

CONFORMED COPY

CREDIT NUMBER 2658 GE

Development Credit Agreement

(Municipal Infrastructure Rehabilitation Project)

between

REPUBLIC OF GEORGIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 10, 1994

CREDIT NUMBER 2658 GE

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated November 10, 1994, between REPUBLIC OF GEORGIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the 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, 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 have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Agency" means the Independent Agency for the Development of Municipal Services, established through registration of its charter at the local district office in Tbilisi (hereinafter referred to as the "Charter") on September 23, 1994;

(b) "Technical Coordination Committee" means the committee to be maintained pursuant to Section 3.04 of this Agreement;

(c) "Project Management Agreement" means the agreement entered into by the Borrower through its Ministry of Finance and the Agency pursuant to the provisions of Section 6.01 (a) of this Agreement;

(d) "Manual of Procedures" means the document adopted by the Agency in accordance with the provisions of Section 6.01 (b) of this Agreement;

(e) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to a letter agreement signed by the Association on September 8, 1994 and countersigned by the Borrower on September 23, 1994;

(f) "Project Current Account" means the account to be opened by the Agency in accordance with the provisions of Section 6.01 (c) of this Agreement;

(g) "Local Contribution Account" means the account to be opened by the Borrower in accordance with the provisions of Section 6.01 (d) of this Agreement; and

(h) "Special Account" means the account referred to in Section 2.02 (b) of 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 the Development Credit Agreement, an amount in various currencies equivalent to twelve million five hundred thousand Special Drawing Rights (SDR 12,500,000).

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 and services required for the Project described in Schedule 2 to this Agreement 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 a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

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

Section 2.03. The Closing Date shall be December 31, 1997 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 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 cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or 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 payment 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 semiannually on June 15 and December 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each June 15 and December 15 commencing December 15, 2004 and ending June 15, 2029. Each installment to and including the installment payable on June 15, 2014 shall be one and one-fourth percent ($1-1/4\%$) of such principal amount, and each installment thereafter shall be two and one-half percent ($2-1/2\%$) of such principal amount.

(b) Whenever (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years, 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 terms of repayment of installments under paragraph (a) above by 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. If so requested by the Borrower, the Association may revise such modification 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.

(c) 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. 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 cause the Agency to carry out the Project with due diligence and efficiency and in conformity with appropriate financial, administrative and engineering practices, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Agency to carry out the Project, and shall not take or permit to be taken any action which would prevent or interfere with

the carrying out of the Project by Agency.

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

Section 3.04. During execution of the Project the Borrower shall maintain within its Ministry of Finance the Technical Coordination Committee consisting of representatives of the existing aid coordination unit attached to the Council of Ministers, the Ministry of Finance, the municipalities of Tbilisi, Batumi and Poti, responsible for overseeing the activities of the Agency in respect of the Project and provision of assistance to the Agency, as required, by facilitating the cooperation of all public entities involved in Project implementation.

Section 3.05. Without limitation upon the generality of Section 3.01 of this Agreement, the Borrower shall authorize the Agency to dispose of the funds deposited into the Local Contribution Account for the purposes of the Project and deposit into the Local Contribution Account additional amounts of \$272,000 on the following dates: July 1, 1995, January 1, 1996, July 1, 1996 and January 1, 1997.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause the Agency to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations and financial condition of the Agency.

(b) The Borrower shall cause the Agency to:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for the Special Account and Project Current Account for each semester of its fiscal year audited, in accordance with appropriate auditing principles 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 three months after the end of each semester year: (A) certified copies of its financial statements for such year as so audited; and (B) the report of such audit by said auditors, which shall include a technical performance review and be 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, financial statements and the audit thereof 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 cause the Agency to:

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

ARTICLE V

Remedies

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

(a) The Agency shall have failed to perform any of its obligations under the Project Management Agreement or the Manual of Procedures.

(b) The Agency shall have employed a General Manager who does not have adequate qualifications or experience.

(c) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Agency will be able to perform its obligations under the Project Management Agreement.

(d) The Charter, the Manual of Procedures, or the Project Management Agreement shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Agency to perform any of its obligations in respect of the carrying out of the Project.

(e) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Agency or for the suspension of its operations.

(f) The Borrower shall have failed to comply with a provision of the bidge loan financing obtained from the Soros Foundation.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraphs (a) and (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower; and

(b) the events specified in paragraphs (d) and (e) of Section 5.01 of this Agreement shall occur.

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 Project Management Agreement shall have been signed by the Borrower and the Agency and is acceptable to the Association;

(b) the Agency has adopted the Manual of Procedures and established an accounting system, both acceptable to the Association;

(c) the Agency has opened the Project Current Account in a

commercial bank;

(d) the Borrower has opened the Local Contribution Account in its National Bank and has deposited an amount of \$300,000 into such account; and

(e) appointment of, and signing of a contract with, independent auditors acceptable to the Association.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE 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:

Minister of Finance
Ministry of Finance
170 Barnov Street
Tbilisi 380062
Republic of Georgia

Telex:

212348 MOFIN-SU

For the Association:

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

Cable address:

INDEVAS
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 GEORGIA

By /s/ Alexi Bakradze

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Basil Kavalsky
Acting Regional Vice President
Europe and Central Asia

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Goods, equipment and materials	7,200,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(2) Works	2,400,000	100% of foreign expenditures and 80% of local expenditures
(3) Consultants' services	970,000	100%
(4) Operating costs	135,000	100%
(5) Refunding of Project Preparation Advance	210,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(6) Unallocated	1,585,000	
TOTAL	12,500,000 =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "operating costs" means expenditures in the respect of the operation of the Agency, including salaries, office space and other recurrent costs.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed SDR 1,200,000, may be made in respect of Categories (1) through (4) on account of payments made for expenditures before that date but after October 1, 1994.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for goods, works and services not exceeding \$50,000 equivalent, 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 arrest further deterioration of, and stabilize critical municipal infrastructure services in Tbilisi, Batumi and Poti.

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: Tbilisi

I. Immediate Action Plan

1. Heating and Energy Services:

(a) Provision of primary weatherization for about 200 schools, including replacement of windows with single pane glass, repair or replacement of window frames, installation of polyethylene film, caulking and exterior door repair.

(b) Provision of primary weatherization for 23 priority hospitals and special power supplies, the latter through either installation of dedicated distribution lines or installation of on-site, diesel driven electrical generators.

2. Urban Transport:

Provision of spare parts for the metro and acquisition and installation of cables for above ground transportation.

II. Rehabilitation Program

1. Heating:

(a) Provision of secondary weatherization for about 200 schools through glazing and frame replacements and rehabilitation of existing heating systems for selected schools.

(b) Provision of second pane windows and insulation, including roof insulation, and installation of diesel generators for selected hospitals.

2. Urban Transport:

(a) Improvement of ventilation, pumps, escalators and electrical substations of the metro and of metro tracks at selected locations.

(b) Overhaul of a portion of metro rolling stock.

(c) Completion of restoration of the metro control system.

(d) Modernization of fare collection system.

(e) Rehabilitation of about 50 vehicles of the above ground transport system.

(f) Acquisition of an inspection and repair truck.

(g) Installation of equipment to pump water away from underground electrical equipment.

3. Water Supply:

Provision and installation of essential spares, materials and essential

equipment, including pumps, motors, switch gear, chlorination, laboratory and short wave communication radio equipment and cabling, replacement of selected distribution pipe work, provision of construction and main repair vehicles and repair of service reservoirs.

4. Waste Water:

- (a) Provision of plant and equipment for the maintenance of sewers.
- (b) Renovation works to sewers and water treatment plants.

5. Solid Waste:

Provision of about 3 transfer trucks and spare parts.

Part B: Batumi

1. Waste Water:

Provision and installation of sewer cleaning equipment, renovation of sewers in urgent need of attention, provision and installation of spare parts for sewer repair, upgrading of three sewage pumping stations, including standby generators.

2. Solid Waste:

Provision and installation of additional waste containers and related equipment, spare parts for existing equipment, improvement of solid waste handling, including a new landfill compactor/dozer, and river channel stabilization needed to protect the existing solid waste deposition site.

3. Water Supply:

Refurbishment or provision and installation of pumps and standby generator equipment at one borehole water source, provision of equipment needed for repair work, provision and installation of communication equipment, including short-wave radio, to improve communication between pumping stations and water treatment stations and improvements in the chlorination plant.

Part C: Poti

1. Wastewater:

Provision and installation of sewer cleaning equipment, renovation of sewers, upgrading of four wastewater pumping stations and provision of vehicles and associated equipment for emptying septic tanks.

2. Solid Waste:

(a) Provision of equipment for the efficient operation of existing landfills, including a new landfill compactor/dozer.

(b) Provision of equipment, including spare parts, to improve solid waste collection and transport operations.

Part D: Additional Municipalities

Carrying out of high priority infrastructure rehabilitation activities in selected municipalities, as agreed upon by the Association.

Part E: Institutional Development

1. Provision of equipment and assistance to the Agency to strengthen its project management capacity, including procurement planning, project accounting, technical assessments and analysis of environmental and social impact.

2. Assistance for:

- (a) special environmental public awareness and education activities in Tbilisi, Batumi and Poti, particularly focused on the Black Sea coast;

- (b) public relations programs to develop public support for the emergency heating assistance in Tbilisi (schools and hospitals);
- (c) institutional capacity building at the municipal level for improved environmental assessment, monitoring and management;
- (d) development of future options for more effective management of the household waste problem in Batumi and Poti;
- (e) water supply development in Batumi and Tbilisi;
- (f) urban transport in Tbilisi; and
- (g) waste water treatment in Tbilisi.

3. Studies and Assistance for:

- (a) development of integrated Coastal Zone Management for the Black Sea coast, building upon initial pollution abatement and water quality investments in Batumi and Poti;
- (b) a master plan for the Tbilisi water supply and household waste systems; and
- (c) comprehensive municipal services sector (including housing) in Georgia.

* * *

The Project is expected to be completed by July 31, 1997.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part B 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 1992 (the Guidelines) and in accordance with the following procedures:

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Bank's prior review in accordance with the provisions of Part C.1 (a)(i) of this Section, the Bank's prior approval will be required for (i) a first extension of the bid validity period if the period of extension exceeds sixty (60) days, and (ii) any subsequent extension of the bid validity period.

(b) In the procurement of goods and works in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Association.

2. Bidders for civil works shall be prequalified as provided in paragraph 2.10 of the Guidelines.

Part B: Other Procurement Procedures

1. Items or groups of items for goods estimated to cost the equivalent of \$250,000 or less per contract, up to an aggregate amount equivalent to \$2,300,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least three different countries eligible under the Guidelines, in accordance with procedures acceptable to the Association.

2. Items or groups of items for specialized goods for which there is a limited number of suppliers up to an aggregate amount equivalent to \$2,400,000, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids obtained from qualified suppliers eligible under the Guidelines and in accordance with procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

3. Items or groups of items for goods estimated to cost the equivalent of \$20,000 or less per contract, up to an aggregate amount equivalent to \$500,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

4. Contracts for spare parts, equipment of proprietary nature, and in exceptional cases and if previously approved by the Association, contracts for goods needed for early delivery and contracts for installation work, up to an aggregate amount equivalent to \$2,200,000, may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Association.

5. Smaller works estimated to cost the equivalent of \$500,000 or less per contract shall be procured under contracts awarded on the basis of local competitive bidding procedures, acceptable to the Association, up to an aggregate amount equivalent to \$2,000,000, among prequalified contractors selected in accordance with procedures set forth in paragraph 2.10 of the Guidelines.

Part C: Review by the Association of Procurement Decisions

1. Review of prequalification:

With respect to the prequalification of bidders as provided in Part A.2 hereof, the procedures set forth in paragraph 1 of Appendix 1 of the Guidelines shall apply.

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

(a) With respect to: (i) each contract estimated to cost the equivalent of \$250,000 or more; (ii) all contracts awarded under the procedures set forth in Parts B.2 and B.4 of this Schedule; (iii) the first two contracts for goods estimated to cost the equivalent of \$100,000 or more and awarded under the procedures set forth in Part B.1 of this Schedule; and (iv) the first two contracts for works estimated to cost the equivalent of \$100,000 or more and awarded under procedures set forth in Part B.5 of this Schedule the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 4 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

2. The figure of 20% 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 Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981 (the Consultants' Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Association.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

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

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the 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 \$500,000 to be withdrawn from the Credit 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 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 a deposit or deposits 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 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 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 Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

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

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Association 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 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.

