

CONFORMED COPY

CREDIT NUMBER 2045 YDR

(Third Wadi Hadramawt Agricultural Development Project)

between

PEOPLE'S DEMOCRATIC REPUBLIC OF YEMEN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 30, 1989

CREDIT NUMBER 2045 YDR

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated October 30, 1989, between PEOPLE'S DEMOCRATIC 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 Arab Fund for Economic and Social Development (AFESD) a loan (the AFESD Loan) in an amount of about 2,500,000 Kuwaiti dinars to assist in financing the Project on the terms and conditions set forth in an agreement (the AFESD Loan Agreement) to be entered into between the Borrower and AFESD;

(C) the Borrower intends to contract from Kuwait Fund for Arab Economic Development (KFAED) a loan (the KFAED Loan) in an

amount of about 3,500,000 Kuwaiti dinars to assist in financing the Project on the terms and conditions set forth in an agreement (the KFAED Loan Agreement) to be entered into between the Borrower and KFAED; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

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

(a) "MAAR" means the Ministry of Agriculture and Agrarian Reform of the Borrower;

(b) "Project Area" means the area located in the Wadi Hadramawt valley in the Al Qat'n, Shibam, Seiyun and Tarim districts of Hadramawt Governorates and such other districts as the Borrower and the Association may agree upon from time to time;

(c) "WHAP II" means the Second Wadi Hadramawt Agricultural Project financed by the Association pursuant to the Development Credit Agreement between the Borrower and the Association, dated April 28, 1983;

(d) "WHAP II Project Area" means the project area in WHAP II;

(e) "PMU" means the unit established under WHAP II and referred to in Section 3.02 (a) of this Agreement;

(f) "IMU" means the unit to be established by the Borrower within the PMU pursuant to Section 3.02 (b) of this Agreement;

(g) "MRS" means the Machinery Rental Services operating under MAAR;

(h) "NBY" means the National Bank of Yemen established and operating under the Borrower's Law No. 37 of 1969, as amended to the date of this Agreement;

(i) "PCEP" means the Public Corporation for Electricity and Power of the Borrower;

(j) "LAC" means the Local Advisory Committee constituted of representatives of local organizations in the Project Area associated with the Project;

(k) "CCSC" means the Central Coordination Steering Committee established to supervise Project operations and constituted of representatives of central organizations associated with the Project; and

(l) "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 nine million three hundred thousand Special Drawing Rights (SDR 9,300,000).

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 account in NBY 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, 1997 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

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 April 1 and October 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 April 1 and October 1 commencing October 1, 1999 and ending April 1, 2029. Each installment to and including the installment payable on April 1, 2009 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.

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 through MAAR with due diligence and efficiency and in conformity with appropriate agricultural, engineering, administrative and financial 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. The Borrower shall:

(a) maintain the PMU with qualified and experienced staff in adequate numbers and with terms of reference satisfactory to the Association; and

(b) establish and thereafter maintain within the PMU an IMU with qualified and experienced staff in adequate numbers and with terms of reference satisfactory to the Association, including responsibility for monitoring abstraction and utilization of groundwater and planning and coordinating the routine preventative maintenance and remedial repairs of irrigation structures and pumps in collaboration with the MRS.

Section 3.03. The Borrower shall ensure the availability in each year of fertilizer, chemicals and seeds for all farmers in the Project Area in the quantities and on the basis of a timetable agreed with the Association to meet production targets.

Section 3.04. The Borrower shall, by November 15 of each year:

(a) furnish through the PMU to the Association for review and comment the work program, draft budget and financing plan for the Project for the following calendar year; and

(b) review with the Association the crop protection chemicals proposed to be purchased by the Borrower during the following calendar year for the Project and thereafter purchase only the chemicals agreed with the Association.

Section 3.05. The Borrower shall take all measures necessary to ensure that PCEP provide adequate power supply to operate the pumps on the tubewells constructed under WHAP II and the Project.

Section 3.06. (a) 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.

(b) The engineering consultants required to assist in the design and supervision of civil works, whose employment shall not be governed by the provisions of paragraph (a) above, shall have qualifications and experience satisfactory to the Association.

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 six 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 for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

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 AFESD Loan Agreement and KFAED Loan Agreement shall have failed to become effective by January 1, 1990, 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:

(A) The right of the Borrower to withdraw the proceeds of any 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 Association 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 (d) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraph (b) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b) (ii) of that Section.

ARTICLE VI

Effective Date; Termination

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

(a) the AFESD Loan Agreement and the KFAED Loan Agreement have been executed; and

(b) the IMU referred to in Section 3.02 (b) of this Agreement has been established within the PMU pursuant to the provisions thereof.

Section 6.02. 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 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
P.O. Box 1193
Aden
People's Democratic Republic of Yemen

Cable address:

TAKHTEET
AD

Telex:

2289 TAKHTEET AD

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

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.

PEOPLE'S DEMOCRATIC REPUBLIC OF YEMEN

By /s/ A. S. Al-Ashtal
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ A. Stoutjesdijk
Acting Regional Vice President
Europe, 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) Vehicles, farm machinery, equip- ment, spare parts and materials	5,330,000	100% of foreign expenditures

(2) Farm inputs	2,000,000	100%
(3) Consultants' services and training	1,370,000	100%
(4) Unallocated	600,000	
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TOTAL	9,300,000	

2. For the purposes of this Schedule, 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.

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: (a) provide dependable irrigation water supplies through tubewell development; (b) improve works for spate irrigation; (c) provide incremental inputs for increasing cropping intensity in the WHAP II Project Area; and (d) support agricultural development in the Project Area.

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

Irrigation development of about 3,025 ha in 17 areas based on groundwater through construction of deep wells, development of irrigation networks and on-farm improvements (including land levelling and rearrangement of fields for improved mechanized crop production), construction of about 16 km of flood bunds, minor spate remodelling works in flood-prone areas and construction of farm access roads.

Part B: Spate Irrigation Works

Rehabilitation of traditional spate irrigation works and construction of flood protection works for about 2700 ha.

Part C: Agricultural Development

(1) Strengthening of the research and extension services through the provision of technical assistance, staff, training, vehicles and equipment.

(2) Development of fruit nursery and the provision of technical assistance, staff, training, vehicles and equipment.

(3) Improvement of farming efficiency through more intensive land use in the Project Area, including provision of incremental production inputs and farm machinery and spare parts for establishing new crop rotations and cropping intensities.

(4) Provision of training and equipment to strengthen MRS' machinery maintenance capability.

Part D: Project Management

(1) Strengthening of the PMU and the provision of technical assistance, training, vehicles and equipment.

(2) Establishment of the IMU and the provision of staff, train-

ing, equipment and vehicles.

* * *

The Project is expected to be completed by June 30, 1996.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods 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 People's Democratic 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. Goods estimated to cost less than the equivalent of \$50,000 per contract, up to an aggregate amount not to exceed the equivalent of \$600,000, may be procured under contracts awarded on the basis of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

2. Spare parts under Part C (3) and D (1) of the Project, up to an aggregate amount not to exceed the equivalent of \$1,000,000, may be procured on the basis of direct contracting with the prior approval of 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 for goods estimated to cost the equivalent of \$100,000 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 conformed copy 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 one conformed copy 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 subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit 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 engineering and agricultural 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

The Borrower shall through MAAR:

1. by June 30, 1990, implement measures to improve the operations of the MRS in Seiyun on the basis of terms of reference satisfactory to the Association, including adjustment of land cultivation operations, expansion of servicing capacity and development of a collaborative role with the IMU;
2. during the execution of the Project, monitor the organizational structure and financial position, including, inter alia, trends in the long-term debt/equity ratios and total liabilities of each of the cooperatives in the Project Area to ensure that the viability of such cooperative is maintained;
3. carry out the training provided under the Project in accordance with terms of reference satisfactory to the Association;
4. ensure the availability of suitable training and extension support programs for farmers in the Project Area;
5. maintain the activities of the LAC and the CCSC;
6. by December 31, 1989, enter into an agreement with NBY for the provision of credit by NBY to the cooperatives referred to in paragraph 2 above to finance the purchase of electric pumps, farm machinery and crop production inputs, which agreement shall set forth the terms and conditions on the basis of which such credit is to be provided; and
7. by December 1 of each year, review with the Association the interest rates for agricultural credit extended by NBY to ensure that such interest rates are positive in real terms.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means the Categories 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 \$700,000 to be withdrawn from the Credit Account and

deposited into 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 made 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; (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.

MEXICO - Finance and Trade Sector Loan

Issues	Objectives Actions to be taken	Actions taken Before Other Measures	Board P
resentation	Before Second Tranche (By November 30, 1989)		

A. Areas of Macroeconomic Management and Public Sector Planning

1. Macroeconomic Consistency

<p>- In order to ensure a satisfactory 1989 Budget stable macroeconomic environment approved by ess, envisaging: (a) an projected operational ase in tax revenues of deficit and the sources of GDP; and (b) an of domestic public sector tional deficit of 2.5% financing should be P and a primary surplus consistent with the 3% of GDP. This is expected inflation, GDP stent with the macro-growth and possible</p>	<p>- Satisfactory assessment of the medium-term macroeconomic the framework and agreement on the necessary policy actions to ensure the achievement of the macroeconomic program, including satisfactory progress on decontrol of prices.</p>	<p>- A macroeconomic environment assessment of the for 1989-90 with low inflation and minimum uncertainty about the main thrust of the economic achievement of the policy. including satisfactory progress on decontrol of prices.</p>	<p>- A sat has b Congr incre 1.3% opera of GD of 7. consi econo</p>
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mic targets for 1989. Periodic consultations with the
foreign borrowing.

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- Bank on the macroeconomic
framework and on progress on
- Future of the "Pacto";
decontrol of prices.
pressures on the nominal
anchors.

2. Public Sector Planning and Budgeting

- Improvements in investment efficiency are hampered by weak planning and budgeting systems.
- Within the overall objective of recovering economic growth via revived investments, the Government needs to achieve greater

- (a) By June 30, 1989, issuing guidelines for economic and financial evaluation and planning for public investment projects;
- (b) introducing multi-year

Issues taken	Objectives Actions to be taken	Act Other Measures Before
Board Presentation	Before Second Tranche (By November 30, 1989)	
public investments 1989; and (c) externally funded ementation by January 1, 1990 getting methods to se of available	efficiency in planning, preparing and implementing public investments.	budgeting for p by November 1, improvement of investment impl introducing by appropriate bud encourage the u

g and by

external fundin

central monitoring

establishing a

unit.

3. Public Sector Revenues

- Erosion in tax base crease tax revenues in cumbersome tax tainable manner, a administration. ical Assistance	- Satisfactory implementation of the Action Program.	- Increases in tax revenues through tax reform and improved tax administration.	- To in a sus Techn
ment has been included			compo
e project to help			in th
ment measures to			imple
ve tax administrationl,			impro
rate tax changes that			corpo
been implemented in the			have
budget are expected to			1989
se erosion of corporate			rever
.			taxes

Issues	Objectives	Act
ions taken	Actions to be taken	Other Measures
Board Presentation	Before Second Tranche	Before
	(By November 30, 1989)	

4. State and Local Finances

- Fall in the state tion Plan has been ovember 1, 1989 to governments' own tax oped and will be haring formula to revenues, particularly porated in the 1990 es to states to property taxes. t, to gradually reduce r reliance on their	- Satisfactory implementation of the Action Program	- Improvement in own tax raising effects.	- An Ac - Revision by N devel the revenue s incor give incentiv budge increase thei non-m own resources state
atching grants to the and to introduce			

s. According to the
 tives for their
 expenditures of line
 ernments.
 tries in the states
 , non-matching grants),
 ional over 1989 levels,
 be spent thru Ramo 26
 , PDR/PNS development
 ams), which requires
 s to match these
 ditures.

similar incen
 Plan,
 municipal gov
 Minis
 (i.e.
 addit
 will
 (i.e.
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 state
 expen

- Very serious deterioration in user charges and property taxes in the Federal District, requiring mounting transfers to cover services.
- Action Program for increases in the Federal District. own revenues so as to reduce budget transfers by at least 20% in the 1990 budget with respect to 1988.
- Reduce budget transfers to

B. Financial Sector
 1. Forced Lending to Public Sector

- Private Sector has t reforms have nated forced lending. extremely limited access to banking sector funds.
- Support the government's objective of having the commercial banks respond only to market forces. Commercial banks should not be compelled to lend to the government or to any sector.
- Recen
 elimi

Issues	Objectives	Act
ions taken	Actions to be taken	Other Measures
Board Presentation	Before Second Tranche	Before
	(Before November 30, 1989)	

2. Competitive Environment

<p>- Reduced bank competition rates on Bank and deposit mobilization. Its have been</p> <p>alized; Transfer of</p> <p>t's balances between</p> <p>and brokerage house</p> <p>een allowed; these</p> <p>ms have put both types</p> <p>stitution on an equal</p> <p>ng.</p>	<p>- To foster greater competition between banks thereby raising efficiency, and to mobilize more deposits.</p>	<p>- Inter depos liber clien banks has b refor of in footi</p>
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3. Development Banks and Credit Subsidies

<p>- Role of development banks</p> <p>oans through</p> <p>opment banks and trust</p> <p>will not carry any</p> <p>est subsidies, except</p> <p>ow income producers in</p> <p>ulture (PBI). Subsidies</p> <p>Is measured in</p> <p>rison to the average</p> <p>of funds (CPP). PBIs</p> <p>not exceed, as a</p> <p>ntage of GDP, the level</p> <p>88. Therefore, average</p> <p>dy level will decline</p> <p>istingt subloans</p> <p>e.</p>	<p>- To improve administrative</p> <p>- Action Program, satisfactory to</p> <p>efficiency and ensure that</p> <p>the Bank, for the redefinition</p> <p>subsidies are well targeted</p> <p>of the role of each Trust Fund</p> <p>and controlled.</p> <p>and development Bank, including</p> <p>in particular a review of the</p> <p>operations and finances of</p> <p>NAFIN, BANCOMEXT and BANOBRAS,</p> <p>and restructuring of BanRural</p> <p>and ANAGSA; so that their</p> <p>efficiency of operations will</p> <p>improve and fiscal transfers</p> <p>through BanRural and ANAGSA</p> <p>would be substantially reduced.</p> <p>In the meantime these</p> <p>transfers, as percentage of GDP</p> <p>will not exceed the budgeted</p> <p>level for 1989 (0.27% of GDP)</p>	<p>- New 1</p> <p>devel</p> <p>funds</p> <p>inter</p> <p>for 1</p> <p>agric</p> <p>to PB</p> <p>compa</p> <p>cost</p> <p>will</p> <p>perce</p> <p>of 19</p> <p>subsi</p> <p>as ex</p> <p>matur</p>
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4. Bank Regulations and Supervision

<p>- Inadequate supervision</p> <p>of Reference of a study</p> <p>and prudential</p> <p>ential regulations and</p>	<p>- To safeguard the solvency of</p> <p>- Action Program, satisfactory to</p> <p>the banking system and</p> <p>the Bank, for the strengthening</p>	<p>-Terms</p> <p>of prud</p>
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regulations.
 sion to be submitted
 k review by May 15.
 o be financed from the

brokers.
 of potential supervision. This
 action program is expected to
 address, among others, the
 following areas: (a) classify
 banks' loan portfolios
 according to default risk; (b)
 more stringent provisioning for
 loan losses and interest
 accruals; (c) disclose the
 state of each bank's financial
 state in detail to the public;
 and (d) improve and enforce the
 supervision of brokers.

supervi
 for Ban
 Study t
 loan.

Issues
 tions taken
 Board Presentation

Objectives
 Actions to be taken
 Before Second Tranche
 (By November 30, 1989)

Ac
 Other Measures
 Before

D. Social Sectors

ma Nacional de
 - Declining public expenditures
 idad" launched in
 have reduced outlays for
 r 1988, adequately
 social programs and service
 es the issues of the
 levels in the different
 orms of poverty and
 regions are uneven.
 lleviate the short term
 of adjustment under an
 plan affecting 1200
 pios". The 1989 budget
 ion is US\$450 million
 ent, which would be
 ed in 1990.
 E. External Finance

Satisfactory implementation of
 - Improve delivery mechanisms
 the Program.
 of social programs targetted
 to the truly needy.

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- Mexico's adjustment program in principle has been made	- Ensure adequate financing commitments have been obtained	- Agree - By effective
and recovery of growth needs reached on matching progress in obtaining	consistent with adjustment to financing Mexico's	been substantial p
external financing in an ese cofinancing for the ncing for Mexico's	and growth targets. requirements for 1988 and 1990	Japan adequate fina
amount necessary to cover the proposed operations. for 1988 and 1990 in	in the context of the current account deficit and	three requirements
f the adjustment maintain reserves at opment of a medium-term growth targets	adjustment program and growth targets setforth in "Mexico's	the context o
reasonable levels. cing plan consistent Mexico's Economic	Economic Strategy" issued by SHCP.	- Devel program and g
macro-economic and ued by SHCP.- By		finan setforth in "
h targets and , made substantial		with Strategy" iss
factory progress in btaining adequate		growt effectiveness
ssions with banks. Mexico's	- Agreement in principle has been	satis progress in o
for 1988 and 1990 in	reached with major creditors	discu financing for
f the adjustment	for a viable medium-term	requirements
rowth targets	financing plan.	the context o
Mexico's Economic		program and g
ued by SHCP.		setforth in "
		Strategy" iss

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) provide dependable irrigation water supplies through tubewell development; (b) improve works for spate irrigation; (c) provide incremental input for increasing cropping intensity in the Phase II Area; and (d) support agricultural development in the Phase III Area.

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

Irrigation development of about 3,025 ha in 17 areas based on groundwater through construction of deep wells, development of irrigation networks and on-farm improvements (including land levelling, rearrangement of fields for improved mechanized crop production and trial irrigation), the construction of about 16 km of flood bunds, minor spate remodelling works in four flood-prone areas and the deepening of about 45 existing open wells.

Part B: Spate Irrigation Works

Rehabilitation of about 30 traditional spate irrigation works and construction of flood protection works for about 2700 ha.

Part C: Agricultural Development

(1) Strengthening of the research and extension service through the provision of staff, training, vehicles and equipment.

(2) Rehabilitation of mechanization of date production on about 275 ha through the provision of technical assistance, vehicles and equipment.

(3) Development of citrus fruit nursery and zizyphus nursery and the provision of technical assistance, vehicles and equipment.

(4) Potato seed production support through the construction of a guest house/office and two 200-ton open air storages and the provision of technical assistance, training and vehicles.

(5) Improvement of farming efficiency for more intensive land use in the WHAP III Area and increasing the cropping intensities in the WHAP II Area from the design level of about 100% to about 130%.

(6) Provision of production inputs for establishing the new crop rotations and crop intensities on the areas developed for irrigation under WHAP III.r

Part D: Project Management.

(1) Strengthening of the WHAP II Project Management Unit and the provision of technical assistance, training, vehicles and equipment.

(2) Establishment of an Irrigation Management Unit and the provision of staff, training, equipment and vehicles.

The Project is expected to be completed on .

(a) the Loan Agreement and the Loan Agreement have been executed;

(b) the PMU referred to in Section of this Agreement has been

established on the basis of terms of reference satisfactory to the Association; and

(c) the IMU referred to in Section of this Agreement has been established within the PMU on the basis of terms of reference satisfactory to the Association.

SCHEDULE 4

Implementation Program

The Borrower shall, through MAAR:

1 during execution of the Project, maintain the PMU with qualified and experienced staff in adequate numbers whose terms of reference are satisfactory to the Association;

1.by June 30 of each year, carry out (with the Association) a review of the operations of the Machinery Rental Service in Seiyun on the basis of terms of reference satisfactory to the Association, including reduction of land cultivation operations, expansion of servicing capacity and development of a collaboratory role with the IMU.

2. during the execution of the Project, monitor the financial status of the four cooperatives in the Project Area to ensure that the creditworthiness of each such cooperative is maintained in accordance with .

3. ensure the availability of suitable training and extension support programs for women farmers in the Project Area.

4. maintain the activities of the Local Advisory Committees and the Central Coordination Steering Committee.

5. carry out a training program under the Project in accordance with terms of reference satisfactory to the Association.

6. ensure that fertilizers, chemicals and seeds for all farmers in the Project Area are procured in the quantities and on the basis of a timetable agreed with the Association to ensure targetted production of crops. 7.

ensure freedom of choice by farmers with respect to all agricultural produce;

8. make provisions for private wholesalers' or farmers' groups to participate in the marketing of farm produce and provide such operators with access to PCFVM storage and transport facilities at levels of charges satisfactory to the Association.

(a) "MAAR" means the Ministry of Agriculture and Agrarian Reform of the Borrower;

(b) "Project Area" means the area of about km² located in the Wadi Hadramawt valley in the Al Qat'n, Shibam, Seiyun and Tarim cooperative service areas of Hadramawt Governorate and extending from to ;

(c) "WHAP I" means the First Wadi Hadramawt Agricultural Project financed by the Association pursuant to the Development Credit Agreement between the Borrower and the Association dated, April 22, 1976;

(d) "WHAP II" means the Second Wadi Hadramawt Agricultural Project financed by the Association pursuant to the Development Credit Agreement between the Borrower and the Association, dated April 28, 1983;

(e) "PMU" means the unit established under WHAP II and referred to in Section of this Agreement ;

(f) "IMU" means the unit to be established by the Borrower within the PMU referred to in Section of this Agreement;

(g) "MRS" means the Machinery Rental Services established and operating under the Borrower's Law No. ;

(h) "PCMFV" means the Public Corporation for Marketing of Fruits and Vegetables established and operating under the Borrower's Law No. 73 of 1976;

(i) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated and between the Borrower and the Association;

(j) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

Section 3.02. The Borrower shall maintain the PMU with qualified and experienced staff in adequate numbers and with terms of reference satisfactory to the Association.

Section 3.03. The Borrower shall establish within the PMU an IMU with qualified and experienced staff in adequate numbers and with terms of reference satisfactory to the Association, including responsibility for monitoring abstraction and utilization of groundwater and planning and coordinating the routine preventative maintenance and remedial repairs of irrigation structures and pumps in collaboration with the MRS.

Section 3.04. The Borrower shall, by December 12, 1993, eliminate all subsidies on electricity tariffs charged in connection the use of irrigation pumps.

Section 3.05. The Borrower shall, by _____, take all measures necessary to enable the free operation of private wholesale traders in all agricultural produce;

1. Civil works under Part B of the Project estimated to cost up to an aggregate amount not to exceed the equivalent of \$1,280,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Goods estimated to cost less than the equivalent of \$100,000 per contract, up to an aggregate amount not to exceed the equivalent of \$500,000, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list of three qualified suppliers eligible under the Guidelines and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof)

3 Goods estimated to cost less than the equivalent of \$25,000 per contract, up to an aggregate amount not to exceed the equivalent of \$200,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.s .

3. Spare parts under Part _____ of the Project may be procured on the basis of direct contracting.

