for leak detection.

(2) Institutional Restructuring

Carrying out of programs to improve ONEP's organization, management and operations, including:

- (a) carrying out of studies to develop suitable leak detection and preventive maintenance programs and to identify future investment programs;
- (b) carrying out of a program to improve ONEP's management information system, including development and introduction of suitable accounting systems, including a cost accounting system, and an integrated computer system; and provision of data processing equipment and related software required for said systems; and
- (c) development and carrying out of a staff

training program to upgrade the technical skills of ONEP's staff, including provision of training equipment required therefor and fellowships to said staff.

Part C: Borrower

- (1) Development and introduction of an appropriate system: (a) to identify and elaborate suitable strategies and policies for the development, allocation and management of the Borrower's water resources; (b) to coordinate the development of said water resources, including the planning of investments in the Borrower's water sector; and (c) regulate the extraction, utilization and disposal of said water resources.
- (2) Development and carrying out of a program to improve the institutional structures of the Borrower's water sector, including:
 - (a) carrying out of a study to develop an optimal organizational structure for the Borrower's water supply sector;
 - (b) development and implementation of a suitable data processing system for AH, including provision of data processing equipment and related software required therefor; and
 - (c) carrying out of a program to develop and implement appropriate management information systems designed to ensure coordinated and adequate monitoring by the Borrower of the operations of ONEP and the Local Utilities.
- (3) Development and carrying out of a program designed to improve the procurement decision-making process of the Local Utilities.
- (4) Development and carrying out of a staff training program to upgrade the technical skills of the staff of AH and DRSC, including provision of fellowships to said staff.
- (5) Preparation of: (a) the master plan for the development of water resources in the Southern Atlas Mountains; (b) national master plan for the management and development of water resources throughout the Borrower's territory.

* * *

The Project is expected to be completed by December 31, 1994.

SCHEDULE 3

Amortization Schedule

Date Payment Due dollars)*	Payment of Principal (Expressed in dollars)
On each April 1 and October 1 beginning October 1, 1992 through April 1, 2007	2,000,000

* 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

Sub-loan Agreements and
Subsidiary Loan Agreement:
Principal Terms and Conditions

For purposes of Sections 3.01 (c) and 3.01 (d) of this Agreement, the Borrower shall conclude: (a) Sub-loan Agreements with the Local Utilities for the purpose of carrying out Rehabilitation and Institutional Restructuring Projects under Part A of the Project under the principal terms and conditions set forth or referred to in Section I of this Schedule; and (b) the Subsidiary Loan Agreement with ONEP for the purpose of carrying out Part B of the Project under the principal terms and conditions set forth or referred to in Section II of this Schedule.

Section I. Sub-loan Agreements - Principal Terms and Conditions

A. Conditions of Approval

Each Sub-loan shall be made to a Local Utility for a Rehabilitation and Institutional Restructuring Project only after:

- (1) the Local Utility shall have prepared, on the basis of guidelines satisfactory to the Bank an application, which shall include inter alia: (a) a description of the Local Utility, its water production and distribution system and its operations; (b) the Local Utility's development plan for its fiscal years 1987-1995; and (c) a detailed technical, economic and financial analysis of the Rehabilitation and Institutional Restructuring Project, including its estimated cost, together with a proposed financing plan therefor;
- (2) the Borrower shall, on the basis of said application, have carried out through the Project Unit an appraisal of the Local Utility and the Rehabilitation and Institutional Restructuring Project and shall, on the basis of such appraisal, have determined in accordance with guidelines satisfactory to the Bank that: (a) for each year during the carrying out of the Rehabilitation and Institutional Restructuring Project, the Local Utility is in a position to produce funds from internal resources (as such term is defined in Part C (2) (b) of this Section) equivalent to not less than 30% of the annual average of the Local Utility's capital expenditures (as such term is defined in said Part C (2) (b)) incurred or expected to be incurred for that fiscal year, the previous fiscal year and the next following fiscal year; and (b) the Rehabilitation and Institutional Restructuring Project is technically, financially and economically viable;
- (3) if one or more loans from external sources (in addition to the Sub-loan) are required to assist in the financing of the Rehabilitation and Institutional Restructuring Project, the Local Utility shall have applied to such sources for such loans; and
- (4) the Borrower shall have furnished to the Bank a copy of the Local Utility's application or applications for the Sub-loan and any other loans from Cofinanciers, the Borrower's appraisal, and such other information as the Bank may reasonably request, and the Bank shall have approved the Rehabilitation and Institutional Restructuring Project and notified the Borrower of such approval.

B. Payment Terms

- (1) Each Local Utility shall repay to the Borrower the principal amount of its Sub-loan over a period not exceeding 20 years from the date of this Agreement, inclusive of a grace period not exceeding 5 years.
- (2) The principal amount of such Sub-loan repayable to the Borrower shall be the equivalent in terms of Dirhams (determined as of the date or respective dates of repayment by the Local Utility) of the value of the currency or currencies withdrawn from the Loan Account or paid out of the Special Account on account of the cost of goods and services for the Rehabilitation and Institutional

Restructuring Project to be financed under such Sub-loan out of the proceeds of the Loan allocated from time to time to Category (1).

- (3) Each Local Utility shall pay to the Borrower:
- (a) interest on the principal amount of its Sub-loan withdrawn and outstanding from time to time at the rate applicable from time to time to the Loan pursuant to the provisions of Section 2.05 of this Agreement; and (b) the equivalent in terms of Dirhams (determined as of the date or respective dates of payment by the Borrower) of all other amounts or charges paid or payable by the Borrower on the proceeds of the Loan made available to the Local Utility pursuant to the Sub-loan Agreement.

C. Other Terms and Conditions

- (1) Sub-loan Agreements shall include terms whereby the Borrower shall obtain rights adequate to protect the interests of the Bank and the Borrower, including:
- (a) that each Local Utility shall undertake to:
- (i) carry out and operate the Rehabilitation and Institutional Restructuring Project with due diligence and efficiency, in accordance with the provisions of Part A of the Action Plan and in accordance with sound technical, financial and managerial standards and practices and provide promptly as needed, the funds, facilities and other resources required for the purpose;
 - (ii) procure the goods, works and services required for the Rehabilitation and Institutional Restructuring Project and to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 6 to this Agreement, and use such goods, works and services exclusively in the carrying out of the Rehabilitation and Institutional Restructuring Project;
 - (iii) take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, and, without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Local Utility to replace or repair such goods;
 - (iv) maintain records and procedures adequate (A) to record and monitor, in accordance with indicators satisfactory to the Bank the carrying on of its operations and the carrying out of the Rehabilitation and Institutional Restructuring Project

(including its cost and the benefits to be derived from it), and (B) to identify the goods and services financed out of the proceeds of the Loan, and to disclose their use in the Rehabilitation and Institutional Restructuring Project;

- (v) enable the representatives of the Borrower and of the Bank to visit any facilities and construction sites included in the Rehabilitation and Institutional Restructuring Project and to examine the goods financed out of the proceeds of the Loan, and any plants, installations, sites, works, buildings, property, equipment, records and documents relevant to the performance of the obligations of the Local Utility under the Sub-loan Agreement;
- (vi) prepare and furnish to the Borrower every quarter all such information as the Borrower or the Bank shall reasonably request relating to: (A) the Rehabilitation and Institutional Restructuring Project, its cost, and where appropriate, the benefits to be derived from it, the expenditures of the proceeds of the Loan allocated for the Rehabilitation and Institutional Restructuring Project and the goods and services financed out of such proceeds; and (B) the Local Utility's administration and operations;
- (vii) promptly after completion of the Rehabilitation and Institutional Restructuring Project, but in any event not later than six months after the Closing Date, or such later date as may be agreed for this purpose between the Borrower and the Bank, prepare and furnish to the Bank a report, of such scope and in such detail as the Bank may reasonably request, on the execution and initial operation of the Rehabilitation and Institutional Restructuring Project, its costs and the benefits derived and to be derived from it, the performance by the Local Utility and the Borrower of their respective obligations under the Sub-loan Agreement and the accomplishment of the purposes of the Sub-loan;
- (viii) at all times operate and maintain any facilities relevant to the Rehabilitation and Institutional Restructuring Project and promptly as needed, make or cause to be made all necessary repairs and renewals thereof;
- (ix) (A) maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition; (B) have its accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with

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

- (b) provisions to ensure the right of the Borrower to suspend or terminate the right of the Local Utility to the use of the proceeds of the Sub-loan upon failure by such Local Utility to perform its obligations under its contract with the Borrower.
- (2) (a) In addition to the foregoing, Sub-loan Agreements shall include terms requiring each Local Utility:
 - (i) (A) except as the Borrower and the Bank shall otherwise agree, to produce, for each of its fiscal years after its fiscal year ending on December 31, 1987, funds from internal sources equivalent to not less than 30% of the annual average of the Local Utility's capital expenditures incurred, or expected to be incurred for that year, the previous fiscal year and the next following fiscal year; (B) before October 31 in each of its fiscal years, and on the basis of forecasts prepared by the Local Utility and satisfactory to the Bank, to review whether it would meet the requirements set forth in sub-paragraph (a) (i) (A) of this paragraph (2) in respect of such year and the next following fiscal year and furnish to the Bank a copy of such review upon its completion; and (C) if any such review shows that the Local Utility would not meet the requirements set forth in said sub-paragraph (a) (i) (A) for the Local Utility's fiscal years covered by such review, promptly to take all necessary measures (including, without limitation, adjustments of the structure or levels of its rates) in order to meet such requirements; and
 - (ii) (A) promptly to bill the Borrower's public agencies so as to enable said public agencies to fulfill the obligations set forth in Section 4.03 (a) (ii) of this Agreement in accordance with the terms of said Sections; (B) to take all measures necessary to ensure that:
 - (1) the balance of the bills due and payable by it as at December 31, 1986 to the Borrower's public agencies shall be paid in accordance with a schedule satisfactory to the Bank; and (2) all

bills, other than those referred to in (1) above, payable to the Borrower's public agencies shall be paid promptly when due; and (C) to furnish to the Borrower quarterly reports, in form and substance satisfactory to the Bank, on the progress in carrying out the obligations set forth in this sub-paragraph (ii).

(b) For the purposes of sub-paragraph (a) of this paragraph (2):

- (i) The term "funds from internal sources" means the difference between: (A) the sum of revenues from all sources related to water supply operations, including net non-operating income and any reduction in working capital other than cash, but excluding consumer and developer deposits and consumer and developer contributions in aid of construction; and (B) the sum of all expenses related to water supply operations, including administration, adequate maintenance and taxes and payments in lieu of taxes (excluding provision for depreciation and other non-cash operating charges), debt service requirements, all cash dividends and other cash distributions of surplus, increase in working capital other than cash and other cash outflows other than capital expenditures.
- (ii) The term "net non-operating income" means the difference between: (A) revenues from all sources other than those related to water supply operations; and (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
- (iii) The term "working capital other than cash" means the difference between current assets excluding cash and current liabilities at the end of each fiscal year.
- (iv) The term "current assets excluding cash" means all assets other than cash which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next fiscal year.
- (v) The term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.
- (vi) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

- (vii) The term "capital expenditures" means all expenditures incurred on account of fixed assets, including interest charged to construction, related to water supply operations but excluding capital expenditures financed by consumer and developer deposits or consumer and developer contributions in aid of construction.
- (viii) Whenever it shall be necessary to value, in terms of Dirhams, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.
- (ix) The term "Borrower's public agencies" means the political or administrative sub-divisions of the Borrower, or entities owned or controlled by, or operating for the account or benefit of, the Borrower or any of its political or administrative sub-divisions.
- (x) The term "bills" means, in respect of each of the public agencies, the amounts periodically billed by said public agency to the Local Utility for the provision of goods or services by said public agency to the Local Utility.

Section II. Subsidiary Loan Agreement - Principal Terms and Conditions

- A. ONEP shall repay to the Borrower the principal amount of the Subsidiary Loan over a period not exceeding 20 years, inclusive of a grace period not exceeding 5 years.
- B. The principal amount of the Subsidiary Loan repayable to the Borrower shall be the equivalent in terms of Dirhams (determined as of the date or respective dates of repayment by ONEP) of the value of the currency or currencies withdrawn from the Loan Account or paid out of the Special Account on account of the cost of goods and services for Part B of the Project to be financed under the Subsidiary Loan out of the proceeds of the Loan allocated from time to time to Category (2).
- C. ONEP shall pay to the Borrower: (1) interest on the principal amount of the Subsidiary Loan withdrawn and outstanding from time to time at the rate applicable from time to time to the Loan pursuant to the provisions of Section 2.05 of this Agreement; and (2) the equivalent in terms of Dirhams (determined as of the date or respective dates of payment by the Borrower) of all other amounts or charges paid or payable by the Borrower on the proceeds of the Loan made available to ONEP pursuant to

the Subsidiary Loan Agreement.

SCHEDULE 5

Action Plan

In order to ensure the proper carrying out of Parts A and C of the Project, the Borrower and the Local Utilities shall, for purposes of Section 3.02 (a) of, and Section I C (1) (a) (i) of Schedule 4 to, this Agreement, inter alia, carry out the following actions.

A. Part A of the Project

1. In order to assist the Local Utilities in carrying out the studies, included in Part A (2) (a) of the Project, to develop and/or update their water master plans, to develop leak detection and repair programs and preventive maintenance programs and to identify future investment programs, each Local Utility shall: (a) not later than July 1, 1988, employ consultants whose qualifications, experience and terms of reference shall be satisfactory to the Bank; (b) take all measures necessary to ensure that said studies shall be completed and copies thereof, together with the recommendations based thereon, shall be furnished to the Bank; and (c) thereafter, but in any event not later than July 1, 1990, carry out said recommendations, taking into account the Bank's comments thereon.

2. Under Part A (2) (b) (i) of the Project: (a) The Local Utilities shall enter into arrangements with RAD, satisfactory to the Bank, whereby RAD shall, on behalf of all of the Local Utilities: (i) employ, not later than March 1, 1988, consultants whose qualifications, experience and terms of reference shall be satisfactory to the Bank, to assist in developing and introducing an appropriate management information system for each Local Utility; and (ii) furnish to the Bank not later than June 1, 1989, the findings of said consultants and the recommendations based thereon for the Bank's review and comments.

(b) Thereafter, but in any event not later than September 30, 1989, each Local Utility shall introduce and apply its management information system on the basis of the Bank's comments thereon.

3. Under Part A (b) (2) of the Project: (a) RED shall: (i) not later than January 1, 1988, introduce and apply a general accounting system satisfactory to the Bank; and (ii) furnish to the Borrower and the Bank not later than April 1, 1989, a report, in form and substance satisfactory to the Bank, on the results of the application of said system, together with recommendations for its application by the other Local Utilities. The Borrower and the Bank shall exchange views on said recommendations, and each Local Utility shall, not later than January 1, 1990, introduce and apply such system on the basis of said exchange of views.

(b) Each Local Utility shall establish, not later than January 1, 1988, and thereafter maintain a committee with organization, staffing, resources and terms of reference satisfactory to the Bank to be responsible for inventory and valuation of the Local Utility's fixed assets.

(c) The Local Utilities shall enter into

arrangements with RED, satisfactory to the Bank, whereby RED shall, on behalf of all of the Local Utilities: (i) employ, not later than January 1, 1988, consultants, whose qualifications, experience and terms of reference shall be satisfactory to the Bank, to assist in developing a suitable cost accounting system for the Local Utilities and a suitable methodology for valuation of the Local Utilities' fixed assets; and (ii) furnish to the Bank the findings of said consultants and the recommendations based thereon for the Bank's review and comments.

(d) Each Local Utility shall thereafter, but in any event not later than January 1, 1989, introduce and implement its cost accounting system and the methodology for valuation of its fixed assets, on the basis of the Bank's comments thereon.

4. Under Part A (2) (c) of the Project: (a) The Local Utilities shall enter into arrangements with RAD, satisfactory to the Bank, whereby RAD shall: (i) not later than January 1, 1988, employ consultants, whose qualifications, experience and terms of reference shall be satisfactory to the Bank to assist in developing training programs for the staff of the Local Utilities; and (ii) furnish to the Bank, the training programs prepared by said consultants for the Bank's review and comments.

(b) Thereafter, but in any event not later than July 1, 1989 each Local Utility shall commence said training programs on the basis of the Bank's comments thereon.

5. Under Part A (2) (d) of the Project, each Local Utility shall, in accordance with the program developed by the Borrower pursuant to Part B (6) of this Schedule, establish not later than January 1, 1988, and thereafter maintain a permanent procurement committee with organization, membership and terms of reference satisfactory to the Bank.

B. Part C of the Project

1. Under Part C (1) of the Project, the Borrower shall: (a) prepare and, not later than April 1, 1988, furnish to the Bank for the Bank's review and comments the proposed system to: (i) identify and elaborate suitable strategies and policies for the development, allocation and management of the Borrower's water resources; (ii) coordinate the development of such water resources; and (iii) regulate the extraction, utilization and disposal thereof; and (b) thereafter, promptly take all measures required on its part (including the preparation and presentation to its national assembly of any legislation required and the preparation of related regulations) to introduce and apply such system on the basis of the Bank's comments thereon, in accordance with a time schedule satisfactory to the Bank.
2. In addition to the foregoing, the Borrower shall, under Part C (1) of the Project, establish, not later than April 1, 1988 and thereafter maintain a committee with organization, membership, powers and terms of reference satisfactory to the Bank, to be responsible for the planning and coordination of investments in the water sector, including the preparation and updating of the water supply sector investment plans referred to in Section 4.02 of

this Agreement.

3. In order to assist the Borrower in carrying out the study, included in Part C (2) (a) of the Project, of the organization of the water supply sector, the Borrower shall: (a) not later than January 1, 1989, employ consultants, whose qualifications, experience and terms of reference shall be satisfactory to the Bank; (b) take all measures necessary to ensure that said study shall be completed and a copy thereof, together with the recommendations based thereon, furnished to the Bank; and (c) thereafter, take all measures necessary to ensure that those recommendations based on said study which shall have been agreed between the Borrower and the Bank shall be carried out not later than January 1, 1991.
4. Under Part C (2) (b) of the Project, the Borrower shall, not later than January 1, 1988, introduce in AH and apply a data processing system satisfactory to the Bank.
5. Under Part C (2) (c) of the Project, the Borrower shall: maintain operational procedures adequate to enable it properly to monitor and evaluate, in accordance with indicators satisfactory to the Bank, the operational and financial performance of ONEP and the Local Utilities; and not later than April 1 and November 1 of each year, furnish to the Bank a report, in form and substance satisfactory to the Bank, setting forth the conclusions and recommendations indicated by such monitoring and evaluation activities carried out during the last calendar semester ending prior to said date. To ensure the proper carrying out of such evaluation activities, the Borrower shall prepare and not later than November 1, 1988, furnish to the Bank for the Bank's review and comments standards against which to carry out such evaluation activities and thereafter promptly apply such standards on the basis of the Bank's comments thereon.
6. Under Part C (3) of the Project the Borrower shall: (a) prepare, and not later than January 1, 1988, furnish to the Bank for the Bank's review and comments a program of measures designed to improve the procurement decision-making process of the Local Utilities; and (b) thereafter promptly implement such program on the basis of the Bank's comments thereon.

SCHEDULE 6

Procurement and Services

Section I: Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods 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 \$100,000 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) Data processing equipment and related software may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from at least three qualified suppliers eligible under the Guidelines and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

(b) (i) Goods (other than pipes) for Part A of the Project, estimated to cost less than the equivalent of \$100,000 per contract, up to an aggregate amount not to exceed the equivalent of \$2,000,000 and (ii) goods (other than pipes) for Part 8 of the project, estimated to cost less than the equivalent of \$100,000 per contract, up to an aggregate amount not to exceed the equivalent of \$1,500,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. (a) Except as provided in subparagraph (b) of this paragraph, civil works shall be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

(b) Works for the rehabilitation of production and distribution facilities under Parts A (1) (a) and B (1) (a) of the Project, and for installation of equipment under Parts A and B of the Project may, with the Bank's prior approval, be carried out by the Local Utility concerned or ONEP, as the case may be, 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 for goods, regardless of the cost thereof, and with respect to each contract for works estimated to cost the equivalent of \$1,000,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made

out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 7 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: Repair Services

Repair services for goods shall 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 satisfactory to the Bank.

Section III: 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 7

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;

(c) the term "Authorized Allocations" means an amount equivalent to \$2,500,000 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 directly by the Borrower 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 for the Project, 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 for the Project 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.

