

CONFORMED COPY

**LOAN NUMBER 4741 TU
GEF TRUST FUND GRANT NUMBER TF053306**

Loan Agreement

(Anatolia Watershed Rehabilitation Project)

between

REPUBLIC OF TURKEY

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated October 8, 2004



LOAN NUMBER 4741 TU
GEF TRUST FUND GRANT NUMBER TF053306

LOAN AGREEMENT

AGREEMENT, dated October 8, 2004 , between the REPUBLIC OF TURKEY (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

(B) by the agreement of even date herewith (the GEF Trust Fund Grant Agreement), the Bank, acting as the implementing agency of the Global Environment Facility (GEF) has agreed to make a grant (the GEF Trust Fund Grant) to the Borrower in an amount equal to seven million dollars (\$7,000,000), to assist in financing Parts A.4, C, D.1 and E of the Project on the terms and conditions set forth in the GEF Trust Fund Grant Agreement; 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 for Single Currency Loans” of the Bank dated May 30, 1995 (as amended through October 6, 1999) (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) “Environmental Management Plan” means the plan acceptable to the Bank dated February 15, 2003, describing the environmental issues raised under the Project and setting forth the mitigation, monitoring and institutional measures to be carried out in relation to such issues;

(b) “EU Nitrates Directive” means the European Council Directive 91/676/EEC dated December 12, 1991, concerning the protection of waters against pollution caused by nitrates from agricultural sources;

(c) “Fiscal Year” means the twelve-month period corresponding to any of the Borrower’s fiscal years, which period commences on January 1 and ends on December 31 in each calendar year;

(d) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(e) “KHGM” means the General Directorate of Rural Services of the Borrower;

(f) “MARA” means the Ministry of Agriculture and Rural Affairs of the Borrower;

(g) “MEF” means the Ministry of Environment and Forestry of the Borrower;

(h) “Micro-catchment Implementation Team” means the team referred to in paragraph 3 of Schedule 5 to this Agreement;

(i) “Operations Unit” means the unit established within the MEF pursuant to the Law Regarding the Organization and Duties of the Ministry of Environment and Forestry (Law No. 4856) dated May 1, 2003, and published in the Official Gazette dated May 8, 2003, and referred to in paragraph 1 of Schedule 5 to this Agreement;

(j) “Project Area” means the territories within the boundaries of the following river basins: (i) Kizilirmak; (ii) Yesilirmak; and (iii) Seyhan;

(k) “Project Implementation Plan” means the plan dated April 30, 2004, prepared by the Borrower and agreed with the Bank, setting out the operational and administrative procedures, and terms and conditions related to the implementation of the Project, as the same may be amended and agreed with the Bank from time to time, and such term includes all annexes to the Project Implementation Plan;

(l) “Project Management Group” means the group established pursuant to the Law Regarding the Organization and Duties of the Ministry of Environment and Forestry (Law No. 4856) dated May 1, 2003, and published in the Official Gazette dated May 8, 2003, and referred to in paragraph 1 of Schedule 5 to this Agreement;

(m) “Provincial Project Management Team” means the team referred to in paragraph 2 of Schedule 5 to this Agreement; and

(n) "Special Account" means the account referred to in Section 2.02 (b) of 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 this Agreement, an amount equal to twenty million dollars (\$20,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of works, goods and services required for the Project and to be financed out of the proceeds of the Loan, and in respect of the fee referred to in Section 2.04 of this Agreement.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special account in its Central Bank 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, 2012 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 fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. 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 2.06. (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 LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period,

each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

- (ii) “Interest Payment Date” means any date specified in Section 2.07 of this Agreement.
- (iii) “LIBOR Base Rate” means, for each Interest Period, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) “LIBOR Total Spread” means, for each Interest Period: (A) three-fourths of one percent ($3/4$ of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of the LIBOR Base Rate and the LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months’ notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on May 15 and November 15 in each year.

Section 2.08. 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, and, to this end, shall carry out the Project through the MEF and the MARA with due diligence and efficiency and in conformity with appropriate administrative, agricultural, engineering, environmental, financial and technical 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 the 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, through the MEF, shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower, through the MEF, shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the

Special Account for each Fiscal Year audited, in accordance with auditing standards acceptable to the Bank, 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 (6) months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements, records and accounts and 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 such 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, through the MEF, shall:

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

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations specified in paragraph 9 of Schedule 5 to this Agreement, the Borrower, through the MEF, shall prepare and furnish to the Bank a financial monitoring report (FMR), in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as of the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Bank

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

- (a) The Project Implementation Plan shall have been amended, suspended, abrogated or waived without the Bank's prior approval.
- (b) The Borrower shall have failed to perform any of its obligations under the GEF trust Fund Grant Agreement.
- (c)
 - (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the GEF Trust Fund Grant 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 GEF Trust Fund Grant Agreement.
 - (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and

conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely that the events specified in paragraphs (a) and (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely that, the GEF Trust Fund Grant Agreement has been executed and delivered and all conditions precedent to the effectiveness or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of the Loan Agreement, have been fulfilled.

Section 6.02. 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 VII

Representative of the Borrower; Addresses

Section 7.01. The Undersecretary of Treasury 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:

Basbakanlik
Hazine Mustesarligi
Inonu Bulvari
Emek-Ankara
Republic of Turkey

Cable address:	Telex:	Facsimile:
HAZINE Hazine, Ankara	44232 HZM-TR or 44404 HZM-TR	(312) 212-8550

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:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(1-202) 477-6391

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 TURKEY

By /s/ Ibrahim Canakci

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Andrew N. Vorkink

Director
Turkey Country Unit
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:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	11,300,000	70%
(2) Goods	5,100,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 85% of local expenditures for other items procured locally
(3) Consultants' services	600,000	78%
(4) Training	200,000	100%
(5) Incremental operating costs	800,000	50%
(6) Fee	200,000	Amount due under Section 2.04 of this Agreement
(7) Unallocated	<u>1,800,000</u>	
TOTAL	<u>20,000,000</u>	

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 works, goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for works, goods or services supplied from the territory of the Borrower;

(c) the term “training” means: (i) the fees of consultants, including educational or other institutions and organizations, that provide training services; and (ii) the cost of study tours (including local tours for farmers), cost of workshops, and related travel expenditures, and boarding, lodging and per diem allowances provided to civil servants of the Borrower; and

(d) the term “incremental operating costs” means reasonable and necessary incremental expenses incurred by the Borrower on account of Project implementation, management and monitoring, including the cost of transport and travel, fuel and repairs made on account of maintenance and operation of vehicles, attendance of seminars, conferences and meetings, communication, office operating and maintenance costs, including maintenance of office equipment, systems and facilities, rent and utilities.

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.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (i) works, under contracts costing less than \$3,000,000 equivalent each, but excluding those referred to in paragraph 2 (a) (ii) and 2 (b) (v) of Part D of Section I of Schedule 4 to this Agreement; (ii) goods, under contracts costing less than \$300,000 equivalent each, but excluding those referred to in paragraph 2 (a) (ii) and 2 (b) (i), (ii), and (iii) of Part D of Section I of Schedule 4 to this Agreement; (iii) services of consulting firms under contracts costing less than \$100,000 equivalent each; (iv) services of individual consultants under contracts costing less than \$50,000 equivalent each; (v) training; and (vi) incremental operating costs, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to support sustainable natural resource management practices in about twenty-eight (28) micro-catchments in the Project Area and thereby raise incomes of communities affected by resource degradation.

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: Rehabilitation of Degraded Natural Resources

1. Rehabilitation of forest land including soil conservation through afforestation, rehabilitation of degraded forests, gallery plantations and participatory afforestation.
2. Rehabilitation of rangeland including promotion of technical packages and land management practices to improve the vegetative cover of range lands.
3. Rehabilitation of agricultural land including fallow reduction through the introduction of legumes, improved use of marginal land and river bank protection.
4. Promotion of environmentally friendly agricultural practices in the Project Area of the Black Sea region, including manure management, nutrient management, organic farming and integrated pest management to reduce discharge of agricultural pollutants in the lower parts of watersheds, and monitoring of water and soil quality.

Part B: Income Generation Activities

Carrying out a program to provide the communities in the Project Area with the incentives to undertake rehabilitation and conservation efforts and to raise the income of village household including: (a) small scale irrigation, farm ponds, small dams, and small scale fisheries development; (b) agricultural production on terraces; (c) forestry based income diversification; and (d) farm enterprise diversification, bee keeping, green house development, livestock improvement, and introduction of improved technologies and cropping practices.

Part C: Strengthening Policy and Regulatory Capacity

1. Provision of support to the application of the EU Nitrates Directive through the monitoring of nitrate levels in the Project Area of the Black Sea region.

2. Development and promotion of a legal framework consistent with the EU Nitrates Directive for good agricultural practices based on on-farm trials, demonstrations and training.
3. Provision of technical assistance to strengthen the institutional capacity for the production and marketing of organically produced farm products.

Part D: Awareness Raising, Capacity Building and Replication Strategy

Provision of technical assistance, training and equipment to: (a) develop and disseminate a public information campaign to raise awareness among beneficiaries and other stakeholders on the Project's objectives, approach and terms of participation; (b) increase the capacity of implementing agencies at all levels to promote environmentally friendly agriculture practices and raise public awareness on methods to reduce nutrient discharge from agriculture; and (c) develop a strategy for future replication of similar activities in Turkey and other Black Sea riparian countries.

Part E: Project Management and Support Services

1. Provision of technical assistance, training, office equipment and incremental operating costs to support Project management and coordination at the central and provincial levels, including the upgrading and expansion of the monitoring and evaluation system to allow for adequate monitoring of the impact of the Project.
2. Provision of technical assistance and study tours to farmers and technical staff involved in the Project implementation, and carrying out of applied research in support of environmentally friendly practices.

* * *

The Project is expected to be completed by December 31, 2011.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	Payment of Principal (Expressed in <u>Dollars</u>)*
November 15, 2008	695,000
May 15, 2009	700,000
November 15, 2009	705,000
May 15, 2010	710,000
November 15, 2010	715,000
May 15, 2011	720,000
November 15, 2011	730,000
May 15, 2012	735,000
November 15, 2012	740,000
May 15, 2013	745,000
November 15, 2013	750,000
May 15, 2014	760,000
November 15, 2014	765,000
May 15, 2015	770,000
November 15, 2015	775,000
May 15, 2016	785,000
November 15, 2016	790,000
May 15, 2017	795,000
November 15, 2017	805,000
May 15, 2018	810,000
November 15, 2018	815,000
May 15, 2019	825,000
November 15, 2019	830,000
May 15, 2020	835,000
November 15, 2020	845,000
May 15, 2021	850,000

* The figures in this column represent the amount in dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Works and Goods

Part A: General

Works and goods 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 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works 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 and works 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 and works shall be grouped in bid packages estimated to cost \$100,000 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.

(c) Notification and Advertising

The invitation to bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(i) Works estimated to cost less than \$3,000,000 equivalent per contract; and (ii) goods estimated to cost less than \$300,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract 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 which: (a) should be procured as an extension of an existing contract; (b) must be purchased from the original supplier to be compatible with existing equipment; (c) are of a proprietary nature; or (d) must be procured from a particular supplier as a condition of a performance guarantee, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

5. Procurement from Government Owned Enterprises

Agricultural inputs, such as forestry seedlings, fruit bearing forest seedlings fruit tree seedlings, forest tree seeds, agricultural seeds and bee hives, which are only available from government owned enterprises and costing \$3,400,000 equivalent or less in the aggregate, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines. When there are more than one government owned enterprise that exist as the source of such agricultural inputs, the contract should be awarded to the government owned enterprise which offers the lowest price quotation, and which meets the qualifications for such agricultural inputs required under the Project.

6. Procurement of Small Works

Works estimated to cost less than \$100,000 equivalent per contract 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 and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts or any requests for price quotations, 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 works and 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

(a) With respect to: (i) each contract for goods and works to be awarded in accordance with the provisions of Part B of this Section I; and (ii) the first three (3) contracts for each works and goods to be awarded in accordance with the provisions of Part C.1 of this Section I, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first three (3) contracts for goods to be awarded in accordance with the provisions of Part C.2 of this Section I; (ii) the first three (3) contracts for goods to be awarded in accordance with the provisions of Part C.3 of this Section I; (iii) each contract for goods to be awarded in accordance with the provisions of Part C.4 of this Section I; (iv) each contract for agricultural inputs to be awarded in accordance with the provisions of Part C.5 of this Section I; and (v) the first three (3) contracts for works to be awarded in accordance with the provisions of Part C.6 of this Section I, the following procedures shall apply:

- (i) prior to the selection of any supplier and the execution of any contract under shopping procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under direct contracting, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2 (f), 2 (g) 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

Part A: General

Consultants' services and training shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services for construction supervision and monitoring and evaluation, estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services for training services estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Single Source Selection

Services which are estimated to cost less than \$100,000 equivalent per contract, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Services of individual consultants for strengthening Project management and implementation under Part E of the Project which meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under 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 Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more; and (ii) each contract for the employment of consulting firms to be selected in accordance with the provisions of Part C.2 of this Section II, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

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 Consultant Guidelines shall apply; provided, however that prior review and approval by the Bank shall still apply to the terms of reference for such contracts and the criteria for short-listing of individual consultants.

SCHEDULE 5

Implementation Program

Section A: Institutional Arrangements

1. The Project Management Group shall have the overall responsibility for Project management and supervision. The representative of the MEF shall act as the Project coordinator within the Project Management Group. The Project Management Group shall be supported by the Operations Unit in charge of day to day Project management and coordination. To that end, the Borrower, through the MEF, shall maintain the Project Management Group and the Operations Unit throughout Project implementation under terms of reference satisfactory to the Bank and with sufficient and suitable human, financial and technical resources.

2. At the province level, the Project shall be implemented by the Provincial Project Management Team chaired by the provincial directorate for environment and forestry and comprising representatives from the respective provincial directorate of agriculture and the provincial directorate of KHGM. The Borrower, through the MEF and MARA, shall maintain the Provincial Project Management Teams throughout Project implementation under terms of reference satisfactory to the Bank and with sufficient and suitable human, financial and technical resources.

3. For each micro-catchment, the Borrower, through the MEF and MARA, shall maintain a Micro-catchment Implementation Team comprising representatives of provincial staff of the MEF and the MARA. Micro-catchment Implementation Teams shall be responsible for the preparation and implementation, under terms of reference agreed with the Bank, of annual work programs and budgets for the rehabilitation of micro-catchments under Part A of the Project within its respective province. Each such work program shall be developed in collaboration with beneficiary communities and in close consultation with local government units and other local stakeholders.

Section B: Project Implementation Arrangements

4. The Borrower, through the MEF and MARA, shall:

(a) ensure that the Project shall be implemented in accordance with the Project Implementation Plan;

(b) not later than April 30, 2005, cause the Operations Unit to hire two procurement specialists, as consultants, with qualifications and under terms of reference satisfactory to the Bank;

(c) ensure that the rehabilitation of micro-catchments under Part A of the Project shall be carried out in accordance with annual programs: (i) prepared by the

respective Micro-catchment Implementation Teams referred to in paragraph 3 hereof in accordance with the terms of reference indicated therein; (ii) reviewed and endorsed by the respective Provincial Project Management Team referred to in paragraph 2 hereof; (iii) finalized and approved by the Project Management Group referred to in paragraph 1 hereof after reviewing the same with the Bank and taking into consideration the Bank's comments thereon; and (iv) agreed to by representatives of the population of villages benefiting from such rehabilitation of micro-catchments;

(d) ensure that the program for income supporting activities under Part B of the Project shall be carried out in accordance with plans and criteria for determining the eligibility of members of the local population benefiting thereunder agreed with the Bank; and

(e) ensure that the staff and farmers training under Part D of the Project shall be carried out in accordance with programs and criteria for the selection of candidates thereunder agreed with the Bank.

5. The Borrower, through the MEF and MARA, shall ensure that the infrastructure facilities under the Project shall be constructed only on public land where no means of livelihood of any communities shall be affected.

6. For each dam proposed to be constructed under the Project which: (i) exceeds fifteen (15) meters in height; or (ii) presents special design complexities such as unusually large flood-handling requirement, location in a zone of high seismicity, foundations that are complex and difficult to prepare, or retention of toxic materials, the Borrower shall:

(a) convene a panel of experts, satisfactory to the Bank, to meet periodically, and retain the panel through the start-up of a new dam;

(b) prepare and implement the following detailed plans: a plan for construction supervision and quality assurance, and instrumentation plan; an operation and maintenance plan; an emergency preparedness plan; and

(c) after filling and start-up of a new dam, have periodic dam safety inspections performed by independent qualified professionals who have not been involved with the investigation, design, construction, or operation of the dam.

Section C: Project Reporting Arrangements

7. The Borrower, through the MEF and MARA, shall take all measures necessary to carry out the Environmental Management Plan in a timely manner, ensuring that adequate information on the implementation of the said measures is suitably included in the progress reports referred to in following paragraph 9 of this Section C.

8. For the purposes of the training consisting of workshops, seminars and study tours to be provided under the Project, the Borrower, through the MEF and MARA, shall:

(a) furnish to the Bank for its approval, the content of each such training, including an explanation on how such training is consistent and conducive to the objectives of the Project and whether it offers the best price/quality ratio, as well as the schedule for its implementation;

(b) select the trainees in accordance with a transparent process and criteria satisfactory to the Bank;

(c) not later than September 30 of each year, exchange views with the Bank on the training to be carried out during the following calendar year; and

(d) furnish to the Bank a report of such scope and detail as the Bank shall reasonably request, on the results of each training and the benefits to be derived therefrom.

9. Without limitation upon the provisions of Section 9.07 of the General Conditions, and except as the Borrower and the Bank shall otherwise agree, the Borrower, through the MEF and MARA, shall, not later than March 31 and September 30 in each calendar year, commencing on September 30, 2005, and until Project completion, cause the Operations Unit to prepare and furnish to the Bank for its review, a progress report, of such scope and in such detail as the Bank shall reasonably request, describing, in accordance with evolving parameters acceptable to the Bank, the progress achieved by the Borrower in the implementation of the Project during the preceding six (6) month period.

10. The Borrower, through the MEF and MARA, shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators acceptable to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about September 30, 2008, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by November 30, 2008 or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the

achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

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 works, 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 the amount of \$2,000,000 to be withdrawn from the Loan Account and deposited into 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 the amount of \$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 \$4,000,000.
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 deposit into the Special Account of an amount or amounts 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 into 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;

(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;

(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 for the Project, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, 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.