

Public Disclosure Authorized

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CREDIT NUMBER 3774-YEM

DEVELOPMENT CREDIT AGREEMENT

(Sana'a Basin Water Management Project)

between

REPUBLIC OF YEMEN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 26, 2003

Public Disclosure Authorized

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DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 26, 2003, between REPUBLIC OF YEMEN (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter from the Borrower, dated September 16, 2002, describing a program of actions, objectives and policies designed to implement the Borrower's long-term water resources management policies and plans (the Program), and declaring the Borrower's commitment to the execution of the Program;

(B) the Borrower has requested the Association's support in the execution of the Program through a series of credits over a period of approximately fifteen (15) years to be utilized by the Borrower in the implementation of the Program;

(C) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, which Project forms the first phase of the Program, has requested the Association to assist in the financing of the Project; and

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Credit 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 Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

Paragraph (c) of Section 9.06 of the General Conditions is modified to read as follows:

“(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the Project, its cost and the benefits derived and to be derived from it, the

performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit.”

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) “Affected Persons” means individuals who, as a result of the implementation of the Project, have had, or shall have, their: (i) standard of living adversely affected; (ii) right, title, interest in any house, land (including premises, agricultural and grazing land), or right in annual or perennial crops and trees, or any other fixed or movable asset acquired or possessed, temporarily or permanently; (iii) access to productive assets adversely affected, temporarily or permanently; and (iv) business, occupation, work or place of residence or habitat adversely affected; each, an “Affected Person;”

(b) “Cretaceous Tawilah” means sandstone aquifer or “Tawilah” aquifer;

(c) “Environmental Management Plan” or “EMP” means the Borrower’s plan, dated December 17, 2002, as such plan may be updated from time to time by agreement of the Borrower and the Association, for implementation of the Project in accordance with certain institutional, mitigating and monitoring measures to offset or reduce adverse environmental impacts to acceptable levels, including compliance with the standards of the treated effluent and sludge of the Sana’a WWTP (as this term is hereinafter defined);

(d) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 of this Agreement;

(e) “Fiscal Year” means the fiscal year of the Borrower commencing on January 1 and ending on December 31 of the same year;

(f) “GDI” means the General Directorate for Irrigation within MAI (as this term is hereinafter defined);

(g) “IPAC Unit” means the Information and Public Awareness Campaign Unit referred to in paragraph 3(c) of Part A of Schedule 4 to this Agreement;

(h) “MAI” means the Borrower’s Ministry of Agriculture and Irrigation or any successor thereof;

(i) “Mid-term Review” means the mid-term review referred to in paragraph 2 of Part D of Schedule 4 to this Agreement;

(j) “MOPHP” means the Borrower’s Ministry of Public Health and Population or any successor thereof;

(k) “NWRA” means the National Water Resources Authority, established and operating under the Borrower’s Decree No. 154 of 1995, as the same may be amended from time to time;

(l) “NWRA Sana’a Branch” means the NWRA Sana’a Branch established and operating by virtue of the Borrower’s Cabinet Decree No. 58 of 2003, as the same may be amended from time to time, and referred to in paragraph 3 (a) of Part A of Schedule 4 to this Agreement;

(m) “NWSA” means the National Water and Sanitation Authority, established and operating under the Borrower’s Law No. 13 of 1973, as the same may be amended from time to time;

(n) “Project Area” means the ten (10) sub-basins in four (4) representative Basin zones of the Borrower’s territories, and shall consist of: (i) Western Area (Southern Hamdan and North of Bani Matar districts); (ii) South Eastern Area (Bani Bahloul, Eastern part of Sanhan districts); (iii) Eastern Area (Bani Hushaish, northern Bani Al Harith, part of Khawlan districts); and (iv) North Eastern Area (part of Nihm, and part of Arhab districts);

(o) “Project Implementation Manual” or “PIM” means the Project Implementation Manual, dated December 17, 2002, as such manual may be updated from time to time by agreement of the Borrower and the Association, and referred to in paragraph 1 of Part A of Schedule 4 to this Agreement;

(p) “Project Year” means the twelve (12) month period beginning from the Effective Date and ending twelve (12) months thereafter and each successive twelve (12) month period following thereafter;

(q) “Resettlement Policy Framework” means the Borrower’s resettlement policy framework for carrying out the Project, satisfactory to the Association, dated July 29, 2002, as such framework may be amended from time to time by agreement of the Borrower and the Association, which sets out, *inter alia*, the principles and objectives of the Resettlement Policy Framework, the institutional and implementation arrangements, the requirements of a resettlement action plan including, the eligibility criteria for assistance and rehabilitation entitlements, as well as the monitoring and reporting arrangements to ensure compliance with the provisions of the Resettlement Policy Framework;

(r) “Sana’a Basin” or “Basin” means the Sana’a Basin in the Borrower’s territory;

(s) “Sana’a Basin Commission” or “SBC” means the Sana’a Basin

Commission established and operating in accordance with Decree No. 263, dated September 10, 2002, as the same may be amended from time to time;

(t) “Sana’a Local Corporation for Water Supply and Sanitation” means the corporation established and operating in accordance with the Borrower’s Presidential Decree No. 53 of 2000, as the same may be amended from time to time;

(u) “Sana’a WWTP” means the Sana’a City Waste Water Treatment Plant, located at the northern outskirts of Sana’a City and serving Sana’a City;

(v) “Social Mobilization Team” or “SMT” means the social mobilization team referred to in paragraph 3 (d) of Part A of Schedule 4 to this Agreement;

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

(x) “TS-SBC” means the technical secretariat of the SBC referred to in paragraph 3(b) of Part A of Schedule 4 to this Agreement;

(y) “Water Law” means the water law No. 33 enacted by the Borrower’s legislature, dated August 31, 2002 including its regulations, as the same may be amended from time to time;

(z) “WUAs” means the Water User Associations to be established under the Water Law; each, individually, called “a WUA”; and

(aa) “WUFs” means the Water User Federations referred to in paragraph 4(b) of Part A of Schedule 4 to this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to seventeen million six hundred thousand Special Drawing Rights (SDR 17,600,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project open and maintain in dollars a special deposit account in its Central Bank on terms and conditions satisfactory

to the Association. 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, 2009, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semi-annually on March 15 and September 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each March 15 and September 15 commencing September 15, 2013, and ending March 15, 2043. Each installment to and including the installment payable on March 15, 2023, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three (3) consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the

development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semi-annual payment date referred to in paragraph (a) above falling six (6) months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five (5) years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

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, financial, technical, engineering and environmental standards and practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement and the provisions of the Environmental Management Plan.

Section 3.02. Except as the Association 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 Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

ARTICLE IV

Financial and Other Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements, in a format acceptable to the Association, adequate to reflect its operations and financial condition and to register separately the operations related to the Project.

- (b) The Borrower shall:
- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each Fiscal Year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;
 - (ii) furnish to the Association as soon as available, but in any case not later than four (4) months after the end of each such year, (A) certified copies of its financial statements referred to in paragraph (a) above for such year as so audited, and (B) an opinion on such statements, records and accounts and a report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
 - (iii) furnish to the Association such other information concerning such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Association shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one (1) year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association'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.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Schedule 4 to this Agreement, the Borrower shall prepare and

furnish to the Association a Financial Monitoring Report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Association not later than forty five (45) days after the end of the first calendar semester after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar semester; thereafter, each Financial Monitoring Report shall be furnished to the Association not later than forty five (45) days after each subsequent calendar semester, and shall cover such calendar semester.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02(1) of the General Conditions, the following additional events are specified:

(a) A situation shall have arisen which shall make it improbable that the Program or a significant part thereof will be carried out.

(b) The quality of the effluent and sludge produced by the Sana'a WWTP is not in compliance with the specifications agreed upon between the Borrower and the Association and set forth in the EMP, for a consecutive period of three (3) months for effluent and sludge.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01(b) of the General Conditions:

(a) the financial management system referred to under Article IV of this Agreement has been established; and

(b) the Borrower has furnished to the Association the Project Implementation Manual in form and substance satisfactory to the Association.

Section 6.02. The date one hundred and twenty (120) 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 Planning and International Cooperation 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 Planning and International Cooperation
P.O. Box 175
Sana'a
Republic of Yemen

Cable address:

Telex:

CENPLAN
Sana'a

2266
CENPLAN YE

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	202-477-6391

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 YEMEN

By /s/ Abdulwahab Al-Hajjri
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Christiaan Poortman
Regional Vice President
Middle East and North Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works:		85%
(a) under Part B of the Project	4,390,000	
(b) under other Parts of the Project	880,000	
(2) Goods:		100% of foreign expenditures, 100% of local expenditures (ex- factory cost) and 85% of local expenditures for other items procured locally
(a) under Part B of the Project	90,000	
(b) under other Parts of the Project	3,640,000	
(3) Consultants' services, audit and surveys:		100% for international consultant firms and international individual consultants, 85% for local consultant firms and local individual consultants
(a) for design and supervision under	810,000	

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
Parts A and B of the Project		
(b) for preparation for follow-on projects under Part G of the Project	1,030,000	
(c) under other Parts of the Project	4,680,000	
(4) Training and workshops	880,000	100%
(5) Incremental Operating Costs	150,000	80% until December 31, 2004; 60% until December 31, 2005; 40% until December 31, 2006; 20% until December 31, 2007; and 0% thereafter
(6) Unallocated	1,050,000	
TOTAL	<hr style="width: 100%; border: 0.5px solid black;"/> 17,600,000 =====	

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 works, 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 works, goods or services supplied from the territory of the Borrower; and

(c) the term “Incremental Operating Costs” means the incremental operating costs arising under the Project on account of maintenance of vehicles and equipment, and office supplies.

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) payments made for expenditures under Categories (1)(a) and (2)(a), unless and until the Borrower shall have submitted to the Association evidence, satisfactory to the Association, that the quality of the effluent and sludge produced by the Sana'a WWTP has met the specifications agreed upon between the Borrower and the Association, as set forth in the EMP, one (1) month as at the commissioning of the improved Sana'a WWTP.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) works under contracts costing less than \$200,000 equivalent each; (b) goods under contracts costing less than \$100,000 equivalent each; (c) services under contracts costing less than \$100,000 equivalent each for consulting firms; (d) services under contracts costing less than \$50,000 equivalent each for individual consultants; (e) training and workshops; and (f) Incremental Operating Costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in: (i) increasing the efficiency of agricultural water use within the Sana'a Basin; and (ii) accelerating aquifer recharge to allow for a gradual shift to a less water-based rural economy.

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

Part A: Demand Management and Irrigation Improvement

Carrying out a program for achieving water savings and conservation in the Project Area, through:

1. The improvement of conveyance and other distribution systems through the upgrading of piped irrigation delivery systems, including: (a) the preparation of detailed studies, design and supervision of system upgrades; and (b) the supply and installation of pipes and accessories, as well as the operation and maintenance thereof.
2. The conversion of open channel to piped irrigation delivery systems, including: (a) the preparation of detailed studies; design and supervision of system conversions; and (b) the supply and installation of pipeline systems and accessories, as well as the operation and maintenance thereof.
3. The introduction of modern on-farm pressurized irrigation systems, including: (a) the preparation of detailed studies, designs and supervision of system installations; (b) the provision of elevated reservoirs; (c) the supply and installation of booster pumps and fertilizer injectors; and (d) the supply and installation of on-farm and field system networks, including conveyance pipelines, mains, sub-mains, laterals and emitters, as well as the operation and maintenance thereof.
4. The carrying out of farm-level irrigation protection works and improvement measures, including: (a) Wadi bank protection works; (b) topographic and other studies; (c) field designs and land leveling operations; (d) construction, operation and maintenance of small-scale gabion and other protection works; and (e) the introduction, supply and installation of plastic tunnels and/or cover systems, as well as the operation and maintenance thereof.
5. The carrying out of a program of institutional development for community management, operation and maintenance of irrigation systems, including: (a) initial social mobilization programs at village and farmer group levels; (b) assisting water users to assume responsibilities for sustainable systems development, management, operation and maintenance; (c) facilitating the formalization of well water user groups and the

establishment of village-level water user associations (WUAs) and WUFs; and (d) the provision of community water management training, support and adequate extension programs.

6. Capacity building for irrigation systems development and extension, including: (a) strengthening the capability of MAI to assist and support water users' participation in irrigation system development and demand management activities in the Project Area; and (b) the provision of training for selected staff of MAI.

7. The provision of implementation support, including: (a) the tendering of physical works and equipment required under Part A of the Project; and (b) the utilization of the services of suitably qualified and experienced consultants to assist in the carrying out of studies, design, tendering and construction supervision.

Part B: Supply Management and Recharge Improvement

The enhancement of groundwater recharge through improved and new recharge schemes enabling water for irrigation to be pumped from shallow aquifers instead of deep aquifers that need to be reserved as sources of drinking water through:

1. The rehabilitation of eleven (11) existing recharge dams to prevent potential dam failure as well as to recover recharge capacity diminished by accumulated sediments, including: (a) the preparation of final studies and designs of dams; (b) dam works supervision, operation and maintenance; (c) the carrying out of repair and improvement works to the body and foundation of the said dams to enhance safety and operation; (d) reservoir area de-silting for enhanced recharge; and (e) the construction and upgrading of access roads.

2. Construction of five (5) new recharge structures within the Project Area, including: (a) four (4) selected new dams, namely, the Bayt Shaiban, the Shi'b Al-Ma'adi, the Al-Melaah and the Al-Sinn dams; and (b) a series of cascade structures in Wadi Bahman, through: (i) the preparation of final studies and designs; (ii) dam works supervision, operation and maintenance; (iii) reservoir area clearing; and (iv) access road construction.

3. The carrying out of studies and works for other recharge systems such as spate breakers, water harvesting/conservation structures and subsurface dams, as alternatives for retaining subsurface flows in wadis, or surface water retention.

4. Institutional development for community management, operation and maintenance of dam and recharge systems, including: (a) facilitating the formalization of existing or establishment of new community dam management organizations for existing and new dams; (b) provision of relevant community training programs; and (c) instituting arrangements for related operation and maintenance support and extension.

5. Capacity building for dam and recharge systems development, operation and maintenance and extension support, including: (a) the provision of training for staff of

GDI and other agencies involved in dam construction and dam operation and maintenance functions in the Project Area; and (b) training visits to comparable development within the country with similar community dam organizations and operation and maintenance programs.

6. The provision of implementation support, including: (a) the tendering of physical works and equipment required under Part B of the Project; and (b) the utilization of the services of suitably qualified and experienced local or international consultants to assist in the carrying out of studies, design and construction supervision.

Part C: Institutional Development and Capacity Building

1. Carrying out a program of institutional and capacity building developed by TS-SBC, including: (a) the development of suitable water sector, legal, regulatory and monitoring frameworks and processes for NWRA; (b) basin water resources planning, monitoring and regulation capacity building for the NWRA Sana'a Branch; (c) institutional development for the Basin-level SBC and for stakeholder water management including WUAs and sub-catchment WUFs; (d) assisting MAI in carrying out Part E.4 of the Project; and (e) assisting MOPHP in carrying out Part E.2 of the Project.

2. Developing specific hydrological water resources, monitoring and investigation studies and capabilities for the NWRA Sana'a Branch and MAI, through:

(a) the carrying out of comprehensive investigations aimed at quantifying the storage volume of the Cretaceous "Tawilah" Sandstone, targeting the irrigation areas surrounding North West and North East NWSA well-fields, including the following: (i) the production of maps and cross-sections to delineate the total amount of historical aquifer depletion in both the Quaternary Alluvial and Cretaceous Sandstone aquifers; (ii) the qualitative geological assessment of the water storage and transmission properties of the Quaternary Alluvial and the Cretaceous "Tawilah" Sandstone; (iii) the drilling of three (3) new exploratory boreholes for core sampling, appropriate geophysical logging, groundwater sampling, and effective observations of aquifer behavior; and (iv) laboratory testing of rock drill cores and field samples;

(b) carrying out an intensive hydrological monitoring and analysis program at three (3) levels, namely: (i) sub-basin level for monitoring and analyzing the impacts of recharge enhancement structures as well as deriving sub-basin level water balances; (ii) field-level for monitoring and analysis of beneficial and non-beneficial evapo-transpiration, return flow, percolation and evaporation, to estimate field water balances and net-water savings; and (iii) basin level monitoring and assessing the water balance of the entire Project Area;

(c) conducting advanced remote sensing/satellite image and/or aerial photography analyses along with extended ground truthing surveys to capture crop pattern and evapo-transpiration changes over time; and

(d) the establishment and application of a reliable groundwater model to simulate aquifer performance under likely abstraction scenarios, based on updated well inventory data and newly established hydro-geological parameters.

3. Carrying out a program for the purposes of monitoring the expansion of irrigated land, including conducting advanced remote sensing/satellite image and/or aerial photography analyses, and extended field visits.

4. Carrying out a program for the purposes of monitoring water quantity, quality and pollution for measuring rainfall, stream flow and reservoir levels, through the provision of goods and training.

Part D: Information and Public Awareness Campaign (IPAC)

Carrying out an intense four-year information and public awareness campaign, employing TV, radio, newspapers, seminars, focus groups and other media, to convey messages of water conservation to well-targeted population segments such as schools, parliamentarians, journalists, farmers, women and men in health centers, hospitals, WUAs and local councils, industrial users, and rural and urban domestic interest groups.

Part E: Environmental Management and Mitigation Program

Carrying out a program of environmental management and mitigation in the Project Area including:

1. Conducting regular inspections of the dam structures, identified in Part B of the Project, to monitor timely repairs and rectification of faults, if any.

2. Carrying out public health programs, including inspection of water bodies close to human populations for detecting and controlling bilharzias vector, including controlled spraying of insecticides and molluscicides.

3. Carrying out economic, technical, health and social feasibility studies for safe reuse of Sana'a WWTP effluent for irrigation and for the dried sludge as a soil conditioner.

4. Carrying out a pest control program, including: (a) the development and implementation of an integrated pest management plan (IPM), starting with grapes and followed within three (3) months of the Effective Date with an IPM for qat; (b) provision of training to farmers, including extension agents and dealers for the purposes of stressing good and safe practice for pesticides application and storage; and (c) provision of goods and training to pesticides laboratory, for the purposes of regular testing for pesticides residue.

Part F: Project Management and Monitoring

Providing support to the TS-SBC for carrying out its management and monitoring responsibilities under the Project, through the provision of technical advisory services.

Part G: Follow-on Project Preparation

Providing support for the preparation of studies, engineering designs and tendering for follow-on projects through the provision of technical advisory services.

* * *

The Project is expected to be completed by December 31, 2008.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits", published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the provisions of the following Parts of Section I of this Schedule.

Part B: International Competitive Bidding

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

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

(a) Prequalification

Bidders for works estimated to cost the equivalent of \$300,000 or more per contract shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Grouping of contracts

To the extent practicable, contracts for: (i) works shall be grouped in bid packages estimated to cost \$2,000,000 equivalent or more each; and (ii) goods shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each.

(c) Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Works estimated to cost less than \$2,000,000 equivalent per contract, up to an aggregate amount not to exceed \$8,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines. The Bank's Standard Bidding Documents for Procurement of Works/Small Contracts shall be used.

(b) Goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$2,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines. The Bank's Standard Bidding Documents for Procurement of Goods shall be used.

2. International or National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 equivalent, may be procured under contracts awarded on the basis of national or international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Small Works

Small works estimated to cost less than \$20,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to: (i) each contract for goods and each contract for works to be procured in accordance with the procedures referred to in paragraph 1 under Part B of this Section; (ii) each contract for works estimated to cost the equivalent of \$200,000 or more to be procured in accordance with the procedures referred to in paragraph 1 under Part C of this Section; and (iii) each contract for goods estimated to cost the equivalent of \$100,000 or more to be procured in accordance with the procedures referred to in paragraph 1 under Part C of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract for goods estimated to cost the equivalent of \$5,000 or more to be procured in accordance with the procedures referred to in paragraph 2 under Part C of this Section, the following procedures shall apply:

- (i) prior to the selection of any supplier or execution of any contract under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers", published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the provisions of the following Parts of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

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

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Services under Parts E.2 and E.4(c) of the Project, which are estimated to cost less than \$80,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

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

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

1. Selection Planning

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

2. Prior Review

(a) With respect to: (i) each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more; (ii) the first three (3) contracts for the employment of consulting firms to be procured in accordance with the procedures referred to in paragraph 1 under Part B of this Section; and (iii) the first three (3) contracts for the employment of consulting firms to be procured in accordance with the procedures referred to in paragraphs 1 and 2 under Part C of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more per contract, the report on the comparison of the qualifications and experience of candidates, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval; and (ii) each contract for services to be selected on a single source basis, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

(c) Notwithstanding the provisions of Part D.2 (a) and (b) of this Section, prior review and approval by the Association of terms of reference shall be required to award contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent.

3. Post Review

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

SCHEDULE 4

Implementation Program

Part A: Project Implementation

1. The Borrower shall carry out the Project in accordance with the Project Implementation Manual (PIM) and, except as the Association shall otherwise agree, shall not amend or waive any provision of the PIM if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.

2. SBC shall have overall responsibility for basin planning, Project oversight and coordination and under the Project, shall be chaired by the Mayor of Sana'a City, and shall include: (a) high level representatives of the Sana'a Governorate, the Ministry of Planning and International Cooperation, the Ministry of Finance, the Ministry of Information, the Ministry of Interior, the Ministry of Water and Environment, MAI, NWRA, NWRA Sana'a Branch, Sana'a Local Corporation for Water Supply and Sanitation, and Agricultural Cooperative Union; (b) representatives of WUAs or WUFs; and (c) representatives of Local Councils and such other stakeholder organizations as the Borrower and the Association shall determine.

3. The Borrower shall:

(a) maintain a branch office of NWRA in Sana'a City (the NWRA Sana'a Branch), whose functions shall include implementing and enforcing water use related policies, based on the Water Law including its regulations;

(b) no later than January 1, 2004, establish and thereafter maintain within the SBC, a technical secretariat (TS-SBC) in a form and with functions, staffing and resources satisfactory to the Association. The functions of the TS-SBC shall include: (i) overall Project coordination and monitoring; (ii) serving as the technical secretariat of the Sana'a Basin Commission; (iii) Project budgeting, accounting, financial management, procurement and disbursement arrangements; (iv) providing technical support, training and training coordination; and (v) management and implementation of the EMP. The staff of TS-SBC shall include: (A) a TS-SBC director, expert in water resources engineering and water management; (B) a social and WUA development specialist; (C) a procurement and contracts management specialist; (D) a program and progress monitoring and evaluation specialist; (E) a financial management specialist; (F) a full-time environmental monitoring specialist; and (G) an executive secretary. The TS-SBC may also include short-term specialized technical assistance consultants and support staff as may be deemed necessary under the Project;

(c) no later than January 1, 2004, or such later date as may be agreed upon between the Borrower and the Association, establish and thereafter maintain, in a form and with functions, staffing and resources satisfactory to the Association, within the NWRA Sana'a Branch, a unit (the IPAC Unit) to be responsible for the information and public awareness campaign included in Part D of the Project. The staff of the IPAC Unit shall include a part-time international communications/public relations expert and three (3) local experts with a background in communication, social sciences, and psychology;

(d) no later than January 1, 2004, or such later date as may be agreed upon between the Borrower and the Association, establish and thereafter maintain, in form and with functions, staffing and resources satisfactory to the Association, within MAI at least two (2) locally staffed Social Mobilization Teams (SMTs) for Part A of the Project. The functions of the SMTs for Part A of the Project shall include: (i) serving as social intermediaries between MAI/GDI and the local stakeholder organizations; (ii) providing farmers with information on the technologies, costs and benefits of modern irrigation equipment, including the incentive system available under the Project; and (iii) facilitating the formation and operation of community organizations for water management and systems operation and maintenance. The staff of the SMTs for Part A of the Project shall include: (A) a local sociologist/WUA specialist; (B) an irrigation/groundwater engineer; and (C) an agro-economist financial advisor; and

(e) no later than January 1, 2005, or such later date as may be agreed upon between the Borrower and the Association, establish and thereafter maintain, in form and with functions, staffing and resources satisfactory to the Association, within MAI at least one (1) locally staffed SMT for Part B of the Project. The functions of the SMT for Part B of the Project shall include: (i) serving as social intermediaries between MAI/GDI and the local stakeholder organizations; (ii) providing farmers and local villages with information on the technologies, costs and benefits of dam management and maintenance under the Project; and (iii) facilitating the formation and operation of community organizations for dam management, operation and maintenance. The staff of the SMT for Part B of the Project shall include: (A) a local institutional management specialist; and (B) a local dam/equipment operations and maintenance engineer.

4. The Borrower shall:

(a) facilitate the establishment and registration of, in accordance with the laws of the Borrower and thereafter maintain, in form and with functions satisfactory to the Association, water user associations (WUAs) for irrigation areas. Participation in the incentive package for the irrigation improvement component under Part A of the Project is subject to the establishment of WUAs. The functions of WUAs, as authorized by the NWRA Sana'a Branch, shall include the carrying out of irrigation management. WUAs shall also be responsible for water abstraction regulation and enforcement; and

(b) following the demand for dam construction or rehabilitation, facilitate the establishment of and thereafter maintain, in form and with functions satisfactory to the Association, water user federations (WUFs). The WUFs shall be responsible for the coordination and overview at sub-basin level of the management and operation and maintenance of wadis, dams and access roads, including, self-regulation and internal enforcement of water resources usage and rules, and corresponding water use conflicts resolution.

5. The Borrower shall cause MAI to carry out Parts A and B of the Project.

6. Not later than June 30, 2005, the Borrower shall have completed the commissioning of the improved Sana'a WWTP, to ensure that the effluent and sludge produced by the Sana'a WWTP meets the environmental standards set forth in the EMP. The Borrower shall carry out no later than one (1) month as at the commissioning of the improved Sana'a WWTP, by an independent laboratory acceptable to the Association, a monitoring program for the Sana'a WWTP and on a semi-annual basis thereafter.

Part B: Resettlement Policy Framework

The Borrower shall carry out the resettlement and rehabilitation of the Affected Persons in accordance with the provisions set forth in the Resettlement Policy Framework in a manner satisfactory to the Association. Without limiting the generality of the foregoing, the Borrower shall: (i) take all necessary measures to minimize, to the extent possible, any loss by the Affected Persons of shelter, productive assets or access to productive assets, or of income or means of livelihood, temporarily or permanently; (ii) carry out the Resettlement Policy Framework in a manner designed to improve, or at least maintain, the living standard, income earning capacity and production levels of all Affected Persons; (iii) furnish to the Association any revisions proposed to be introduced to the Resettlement Policy Framework in order to achieve its objectives and, thereafter, introduce such revisions to the Resettlement Policy Framework as shall have been agreed with the Association; (iv) maintain policies and procedures adequate to enable the Borrower to monitor and evaluate, on an on-going basis, in accordance with guidelines acceptable to the Association, the implementation of the Resettlement Policy Framework and the achievement of the objectives thereof; (v) furnish to the Association, by June 30 and December 31 of each year until completion of the Project, commencing June 30, 2004, semi-annual reports on the results of such activities during the period preceding the date of said report; and (vi) furnish to the Association, by June 30 and December 31 of each year, commencing December 31, 2004, through the second year following completion of the Project, semi-annual reports prepared by an independent monitoring entity acceptable to the Association, on the results of the resettlement activities during the same six-month periods referred to under sub-paragraph (v) above.

Part C: Environmental Management Plan

The Borrower shall: (i) carry out the EMP in a manner designed to ensure that the Project is implemented in accordance with sound environmental practices and standards; (ii) maintain policies and procedures adequate to enable the Borrower to monitor and evaluate, on an on-going basis, in accordance with guidelines acceptable to the Association, the implementation of the EMP and the achievement of the objectives thereof; (iii) furnish to the Association semi-annual reports, commencing on June 30 and ending on December 31 of each year, until completion of the Project, each such report to incorporate the results of the monitoring and evaluation activities, together with any revisions proposed to be introduced to the EMP to achieve its objectives; and (iv) thereafter, introduce such revisions into the EMP as shall have been approved by the Association.

Part D: Project Reporting

1. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators agreed upon by the Borrower and the Association, the carrying out of the Project and the achievement of the objectives thereof;

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

(c) carry out, jointly with the Association not later than March 31 of every year, beginning on March 1, 2004, an annual progress review of the implementation of the Project, and thereafter take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter; and

(d) review with the Association by April 30 and October 31 or such later date as the Association shall request, the reports referred to in paragraphs (b) and (d) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

2. No later than thirty (30) months after the Effective Date, the Borrower shall carry out, jointly with the Association, a Mid-term Review of the progress made in carrying out the Project. The Mid-term Review shall cover among other things:

(a) an assessment of: (i) work programs prepared as of the date of the Mid-term Review and the progress made in carrying out the said programs; (ii) training provided under the Project; and (iii) procurement under the Project; and

(b) a review of the activities carried out under the Project.

3. The Borrower shall:

(a) prepare and furnish to the Association, not later than December 31, 2006, or such later date as the Association shall request, a report describing progress in the fulfillment of the actions referred to in the Program, including the attainment of the milestones agreed to between the Borrower and the Association and required to be met as a pre-requisite to prepare a follow-on operation; and

(b) review with the Association, not later than March 31, 2007, or such later date as the Association shall request, the report referred to in subparagraph (a) of this paragraph, and, thereafter, take all measures which the Association shall deem appropriate to prepare a follow-on operation.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories 1 (a), 1 (b), 2 (a), 2 (b), 3 (a), 3 (b), 3 (c), (4) and (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 works, goods and services required for the Project and to be financed out of the proceeds of the Credit 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 \$1,500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 6,000,000.

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 Association 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 Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association 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 Association shall, on behalf of the Borrower, withdraw from the Credit 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 Association from the Credit 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 Association shall reasonably request, furnish to the Association 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 Association shall not be required to make further deposits into the Special Account:

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

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

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

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association 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 Association 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 Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association 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 Association 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 Association, refund to the Association such outstanding amount.

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

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