

CONFORMED COPY

LOAN NUMBER 2885 MOR

Loan Agreement

(Second Agricultural Sector Adjustment Loan)

between

KINGDOM OF MOROCCO

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 4, 1987

LOAN NUMBER 2885 MOR

LOAN AGREEMENT

AGREEMENT, dated December 4, 1987, between KINGDOM OF MOROCCO (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated September 29, 1987 from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the agricultural sector of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in the financing of urgently needed imports required for the agricultural sector during such execution; and

(B) on the basis, inter alia, of the foregoing, the Bank has decided in support of the Program to provide such assistance to the Borrower by making the Loan in three tranches as hereinafter provided;

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

(a) Section 2.01, paragraph 11, shall be modified to read:

"'Project'" means the imports that may be financed out of the proceeds of the Loan pursuant to the provisions of Schedule 1 to the Loan Agreement.";

(b) Section 9.07 (c) shall be modified to read:

"(c) 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, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the program referred to in the Preamble to the Loan Agreement, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan."; and

(c) The last sentence of Section 3.02 is deleted.

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) "Dirham" means the currency of the Borrower;

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

(c) "Bank of Morocco" means the central bank of the Borrower (Bank al Maghrib);

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

(e) "peak milking season" means, in respect of any given calendar year, the period from March 1 through August 15 of such year when the largest quantity of cow's milk is produced;

(f) "lean milking season" means, in respect of any two consecutive calendar years, the period from August 16 of the first year through February of the following year when the smallest quantity of cow's milk is produced;

(g) "rate of inflation" means, in respect of any given calendar year, the rate of inflation during such year, calculated on the basis of the consumer price index published annually by the Borrower's Ministry of Planning;

(h) "Reference Fertilizers" means the following principal fertilizers sold within the Borrower's

territory: urea, ammonium sulfate, ammonium nitrate, SSP, TSP, potassium sulfate, potassium chloride, ASP and 14-28-14;

(i) "FERTIMA" means the National Fertilizer Marketing Company, an enterprise established and operating pursuant to the laws of the Borrower as a subsidiary of the Borrower's National Phosphate Office (Office Cherifien des Phosphates);

(j) "ORMVAs" means the regional agricultural development authorities (Offices Regionaux de Mise en Valeur Agricole) established and operating pursuant to the Borrower's Decrees No. 82766, 82-866, 82-966, 83-066, 83-166, 83-266 and 83-366, all dated October 22, 1966; Decree No. 2-70-157, dated October 8, 1970, and Decree No. 1-74-235, dated April 23, 1975; and

(k) "irrigation water bills" means the amounts periodically billed by the ORMVAs for the provision of irrigation services by the ORMVAs in respect of water used for irrigation purposes.

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 two hundred twenty-five million dollars (\$225,000,000).

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 required during the execution of the Program and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Program, open and maintain in dollars a special account in 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 5 to this Agreement.

Section 2.03. The Closing Date shall be March 31, 1990, 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 ($\frac{3}{4}$ 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 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 15 and October 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 2 to this Agreement.

Section 2.08. (a) Bank of Morocco is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

(b) Without limitation or restriction to the foregoing, the Borrower hereby entrusts Bank of Morocco with responsibility for the preparation of withdrawal applications under the Loan and for the collection of the documents and other evidence to be furnished to the Bank in support of such applications; such withdrawal applications shall, to the extent practicable, be consolidated so as to apply for withdrawal of aggregate amounts of not less than one million dollars (\$1,000,000) equivalent.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 4 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices the expenditures financed out of the proceeds of the Loan.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section and 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, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said 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 audits referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional event is specified, namely, that an event has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Effective Date; Termination

Section 5.01. The events set forth in Part A of Schedule 4 to this Agreement are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions.

Section 5.02. 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 VI

Representative of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.08 (a) of this Agreement, 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 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministere de Finances
Rabat
Kingdom of Morocco

Cable address:

FINANCES
MINISTERE DES
Rabat, Morocco

For the Bank:

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

Cable address: Telex:

INTBAFRAD 440098 (ITT),
Washington, D.C. 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.

other than that of the Borrower; and

(b) the term "agricultural chemicals" means pesticides and herbicides composed solely of one or more of the chemicals selected by agreement between the Borrower and the Bank.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawal shall be made and no commitment shall be entered into to pay amounts to or on the order of the Borrower 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 \$25,000,000 may be made for expenditures before that date but after January 1, 1987;

(b) expenditures for goods procured under contracts costing less than \$15,000 equivalent;

(c) expenditures for goods supplied under a contract which any national or international financing institution or agency other than the Bank shall have financed or agreed to finance;

(d) expenditures in excess of an aggregate amount equivalent to \$56,250,000 for petroleum products;

(e) expenditures to be financed out of the proceeds of the Loan after the aggregate of the proceeds of the Loan withdrawn from the Loan Account and the total amount of such commitments shall have reached the equivalent of \$75,000,000, unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank:

(i) with the progress achieved by the Borrower in the carrying out of the Program; and

(ii) that the actions described in Part B of Schedule 4 to this Agreement have been taken; and

(f) expenditures to be financed out of the proceeds of the Loan after the aggregate of the proceeds withdrawn from the Loan Account and the total amount of such commitments shall have reached the equivalent of \$150,000,000, unless the Bank shall be satisfied after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank:

(i) with the progress achieved by the Borrower in the carrying out of the Program; and

(ii) that the actions described in Part C of Schedule 4 to this Agreement have been taken.

4. If, after either of the exchange of views referred to in paragraphs 3 (e) and 3 (f) of this Schedule, the Bank shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within 90 days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory

to the Bank, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

SCHEDULE 2

Amortization Schedule

Date Payment Due dollars)*	Payment in Principal (expressed in dollars)
On each April 15 and October 15 beginning April 15, 1993 through October 15, 2007	7,500,000

* 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 3

Procurement

Part A: International Competitive Bidding

Except as provided in Part B of this Schedule, 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), subject to the following modifications:

(a) Paragraph 2.8 of the Guidelines is deleted and the following is substituted therefor:

"2.8 Notification and Advertising

The international community should be notified in a timely manner of the opportunity to bid. This will be done by advertising invitations to apply for inclusion in a bidder's invitation list, to apply for prequalification, or to bid; such advertisements should be placed in at least one newspaper of general circulation in the Borrower's country and, in addition, in at least one of the following forms:

- (i) a notice in the United Nations publication, Development Forum, Business Edition; or
- (ii) an advertisement in a newspaper, periodical or technical journal of wide international circulation; or
- (iii) a notice to local representatives of countries and territories referred to in the Guidelines, that are potential suppliers of the goods required."

(b) The following is added at the end of paragraph 2.21 of the Guidelines:

"As a further alternative, bidding documents may require the bidder to state the bid price in a single currency widely used in international trade and specified in the bidding documents."

(c) Paragraphs 2.55 and 2.56 of the Guidelines are deleted.

Part B: Other Procurement Procedures

1. (a) Except as provided in paragraphs 2 and 3 of this Part B:

- (i) goods to be procured by a Public Enterprise or by the Borrower estimated to cost less than the equivalent of \$2,000,000 per contract, up to an aggregate amount not to exceed the equivalent of \$15,000,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers from at least three different

countries eligible under the Guidelines, in accordance with procedures satisfactory to the Bank; and

- (ii) goods to be procured by entities other than a Public Enterprise or the Borrower and estimated to cost less than the equivalent of \$5,000,000 per contract, may be procured under contracts awarded on the basis of the normal procurement procedures of the purchaser of such goods.

(b) For purposes of this paragraph 1, the term "Public Enterprise" means a legally autonomous entity producing goods and services, of which a portion of the proprietary interest is owned or effectively controlled by the Borrower or any political or administrative subdivision thereof, or by any such legally autonomous entity, and which is governed by the Borrower's Law (Dahir) No. 1-59-271 dated April 14, 1960, as modified by the Borrower's Law (Dahir) No. 1-62-402 dated June 30, 1962, relating to the financial control by the Borrower of public enterprises.

2. Contracts for petroleum, regardless of the cost thereof, and contracts for machinery required for agricultural production (including contracts for spare parts therefor), regardless of the cost thereof, may be awarded on the basis of the normal procurement procedures of the purchaser of such goods.

3. Goods which the Bank agrees are of a proprietary nature may be procured under contracts directly negotiated with the suppliers of such goods in accordance with procedures satisfactory to the Bank.

Part C: Review by the Bank of Procurement Decisions

1. (a) With respect to each contract to be awarded on the basis of the procedures referred to in Part A of this Schedule, and subject to the provisions of sub-paragraph (b) of this paragraph 1, the Borrower shall furnish to the Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contract, two conformed copies of such contract, together with the analysis of the respective bids and recommendations for award, a description of the advertising and tendering procedures followed and such other information as the Bank shall reasonably request.

(b) Further to and without limitation upon the provisions of sub-paragraph (a) of this paragraph 1, with respect to the first contract for maize to be awarded on the basis of the procedures referred to in Part A of this Schedule, before the bids therefor are invited, the Borrower shall furnish to the Bank for its comments, the text of the invitations to bid and the specifications, other bidding and draft contract documents for the supply of such maize, together with a description of the advertising procedures to be followed for the bidding, and shall make such modifications in the said documents or procedures as the Bank shall reasonably request. Any further modification of the bidding documents shall require the Bank's concurrence before it is issued to the prospective bidders.

2. With respect to each contract not governed by paragraph 1 of this Part C, the Borrower shall furnish to the Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect thereof, such documentation and information as the Bank may reasonably request to support withdrawal applications in respect of such contract.

3. Notwithstanding the provisions of paragraphs 1 and 2 of this Part C, where payments under a contract are to be made out of the proceeds of the Special Account, the copies of such contract or the documentation and the information to be furnished to the Bank pursuant to the provisions of paragraph 1 or paragraph 2 of this Schedule, as the case may be, shall be furnished to the Bank as part of the evidence required under paragraph 4 of Schedule 5 to this Agreement.

4. The provisions of the preceding paragraphs 1, 2 and 3 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.

5. The figure of 20% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

SCHEDULE 4

A. Events referred to in Section 5.01 of this Agreement

1. Agricultural Imports

The Borrower has prepared, in accordance with guidelines satisfactory to the Bank, and furnished to the Bank a list of all agricultural goods with respect to which elimination of import licensing requirements is planned in 1988, together with a description of the structure and levels of customs duties to be applied thereafter in respect of the importation of such goods and any other quantitative restrictions planned with respect to such goods.

2. Cereals

The Borrower has, in accordance with guidelines satisfactory to the Bank:

(a) established prices payable to producers for cereals harvested in 1988 by reference to the international prices of such cereals; and

(b) authorized millers to commence production of subsidized soft wheat flour at an extraction rate of at least 80% and established production quotas for such flour designed to meet the demand thereof by the Borrower's targeted populations.

3. Animal Feed

The Borrower has:

(a) eliminated all of the Borrower's regulatory controls on the ex-mill prices, quantities and distribution channels of wheat bran distributed within the Borrower's territory; and

(b) in accordance with guidelines satisfactory to the Bank, established ex-mill prices for dried sugar beet pulp on the basis the production costs thereof and liberalized the distribution channels of such sugar beet pulp marketed within the Borrower's territory.

4. Sugar

The Borrower has:

(a) increased the prices payable by sugar processors for sugar beet and sugar cane, from the levels of such prices for such crops harvested in 1987 by a percentage which in no case shall exceed the lesser of:
(i) the total rate of inflation during the calendar years 1985 and 1986; and (ii) ten percent; and

(b) maintained the premia, payable to producers of sugar beet and sugar cane by purchasers thereof and referred to in Decision No. 2/186 dated November 20, 1985 of the Borrower's Minister of Economic Affairs, at levels which shall in no case exceed 25 Dirhams per metric ton of sugar beet sold by said producers and 40 Dirhams per metric ton of sugar cane sold by said producers.

5. Compensatory Programs

The Borrower has prepared and furnished to the Bank an action plan for the expansion of assistance programs, which the Bank agrees is designed to ensure the availability to the Borrower's poorest populations of adequate nutrition.

6. Animal Health Services

The Borrower has put into operation, in accordance with guidelines satisfactory to the Bank, a program designed to ensure the proper delivery within 20 zones of animal health care services by private veterinarians.

7. Public Expenditures

The Borrower prepared an investment budget for MARA for calendar year 1988 with allocations in amounts sufficient to enable the Borrower to carry out an agricultural investment program for said year which the Bank agrees is designed to ensure the development of the Borrower's agricultural sector in accordance with the Program.

B. Actions Referred to in Paragraph 3 (e) of Schedule 1 to this Agreement

1. Agricultural Imports

(a) Elimination of all import licensing requirements applicable to oil cakes, hard wheat, corn, barley and all other agricultural goods included in the list referred to in Part A (1) of this Schedule.

(b) Preparation and furnishing to the Bank of an action plan, which the Bank agrees is designed to ensure the liberalization, not later than December 31, 1992, of the importation into the Borrower's territory of all agricultural goods (including those referred to in paragraph (a) of this Part B (1)), such action plan to include: (i) a schedule for the elimination all import

licensing requirements applicable to such goods (if such requirements have not yet been eliminated); and (ii) a description of the structure and levels of customs duties to be applied thereafter in respect of the importation of such goods, and of any other form of import restriction planned with respect to such goods.

2. Cereals

(a) Establishment of prices payable to producers of cereals harvested in 1989, by reference to the international prices of such cereals, in accordance with the guidelines referred to in Part A (2) (a) of this Schedule.

(b) Preparation and furnishing to the Bank of an action plan which the Bank agrees is designed to ensure the deregulation of the system of distribution from farm gate to flour mill of domestically produced cereals, such action plan to include measures to eliminate all: (i) licensing requirements applicable to the marketing of such cereals; (ii) regulatory controls on commissions payable for handling, transportation and storage thereof; and (iii) regulatory restrictions in respect of the domestic sources from which millers may purchase such cereals.

(c) Authorization to all millers to produce, in addition to the flour referred to in Part A (2) (b) of this Schedule, flour at any extraction rate and elimination of all regulatory controls on the prices at which millers may sell flour other than the flour referred to in Part A (2) (b) of this Schedule.

3. Edible Oil

Employment of consultants with qualifications, experience and terms of reference satisfactory to the Bank to develop an action plan to deregulate the edible oils sub-sector, such action plan to include: (i) measures to eliminate: (A) all licensing requirements applicable to the establishment of oil seed crushing and edible oils refining facilities; and (B) all regulatory controls on the system of formation of prices of edible oils produced within the Borrower's territory; and (ii) a timetable for the implementation of such measures.

4. Sugar

(a) Increase of the prices payable by sugar processors for sugar beet and sugar cane, from the levels of such prices for such crops harvested in 1988 by a percentage which in no case shall exceed the rate of inflation during the calendar year 1987 minus one percent.

(b) Maintenance of the premia, referred to in Part A (4) (b) of this Schedule, payable to producers of sugar beet and sugar cane at the levels referred to in said Part A (4) (b).

(c) Development of an action plan which the Bank agrees is designed to ensure the complete deregulation by June 30, 1993, and improved efficiency, of the sugar sub-sector, such action plan to include: (i) measures to: (A) eliminate all regulatory controls on the prices of raw and refined sugar processed within the Borrower's

territory; (B) eliminate the system of payments by the Borrower to sugar processors in support of sugar processing activities; and (C) enhance the efficient operation of sugar processing plants; and (ii) a timetable for the implementation of such measures.

5. Milk

Establishment of the price payable to dairy farmers for cow's milk produced during the 1988-1989 lean milking season, at a level which shall be at least equal to 120% of the price payable to dairy farmers for cow's milk produced during the 1988 peak milking season.

6. Fertilizer

(a) Adjustment of the prices of fertilizers payable by blenders and wholesale distributors thereof in such manner that the weighted average of such prices of Reference Fertilizers, as so adjusted, equals at least 111% of the weighted average of such prices of Reference Fertilizers in effect as at September 1, 1987.

(b) Closure of at least 40% of the retail fertilizer distribution centers owned by FERTIMA as at September 1, 1987 which meet the criteria agreed between the Borrower and the Bank.

7. Irrigation Water

Receipt by the ORMVAs of payments for at least 75% of the balance of the irrigation water bills due and payable to the ORMVAs during the calendar year 1987.

8. Compensatory Programs

Expansion of the assistance programs, referred to in Part A (5) of this Schedule, in accordance with the action plan referred to in said Part.

9. Animal Breeding Services

Putting into operation, on the basis of guidelines satisfactory to the Bank, of a program designed to ensure the proper delivery in 5 zones of artificial insemination services by qualified and experienced private persons or entities.

10. Agricultural Extension

Establishment, within MARA, of a division with organization, terms of reference, and resources satisfactory to the Bank to be responsible for the development and implementation of agricultural extension activities within the Borrower's territory.

C. Actions Referred to in Paragraph 3 (f) of Schedule 1 to this Agreement

1. Agricultural Imports

Liberalization of the importation of agricultural goods in accordance with the action plan referred to in Part B (1) (b) of this Schedule.

2. Cereals

(a) Establishment of prices payable by producers for cereals harvested in 1990, by reference to the international prices of said cereals and in accordance with the guidelines refined to in Part A (2) (a) of this Schedule.

(b) Deregulation of the system of distribution of domestically produced cereals, in accordance with the action plan referred to in Part B (2) (b) of this Schedule.

(c) Payment to millers of soft wheat of all amounts due and payable as at December 31, 1988, by the Borrower to said millers pursuant to the guidelines referred to in the letter dated October 2, 1987 from the Borrower's Ministry of Finance to the Bank.

3. Edible Oils

Carrying out of such action plan to deregulate the edible oils sub-sector, referred to in Part B (3) of this Schedule, as shall have been agreed between the Borrower and the Bank.

4. Sugar

(a) Increase of the prices payable by sugar processors for sugar beet and sugar cane, from the levels of such prices for such crops harvested in 1989 by a percentage which in no case shall exceed the rate of inflation during the calendar year 1988 minus two percent.

(b) Maintenance of the premia, referred to in Part A (4) (b) of this Schedule, payable to producers of sugar beet and sugar cane, at the levels referred to in said Part A (4) (b).

(c) Deregulation of the sugar sub-sector in accordance with the action plan referred to in Part B (4) (c) of this Schedule.

5. Milk

Establishment of the price payable to dairy farmers for cow's milk produced during the 1989-1990 lean milking season, at a level which shall be greater than 120% of the price payable to dairy farmers for cow's milk produced during the 1989 peak milking season.

6. Fertilizer

(a) Adjustment of the prices of fertilizers payable by blenders and wholesale distributors thereof in such manner that the weighted average of such prices of Reference Fertilizers, as so adjusted, equals at least 111% of the weighted average of such prices of Reference Fertilizers in effect upon the adjustment referred to in Part B (6) (a) of this Schedule, as such percentage may be amended by agreement between the Borrower and the Bank if warranted on the basis of fluctuating international prices of fertilizers.

(b) Closure of at least 80% of the retail fertilizer distribution centers owned by FERTIMA as at September 1, 1987 which meet the criteria agreed between the Borrower and the Bank.

7. Irrigation Water

Receipt by the ORMVAs of payments for at least 82% of the balance of the irrigation water bills due and payable during the calendar year 1988.

8. Compensatory Programs

Continued expansion of the assistance programs, referred to in Part A (5) of this Schedule, in accordance with the action plan referred to in said Part A (5).

9. Animal Health and Breeding Services

Putting into operation, on the basis of guidelines satisfactory to the Bank of: (a) a program designed to ensure the proper delivery, in 20 zones other than those zones referred to in Part A (6) of this Schedule, of animal health care services by private veterinarians; and (b) a program designed to ensure the proper delivery in 10 zones other than those zones referred to in Part B (9) of this Schedule, of artificial insemination services by qualified and experienced private persons or entities.

10. Public Expenditures

(a) Carrying out of the agricultural investment program referred to in Part A (7) of this Schedule, in accordance with the provisions thereof of said Part.

(b) Allocation in MARA's budget for the calendar year 1989 of funds in amounts sufficient to enable the Borrower to carry out an agricultural investment program for said year which the Bank agrees is designed to ensure the continued development of the Borrower's agricultural sector in accordance with the Program.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods required during the execution of the Program and to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 1 to this Agreement; and

(b) the term "Authorized Allocation" means an amount equivalent to \$25,000,000 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. Each such deposit shall be withdrawn by the Bank from the Loan Account 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 paragraph (a) of Section 2.02 of this Agreement; or
- (ii) the total unwithdrawn amount of the Loan, 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 Program, 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 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.

