

CONFORMED COPY

LOAN NUMBER 3765 MOR

Loan Agreement

(Second Agriculture Sector Investment Project)

between

KINGDOM OF MOROCCO

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 5, 1994

LOAN NUMBER 3765 MOR

LOAN AGREEMENT

AGREEMENT, dated December 5, 1994, between KINGDOM OF MOROCCO (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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 Bank to assist in the financing of the Project;

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 modifications set forth below (the General Conditions)

constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of 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) "Fiscal Year" means the twelve month period commencing on January 1 and ending on December 31;

(b) "MAMVA" means the Borrower's ministry responsible for agriculture (Ministere de l'Agriculture et de la Mise en Valeur Agricole);

(c) "Action Program" means, collectively, the Borrower's plan of objectives, policies and actions designed to further the efficiency and sound development of the Borrower's agriculture sector, set forth in a letter dated June 3, 1994 from the Borrower to the Bank (the Development Action Plan), and the matrix of specific measures and the timetable for their implementation attached thereto;

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

(e) "FDA" means Fonds de Developpement Agricole, the agricultural development fund referred to under Parts A.9 and B.3 of the Project.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of one hundred twenty-one million dollars (\$121,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for Part A of the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan; and (ii) for amounts paid (or, if the Bank shall so agree, to be made) on account of withdrawals made by a beneficiary under a grant made under Part A.9 of the Project to meet the reasonable cost of goods and services required for the investment project included in said Part A.9 of the Project described in Schedule 2 to this Agreement in respect of which the withdrawal from the Loan Account is requested.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dirhams a special deposit account in its General Treasury 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 6

to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1999 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

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

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October

1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on 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 economic, financial, administrative, technical, 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 and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

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.

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 six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section,

records and accounts reflecting such expenditures;

- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special Account was made, all records (contracts, orders, 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

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) a draft regulation introducing a capital grant to encourage investments from the private sector in milk collection centers within the framework of the FDA has been prepared;

(b) an environmental screening unit has been established, satisfactory to the Bank; and

(c) instruments for the deregulation of the domestic marketing system for cereals (except bread wheat) upstream of the mills have been adopted by the Government Council, including elimination of licenses and fixed margins for storage, transport and resale, and freedom for mills to purchase from any operator.

Section 5.02. 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 VI

Representative of the Borrower; Addresses

Section 6.01. The Ministry of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministere des Finances
Rabat
Kingdom of Morocco

Telex:

36936
36715

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

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

KINGDOM OF MOROCCO

By /s/ Mohamed Benaissa

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Daniel G. Ritchie

Acting Regional Vice President
Middle East and North Africa

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	38,000,000	85%
(2) Goods	23,000,000	90%
(3) Capital grants under Part A.9 of the Project	38,000,000	95%
(4) Consultants' services, studies and training	10,000,000	100%

(5) Unallocated	12,000,000
	<hr/>
TOTAL	121,000,000 =====

2. 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 \$12,000,000, may be made on account of payments made for expenditures before that date but after January 1, 1994.

SCHEDULE 2

Description of the Project

The objectives of the Project are to support well conceived public investments in the agriculture sector and the deepening of complementary reforms in such sector.

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: Investment Program

Carrying out of the Borrower's Fiscal Years, 1994, 1995, 1996 and 1997 agricultural investment programs, selected in accordance with suitable policies and procedures, and consisting of the following activities:

1. Delivery of a suitable program of livestock development, including the provision of: (i) veterinary drugs and materials for the vaccination campaigns of contagious diseases and laboratory equipment for the animal health program; (ii) demonstration materials for the animal nutrition program and improvement works in the rangelands; and (iii) field structures, equipment and materials for genetic improvement.
2. Carrying out of a program to strengthen agricultural education and training of farmers, laborers and agricultural entrepreneurs, including the construction of classrooms and laboratories, and the acquisition of technical materials and equipment required therefor.
3. Carrying out of a program of land restructuring and consolidation, including destoning, construction of access roads for newly consolidated plots, studies and topographical services, and provision of computer equipment and mapping required therefor.
4. Development and carrying out of programs to improve crop production and diversification, and promote rainfed agriculture, including land reclamation and development, infrastructure development, and programs to promote new technologies in crop production; and provision of equipment and materials required for said programs.
5. Development and carrying out of a plant protection program, including activities to control rodents, birds, forest pests and seeds, construction of field structures, programs to improve labelling and packaging of chemical products, prevent fraud and train farmers on treatment of migrating pests; provision of technical equipment required for said programs.
6. Carrying out of a program for (a) the protection and conservation of natural forests to prevent deforestation, soil erosion and desertification, (b) the maintenance of the forest cover through demarcation of the forest estate, and (c) the strengthening of Borrower's institutional capabilities in

forest management, including the construction of fire prevention structures and the acquisition of communications devices for forest guards.

7. Construction, rehabilitation and upgrading of small- and medium-scale irrigation schemes, including flood repair works.

8. Carrying out of a program to strengthen the institutional capabilities of MAMVA in the areas of sectoral planning and policy development, including agro-economic studies and acquisition of technical equipment for the agricultural census.

9. Carrying out of a program to provide capital grants to farmers and farming enterprises through FDA, for specific investments, selected on the basis of guidelines mutually agreed between the Borrower and the Bank, designed to improve farming techniques applied, and farm technology utilized, by said farmers and enterprises.

Part B: Action Program

1. Implementation of a program of internal and external trade liberalization in the cereals, meat and milk sub-sectors.

2. Development and carrying out of a program of measures to further rationalize MAMVA's budgetary procedures and strengthen the monitoring and management of the budget process so as to ensure the timely implementation of investments, including training of staff responsible for budget execution and extension of the computerized monitoring system of contracts and expenditures to the central directorates of MAMVA.

3. Implementation of a program of measures to improve the targeting of FDA, including: the introduction of a capital grant limit per beneficiary and for each type of investment, the introduction of a capital grant to encourage the private sector to invest in milk collection centers under FDA, and the establishment of a permanent monitoring and evaluation system of FDA investments.

4. Development and implementation of a plan to further strengthen the livestock sector, including measures designed (i) to increase the number of private veterinarians, and the participation of producers' groups, in the cost of disease control, (ii) to improve the quality and efficiency of the genetic improvement system for dairy cattle through increased farmers' participation, (iii) to strengthen the quality control norms for animal production, (iv) to analyze the respective strengths and weaknesses of different livestock systems, and (v) to improve the maintenance of pastoral resources.

5. Implementation of institutional measures to strengthen agricultural extension and research.

6. Development and carrying out of measures to enhance forestry and soil conservation activities through further improvements in the incentive structure for the rational use of forest resources, and mobilization of additional resources to manage and protect the forest cover.

7. Implementation of measures to increase the efficiency of the Borrower's investments in small- and medium-scale irrigation through the systematic use of appropriate economic, social and environmental criteria, and the transfer of maintenance to water user associations developed under the Project.

8. Development and implementation of a program to eliminate pesticide contamination and increase the efficiency of crop protection services through the decentralization of operations.

9. Development and carrying out of a program to strengthen crop production, including the definition of standards for

fertilizers and the establishment of a monitoring system therefor, and the design of a strategy to integrate farm- to-market road needs for agriculture into the national road program.

10. Development and implementation of a strategy to strengthen the land tenure system, recognize property rights to farmers on collective lands, and clarify relationships under rural leases.

* * *

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

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
January 1, 2000	2,290,000
July 1, 2000	2,375,000
January 1, 2001	2,460,000
July 1, 2001	2,550,000
January 1, 2002	2,645,000
July 1, 2002	2,740,000
January 1, 2003	2,840,000
July 1, 2003	2,945,000
January 1, 2004	3,050,000
July 1, 2004	3,160,000
January 1, 2005	3,275,000
July 1, 2005	3,395,000
January 1, 2006	3,520,000
July 1, 2006	3,645,000
January 1, 2007	3,780,000
July 1, 2007	3,915,000
January 1, 2008	4,060,000
July 1, 2008	4,205,000
January 1, 2009	4,360,000
July 1, 2009	4,520,000
January 1, 2010	4,680,000
July 1, 2010	4,850,000
January 1, 2011	5,030,000
July 1, 2011	5,210,000
January 1, 2012	5,400,000
July 1, 2012	5,595,000
January 1, 2013	5,800,000
July 1, 2013	6,010,000
January 1, 2014	6,230,000
July 1, 2014	6,465,000

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

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan

	on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years 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 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(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 Bank 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 Bank.

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 Kingdom of Morocco 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. Works and reforestation activities estimated to cost the equivalent of \$3,000,000 or less per contract, may be procured under contracts awarded on the basis of competitive

bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Goods estimated to cost the equivalent of \$400,000 or less per contract, up to an aggregate amount equivalent to \$3,300,000, 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 Bank.

3. Supplies estimated to cost less than the equivalent of \$50,000 per contract, up to an aggregate amount not to exceed the equivalent of \$8,000,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

4. Contracts for veterinary drugs may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Bank.

5. Small works in remote areas, up to an aggregate amount not to exceed the equivalent of \$2,000,000, may be carried out under force account.

Part D: Review by the Bank of Procurement Decisions

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

(a) With respect to each contract for works estimated to cost the equivalent of \$1,000,000 or more, and each contract for goods estimated to cost the equivalent of \$500,000 or more (except for veterinary drugs), 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 subparagraph (b) shall not apply to contracts on account of which withdrawals 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

1. 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 (the Consultant 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 Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$100,000 equivalent each. However, this exception to prior Bank review shall not apply to the terms of reference for such contracts or to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Bank or to amendments of contracts raising the contract value to \$100,000 equivalent or above.

SCHEDULE 5

Implementation Program

A. Institutional Arrangements

MAMVA shall have overall responsibility for implementation, coordination and supervision of the Project.

B. Investment Program

1. Beginning with Fiscal Year 1994, MAMVA shall: (a) not later than October 31 in each Fiscal Year, prepare and furnish: (i) for the Bank's review and comments, MAMVA's proposed agricultural investment program for the following Fiscal Year, together with information on external financing obtained therefor; and (ii) for the Bank's review and approval, a detailed description of activities to be carried out under Part A of the Project, including, if applicable: (A) a technical and economic evaluation of the said activities carried out in accordance with guidelines satisfactory to the Bank; and (B) an environmental assessment satisfactory to the Bank; and (b) thereafter finalize the agriculture investment program taking into consideration the Bank's comments thereon and take all measures necessary to ensure its prompt implementation.

C. Action Program

1. (a) The Borrower shall: (i) implement the Action Program with due diligence and efficiency and at all times take all necessary action to achieve the objectives thereof; and (ii) prepare and furnish for the Bank's review and comments not later than December 31 in each of its Fiscal Years a report, in form and substance satisfactory to the Bank, on the progress achieved in the carrying out of the Action Program.

(b) The Borrower shall, not later than October 31, 1995, furnish to the Bank for its review and comments, a draft plan of objectives, policies and actions designed to further the efficiency and sound development of the Borrower's agricultural sector and a timetable for its implementation during Fiscal Years 1996 and 1997. Said plan shall be finalized during the review which shall take place before December 31, 1995. During such review, the tariffs applied by the Borrower on cereals shall be examined.

(c) Notwithstanding the provisions of Schedule 1 to this Agreement, if the Bank shall have reasonably considered as unsatisfactory the progress made by one or several Directorate(s) of MAMVA in carrying out the Action Program or any part thereof, the Bank may withhold further approval of commitments under its (their) respective Part(s) of the Project

for the following Fiscal Years. The proceeds of the Loan derived from such withholding could be reallocated to other Directorate(s). Such withholding may continue until the relevant Directorate(s) of MAMVA shall have taken remedial action, satisfactory to the Bank, as shall be necessary to achieve the objectives of the Project and ensure the successful implementation of the Action Program.

2. (a) The Borrower shall introduce, not later than April 1, 1995, tariffs equivalent on all cereals which shall be lower than, or equal to, the tariffs equivalent proposed by the Borrower in its offer to the General Agreement on Tariffs and Trade (GATT).

(b) Starting with April 1, 1996, and for the following years, the Borrower shall put in place tariffs equivalent for cereals whose maximum levels shall not exceed 90% of the tariffs equivalent proposed by the Borrower to GATT for 1995.

(c) For each agricultural campaign, the Borrower shall put into effect a fixed tariff. However, said tariff could be corrected under certain circumstances such as:

- (i) dumping;
- (ii) major fluctuations of exchange rates; and
- (iii) substantial price reductions on international markets.

The Borrower shall keep the Bank informed of any tariff change and provide the justification(s) thereof.

3. The Borrower shall carry out Part B of the Project in accordance with the Development Action Plan agreed between the Borrower and the Bank. In particular, the Borrower shall ensure that all investments financed by FDA under Part B.3 of the Project meet at least one of the following objectives: (a) introduction of new technology; (b) promotion of investments with positive externalities; (c) provision of transitional means for the Borrower to reduce its contribution to the investment; and (d) transfer of income to the poorest farmers.

4. The Borrower shall, not later than December 31, 1995, submit to Parliament appropriate instruments for the deregulation of the domestic marketing system for cereals (except bread wheat) upstream of the mills, including elimination of licenses and fixed margins for storage, transport and resale, and freedom for mills to purchase from any operator.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (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 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 \$12,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

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

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

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

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

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

