

CONFORMED COPY

LOAN NUMBER 4388 TU

Loan Agreement

(Emergency Flood and Earthquake Recovery Project)

between

REPUBLIC OF TURKEY

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated September 11, 1998

LOAN NUMBER 4388 TU

LOAN AGREEMENT

AGREEMENT, dated September 11, 1998, between REPUBLIC OF TURKEY (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement has requested the Bank to assist in the financing of the Project; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through December 3, 1997), (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) "Eligibility Criteria" means the criteria agreed by the Borrower and the Bank and set forth in the PIP (defined hereafter) for selection for financing from the proceeds of the Loan of investments under Parts A, B and C of the Project;

(b) "HDA" means the Housing Development Administration of the Borrower, or any successor thereto;

(c) "Protocol" means any protocol to be entered into between HDA and a Project Implementation Agency (defined hereafter) 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 the Protocol;

(d) "PIP" means the Project Implementation Plan for the carrying out of the Project referred to in paragraph 1 of Schedule 5 to this, as the same may be amended from time to time with the agreement of the Bank;

(e) "PIU" means the Project Implementation Unit established within HDA and referred to in paragraph 3 of Schedule 5 to this Agreement;

(f) "Project Implementation Agency" means a municipal body or an agency of the Borrower responsible for the carrying out of activities under the Project and the term "Project Implementation Agencies" means collectively, the Project Implementation Agencies.

(g) "Project Preparation Advance" means the Project Preparation Advance provided by the Bank to the Borrower in the amount of \$1,500,000, pursuant to an exchange of letters dated September 4, 1998 and September 8, 1998 between the Borrower and the Bank;

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

(i) "Steering Committee" means the Steering Committee for the Project to be established in accordance with the provisions of paragraph 2 of Schedule 5 to this Agreement.

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 equal to three hundred sixty-nine million dollars (\$369,000,000).

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 may, for purposes of the Project, open and maintain in Dollars a special deposit account in the Central Bank of Turkey or in a commercial bank satisfactory to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

(c) Promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be June 30, 2002, 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 fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time in accordance with the provisions of Schedule 3 to this agreement.

Section 2.07. Interest and other charges shall be payable semiannually on April 15 and October 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with provisions of 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 the Project through HDA-PIU and the Project Implementation Agencies with due diligence and efficiency and in conformity with appropriate engineering, financial, administrative and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

(c) The Borrower shall make the proceeds of the Loan available to each Project Implementation Agency under a Protocol to be entered into between HDA and each Project Implementation Agency, under standard terms and conditions which shall have been approved by the Borrower and the Bank and which shall include, inter alia, provisions with respect to:

(i) description of the activity to be financed under the Protocol and the amount of the proceeds of the Loan to be made available to the Project Implementation Agency for the implementation thereof;

(ii) the arrangement for implementation of such activity under the overall supervision of the PIU;

(iii) undertakings of the Project Implementation Agency to maintain separate records and accounts for such activity and to furnish the PIU with quarterly reports on progress of the implementation thereof;

(iv) the obligation of the Project Implementation Agency to undertake, under the overall supervision of the PIU, the procurement of goods and works under such activity in accordance with the provisions of Schedule 4 to this Agreement; and

(v) the technical assistance needs, if any, to be provided to the Project Implementation Agency for implementation of the activity.

(d) The Borrower shall exercise its rights under each Protocol 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 any Protocol or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower, acting through the HDA-PIU, shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures for and in connection with the carrying out of the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank 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 (6) months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such financial statements, records and accounts and a report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested;

(iii) furnish to the Bank such other information concerning such records and accounts and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request; and

(iv) (A) have the funds' flow system for the Project evaluated by an appropriate auditing body by November 30, 1998; (B) furnish to the Bank a report on such evaluation by said auditing body by December 31, 1998; and (C) review with the Bank said report within one month of said report's submission to the Bank, and, thereafter, take all measures necessary to ensure the efficient flow of funds for the Project taking into account the Bank's views on the matter.

(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 separate accounts reflecting such expenditures;

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

expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during each fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Effective Date; Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the Steering Committee has been established in accordance with the provisions of paragraph 2 of Schedule 5 to this Agreement.

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. The Undersecretary of the Treasury 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:

Basbakanlik Hazine Mustesarligi
Inonu Bulvari
Emek - Anakara
Republic of Turkey

Cable address:

MALIYE
Hazine, Ankara

Telex:

821-42285
(MILYE-TR) or
821-42689
(ANK-TR)

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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

REPUBLIC OF TURKEY

By /s/ Aydin Karaoz

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Ajay Chhibber

Acting Regional Vice President
Europe and Central Asia

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 Dollars)	% of Expenditures to be Financed
(1) Works	233,300,000	100%
(2) Goods	80,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(3) Consultants' services	25,500,000	100%
(4) Operating Costs	1,500,000	90%
(5) Refunding of Project Preparation Advance	1,500,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(6) Fee	3,690,000	Amount due under Section 2.04 of this Agreement
(7) Unallocated	23,510,000	
TOTAL	369,000,000 =====	

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.

(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; and

(c) the term "operating costs" means the costs incurred on account of the Project, as documented by the PIU, for rentals, utilities, vehicles' operations and maintenance and travel.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$73,800,000, may be made in respect of Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after June 8, 1998.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure, under such terms and conditions as the Bank shall specify by notice to the Borrower, for expenditures for: (a) goods under contracts costing less than \$2,500,000 equivalent each; (b) works under contracts costing less than \$5,000,000 equivalent each, with the exception of the first contract awarded on the basis of national competitive bidding procedures; and (c) services under contracts costing less than \$100,000 equivalent each for consulting firms and \$50,000 equivalent each for individual consultants.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) restore basic infrastructure in municipalities and rural areas affected by the 1998 flood; (b) restore housing in the areas affected by the 1998 earthquake; and (c) reduce vulnerability to future natural disasters.

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

Part A: Municipal and Rural Infrastructure

Carrying out of investments identified under the Eligibility Criteria in affected municipalities and rural areas for restoration of infrastructure damaged by flooding.

Part B: Flood Management and Hazard Reduction

Carrying out of investments identified under the Eligibility Criteria to upgrade hydrotechnical infrastructure, modernize flood management systems, improve flood forecasting and introduce measures to improve construction standards and reduce potential losses from future natural disasters.

Part C: Earthquake Rehabilitation

Carrying out of investments identified under the Eligibility Criteria to reconstruct household units in affected municipalities and rural areas in the Province of Adana.

Part D: Project Management and Implementation Support

(1) Provision of technical assistance and equipment to support project implementation and for the operation of the PIU.

(2) The carrying out of: (i) a study of cost recovery in relation to the reconstruction of facilities damaged by natural disasters; and (ii) a study of insurance of facilities in disaster prone areas.

* * *

The Project is expected to be completed by December 31, 2001.

SCHEDULE 3

Interest and Principal Repayment Provisions

A. General Definitions

For purposes of this Schedule, the following terms have the following meanings:

(a) "Disbursed Amount" means, in respect of each Interest Period, the aggregate principal amount of the Loan withdrawn from the Loan Account in such Interest Period.

(b) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment date to, but excluding, the next following Interest Payment Date.

(c) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(d) "Rate Fixing Date" means, for each Disbursed Amount, the first day of the Interest Period next following the Interest Period in which such Disbursed Amount is withdrawn.

B. Interest

1. The principal amount of the Loan shall be divided into Disbursed Amounts. Interest shall accrue on each Disbursed Amount outstanding from time to time at a rate based on a floating rate index prior to its Rate Fixing Date and at a fixed rate from its Rate Fixing Date, as described in paragraph 2 of this Part B.

2. (a) From the date of withdrawal of each amount of each Disbursed Amount withdrawn and outstanding, to but not including the Rate Fixing Date for such Disbursed Amount, interest on each such amount shall accrue, at a rate equal to the applicable:

(i) LIBOR Total Spread.

(ii) LIBOR Total Spread.

(b) From the Rate Fixing Date for each Disbursed Amount until final repayment thereof, interest on such Disbursed Amount shall accrue, at a rate equal to the applicable:

(i) Fixed Base Rate; plus

(ii) Fixed Total Spread.

3. For purposes of paragraph 2 of this Part B, the following terms have the following meanings:

(a) "LIBOR Base Rate" means, for the Interest Period in which a Disbursed Amount is withdrawn, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the day occurring on the Interest Payment Date preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(b) "LIBOR Total Spread" means, for the Interest Period in which each Disbursed Amount is withdrawn:

(i) three-fourths of one percent (3/4 of 1%);

(ii) minus (or plus) the weighted average margin, for such Interest

Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include such Disbursed Amount for such Interest Period;

as reasonably determined by the Bank and expressed as a percentage per annum.

(c) "Fixed Base Rate" means, for each Disbursed Amount, the equivalent of the London interbank offered rate for six-month deposits in dollars for value on the Rate Fixing Date for such Disbursed Amount, expressed as a single fixed interest rate based on the fixed interest rates corresponding to the repayment installments of such Disbursed Amount, as reasonably determined by the Bank and expressed as a percentage per annum.

(d) "Fixed Total Spread" means, for each Disbursed Amount:

(i) three-fourths of one percent (3/4 of 1%);

(ii) minus (or plus) the cost margin, applicable on the Rate Fixing Date for such Disbursed Amount, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated to fund single currency loans or portions thereof made by it that include such Disbursed Amount; plus

(iii) the Bank's risk spread applicable on the Rate Fixing Date for such Disbursed Amount;

as reasonably determined by the Bank and expressed as a percentage per annum.

4. The Bank shall notify the Borrower of LIBOR Base Rate, LIBOR Total Spread, Fixed Base Rate and Fixed Total Spread applicable to each Disbursed Amount, promptly upon the determination thereof.

5. Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Schedule, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in this Schedule, the Bank may modify the basis for determining the interest rates applicable to amounts of the Loan not yet withdrawn upon not less than six (6) months' notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

C. Repayment

1. Subject to the provisions of paragraph 2 of this Part C, the Borrower shall repay each Disbursed Amount of the Loan in semiannual installments payable on each April 15 and October 15, the first such installment to be payable on the seventh (7th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount and the last such installment to be payable on the twenty-fourth (24th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount. Each installment shall be one-eighteenth (1/18) of such Disbursed Amount.

2. Notwithstanding the provisions of paragraph 1 of this Part C, if any installment of principal of each Disbursed Amount would, pursuant to the provisions of said paragraph 1, be payable after April 15, 2014, the Borrower shall also pay on said date the aggregate amount of all such installments.

3. After each Disbursed Amount shall have been withdrawn, the Bank shall promptly notify the Borrower of the amortization schedule for such Disbursed Amount.

SCHEDULE 4

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 and September 1997 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

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

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

(a) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

(b) Prequalification of Bidders

Bidders for works included under Part C of the Project shall be prequalified as described in paragraphs 2.9 and 2.10 of the Guidelines.

(c) Notification and Advertising

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

Part C: Other Procurement Procedures

1. National Competitive Bidding

Rehabilitation works estimated to cost less than \$5,000,000 equivalent per contract, up to an aggregate amount not to exceed \$117,900,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods estimated to cost less than \$2,500,000 equivalent per contract, up to an aggregate amount not to exceed \$6,200,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$585,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$27,500,000 equivalent, may be procured under lump-sum, fixed-price or unit-rate contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the

contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

5. Purchase of Construction Materials

Construction materials for repairs or rebuilding of damaged houses, estimated to cost up to US\$2,500 equivalent per housing unit and not to exceed US \$40,600,000 in the aggregate, shall be procured competitively from local sources.

6. Force Account

Work for emergency repair which meets the requirements set forth in paragraph 3.8 of the Guidelines, not to exceed in the aggregate the equivalent of \$4,300,000, may be procured in accordance with force account under arrangements satisfactory to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

With respect to each contract for goods estimated to cost the equivalent of \$2,500,000 or more, each contract for works estimated to cost the equivalent of \$5,000,000 or more and the first contract to be procured on the basis of national competitive bidding procedures, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

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

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for carrying out design and supervision and feasibility studies, estimated to cost less than \$200,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultants Guidelines.

2. Single Source Selection

Services under Part B of the Project, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 and (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

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

SCHEDULE 5

Implementation Program

1. The Borrower shall carry out the Project through HDA-PIU and the Project Implementation Agencies in accordance with the requirements set forth or referred to in the PIP, including the Eligibility Criteria for selection for financing from the proceeds of the Loan of investments under Parts A, B and C of the Project. The Project Implementation Agencies shall be responsible for carrying out the respective parts of the Project as follows:

Part A of the Project: General Directorate of Highways, General Directorate

of Rural
the relevant

Services, General Directorate of Forestry and
municipalities.

Part B of the Project: State Hydraulic Works, State Meteorological
Institute, General Directorate of Electrical Power, General
Directorate of Civil Defense, General Directorate of
Disaster Affairs, General Directorate of Insurance,
General Directorate of Reforestation and Erosion Control
and General Directorate of Technical Research and
Implementation.

Parts C and D of the
Project: HDA-PIU

2. The Borrower shall establish and thereafter maintain, until completion of the Project, the Steering Committee comprised of the Undersecretary of Treasury of the Borrower as Chairman, the President of HDA, Director of the PIU, Undersecretary of the State Planning Organization, Undersecretary of the Ministry of Public Works and Settlement of the Borrower, representatives of other relevant ministries and implementing agencies of the Borrower, including State Hydraulic Works, State Meteorological Institute, General Directorate of Forestry, General Directorate of Disaster Affairs, General Directorate of Insurance, General Directorate of Reforestation and Erosion Control, General Directorate of Technical Research and Implementation, General Directorate of State Highways, General Directorate of Rural Services, General Directorate of Electrical Power, and General Directorate of Civil Defense and relevant Governors and Mayors, to be responsible for facilitating actions required for Project Implementation at the policy level.

3. The Borrower shall cause HDA to maintain, until completion of the Project, the PIU with resources and under terms of reference satisfactory to the Bank, and shall cause HDA to assign to the PIU responsibility for overall Project implementation and coordination including:

- (a) preparation of work programs under the Project;
- (b) verification of satisfaction of the Eligibility Criteria in respect of all components of the work programs under the Project;
- (c) coordination of and assistance to the activities of Project Implementation Agencies under the Project;
- (d) management of Project finance, including maintenance of the Special Account and arranging for the audit thereof;
- (e) ensuring preparation of bidding and contract documents in accordance with agreed procurement procedures and management of procurement procedures under the Project;
- (f) supervision of implementation of work programs under the Project; and
- (g) preparation and furnishing to the Bank of quarterly progress reports on Project implementation prepared in accordance with guidelines satisfactory to the Bank.

4. By June 30, 1999, the Borrower shall ensure the preparation by the PIU and the furnishing to the Bank, for its concurrence, of an environmental management plan, setting forth the measures to be taken to deal with possible adverse environmental and social impact for the Project.

5. The Borrower shall ensure the recruitment, not later than March 31, 1999, of a financial management specialist acceptable to the Bank to review the design and the operation of the financial management system to be applied by the PIU with respect to the Project accounts.

6. The Borrower shall, by December 15, 1998, employ in accordance with the provisions of Section II of Schedule 4 of this Agreement, consultants with qualifications, experience and terms of reference satisfactory to the Bank, to assist

in the activities of the PIU under the Project.

7. The Borrower shall cause the PIU:

(a) to complete by June 30, 1999, under a terms of reference agreed upon with the Bank: (i) the study referred to in Part D (2)(i) of the Project of the options and modalities for recovering the costs of reconstruction of facilities, including housing facilities, damaged as a result of natural disasters, and (ii) the study referred to in Part D (2) (ii) of the Project of the feasibility and options for the introduction of mandatory insurance of facilities in disaster-prone areas; and

(b) by September 30, 1999, to review the findings and recommendations of said studies with the Bank with a view to preparing proposals for implementation of such recommendations for submission to relevant authorities of the Borrower.

8. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in the PIP (as the same may be amended from time to time with the agreement of the Bank), the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about April 30, 2000, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by July 31, 2000, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means the amount of \$25,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule.

2. 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 shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account, such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the 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 said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) 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. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the 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.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

