

CONFORMED COPY

CREDIT NUMBER 2373 YEM

(Land and Water Conservation Project)

between

REPUBLIC OF YEMEN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 19, 1992

CREDIT NUMBER 2373 YEM

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 19, 1992, between REPUBLIC OF YEMEN (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Borrower intends to contract from an additional multilateral aid development organization ("Cofinancier") a grant ("Cofinancing") in an amount equivalent to \$3,170,000 to assist in financing the Project on terms and conditions to be set forth in an Agreement ("Cofinancing Agreement") to be entered into between the Borrower and the Cofinancier; 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, modified by the deletion of the last sentence of Section 3.02 (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "MAWR" means the Borrower's Ministry of Agriculture and Water Resources;

(b) "Regional Development Agencies" means collectively the Project Implementation Unit established under the Central Highlands Agricultural Development Project (Credit No. 1453); the Project Implementation Unit established under the Southern Uplands Rural Development Project (Credit No. 1772) pursuant to Ministerial Decree No. 26 of 1975; the Sana'a, Sa'adah and Hajjah Agricultural Regional Development Authority, established under the Borrower's Law No. 17 of 1988; and the Tihama Development Authority, established under the Borrower's Law No. 2 of 1973;

(c) "LCCD" means the Local Councils for Cooperative Development, established and operating under the Borrower's Law No. 12 of 1985 and any successor thereto;

(d) "Water Resources Sector" means the Directorate General of Water Resources, the Directorate General of Irrigation and Maintenance of Water Installations, and the Directorate General of Farm Mechanization and Land Reclamation, or successor departments or agencies within the MAWR which carry out the objectives of the Project; and

(e) "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 twenty-four million one hundred thousand Special Drawing Rights (SDR 24,100,000).

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 shall, for the purposes of the Project, open and maintain in Dollars a special deposit account in the Central Bank of Yemen 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, 1999 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 May 1 and November 1 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 May 1 and November 1 commencing November 1, 2002 and ending May 1, 2032. Each installment to and including the installment payable on May 1, 2012 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 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.

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 through MAWR with due diligence and efficiency and in conformity with appropriate agricultural, engineering, financial and administrative 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.

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.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than nine months after the end of each such year, a certified copy of the 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 said records, accounts 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:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit 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 of the Association

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

(a) The Cofinancing Agreement shall have failed to become effective by December 31, 1993 or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

- (b) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the Cofinancing shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the Cofinancing Agreement providing therefor.
- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

ARTICLE VI

Termination

Section 6.01. The date one hundred 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 Development 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 Development
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:

INDEVAS 248423 (RCA),
Washington, D.C. 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 YEMEN

By /s/ Mohsin A. Alaini
 Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ram Kumar Chopra
 Acting 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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works	900,000	90%
(2) Equipment, materials and vehicles	15,400,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally

(3) Technical assistance and training	5,600,000	100% of foreign expenditures and 90% of local expenditures
(4) Unallocated	2,200,000	
	24,100,000	
TOTAL	24,100,000	=====

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; and

(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.

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.

SCHEDULE 2

Description of the Project

The objectives of the Project are to strengthen sustainable agriculture in Yemen through: (i) strengthening institutional capabilities for management and development of irrigation, water resources, and forests; (ii) introducing a program of water resource monitoring and regulation in the agricultural sector; (iii) improving the efficiency of irrigated agriculture; (iv) conserving indigenous forest areas, accelerating tree planting and extending soil and water conservation; and (v) through pilot actions, establishing approaches for watershed management, including rehabilitation of abandoned terraces.

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: Irrigation Development

1. Improving groundwater irrigation through: (a) supply and installation of groundwater conveyance pipes from existing tube-wells; (b) supply and installation of improved irrigation systems (including drip, bubbler and sprinkler systems), and of plastic tunnels for growing vegetable and fruit crops; and (c) design and monitoring of groundwater irrigation developments.

2. Improving spate irrigation through: (a) construction of spate diversion works, canal control structures and bank protection works; (b) construction of the Bana-Hasan diversion channel; and (c) provision of gabion baskets and other materials for the improvement of traditional spate irrigation schemes.

3. Improving institutional capabilities for the support of irrigated agriculture through: (a) rehabilitation and construction of small offices, staff houses and stores for the Regional Development Agencies and for MAWR's Departments of Irrigation in Lahej, Abyan and Shabwa; (b) provision of equipment and spare parts for maintenance and technical support for groundwater and spate irrigated agriculture; (c) provision of technical assistance and training in irrigation agronomy, water management and irrigation engineering; (d) carrying out of a study to assess the potential for using urban waste water for irrigation and forestry; and (e) assessment of the potential for using saline water in irrigated agricul-

ture.

Part B: Water Resources Management

1. Strengthening the institutional capabilities of MAWR's Water Resources Sector through: (a) rehabilitation and construction of small offices for the Directorate General for Water Resources; (b) carrying out a study for the reorganization of MAWR's Water Resources Sector; and (c) provision of technical and office equipment to enable MAWR's Water Resource Sector to plan, coordinate and regulate water resource programs in the agricultural sector.
2. Strengthening the human resources of MAWR's Water Resources Sector through technical assistance, training and overseas fellowships in water resources assessment, planning and monitoring, and irrigation agronomy.
3. Undertaking a water monitoring program, including monitoring of groundwater conditions and rainfall, run off, agrometeorological data, wadi flows, wadi seepage losses, irrigation abstractions and other hydrological data, through: (a) establishment of a Central Water Monitoring Unit in MAWR's Directorate General for Water Resources; (b) establishment of water monitoring units in the Regional Development Agencies and in MAWR's Departments of Irrigation in Lahej, Abyan and Shabwa, including provision of equipment and staff training; (c) drilling of groundwater monitoring wells; and (d) dissemination of information concerning the proposed program for controlling water use and new irrigation developments through media programs, information packages and other publicity.

Part C: Forestry Development

1. Piloting approaches for watershed management within catchments located in the Central Highlands and the Northern Highlands, as well as for terrace stabilization, through: (a) construction of office facilities in these areas; (b) provision of gabion baskets and other materials and equipment for watershed rehabilitation; (c) provision of tree seedlings and vetiver slips for terrace rehabilitation; and (d) provision of technical assistance and training in aspects of watershed management and terrace stabilization.
2. Strengthening the institutional capabilities of MAWR's Directorate General for Forestry and Rangelands through: (a) construction of offices, staff housing and stores; and (b) provision of office and technical equipment and library materials to enable MAWR's Directorate General for Forestry and Rangelands and the Regional Development Agencies to plan, coordinate and regulate forestry programs.
3. Strengthening the human resources in the forestry sector through: (a) provision of training in forestry; (b) provision of overseas fellowships for graduate studies in forestry and cartography; and (c) provision of technical assistance in forestry sector planning and monitoring, woodland and watershed management, terrace and sand stabilization, wildlife, agro forestry, increasing participation of women in forestry activities, and forestry extension.
4. Sand fixation and flood control through: (a) foredune construction, construction of coastal shelterbelts for sand dune stabilization, and stabilization of inland sand dunes; (b) stabilization of water distribution canals and wadi embankments; and (c) provision of silvicultural, planting, laboratory, aerial photo and other technical equipment and materials for planting operations, forest nurseries and sand dune stabilization.
5. Management of indigenous woodlands through (a) provision and equipping of offices and stores; and (b) preparation of management plans for natural woodland areas.
6. Increasing and improving tree planting and extension in forestry, and encouraging the involvement of women, through:

(a) establishment of forestry nurseries; (b) equipping new nurseries for the LCCDs; (c) provision of polythene bags and foreign tree seeds for existing nurseries; and (d) provision of trucks to transport seedlings.

* * *

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

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

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

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in the Republic of Yemen may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Contracts for civil works estimated to cost the equivalent of \$250,000 or less per contract, up to an aggregate amount equivalent to \$1,600,000, may be awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Contracts for items or groups of items estimated to cost the equivalent of \$100,000 or less per contract, up to an aggregate amount equivalent to \$500,000, may be awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least two different countries eligible under the Guidelines, in accordance with procedures acceptable to the Association.

3. Contracts for items or groups of items estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount equivalent to \$250,000, may be 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 proprietary items and spare parts, up to an aggregate amount equivalent to \$350,000, may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

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

(a) With respect to each contract estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the 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 5 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 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the 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.

SCHEDULE 4

Implementation Program

1. The Borrower shall maintain the Project Management Unit established within the MAWR with organization, staffing and terms of reference satisfactory to the Association, to assist in implementation of the Project.

2. The Borrower shall cause MAWR to assign persons to designated positions prior to receiving training under the Project and shall require such persons to agree to complete a stipulated number of years of service in such assignments upon completion of training.

3. The Borrower shall take all measures necessary to ensure that the ongoing Water Resources Strategy is completed by June 30, 1993.

4. (a) The Borrower shall cause MAWR to appoint seven subject matter specialists for irrigation agronomy no later than June 30, 1992, and to appoint three additional subject matter specialists for irrigation agronomy by June 30, 1993, who shall receive training under the Project.

(b) In order to carry out Part C of the Project, the Borrower shall cause MAWR to assign approximately nine agricultural graduates to the Directorate General for Forestry and Rangelands by June 30, 1992, and to assign approximately nine additional agricultural graduates to the Directorate General for Forestry and Rangelands by June 30, 1993.

(c) The Borrower shall cause MAWR to assign at least one duly qualified counterpart to each consultant under the Project, such counterpart to provide full-time assistance and to receive on-the-job training under the Project.

5. (a) The Borrower shall cause MAWR to introduce by June 30, 1992, a pilot program in Amaran for the registration and licensing of drilling rigs and for issuing licenses for the drilling of new wells. The Borrower shall provide to the Association for its review and comments, by October 1, 1993, a report on the implementation of such pilot program in Amaran.

(b) The Borrower shall implement a nation-wide program, satisfactory to the Association, for the registration and monitoring of well drilling by January 1, 1994.

(c) The Borrower shall levy fees on a nation-wide basis, satisfactory to the Association, for the registration of drilling rigs and for issuing licenses for the drilling of new wells, by January 1, 1994.

(d) The Borrower shall cause MAWR to complete, by June 30, 1994, categorization of aquifers with the greatest rates of groundwater depletion, including those located in the Sahaar and Sana'a basins, and to complete, by December 31, 1995, categorization of the remaining major groundwater zones and aquifers of Yemen in accordance with rates of groundwater depletion, water quality, and an assessment of groundwater resource availability for agriculture. The Borrower shall cause MAWR to establish criteria for the licensing of new irrigation developments commensurate with the categorization of such aquifers and groundwater zones.

6. The Borrower shall cause MAWR to complete, by October 31, 1992, a study for the reorganization of the Water Resources Sector under Part B (1) (b) of the Project, and following completion of such study, the Borrower shall exchange views with the Association on the findings and recommendations thereof. Thereafter, the Borrower shall cause MAWR to carry out by March 31, 1993, on the basis of such recommendations and exchange of views, an action plan for reorganization of the Water Resources Sector.

7. The Borrower shall cause MAWR to appoint by September 30, 1992, two multi-disciplinary teams consisting of duly qualified civil engineers, foresters, agriculturists and sociologists for carrying out Part C (4) of the Project.

8. The Borrower shall cause MAWR to provide to the Association for its review and comments, by September 30, 1992, the design of a program to recover operation and maintenance costs related to large scale spate schemes, and shall implement such program according to a schedule satisfactory to the Association.

9. The Borrower shall cause MAWR to employ, in accordance with the provisions of Section II of Schedule 3 to this Agreement, the following consultants:

(a) by December 31, 1992, the Water Resources Specialist;

(b) by January 31, 1993, the Woodland Management Expert;

(c) by March 31, 1993, the Chief Technical Adviser for the Water Resources Sector;

(d) by September 30, 1993, the Senior Irrigation Engineer; and

(e) by June 30, 1993, the Chief Technical Adviser for the Forestry Sector and the Chief Technical Coordinator for the Watershed Management Component.

10. (a) Prior to the supply of conveyance pipes and other materials for the improvement of on-farm irrigation under Part A (1) of the Project, the Borrower shall obtain the agreement of farmers to cost recovery arrangements.

(b) Prior to the supply of gabion baskets and other materials for the improvement of traditional spate irrigation schemes under Part A (2) of the Project, the Borrower shall take all measures necessary to consult with and obtain the consent of the benefitting communities to: (i) cost-sharing and cost recovery arrangements for the construction of such spate works for which the benefitting community would contribute towards all labor and machinery operating costs; (ii) a water allocation plan for the distribution of irrigation water; and (iii) cost recovery arrangements for the

subsequent operation and maintenance of such spate works.

(c) Prior to the supply of materials under Part C (4) of the Project, the Borrower shall cause the multi-disciplinary teams to consult with and obtain the consent of the benefitting communities to the respective watershed rehabilitation plans, for which the benefitting communities shall agree to contribute towards all labor costs.

11. The Borrower shall cause MAWR to provide to the Association for its review and comments, by November 30, 1992, an action plan for media programs, dissemination of information packages and other publicity concerning the proposed program for controlling water use and new irrigation developments. The Borrower shall cause the Regional Development Agencies, the LCCDs and other concerned agencies to assist in the implementation of this action plan according to a schedule satisfactory to the Association.

12. The Borrower shall provide to the Association for its review and comments, by June 30, 1995, a detailed report to facilitate a mid-project evaluation, concerning project implementation to date, including implementation of the program for controlling and regulating use of water resources in the agriculture sector. Upon completion of the evaluation, the Borrower shall discuss recommendations for an action plan with the Association and shall thereafter implement the action plan according to a schedule satisfactory to the Association.

13. Until completion of the Project, the Borrower shall include in each annual budget of MAWR and the Regional Development Agencies amounts required to provide funds for the estimated yearly costs of the Project, including adequate field allowances for project personnel.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) 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; or

(b) 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.

