

CONFORMED COPY

LOAN NUMBER 3465 ME

(Agricultural Technology Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

NACIONAL FINANCIERA, S.N.C.

Dated June 17, 1992

LOAN NUMBER 3465 ME

LOAN AGREEMENT

AGREEMENT, dated June 17, 1992 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and NACIONAL FINANCIERA, S.N.C. (the Borrower).

WHEREAS: (A) United Mexican States (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) the Bank has received a letter from the Guarantor, dated December 6, 1991 describing its objectives and strategy for agricultural technology management and implementation (hereinafter Strategy Statement);

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

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

(b) In Section 6.02, subparagraph (k) is re-lettered as subparagraph (l) and a new subparagraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of 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) "Annual Work Program" means an annual program to be presented to the Bank pursuant to Section 3.04 of the Guarantee Agreement;

(b) "CENID" means an INIFAP Disciplinary Research Center ("Centro de Investigacion Disciplinaria");

(c) "CIFAP" means an INIFAP Center for Crop, Livestock, and Forestry Research ("Centro de Investigacion Forestal y Agropecuario");

(d) "CONACYT" means the National Council of Science and Technology ("Consejo Nacional de Ciencia y Tecnologia");

(e) "DGESAF" means the General Directorate of Studies for the Agriculture, Livestock and Forestry Sector of SARH ("Direccion General de Estudios del Sector Agropecuario y Forestal");

(f) "Eligible Districts" means the Rural Development Districts (as hereinafter defined) listed in the letter from the Guarantor to the Bank of even date with this Agreement;

(g) "Estimated Implementation Indicators" means the set of indicators referred to in Section 3.05 (a) of the Guarantee Agreement;

(h) "Executing Agencies" means INIFAP and DGESAF, and "Executing Agency" means any one of such agencies;

(i) "High risk transgenic organisms" has the meaning set forth in the Seeds Law of the Guarantor ("Ley Sobre Produccion, Certificacion y Comercio de Semillas, published in Diario Oficial, July 15, 1991;

(j) "Impact Indicators" means the set of indicators referred to in Section 3.05 (b) of the Guarantee Agreement;

(k) "INIFAP" means the Guarantor's National Institute for Forestry, Agriculture and Livestock Research within SARH, ("Instituto Nacional de Investigaciones Forestales y

Agropecuarias");

(l) "Legislation" means the Guarantor's laws and any other legal provisions, including leyes and decretos, related to agricultural research and extension;

(m) "MIS" means a unified information and communications management system to be designed under the Project for INIFAP's utilization in the compilation of agricultural research management data;

(n) "Project Unit" means the unit established within INIFAP referred to in Section 3.07 of the Guarantee Agreement;

(o) "Research Grants Committee" means the committee referred to in Section 3.19 of the Guarantee Agreement;

(p) "Rural Development District" means a Distrito de Desarrollo Rural established by the Guarantor's Executive Branch, through SARH, pursuant to Ley de Distritos de Desarrollo Rural dated December 28, 1987 and published in the Guarantor's Official Bulletin on January 28, 1988, as such law is amended from time to time;

(q) "SARH" means the Guarantor's Secretariat of Agriculture and Hydraulic Resources ("Secretaria de Agricultura y Recursos Hidraulicos");

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

(s) "SPP" means the Guarantor's Secretariat for Programing and Budgeting ("Secretaria de Programacion y Presupuesto"); and

(t) "Rules of Operation" means the Reglas de Operacion of CONACYT issued on January 30, 1992.

## 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 one hundred fifty million dollars (\$150,000,000), 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 Mexico 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 June 30, 1999 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 and the Guarantor 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 and the Guarantor 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 June 1 and December 1 in each year.

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

### ARTICLE III

#### Transfer of Loan Proceeds; Other Covenants

Section 3.01. The Borrower shall enter into contractual arrangements with the Guarantor, satisfactory to the Bank, providing, inter alia, for: (i) the transfer to the Guarantor of the proceeds of the Loan for the carrying out of the Project; and (ii) the transfer by the Guarantor to the Borrower of such funds as the

Borrower shall be required to pay to the Bank on account of principal, interest and other charges on the Loan. Except as the Bank shall otherwise agree, the Borrower shall not change or fail to enforce any provision of such contractual arrangements.

Section 3.02. The Borrower shall participate in the annual reviews referred to in Section 3.05 of the Guarantee Agreement.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.04. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by the Guarantor pursuant to Section 3.06 of the Guarantee Agreement.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained, records and separate accounts for the Special Account adequate to reflect in accordance with sound accounting practices the resources and expenditures in connection with the execution of the Project.

(b) The Borrower shall:

- (i) have such records and accounts referred to in paragraph (a) above for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent and qualified auditors;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts 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 provide to the Guarantor any information that may be required by the Guarantor to comply with the Guarantor's obligations under Section 4.01 (c) of the Guarantee Agreement.

#### ARTICLE V

##### Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that the Legislation, or any part thereof, shall have been modified or its implementation shall have been discontinued in a manner which, in the opinion of the Bank, would materially and adversely affect the implementation of the Project or the attainment of the objectives of the Project.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that the event specified in Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the contractual arrangements referred to in Section 3.01 of this Agreement shall have been executed; and

(b) the Guarantor shall have entered into agreements satisfactory to the Bank as set forth in Section 3.15 of the Guarantee Agreement.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the agreements referred to in Section 6.01 (b) above have been executed and delivered on behalf of the parties thereto and are legally binding upon them in accordance with their terms.

Section 6.03. The date September 16, 1992 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Director Internacional of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Bank:

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

Cable address:

Telex:

INTBAFRAD	197688 (TRT),
Washington, D.C.	248423 (RCA),
	64145 (WUI)
	82987 (FTCC)

For the Borrower:

Direccion Internacional  
Nacional Financiera, S.N.C.  
Plaza NAFINSA, Insurgentes Sur 1971  
Torre Cuatro, Piso 8  
01020 Mexico, D.F.

Cable address:

Telex:

NAFIN	NAFIME 383-1775765
Mexico City	Mexico City

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

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Rainer B. Steckhan  
Acting Regional Vice President  
Latin America and the Caribbean

NACIONAL FINANCIERA, S.N.C.

By /s/ Oscar Espinosa Villarreal  
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) Civil Works	7,100,000	70%
(2) Farms, computing, communications equipment	33,800,000	80%
(3) Vehicles	15,600,000	46%
(4) Laboratory equipment	8,200,000	80%
(5) Technical assistance	9,200,000	80%
(6) Training and studies	44,600,000	85%
Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(7) Recurrent costs under Parts A and C of the Project	6,415,000	Incremental expenditures implementation as follows: 100% up to an aggregate amount of 250,000; 75% for aggregate amounts between 250,000 and 1,430,000; 50% for aggregate amounts between 1,430,000 and 3,455,000; and 25% for aggregate amounts between

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	3,455,000 and 6,415,000  % of Expenditures to be Financed
(8) Recurrent costs under Part B of the Project	4,385,000	Incremental expenditures as follows: 100% up to an aggregate amount of 765,000; 75% for aggregate amounts between 765,000 and 2,165,000; 50% for aggregate amounts between 2,165,000 and 3,305,000; and 25% for aggregate amounts between 3,305,000 and 4,385,000
(8) Unallocated	20,700,000	
TOTAL	150,000,000 =====	

2. For the purposes of this Schedule:

(a) "Recurrent Costs under Parts A and C of the Project" means: (1) salaries paid to INIFAP personnel on a staffing plan accepted by the Bank; and (2) direct operating costs incurred by INIFAP, and "incremental expenditures" for such disbursement category means expenditures for Recurrent Costs under Parts A and C of the Project over and above the amount of such costs incurred in the year preceding the first year of Project implementation; and

(b) "Recurrent Costs under Part B of the Project" means: (1) salaries paid to SARH personnel carrying out extension services; and (2) direct operating costs incurred by SARH in connection with the provision of extension services and "incremental expenditures" for such disbursement category means expenditures for Recurrent Costs under Part B of the Project over and above the amount of such costs incurred in the year preceding the first year of Project implementation in an Eligible District.

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 \$10,000,000, may be made on account of payments made for expenditures under Categories (1), (2), (4), (5) and (6) for Parts A and C of the Project before that date but after June 17, 1991.

SCHEDULE 2

Description of the Project

The objectives of the Project are to improve agricultural productivity and growth through: (i) the generation of new agricultural technology through research; (ii) the effective extension of new and existing technologies to producers; and (iii) the improvement of the institutional capacity of INIFAP.

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: Technology Generation through Research

1. Crop Research

New technology research in plant breeding, product quality, agronomy and crop management, soil fertility and conservation, seed technology, biotechnology, genetic resources and integrated pest management for the following crops: basic food grains and oilseeds (maize, beans, rainfed rice, rainfed wheat, barley, safflower, and sunflower), tropical fruits, temperate fruits, and vegetables.

2. Livestock Research

(a) Technology research geared towards improving productivity in primary production in the areas of milk and beef production, smallholder production, small ruminants, and forages.

(b) Livestock research in microbiology, parasitology and physiology.

3. Forestry Research

Research in priority areas including forest management, betterment of tropical species, multiple species use, forest conservation and restoration, processing technology, agroforestry, and watershed management.

4. Natural Resource Management

Studies in soil conservation techniques, water management, and related environmental issues, all with a view to enable INIFAP to generate technologies which are environmentally sound, conserve natural resources, and improve the efficiency of their use.

5. Training for Research

Improvement of academic and technical skills of INIFAP scientists and staff through academic study in Mexico and abroad and through in-service programs. All training will be to support the activities described in Subparts 1 through 4 above.

6. Improvement of Research Facilities

Rehabilitation, maintenance, and minor new construction of CIFAP and CENID field stations and laboratories.

Part B: Technology Transfer through Extension

Improve and expand the training and visit system of extension in the Eligible Districts through:

(a) staff and producer training in crops (basic grains, oilseeds, fruits and vegetables), livestock, and forestry for small and medium producers, in collaboration with INIFAP;

(b) on-farm demonstrations in collaboration with INIFAP;

(c) creation and strengthening of producers' organizations in crop, livestock, and forestry production and management activities;

(d) improvement of the efficiency of extension services provided by the Rural Development Districts through the provision of equipment, productivity incentives, and rehabilitation and construction of field facilities;

(e) strengthening of DGESEAF services through technical assistance, training, studies, and improvements in equipment; and

(f) improvement and expansion of soil and water conservation

extension work.

Part C: Institutional Development for Research

1. Improvement of libraries and scientific information systems

Improvement of INIFAP's libraries and scientific information systems through:

(a) updating of collections and of computer and communications facilities in order to improve the receipt, cataloguing, indexing and transmittal of information to scientists in the field; and

(b) design and operation of an integrated library system.

2. Improvement of research management

Improvement of planning and budgeting procedures and in setting and managing research priorities through:

(a) design and operation of an appropriate management information system;

(b) a study of the environmental costs of agriculture;

(c) studies of the productivity impact of agricultural research and extension;

(d) academic and in-service training for research management; and

(e) operation of the Project Unit.

3. Other research support

Improvement of INIFAP's capacity to mobilize non-federal and private funding, to collaborate with other research institutions, to support research networks, to train staff, and to upgrade computing and communications facilities through:

(a) review and improvement of the legal, financial and administrative aspects of resource mobilization;

(b) support of collaborative research through: (i) studies by national institutions outside INIFAP; and (ii) the provision of research grants on a competitive basis;

(c) increased collaboration in on-farm activities with the extension service through, inter alia, the provision of training and vehicles;

(d) the provision of planning, meeting facilities and short-term technical assistance support to scientific networks; and

(e) the expansion and upgrading of INIFAP's computing and communications equipment.

\* \* \*

The Project is expected to be completed by December 31, 1998.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
December 1, 1995	3,905,000.00
June 1, 1996	4,055,000.00

December 1, 1996	4,215,000.00
June 1, 1997	4,375,000.00
December 1, 1997	4,545,000.00
June 1, 1998	4,720,000.00
December 1, 1998	4,905,000.00
June 1, 1999	5,090,000.00
December 1, 1999	5,290,000.00
June 1, 2000	5,495,000.00
December 1, 2000	5,705,000.00
June 1, 2001	5,925,000.00
December 1, 2001	6,155,000.00
June 1, 2002	6,395,000.00
December 1, 2002	6,640,000.00
June 1, 2003	6,895,000.00
December 1, 2003	7,165,000.00
June 1, 2004	7,440,000.00
December 1, 2004	7,730,000.00
June 1, 2005	8,025,000.00
December 1, 2005	8,335,000.00
June 1, 2006	8,660,000.00
December 1, 2006	8,995,000.00
June 1, 2007	9,340,000.00

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\* 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	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than 11 years before maturity	0.73
More than 11 years but not more than 13 years before maturity	0.87
More than 13 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works shall be

procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

2. All vehicles shall be procured on the basis of international competitive bidding.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Mexico 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. Civil works estimated to cost the equivalent of less than \$5,000,000 per contract or per bid package, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Goods estimated to cost the equivalent of less than \$250,000 per contract or per bid package, but more than \$50,000 equivalent, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank up to an aggregate amount of \$12,000,000 equivalent.

3. Goods estimated to cost \$50,000 equivalent or less, may be procured under contracts awarded on the basis of comparison of price quotations solicited from at least three qualified suppliers, eligible under the Guidelines in accordance with procedures acceptable to the Bank.

Part D: General Provisions

All procurement of goods and works, whether or not international competitive bidding applies, shall take place using standard bidding documents satisfactory to the Bank.

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: (1) each contract for goods estimated to cost the equivalent of \$250,000 or more; (2) each contract for works estimated to cost the equivalent of \$1,500,000 or more; and (3) the first three contracts for works (costing the equivalent of less than \$1,500,000) and goods procured under the procedures referred to in Parts C.1 and C.2, respectively, of this Schedule, 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 withdrawals from the Loan Account are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

## Section II. Employment of Consultants

In order to assist the Guarantor in the execution of the Project, the Guarantor 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.

### SCHEDULE 5

#### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1 through 5 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 \$7,000,000 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 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, 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; 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; 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.



