

CONFORMED COPY

LOAN NUMBER 2880 IND

(Irrigation Subsector Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 3, 1987

LOAN AGREEMENT

AGREEMENT, dated December 3, 1987, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

(B) the Bank has received a letter, dated October 13, 1987, from the Borrower including a Statement of Policies for Irrigation Operation and Maintenance and Cost Recovery, and an Action Plan, (together, the Statement);

(C) the Borrower intends to contract from the Government of the Netherlands (the Netherlands) for funds (the Netherlands Funds) in an amount equivalent to about \$12,000,000 to assist in financing part of the Project on the terms and conditions set forth in an agreement or agreements (the Netherlands Agreements) to be entered into between the Borrower and the Netherlands;

(D) the Borrower intends to contract from the Government of Italy (Italy) a grant (the Italian Grant) of which an amount equivalent to about \$3,000,000 will assist in financing part of the Project on the terms and conditions set forth in an agreement (the Italian Grant Agreement) to be entered into between the Borrower and Italy; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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

(a) "BAPPEDA" means the Borrower's Provincial Development Planning Agency;

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

(c) "DGFCA" means the Directorate General of Food Crops Agriculture in the Borrower's Ministry of Agriculture;

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

(e) "DIPERTA" means provincial agricultural services;

(f) "DPU" means provincial public works;

(g) "efficient operation and maintenance" means the level of operation and maintenance needed to sustain the effectiveness, and meet the performance standards as designed, of an irrigation system with appropriate funding and procedures for planning and implementation;

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

(i) "IPEDA" means Iuran Pembangunan Daerah, Directorate of IPEDA, within the Borrower's Ministry of Finance responsible for PBB;

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

(k) "PRIS" means provincial irrigation services;

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

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

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

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to two hundred thirty-four million dollars (\$234,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special account in Bank Indonesia on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be March 31, 1991, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on January 1 and July 1 in each year.

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

ARTICLE III

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, engineering, agricultural and environmental practices, and shall provide, promptly as needed,

the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section the Borrower shall carry out the Project in accordance with the Statement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. The Borrower shall cause the training programs included in the Project to be carried out in accordance with a timetable and terms of reference satisfactory to the Bank.

Section 3.04. (a) The Borrower shall, in areas affected by the Project, take appropriate measures for malaria control, taking into account environmental and health aspects.

(b) The Borrower shall, by March 31, 1990, furnish to the Bank for comment the results of the environmental impact studies referred to in Schedule 2, Part I.3.

Section 3.05. The Borrower shall: (a) maintain a Project Coordinating Unit within DGWRD, responsible for overall coordination and review of project implementation. Such Unit shall be staffed with qualified personnel in adequate numbers, including a Project Coordinator who shall be the Assistant Director General of DGWRD; and (b) cause BAPPENAS to coordinate monitoring and reporting progress on the Statement through the functional coordination of DGWRD, DGFC, Directorate of IPEDA, Directorate General of Public Affairs of Ministry of Home Affairs, and other relevant agencies when required.

Section 3.06. For each Province in which Project activities are carried out, the Borrower shall: (a) maintain, a Project Management and Implementation Unit with qualified personnel in adequate numbers, including a Project Manager who shall be the PRIS Chief; and

(b) cause BAPPEDA to coordinate Project implementation monitoring and progress, through functional coordination of PRIS, DIPERTA and Field Inspectors Offices of IPEDA.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

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

- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Bank

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

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

(b) (i) Subject to subparagraph (ii) of this paragraph:

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

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that:

- (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and
- (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified, any of the events specified in paragraphs (a) or (b)(i)(B), subject to the proviso of paragraph (b)(ii), of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Termination

Section 6.01. The date sixty (60) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance
c/o Director General for
International Monetary Affairs
Jalan Lapangan Banteng Timur 2-4
Jakarta, Indonesia

Cable address:

MINISTRY FINANCE
Jakarta

Telex:

DJMLN JKT 45799
DITJMON JKT 46415
DEPKEU JKT 44319

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

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

REPUBLIC OF INDONESIA

By /s/ Soesilo Soedarman
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Russell J. Cheetham
Acting Regional Vice President
Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

| Category | Amount of the Loan Allocated (Expressed in Dollar Equivalent) | % of Expenditures to be Financed |
|---|---|---|
| (1) Civil works for the Project (other than Part B) | 125,800,000 | 91% |
| (2) Civil works for Part B of the Project | 11,500,000 | 91% of expenditures incurred in FY 1987/1988; 80% of expenditures incurred in FY 1988/1989; 73% of expenditures incurred in FY 1989/1990 |
| | | |
| Category | Amount of the Loan Allocated (Expressed in Dollar Equivalent) | % of Expenditures to be Financed |
| (3) Equipment and materials | | (|
| (a) for ground-water tube-well systems | | (|
| (i) first package | 3,500,000 | (100% of foreign expenditures, (95% of local expenditures ((ex-factory cost); 65% of local expenditures for other items procured (locally |
| (ii) second package | 2,500,000 | (|
| (b) DGWRD (except 3(a) above) | 10,240,000 | (|
| (c) IPEDA | 400,000 | (|
| (d) DGFCA | 660,000 | (|
| (4) Consultants' services | | 100% |
| (a) DGWRD | 39,850,000 | 100% |
| (b) IPEDA | 850,000 | 100% |
| (5) Training, mapping and surveys, including travel and materials | | 100% |

| | | |
|-----------------|-------------|------|
| (a) DGWRD | 12,900,000 | 100% |
| (b) IPEDA | 2,800,000 | 100% |
| (c) DGFCA | 3,000,000 | 100% |
| (6) Unallocated | 20,000,000 | |
| TOTAL | 234,000,000 | |

2. For the purposes of this Schedule:

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

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$5,000,000, may be made on account of payments made for expenditures before that date but after August 31, 1987.

(b) unless the Bank shall otherwise agree, for payments made for expenditures:

- (i) after June 30, 1988, until the Bank has received evidence satisfactory to the Bank that (A) the Borrower has made budgetary allocations for FY 1988/89 which maintain in real terms financing for nation-wide irrigation operation and maintenance at the FY 1986/87 level, and provide incremental funding needed for efficient operation and maintenance, and (B) the Borrower has made satisfactory actual expenditures for nation-wide irrigation operation and maintenance during FY 1987/88;
 - (ii) after June 30, 1989, until the Bank has received evidence satisfactory to the Bank that (A) the Borrower has made budgetary allocations for FY 1989/90 which maintain in real terms financing for nation-wide irrigation operation and maintenance at the FY 1986/87 level, and provide incremental funding needed for efficient operation and maintenance, and (B) the Borrower has made satisfactory actual expenditures for nation-wide irrigation operation and maintenance during FY 1988/89; and
 - (iii) after June 30, 1990, until the Bank has received evidence satisfactory to the Bank that (A) the Borrower has made budgetary allocations for FY 1990/91 which maintain in real terms financing for nation-wide irrigation operation and maintenance at the FY 1986/87 level, and provide incremental funding needed for efficient operation and maintenance, and (B) the Borrower has made satisfactory actual expenditures for nation-wide irrigation operation and maintenance during FY 1989/90.
- (c) payments made for expenditures in respect of Category
- (3) (a) (ii) until the Borrower has furnished to the Bank

evidence, satisfactory to the Bank, that financing is available for the installation of such equipment and materials.

SCHEDULE 2

Description of the Project

The objective of the Project is to support the Borrower's effort in the irrigation subsector to: (i) sustain the effectiveness of all its irrigation systems through adequate levels of funding and strengthen institutions and procedures for operation and maintenance planning and implementation; (ii) introduce direct cost recovery from irrigation beneficiaries and increase local revenue generation; and (iii) rationalize investments in the subsector.

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

Part A: Special Maintenance Works

1. Carrying out of special maintenance works, including deferred maintenance and minor systems upgrading, so that the systems are brought up to the technical standards to enable efficient maintenance program to be designed and implemented, on about 400,000 ha of surface irrigation systems in the provinces of West and South Sumatra, Lampung, West, Central and East Java, Yogyakarta, South Sulawesi and West Nusa Tenggara; provision of laboratory buildings and housing for operational staff; and provision of adequate transport for section offices Cabang Dinas.

2. Carrying out of special maintenance works, including maintenance and upgrading activities, on about 106,000 ha of reclaimed swamp land in the provinces of West, North and South Sumatra, Lampung, and South Kalimantan.

3. Carrying out, on a pilot basis, of special maintenance works, to explore the most cost-effective technical solutions to control siltation and littoral drift, including construction of training walls and ancillary works, in five river mouths in North and West Sumatra, and West, Central and East Java.

Part B: Efficient Operation and Maintenance

1. Carrying out of efficient operation and maintenance, including periodic physical repair work, on about 700,000 ha of surface irrigation systems (including the systems having undergone special maintenance under Part A of the Project); providing adequate numbers and training of, the staff responsible for such operation and maintenance.

2. Carrying out of efficient operation and maintenance on about 87,000 ha of reclaimed swamp land; providing adequate numbers, and training, of the staff responsible for such operation and maintenance.

Part C: Completion of On-going Projects

Completion of about 40 high-priority on-going irrigation, swamps and river projects selected by the Borrower on the basis of technical, economic and other criteria satisfactory to the Bank.

Part D: Pilot Groundwater Development

Development of about 900 tubewell irrigation systems in East Java, Lombok, and Central and South Sulawesi.

Part E: Turnover of Small Irrigation Systems

Turnover of small irrigation systems to WUAs, including the following activities: (1) inventory and selection of irrigation

systems of less than 150 hectares in size and having perennial water supply; (2) selection and training of WUA staff including WUA organizers to implement the turnover program; (3) designing and carrying out of special maintenance works on selected systems; (4) institutional strengthening of WUAs and specialized training of staff involved in operation and maintenance and in turning over; and (5) routine monitoring.

Part F: Irrigation Service Fee

Introduction of irrigation service fee in selected pilot areas, satisfactory to the Bank, including formulation of implementation plans, monitoring and evaluation, establishment of arrangements providing a basis for nationwide expansion, and acquisition of related equipment and materials.

Part G: Land Valuation and Strengthening of PBB

1. Reclassification and assessment of land holdings in about 400,000 ha receiving special maintenance and efficient operation and maintenance under the Project, in accordance with a land classification and valuation system based on the market value of the land.

2. Development of an efficient and effective tax management and collection system, including installation of a computerized management information system to help improve tax administration.

3. Strengthening of the Directorate of IPEDA and its inspection offices including staff training.

4. Local and overseas training of about 175 PBB staff in cartography, specialized surveying, land valuation, tax management and administration, mapping and evaluation/assessment criteria.

Part H: Institutional Strengthening and Training

1. Training of about 3,000 middle and lower level operation and maintenance staff in irrigated and swamp areas in basic operation and maintenance duties and practical skills, and about 110 trainers, about 420 technical high school level staff and about 275 engineers in operation and maintenance procedures; and the provision of related furniture, equipment, supplies and materials; classroom rentals; and provision of fees and per diems to trainers, local travel and salaries of support staff.

2. Training of WUA leaders and pump operators in groundwater systems operation and maintenance.

3. (a) Training of about 200 members of WUA Action Groups in community organization; training of about 1,020 irrigation section, sub-sections and village level staff of the Ministry of Agriculture and the Ministry of Home Affairs on WUA organization and development; and

(b) Carrying out of surveys and conducting an inventory and evaluation of WUAs; leading to organization, reorganization and development of WUAs (including provision of travel and salaries and acquisition of supplies and materials).

4. Training of about 1,500 middle level provincial and district staff (Group A), 4,000 sub-district and village level staff (Group B), 360 instructors, and 8,800 WUA members and key farmers in tertiary systems operation and maintenance and on-farm water management; and follow-up training of about 6,700 WUA members.

5. (a) Provision of diploma oriented training at the Bandung International Professional Training Program for Water Resources Development for about 70 PRIS staff; and

(b) Provision of master degree overseas training courses for about 25 senior level staff of DGWRD and PRIS.

6. Strengthening Bidang Diklat Pengairan, the office within DGWRD representing the Center for Training and Education, and the Personnel Division of DGWRD in the areas of training management, monitoring and evaluation of training, and manpower planning.

7. Strengthening operation and maintenance capabilities by the provision of adequate staff at section (Cabang Dinas) and sub-section (Ranting Dinas) levels, and adequate numbers of irrigation inspectors.

8. Strengthening DGWRD's Directorate of Planning and Programming, and PRIS staff, in appraisal, monitoring and evaluation.

9. Acquisition of: (a) micro-computers for meeting the monitoring and evaluation and management information system needs at the PRIS level; and (b) laboratory and field equipment for provincial irrigation offices for testing appropriateness of construction materials and standards.

Part I: Studies and Technical Assistance

1. Carrying out of an institutional strengthening study of DGWRD and PRIS including review and reassessment of the role of the various organizations involved in planning, organizing, directing and controlling operation and maintenance activities in the irrigation subsector.

2. Carrying out of an investment strategy study, including an in-depth review, to assess the viability of existing and proposed irrigation investment programs and the prioritization of such investments.

3. Carrying out of five environmental impact studies focussing on the impact of irrigation projects, and the introduction of safeguards to protect irrigation and groundwater supply from contamination.

4. Carrying out detailed preparation and design work for about 200,000 ha of irrigated areas and about 55,500 ha of swamps requiring special maintenance in areas to be agreed with the Bank to expedite preparation of future irrigation projects.

5. Strengthening the Borrower's capabilities in the areas of planning, programming, design and specifications, institutional arrangements, turnover of small irrigation systems, introduction of irrigation service fee and land reclassification/valuation by provision of technical assistance.

* * *

The Project is expected to be completed by September 30, 1990.

SCHEDULE 3

Amortization Schedule

| Date Payment Due | Payment of Principal (expressed in dollars)* |
|---|---|
| On each January 1 and July 1 beginning July 1, 1993 through January 1, 2008 | 7,800,000 |

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

| Time of Prepayment | Premium |
|---|---|
| | The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by: |
| Not more than three years before maturity | 0.15 |
| More than three years but not more than six years before maturity | 0.30 |
| More than six years but not more than 11 years before maturity | 0.55 |
| More than 11 years but not more than 16 years before maturity | 0.80 |
| More than 16 years but not more than 18 years before maturity | 0.90 |
| More than 18 years before maturity | 1.00 |

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

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 hereof, goods manufactured in the Republic of Indonesia may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Contracts for civil works estimated to cost the equivalent of \$3,000,000 or less, may be awarded in accordance with the Borrower's local competitive bidding procedures in effect as of the date of this Agreement.

2. Civil works for efficient maintenance up to an aggregate limit of \$13 million equivalent, for maintenance works up to an aggregate limit of \$25 million equivalent and for special maintenance up to an aggregate limit of \$29 million may be carried

out by force account through the PRIS.

3. Contracts for goods (other than vehicles) estimated to cost less than the equivalent of \$200,000, up to an aggregate amount not to exceed the equivalent of \$5,000,000, may be awarded in accordance with the Borrower's local competitive bidding procedures in effect as of the date of this Agreement.

Part D: Review by the Bank of Procurement Decisions

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

(a) With respect to each contract for civil works estimated to cost the equivalent of \$1,500,000 or more, and each contract for equipment 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 Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c)(ii) of this Agreement.

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

Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4) 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 goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$10,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Bank requests for replenishment of the Special Account at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Bank when either of the following situations first arises:

- (i) the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or
- (ii) the total unwithdrawn amount of the Loan allocated to the eligible Categories minus the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account (i) was made for any expenditure or in any amount not eligible pursuant to paragraph 2 of this

Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Bank, deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. No further deposit by the Bank into the Special Account shall be made until the Borrower has made such deposit or refund.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount for crediting to the Loan Account.

