

CONFORMED COPY

LOAN NUMBER 3392 IND

(Irrigation Subsector II (O & M) Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated September 5, 1991

LOAN NUMBER 3392 IND

LOAN AGREEMENT

AGREEMENT, dated September 5, 1991, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

(B) the Bank has received a letter, dated October 13, 1987, from the Borrower including a Statement of Policies for Irrigation Operation and Maintenance and Cost Recovery, and a four-year Action Plan (1991/92-1994/95) (together, the Statement); 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) "BAPPEDA" means the Borrower's Provincial Development Planning Agency;

(b) "BAPPENAS" means the Borrower's National Development Planning Agency;

(c) "DGPUOD" means the Directorate General of Public Administration and Regional Autonomy in the Borrower's Ministry of Home Affairs;

(d) "DGWRD" means the Directorate General of Water Resources Development in the Borrower's Ministry of Public Works;

(e) "EOM" or "efficient operation and maintenance" means those operation and maintenance activities of a routine nature, necessary to provide the planned service to water users and to fully maintain the system (without separate rehabilitation or upgrading programs) in a condition to function as planned on into the future;

(f) "FY" means the Borrower's fiscal year beginning April 1 and ending March 31;

(g) "ISSP" means the Irrigation Subsector Project as provided in Loan Agreement dated December 3, 1987, between the Borrower and the Bank (Loan No. 2880-IND);

(h) "NBB" or "needs based budget" means a detailed budget to adequately cover all EOM for each specific system and reflects the respective POM and the staff, equipment and actions required to provide the defined service and fully maintain each feature (including replacement) and the system's overall integrity, permanently on into the future;

(i) "PBB" means the Borrower's land and building tax;

(j) "POM" or "plan of operation and maintenance" means a plan which presents the operating and maintenance concept for a system and the procedures for all operations actions from the diversion supply and coordination with WUAs, setting seasonal schedules, to instruction for operating structures and equipment, maintenance procedures, schedules, maps, drawings, design and construction data, staffing levels, qualifications, responsibilities and training;

(k) "PRIS" means provincial water resources services;

(l) "Rupiah" means the currency of the Borrower;

(m) "SM" or "special maintenance" means those deferred maintenance needs that have accumulated in a system that had been fully rehabilitated or constructed and that otherwise contains the essential structures required in the systems;

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

(o) "WUA" means Water Users' Association.

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 two hundred twenty-five million dollars (\$225,000,000), 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 deposit account in Bank Indonesia 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 July 31, 1995 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one 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 March 15 and September 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, agricultural, engineering, environmental and financial 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, the Borrower shall carry out the Project in accordance with the Statement and annual work programs satisfactory to the Bank.

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. Without limitation on the foregoing, the Borrower shall have approved all consultant selections by August 15, 1991, and shall by that date have employed all consultants, provided, however, that the consultants for operations and maintenance and for the irrigation service fee shall have been employed by October 31, 1991.

Section 3.03. The Borrower shall: (a) maintain a Project Coordinating Unit within DGWRD, responsible for overall coordination and review of project implementation. Such Unit shall be staffed with qualified personnel in adequate numbers, including a Project Coordinator who shall be the Director, Planning and Programming within DGWRD; and (b) cause BAPPENAS to coordinate monitoring and reporting progress on the Statement through the functional coordination of DGWRD, Directorate PBB, DGPUOD, and other relevant agencies when required.

Section 3.04. For each Province in which Project activities are carried out, the Borrower shall: (a) cause PRIS to carry out the functions of project management and implementation with qualified personnel in adequate numbers, including a Project Manager who shall be the PRIS Chief; and (b) cause BAPPEDA to coordinate Project

implementation monitoring and progress.

Section 3.05. The Borrower shall, by January 1 of each year until completion of the Project, furnish to the Bank for review and comment a detailed draft of the Annual Work Program covering all Project components, including without limitation on the foregoing (a) the areas selected by the concerned agencies of the Borrower for the introduction/extension of the irrigation service fee, and (b) certification by DGWRD that (i) the special maintenance, proposed by PRIS, comprises minor works and repairs/improvements in accordance with criteria agreed with the Bank, and (ii) the special maintenance works, including preparation and implementation of POMs and NBBs, are completed by PRIS and the schemes are ready for efficient operations and maintenance.

Section 3.06. The Borrower shall turn over, or cause to be turned over, to WUAs about 40 schemes larger than 150 ha, and all turnovers, including such larger schemes, shall be in accordance with terms and conditions satisfactory to the Bank, including some equity contributions by farmers and prior approval of the Bank for any scheme to be turned over which requires funds in excess of the agreed ceiling.

Section 3.07. The Borrower shall select, or cause to be selected, schemes to be eligible for SM and EOM in accordance with criteria satisfactory to the Bank.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than nine 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 and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special Account was made, all records (contracts, orders, in-

voices, 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 V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional event is specified, namely that:

(a) an event shall have occurred which shall make it improbable that the Borrower will carry out the Statement or a significant part thereof; and

(b) (i) subject to paragraph (ii) of this Section:

- (A) the right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms thereof, or
- (B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Paragraph (i) of this Section shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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 (a) (ii) of this Agreement shall occur, subject to the proviso of Section 5.01 (b)(ii) of this Agreement.

ARTICLE VI

Termination

Section 6.01. The date sixty (60) days after the date of this Agreement 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 Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of

Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Finance
c/o Director General of Budget
Jalan Lapangan Banteng Timur 2-4
Jakarta, Indonesia

Cable address:

MINISTRY FINANCE
Jakarta

Telex:

DJMLN JKT 45799
DITJMON JKT 46415
DEPKEU JKT 44319

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 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

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.

REPUBLIC OF INDONESIA

By /s/ Abdul Rachman Ramly

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ A. Karaosmanoglu

Regional Vice President
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 Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil works (incremental efficient operation and maintenance)	25,700,000	60% of expendi- tures for con- tracts signed in FY 1991/92; 50% of expenditures for contracts signed in FY 1992/ 93; 40% of ex- penditures for contracts signed in FY 1993/94; 30% of expendi- tures for con- tracts signed in FY 1994/95
(2) Civil works (other than (1) above)	115,100,000	91%

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(3) Equipment:		100% of foreign expenditures, 100% of local expenditures (ex- factory cost) and 65% of local expenditures for other items pro- cured locally
(a) for groundwater tubewell systems	250,000	
(b) other	2,750,000	
(4) Consultants	27,900,000	100%
(5) Training (including materials)	5,900,000	91%
(6) (a) Mapping and surveys	14,900,000	91%
(b) Operational expenses	3,000,000	91%
(7) Unallocated	29,500,000	
TOTAL	225,000,000 =====	

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 "operational expenses" means expenditures relating to local travel for supervision, workshops, per diems, and dissemination programs for irrigation service fee, turnover and WUA

establishment/strengthening.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for:

(a) unless the Bank shall otherwise agree, for expenditures, with respect to Categories (1) and (2):

(i) after July 31, 1992, until the Bank has received evidence satisfactory to the Bank that the Borrower: (A) has made budgetary allocations for FY 1992/93 which (1) maintain in real terms financing for nation-wide irrigation operation and maintenance at the FY 1990/91 level and (2) provide incremental funding needed for efficient operation and maintenance; and (B) during FY 1991/92, has made actual expenditures for items covered in (i) (A) (1) and (2) above, satisfactory to the Bank;

(ii) after July 31, 1993, until the Bank has received evidence satisfactory to the Bank that the Borrower: (A) has made budgetary allocations for FY 1993/94 which (1) maintain in real terms financing for nation-wide irrigation operation and maintenance at the FY 1990/91 level; (2) provide incremental funding needed for efficient operation and maintenance; and (3) maintain proper levels of operation and maintenance funding on areas previously funded under ISSP; and (B) during FY 1992/93, has made actual expenditures for items covered in (ii) (A) (1), (2) and (3) above, satisfactory to the Bank; and

(iii) after July 31, 1994, until the Bank has received evidence satisfactory to the Bank that the Borrower: (A) has made budgetary allocations for FY 1994/95 which (1) maintain in real terms financing for nation-wide irrigation operation and maintenance at the FY 1990/91 level; (2) provide incremental funding needed for efficient operation and maintenance; and (3) maintain proper levels of operation and maintenance funding on areas previously funded under ISSP; and (B) during FY 1993/94, has made actual expenditures for items covered in (iii) (A) (1), (2) and (3) above, satisfactory to the Bank; and

(b) expenditures with respect to Category (3) (a) until arrangements satisfactory to the Bank shall have been made to ensure the availability of financing for installation of materials and equipment for groundwater tubewells systems to be procured for 23 distribution systems in the Province of East Java and 10 in the Province of Central Sulawesi.

SCHEDULE 2

Description of the Project

The objective of the Project is to support the Borrower's efforts in the irrigation subsector to provide adequate levels of funding and to strengthen institutions and procedures, at all levels, for operation and maintenance planning, programming, budgeting and implementation, in order to sustain the effectiveness of the Borrower's irrigation systems, increase beneficiary participation and decrease dependence on government budgets for operations and maintenance.

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:

1. Introduction and extension of the irrigation service fee (ISF) in systems adjoining the existing ISF pilot areas and in additional provinces covering a total of at least 700,000 ha.
2. Extension of the program of turning over small public irrigation schemes (covering at least 130,000 ha) to water user associations.
3. Strengthening the efficiency of the land and building tax in rural areas by improving existing databases for mapping, land classification and valuation, and tax administration.

Part B:

1. Increase the responsibility, accountability and capability of PRIS in the areas of planning, managing and executing operations and maintenance related activities.
2. Improve quality control for the Project by examining the project construction work, reporting findings, identifying deficiencies, determining causes and recommending remedial measures.
3. Improve inventory of irrigation and other water uses in a river basin context and support water basin management, on a pilot basis, in two basins (Opak in Yogyakarta and Cisanggarung in West and Central Java), and strengthening PRIS to formulate organizational arrangements and specific procedures for effective allocation and routings of basin flows to equitably and efficiently serve the various water users.
4. Continuing improvement of operating procedures at the scheme level, including scheme-specific POMs and NBBs, as well as taking into account the inter-relationships between design and operations.
5. Integrate fully the establishment and strengthening of water users associations in the relevant provincial agencies.
6. Improve the management and information system at central and provincial levels, including improving the system for programming and monitoring, to provide orderly execution of the linked components, and improved sequencing within each component, initially in two provinces in Java.
7. Improve the system of, and develop indicators for, monitoring scheme performance by comparing planned with actual delivery of services and other incremental benefits.
8. Strengthening the institution building and policy activities in Parts A and B by providing technical assistance and training (including training in planning and programming, operations and maintenance procedures, construction supervision and environmental effects, training for WUAs, and overseas training related to river basin management and operation and maintenance).

Part C:

1. Carrying out of special maintenance works on about 750,000 ha of surface irrigation systems and on about 45,000 ha of reclaimed swamp land.
2. Providing by the end of the Project efficient operation and maintenance on about 1,700,000 ha of surface irrigation systems (which includes areas under ISSP) and on about 170,000 ha of reclaimed swamp land (which includes areas under ISSP).
3. Completion of the Mesuji/Tulang Bawang (20,000 ha) scheme in the Province of Lampung; completion of selected groundwater development projects in the Provinces of South Sulawesi, Central Sulawesi, East Java and West Nusatenggara (Lombok); monitoring of five river mouths; support for water management activities in the

Seluna river basin in the Province of Central Java; and support for repairs in the Rentang scheme in the Province of West Java, as agreed.

* * *

The Project is expected to be completed by March 31, 1995.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
March 15, 1997	4,105,000
September 15, 1997	4,260,000
March 15, 1998	4,425,000
September 15, 1998	4,595,000
March 15, 1999	4,775,000
September 15, 1999	4,960,000
March 15, 2000	5,150,000
September 15, 2000	5,350,000
March 15, 2001	5,555,000
September 15, 2001	5,770,000
March 15, 2002	5,995,000
September 15, 2002	6,225,000
March 15, 2003	6,470,000
September 15, 2003	6,720,000
March 15, 2004	6,975,000
September 15, 2004	7,245,000
March 15, 2005	7,525,000
September 15, 2005	7,820,000
March 15, 2006	8,120,000
September 15, 2006	8,435,000
March 15, 2007	8,760,000
September 15, 2007	9,100,000
March 15, 2008	9,450,000
September 15, 2008	9,815,000
March 15, 2009	10,159,000
September 15, 2009	10,590,000
March 15, 2010	11,000,000
September 15, 2010	11,425,000
March 15, 2011	11,865,000
September 15, 2011	12,325,000

* 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	0.15
More than three years but not more than six years	0.30

before maturity	
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 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. To the extent practicable, contracts for equipment and materials shall be grouped into bid packages estimated to cost the equivalent of more than \$200,000.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Indonesia 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 \$3,000,000 equivalent or less may be awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank; provided however, that SM works for the turnover program and EOM estimated to cost the equivalent of \$50,000 or less per contract up to an aggregate value of \$10,000,000 equivalent may be carried out under force account procedures.

2. Items or groups of items for equipment and materials estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount equivalent to \$1,200,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for works estimated to cost the equivalent of more than \$750,000 and each contract for equipment and materials estimated to cost the equivalent of more than \$200,000, 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, said 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 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 Borrower in carrying out 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.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4), (5) and (6) 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 \$15,000,000 to be withdrawn from the Loan Account and deposited in 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; and (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.

