

CONFORMED COPY

LOAN NUMBER 3157-CO

Loan Agreement

(Second Rural Roads Sector Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

FONDO NACIONAL DE CAMINOS VECINALES

Dated March 7, 1990

LOAN NUMBER 3157-CO

LOAN AGREEMENT

AGREEMENT, dated March 7, 1990 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and FONDO NACIONAL DE CAMINOS VECINALES (the Borrower).

WHEREAS (A) Republic of Colombia (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee 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;

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

(b) "1990-1993 Rural Roads Programs" means the Borrower's rural roads investment and maintenance program for the years 1990 through 1993, furnished to the Bank under the Borrower's letter to the Bank, dated September 29, 1989, as such program may be amended from time to time by agreement between the Bank and the Borrower;

(c) "Annual Program" means any annual rural roads investment and maintenance program prepared by the Borrower and approved by the Bank pursuant to Section 3.01 (b) of this Agreement;

(d) "Estatutos" means the estatutos of the Borrower approved by Decree No. 2569 dated September 9, 1983, as amended to the date of this Agreement;

(e) "Manual" means the Metodologia y Procedimientos la Preseleccion y Evaluacion de Caminos Vecinales, published by the Borrower in September, 1989 and as such Manual may be amended from time to time by agreement between the Bank and the Borrower;

(f) "DNP" means Departamento Nacional de Planeacion, the National Planning Department of the Guarantor;

(g) "pesos" means the currency of the Guarantor;

(h) "road" means a rural road under the Borrower's jurisdiction;

(i) "Sub-project" means a specific road maintenance, improvement or construction investment or expenditure included in an Annual Program and the Project;

(j) "Eligible Sub-project" means a Sub-project, as so defined, which meets the requirements set forth or referred to in Section 3.02 (b) of this Agreement and has been approved by the Bank for financing under the Loan;

(k) "Administrative Unit" means any of the following political and administrative subdivisions: Departamento, Comisaria, Intendencia or Municipalidad, as such terms are defined in the Guarantor's legislation;

(l) "Administrative Agreement" means an agreement between the Borrower and an Administrative Unit providing for Sub-project funding and institutional arrangements for effective participation by such Administrative Unit in road planning, management and maintenance;

(m) "Region" means any of the Borrower's Regional Offices (Direcciones Regionales); and

(n) "MOPT" means Ministerio de Obras Publicas y Transporte, the Borrower's ministry of Public Works and Transportation.

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, various currencies that shall have an aggregate value equivalent to the amount of fifty-five million dollars

(\$55,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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 Banco de la Republica of the Guarantor 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 December 31, 1995, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during 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 determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989, bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

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

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on May 15 and November 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, engineering, environmental and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Not later than September 30 of each year, the Borrower shall prepare and furnish to the Bank for approval, an annual road investment and maintenance program for the immediately following calendar year (of such scope and detail as the Bank shall reasonably requests including: (i) Sub-projects which meet the criteria set forth or referred to in Section 3.02 (a) of this Agreement; (ii) action programs to develop local and regional road maintenance and management capabilities; and (iii) financing requirements and sources for such Sub-projects and programs specified by the content thereof and by Regions and Administrative Units.

Section 3.02. (a) The Borrower shall include in the Annual Programs only: (i) construction and improvement Sub-projects which meet the selection criteria and technical, economic, environmental and engineering standards set forth or referred to in the Manual, including, without limitation, that each such Sub-project shall have an economic rate of return, calculated in accordance with criteria, assumptions and procedures satisfactory to the Bank, equivalent to at least 12%; (ii) maintenance Sub-projects which have been selected on the basis of updated road condition information and technical criteria, satisfactory to the Bank; and (iii) Sub-projects in Administrative Units where funds in amounts satisfactory to the Bank and the Borrower shall have been appropriated and spent in the previous year and allocated in the next year's budget, for periodic and routine maintenance activities on roads built for all-weather traffic service;

(b) the Borrower shall not request approval from the Bank for financing under the Loan of a Sub-project unless: (i) such Sub-project is included in an Annual Program approved by the Bank; (ii) the Bank is satisfied with the number and qualifications of the staff of the Region in charge of the execution and supervision of such Sub-project; (iii) detailed engineering studies, satisfactory to the Bank have been completed for such Sub-project; (iv) starting in year 1991, the Bank is satisfied with the implementation performance of the Borrower and the respective Administrative Unit where the Sub-project is to be carried out with regard to (A) the Annual Program, (B) their obligations under relevant Administrative Agreements, and (C) routine and periodic maintenance activities in the area where the Sub-project is located; (v) unless the Bank shall otherwise agree, the Sub-project is located in Administrative Units other than the Distrito Especial de Bogota, Cali and Medellin; (vi) the Sub-project has been selected taking into account, in terms satisfactory to the Bank, the accessibility for purposes of execution and supervision of the areas where the Sub-project is to be carried out; and (vii) the Borrower is not receiving other external financing (including other Bank loans) for such Sub-projects.

Section 3.03. In the carrying out of the training programs under the Project, the Borrower shall:

(a) furnish to the Bank for approval the content of such programs as well as

the schedule for their implementation;

(b) select the beneficiaries of such training programs in accordance with criteria satisfactory to the Bank;

(c) not later than September 30 of each year exchange views with the Bank on the training programs to be carried out in the following calendar year; and

Section 3.04. (a) Starting not later than September 30, 1990, the Borrower shall enter into Agreements satisfactory to the Bank (the Administrative Agreements) with the Administrative Units participating in the execution of the 1990-1993 Rural Roads Program, which shall provide for the financial and other contributions to be made by the Borrower and the Administrative Unit for the carrying out of Sub-projects in the area under the latter's jurisdiction, the institutional arrangements required for such purposes and establish action programs aimed at developing the Administrative Unit's capabilities to assume full responsibility in the management of its rural roads maintenance.

(b) The Borrower shall duly perform all of its obligations under each Administrative Agreement and, unless the Bank shall otherwise agree, shall not assign, amend, abrogate or waive such Administrative Agreements or any provision thereof.

Section 3.05. The Borrower shall without limitation to the provisions of Section 9.07 of the General Conditions, furnish to the Bank by March 31 and September 30 of each year, starting on March 31, 1990, a report, of such scope and in such detail as the Bank shall reasonably request, on: (a) the progress made in the execution of the Project; and (b) the achievement of the objectives of the 1990-1993 Rural Roads Program, as of the preceding semester ending December 31 and June 30, respectively.

Section 3.06. (a) The Borrower shall exchange views with the Bank, and where appropriate with the Guarantor through MOPT and DNP, not later than March 31 and September 30 of each year on the following matters: (i) progress in the implementation of the Project, the respective Annual Program, the 1990-1993 Rural Roads Program and the Sub-projects, the funding requirements there for and the availability and sources of the financial resources required for such purposes; (ii) the adequacy of the evaluation criteria, methods and procedures followed in the selection of Sub-projects for the Annual Program; (iii) when so required, together with representatives of the Administrative Units, the progress in the execution of the action programs referred to in Section 3.01 (b) (ii), 3.03 (a) and 3.04 (a) of this Agreement; (iv) the value and justification of road works proposed for direct contracting and force account and the progress in the execution of such works; and (v) such other issues that the Bank, the Guarantor (through MOPT) or the Borrower may request.

(b) Based on the conclusions of such exchange of views, the Borrower shall prepare, within sixty days, action plans, satisfactory to the Bank, to improve its performance and resolve any outstanding problems or issues.

(c) The Borrower shall carry out such plans in a manner and according to timetables satisfactory to the Bank.

Section 3.07. (a) 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.

(b) Procurement of civil works and consultants' services for engineering studies and supervision of civil works under the Project shall be made through standard documents, satisfactory to the Bank.

Section 3.08. The Borrower shall:

(a) not later than August 31, 1990, carry out the study included under Part E of the Project under terms of reference satisfactory to the Bank;

(b) promptly upon its completion, furnish to the Bank the recommendations of

such study;

(c) afford the Bank a reasonable opportunity to comment on such recommendations; and

(d) assist the Guarantor in the preparation and execution of the action program referred to in paragraph (b) of Section 3.01 of the Guarantee Agreement.

ARTICLE IV

Management and Operations of the Borrower

Section 4.01. The Borrower shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 4.02. The Borrower shall at all times operate and maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs thereof, all in accordance with sound engineering, financial and maintenance practices.

Section 4.03. The Borrower shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

Section 4.04. (a) The Borrower shall carry out its investment and maintenance programs in accordance with appropriate administrative and engineering practices, including inter alia, the establishment of an adequate balance between its construction, improvement as well as deferred, periodic and routine maintenance activities, in order to maintain the rural roads network for which the Borrower is responsible at an adequate level to ensure their efficient operation.

(b) The Borrower shall furnish to the Bank promptly after its request all such information as the Bank shall reasonably request, concerning the Borrower's investment and maintenance programs.

ARTICLE V

Financial Covenants

Section 5.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition, including separate records and accounts to reflect the resources and expenditures in respect of the Project.

(b) The Borrower shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts 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 four 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 Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as 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, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified, provided, however, that if an event specified in paragraph (b) below shall have occurred and be continuing, the suspension of the Borrower's rights to make withdrawals from the Loan Account may be limited by the Bank to withdrawals in respect of Project expenditures related to the Administrative Unit or Units involved:

(a) that the Estatutos of the Borrower or any provision thereof shall have been amended, suspended or abrogated which would affect, materially and adversely, in the opinion of the Bank, the operation or financial condition of the Borrower or the performance of the Borrower of its obligations under this Agreement; and

(b) an Administrative Unit shall have failed to perform any of its obligations under an Administrative Agreement.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely that the event specified in paragraph (a) of Section 6.01 of this Agreement shall occur.

ARTICLE VII

Effective Date; Termination

Section 7.01. The date June 7, 1990, is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. The Director General of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Bank:

International Bank for

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

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

For the Borrower:

Fondo Nacional de Caminos
Vecinales
Avenida Caracas 63-57
Bogota D.E.
Colombia

Telex:

45866

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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Rainer Steckhan

Acting Regional Vice President
Latin America and the Caribbean

FONDO NACIONAL DE CAMINOS VECINALES

By /s/ Victor Mosquera Chaux

Authorized Representative

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) Works	43,7000,000	60%
(2) Expenditures under Part B of the Project	1,000,000	100% of foreign expenditures and 80% of local expen- ditures

(3)	Consultants' services:		
(a)	For engineer- ing studies and designs and super- vision of civil works	4,200,000	45%
(b)	Other	300,000	100% of foreign expenditures and 50% of local expenditures
(4)	Training activities (including per diems, travel ex- penditures and materials)	500,000	100% of foreign expenditures and 50% of local expenditures
(5)	Unallocated	5,300,000	
	TOTAL	55,000,000	

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 Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor; and

(b) the term "local expenditures" means expenditures in the currency of the Guarantor or for goods or services supplied from the territory of the Guarantor.

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; and (b) expenditures under a Sub-project unless such Sub-project is an Eligible Sub project approved by the Bank for financing under the Loan and the Borrower and the respective Administrative Unit have entered into an Administrative Agreement with respect to or including such Sub project.

SCHEDULE 2

Description of the Project

The Project consists of the 1990-1993 Rural Roads Program and its main objective is to assist in the achievement of Colombia's social and economic goals of expanding markets and reducing poverty in rural areas. In this context, the specific objectives of the Project are: (i) help define, develop, organize and strengthen management of rural roads at national, regional and local levels; (ii) assist in the implementation of key rural road sector policies, including those related to decentralization of decision-making, maintenance management, investment programming, coordination and resource mobilization; (iii) to consolidate the Borrower's institutional-building efforts; and (iv) to support the financing of a balanced rural road investment and maintenance program.

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

Part A:

Execution of Sub-projects including, inter alia:

1. construction of about 950 kilometers of roads and 2 kilometers of canals;
2. improvement, including the construction of 1,100 meters of bridges and drainage structures, of about 1,650 kilometers of roads;
3. periodic maintenance, including resurfacing, of about 4,350 kilometers of roads;
4. routine maintenance, including pothole patching and drainage clearing, of about 26,000 kilometers of roads; and
5. emergency maintenance to ensure transit ability of mainly incomplete roads.

Part B:

Rehabilitation of the Borrower's road maintenance equipment fleet, including acquisition and utilization of a stock of fast consuming spare parts.

Part C:

Provision of technical assistance services for engineering designs and supervision of civil works, studies on road management, funding strategies, institutional and technical development.

Part D:

A training program for the Borrower's and Administrative Units' staff in road management.

Part E:

A study of the Borrower's financing structure, sources and requirements to fully finance the construction, improvement and maintenance of rural roads in Colombia.

* * *

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

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each May 15 and November 15	
beginning May 15, 1995 through May 15, 2006	2,290,000
On November 15, 2006	2,330,000

* 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

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than 11 years before maturity	0.65
More than 11 years but not more than 16 years before maturity	0.88
More than 16 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Colombia 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. Contracts for civil works estimated to cost more than \$50,000 equivalent but less than \$1,000,000 equivalent and contracts for goods estimated to cost more than \$25,000 equivalent but less than \$100,000, may be procured on the basis of competitive

bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Contracts for civil works estimated to cost less than \$50,000 equivalent up to an aggregate amount not to exceed \$5,000,000 equivalent, and goods estimated to cost the equivalent of \$25,000 per contract or less, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three qualified contractors or suppliers, as the case may be, eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

3. Proprietary items i.e. spare parts or accessories for goods purchased for the Project which are produced only by the original manufacturer of the goods and equipment rehabilitation services may be procured through direct contracting with qualified suppliers, previously accepted on a case by case basis by the Bank.

Part D:

Without limitation upon the provisions of the Guidelines, in respect of procurement of goods, works and services made:

1. pursuant to Part A of this Schedule:

- (a) no requirement of local agents for foreign bidders shall be made.
- (b) no prior registration of foreign bidders shall be required;
- (c) no provision regarding minimum number of bidders shall be applied;
- (d) bids of goods shall be evaluated on a C.I.F. basis;

(e) freight costs quoted freely by each bidder shall be used for purposes of bid evaluation; and

2. pursuant to Part A or Part C of this Schedule:

(a) awards shall be made to the bid with the lowest evaluated cost; and

(b) when geographically and technically practical, contracts for periodic maintenance and improvement of roads shall combine roads in different areas so as to promote competitiveness in the construction industry, economies of scale and efficient scheduling of works.

Part E: 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 civil works estimated to cost the equivalent of \$1,000,000 or more and each contract for goods estimated to cost the equivalent of \$100,000 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 5 to this Agreement.

(c) The provisions of the preceding subparagraph (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 5.01 (c)

(ii) of this Agreement.

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

Section II. Employment of Consultants

1. In order to assist the Borrower in the carrying out of the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines).

2. Hiring of individual consultants under contract estimated to cost \$20,000 equivalent or less shall be made directly by the Borrower pursuant to the provisions of Part V of the Consultant Guidelines.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) to (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 an amount equivalent to five million dollars 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 a deposit or deposits 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 in 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, 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 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 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; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories less 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 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; (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.

