

CONFORMED COPY

LOAN NUMBER 3988 HR

Loan Agreement

(Farmer Support Services Project)

between

REPUBLIC OF CROATIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated April 23, 1996

LOAN NUMBER 3988 HR

LOAN AGREEMENT

AGREEMENT, dated April 23, 1996, between REPUBLIC OF CROATIA (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; 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 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) The second sentence of Section 5.01 is modified to read:

"Except as the Bank and the Borrower shall

otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

- (c) 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) "APU" means the Agriculture Policy Unit established within MAF;

(b) "ARC" means the Agriculture Research Council to be established pursuant to the Memorandum of Understanding;

(c) "FADAR" means the Fund for Applied and Development Agricultural Research to be established and administered by the ARC for financing applied research pursuant to the Memorandum of Understanding;

(d) "MAF" means the Borrower's Ministry of Agriculture and Forestry;

(e) "Memorandum of Understanding" means the Memorandum of Understanding signed by the Borrower's Minister of Agriculture and Forestry and the Minister of Science and Technology on July 11, 1995;

(f) "NSA" means the National Seed Authority to be established by the Borrower pursuant to paragraph 3 (c)(i) of Schedule 1 to this Agreement;

(g) "NVI" means the National Veterinary Institute established pursuant to the law on animal health protection and veterinary activities, published in the Croatian Official Gazette 52/91;

(h) "PIU" means the Project Implementation Unit established within MAF referred to in paragraph 1 of Schedule 5 to this Agreement;

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

(j) "ZESC" means the Zupanija Extension Service Centers established pursuant to the law on the system of State Administration, published in the Croatian Official Gazette 75/93, and implemented by Governmental Regulation No. 023-01/94-02/02 of 28 April 1994; and

(k) "ZRECU" means the Zonal Research Extension Coordination Units to be established within MAF pursuant to paragraph 2 of Schedule 5 to this Agreement.

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 seventeen million dollars (\$17,000,000), 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 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 may, for the purposes of the Project, open and maintain in US Dollars a special deposit account in a bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2001 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 per cent ($3/4$ 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 March 1 and September 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 agricultural, administrative, financial 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.

Section 3.03. For purposes of Section 9.07 of the General Conditions, and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

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 four (4) 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

Termination

Section 5.01. 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 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 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Katanciceva 5
10000 Zagreb
Croatia

Telex:

862-21215
862-28133

For the Bank:

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

Cable address:

Telex:

INTBAFRAD	248423 (RCA)
Washington, D.C.	82987 (FTCC)
	64145 (WUI) or
	197688 (TRT)

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

REPUBLIC OF CROATIA

By /s/ Bozo Prka

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Johannes F. Linn

Regional Vice President
Europe and Central 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:

Amount of the Loan Allocated (Expressed in	% of Expenditures
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Category	Dollar Equivalent)	to be Financed
(1) Civil Works	750,000	90%
(2) Goods		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(a) Parts A,C, D & F of the Project	5,050,000	
(b) Part B of the Project	650,000	
(c) Part E of the Project	1,000,000	
(3) Consultants' Services (Other than those under Part B (2) of the Project)		70%
(a) Parts A, C, D & F of the Project	1,600,000	
(b) Part B of the Project	250,000	
(c) Part E of the Project	150,000	
(4) Training		55%
(a) Parts A, C, D, & F of the Project	1,800,000	
(b) Part B of the Project	400,000	
(c) Part E of the Project	100,000	
(5) Consultants' Services under Part B (2) of the Project	3,800,000	80%
(6) Unallocated	1,450,000	
	<hr/>	
TOTAL	17,000,000 =====	

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;

(b) payments made for expenditures relating to Categories 2(b), 3(b), 4(b), and 5 set forth in the table in paragraph 1

of this Schedule, until the Borrower: (i) has established the ARC and its secretariat, and appointed all its members; and (ii) has adopted operational guidelines for the ARC satisfactory to the Bank; and

(c) Payments made for expenditures relating to Categories 2(c), 3(c) and 4(c) set forth in the table to paragraph 1 of this Schedule, until the Borrower has: (i) enacted, in accordance with internationally acceptable standards, a law on the protection of the intellectual property rights associated with the use of plant genetic material and the testing and approval for use of plant genetic material, and established the NSA pursuant to such law; (ii) appointed a director of the NSA with qualifications and experience acceptable to the Bank; and (iii) provided suitable facilities for the operation of the NSA.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for goods, works and services under contracts costing less than \$300,000 equivalent, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to support the transition of the agricultural sector to a market economy by providing technology-related support services to private family farmers and thereby improve the income of the private family farming community and increase the productivity and competitiveness of the 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: Agriculture Extension

1. Public extension

(a) Operational support to the ZESC and MAF's Extension Department through the provision of technical assistance, vehicles, office furniture and equipment, computers, audio-visual equipment, extension field equipment kits, and farm production publications.

(b) Carrying out of diagnostic surveys in each of the ZESC in order to analyze the agricultural constraints and potential of the areas served by the ZESC.

(c) (i) Implementation of an extension training program; (ii) development of twenty-five thematic extension packages for mass-media extension; and (iii) carrying out of an on-farm trial and demonstration program.

2. Private extension

(a) Development of private advisory services through the provision of: (i) public and private financing of private agriculture advisors to a limited number of farmers associations; and (ii) training equipment to said associations.

(b) Support of a limited number of farmers associations through the provision of milk recording and testing equipment, computers, staff training and technical assistance.

Part B: Agriculture Research

1. Establishment of the ARC and provision to the ARC of

technical assistance, office and computer equipment, and vehicles.

2. Carrying out of applied and development agricultural research undertaken pursuant to contracts entered into by the ARC and funded by grants provided out of the resources of the FADAR on a competitive basis.

3. Carrying out of a research management training program, and provision of technical assistance therefor, for applied research staff and the ARC.

4. Establishment of four ZRECU and provision of office and computer equipment, and staff.

Part C: Animal Health Support Services

1. Provision of vehicles and laboratory equipment to the NVI and its four regional branches to intensify the national disease surveillance program, and training.

2. Improving MAF's national disease reporting service through the provision of computer equipment, vehicles, training, and technical assistance.

3. Strengthening of the national veterinary professional association (the "National Veterinary Chamber") through the provision of office equipment, animal health publications, and a training program for veterinarians.

Part D: Pasture and Fodder Development

1. Strengthening of the Sljeme Pasture Research Station of the Faculty of Agriculture of the University of Zagreb through the rehabilitation of existing facilities and the construction of a pasture laboratory and training facility, thereby improving the laboratory, research and training facilities at said station, and through the provision of laboratory and field trials equipment, and vehicles.

2. Provision of technical assistance to the Faculty of Agriculture of the University of Zagreb to carry out an evaluation of the national grassland resource.

3. Carrying out a training program in pasture management for extension advisors, farmers, and agricultural research staff, and provision of technical assistance therefor.

4. Construction and equipping of a gene bank at the Faculty of Agriculture of the University of Zagreb.

Part E: Seed Industry Development

1. Establishment of the NSA and provision of office, computer, laboratory, field trials equipment and vehicles, training, and technical assistance.

2. Provision of technical services to assist MAF in the establishment, and NSA in the implementation, of a seed industry regulatory framework in conformity with European Union requirements.

Part F: Policy Analysis Support

1. Strengthening of the policy formulation capacity of MAF through the provision to the APU of technical assistance, training and equipment.

2. Establishment of a market information system by MAF's Agriculture Policy Department.

3. Carrying out of a baseline survey and a farm monitoring

survey program.

4. Strengthening of MAF's implementation capacity by providing to the PIU office and computer equipment, vehicles, and technical assistance.

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The Project is expected to be completed by December 31, 2000.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each March 1 and September 1 beginning March 1, 2001 through March 1, 2012	710,000
And on September 1, 2012	670,000

* 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	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than 11 years before maturity	0.65
More than 11 years but not more than 15 years before maturity	0.88
More than 15 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A. General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 (the Guidelines) and the following provisions of this Section as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of Contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$300,000 equivalent or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

The rehabilitation and construction works under Part D.1 of the Project, and office furniture and equipment, up to an aggregate amount not to exceed \$470,000, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines. Bidders for the rehabilitation and construction works under Part D.1 of the Project shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

2. Procurement of Small Works

The construction works under Part D.4 of the Project may be procured under lump-sum, fixed-price contracts awarded on

the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience to complete the contract successfully.

3. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$650,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Direct Contracting

Goods of a proprietary nature may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to (i) all contracts for goods awarded in accordance with procedures under Parts B and C.4 of this Section, (ii) the first contracts for goods awarded in accordance with procedures under Part C.1 of this Section, and (iii) the first contracts for works awarded in accordance with procedures under Parts C.1 and C.2 of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions 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 thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

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 (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each, or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, this exception to prior Bank review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 5

Implementation Program

1. The Borrower shall maintain the PIU with qualified staff in adequate number, including an implementation officer, a procurement adviser, a financial officer, and an administrative assistant.
2. The Borrower shall establish: (a) the first of four ZRECU not later than October 31, 1997, and (b) three more ZRECU not later than October 31, 1998.
3. Not later than April 30, 1997, the Borrower shall prepare and furnish to each ZESC environmental guidelines, satisfactory to the Bank, on the use of agrochemicals.
4. For the purpose of carrying out Part B (2) of the Project, the Borrower shall authorize the ARC to: (a) allocate research funds; (b) select and approve research proposals; and (c) carry out off-site and on-site supervision of the implementation of the contracts entered into by the ARC.
5. Not later than April 30, 1999, the Borrower shall review the funding arrangements for the FADAR and submit the results of its review to the Bank.
6. Not later than October 31, 1996, the APU shall be staffed with qualified experts, including an agricultural policy analysis expert, a marketing policy expert, a trade and price policy expert, and a farm management expert. Before October 31 of each year during the execution of the Project, the APU shall prepare annual work programs for the following calendar year and submit them to the Bank for its review.
7. Not later than October 31, 1997, the Borrower shall convert all existing import quotas to tariffs for seed trade.
8. The Borrower shall:
 - (a) maintain adequate procedures to monitor and evaluate on an ongoing basis, in accordance with project performance indicators agreed between the parties, the implementation of the Project and the achievement of the objectives thereof; and
 - (b) not later than April 30, 1998, review with the Bank the progress made in the implementation of the Project, and thereafter promptly take all necessary measures to execute the actions identified and agreed upon between the Bank and the Borrower during such review.
9. Within six months of the fulfilment of the condition provided in paragraph 3 (c) of Schedule 1 to this Agreement, the Borrower shall prepare and submit for the Bank's review a schedule on cost recovery for the NSA.
10. Not later than October 31, 1996, the Borrower shall employ, in accordance with the provisions of Section II of

Schedule 4 to this Agreement, the following consultants: an extension specialist, a research management specialist, a veterinary epidemiologist, a pasture livestock economist, a seed certification specialist, and a long term agriculture policy advisor to assist in carrying out, respectively, Parts A to F of the Project.

SCHEDULE 6

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 \$1,500,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$5,000,000.

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) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account; or

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

(d) once the total unwithdrawn amount of the 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.

