

CONFORMED COPY

CREDIT NUMBER 2977 NEP

Development Credit Agreement

(Agricultural Research and Extension Project)

between

KINGDOM OF NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 18, 1997

CREDIT NUMBER 2977 NEP

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 18, 1997, between the KINGDOM OF NEPAL (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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 Association to assist in the financing of the Project; 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 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 Association 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 Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."; and

- (c) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Association. If (a) the right of the Borrower to make withdrawals from the Credit Account shall have been suspended with respect to any amount of the Credit for a continuous period of thirty days, or (b) at any time, the Association determines, after consultation with the Borrower, that an amount of the Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Credit, or (c) at any time, the Association determines, with respect to any contract to be financed out of the proceeds of the Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (d) at any time, the Association determines that the procurement of any contract to be financed out of the proceeds of the Credit is inconsistent with the procedures set forth or referred to in the Development Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (e) after the Closing Date, an amount of the Credit shall remain unwithdrawn from the Credit Account, the Association may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be canceled."

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

- (a) "Agricultural Development Steering Committee" means the committee established within MOA by letter of the Borrower to the Association dated January 7, 1997;
- (b) "Development Region" means each of the five development regions of the Borrower being the Eastern, Central, Western, Mid-western and Far-western regions;
- (c) "DOA" means the Department of Agriculture of the Borrower;
- (d) "MOA" means the Ministry of Agriculture of the Borrower;
- (e) "NARC" means the Nepal Agricultural Research Council, an autonomous agency, established by the Nepal Agricultural Research Council Act, 2048;
- (f) "PCU" means the project coordination unit established in MOA pursuant to Ministerial decision of April 10, 1997;
- (g) "Project District" means each of the districts of Jhapa, Morang, Sunsari, Siraha, Saptari, Bara, Parsa, Chitwan, Dhanusha, Mahottari, Sarlahi, Rautahat, Kavrepalanchowk, Bhaktapur, Gorkha, Tanahun, Rupandehi, Kapilvastu, Nawalparasi, Banke, Bardia, Kailali, Kanchanpur Ilam, Dhankuta, Makwanpur, Lalitpur,

Dhading, Kaski, Lamjung and Syangja;

(h) "Project Account" means each of the accounts to be established by the Borrower pursuant to Schedule 4, paragraph 2 (a) of this Agreement;

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

(j) "Technical Advisory Subcommittee" means the committee established in MOA pursuant to Ministerial decision of April 28, 1997.

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 seventeen million five hundred thousand Special Drawing Rights (SDR 17,500,000).

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 may, for the purposes of the Project, open and maintain in dollars a special deposit account (the Special Account) in the Nepal Rastra Bank 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 September 30, 2002 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 canceled; 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.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

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 December 15 and June 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each December 15 and June 15 commencing December 15, 2007 and ending June 15, 2037. Each installment to and including the installment payable on June 15, 2017 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 per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; 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 repayment of installments under paragraph (a) above by: (A) 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; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above 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.

(d) 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 NARC and DOA with due diligence and efficiency and in conformity with appropriate administrative, agricultural and training 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. 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.

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 Association, and furnish to the Association 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 Association, a plan designed to ensure the continued achievement of the objectives of the Project; and

(b) afford the Association 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 Project Accounts and the Special Account, audited for each fiscal year 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 nine months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records and 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 report 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 be included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contain 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 Secretary, Ministry of Finance, of the Borrower is designated

as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Finance
His Majesty's Government of Nepal
Kathmandu, Nepal

Cable address:	Telex:
ARTHA Kathmandu	2249-ARTHA NP

For the Association:

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

Cable address:	Telex:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)

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

KINGDOM OF NEPAL

By /s/ B.B. Thapa

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Hans Rothenbuhler

Acting Regional Vice President
South Asia

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
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(1)	Civil Works	2,740,000	70%
(2)	Goods	3,820,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expendi- tures for other items procured locally
(3)	Consultants' services; training	7,990,000	100%
(4)	Incremental Operating Costs	2,950,000	75% through July 15, 1998; 50% through July 15, 2000; and 25% thereafter
		17,500,000	
	TOTAL	=====	

2. For the purposes of this Schedule:

(a) "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;

(b) "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) "Incremental Operating Costs" means expenditures incurred by NARC, DOA and PCU for Project-related building, vehicle and equipment operation and maintenance, utilities, office supplies, field trial expenditures and incremental staff benefits.

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, except that withdrawals, in an aggregate amount not to exceed SDR 1,440,000 may be made on account of payments made for expenditures before that date but after March 1, 1997.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for (a) goods under contracts not exceeding \$100,000 equivalent; (b) works under contracts not exceeding \$200,000 equivalent; and (c) services under contracts not exceeding \$50,000 for employment of consulting firms and \$10,000 equivalent for employment of individual consultants, respectively, and (d) incremental operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to strengthen the management and capacity of agricultural research and extension services by: (a) developing a client-oriented, location-specific adaptive agricultural technology; and (b) improving the technology delivery system.

Part A: Research Component

Strengthening organization and management of agricultural research through:

1. Development of a Management Information System for NARC, provision of staff training and the provision of consultants for research management;

2. Provision of technical training for research staff;

3. Expansion of regional participatory on-farm adaptive research (planned, designed and carried out with the participation of farmers) including the formation of partnerships with farmer groups, non-governmental organizations (NGOs), private sector institutions and other research institutions;
4. Carrying out commodity research and thrust area research including conducting studies on research prioritization, research program review and research impact analysis;
5. Construction and rehabilitation of regional and commodity research stations and acquisition and utilization of equipment, research materials (including books and periodicals) and vehicles at the research stations; and
6. Strengthening the ability of NARC to implement research programs through, inter alia, financing of incremental operating costs.

Part B: Extension Services Component

Strengthening of a decentralized extension service to grass-roots institutions (including NGOs, farmer groups and local private sector institutions) through:

1. Development of a Management Information System for DOA and provision of staff training;
2. Construction and rehabilitation of Agricultural Service Centers, District Agricultural Development Offices, seed laboratories at Regional Directorates of Agriculture, and agricultural communication centers and training centers in each Development Region;
3. Acquisition of equipment, vehicles and extension materials (including books and periodicals) for the institutions in paragraph 1 above;
4. Strengthening the ability of DOA to implement agricultural extension activities through, inter alia, financing of incremental operating costs;
5. Technical training of extension staff and farmers;
6. Strengthening communication and dissemination of information, through the provision of communication materials and radio and television programs;
7. Strengthening of the implementation capacity of DOA through the provision of adequate funds for allowances for extension staff and consultants for extension management, gender sensitization and agricultural communication; and
8. Carrying out studies to estimate the demand for manpower needs in agriculture, and for Project monitoring and impact assessment.

* * *

The Project is expected to be completed by May 31, 2002.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Good 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 and revised in January and August 1996 (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 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 \$200,000 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 Works other than those to be procured under contracts awarded in accordance with paragraph 4 of this Part C, and goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping Construction materials, vehicles and equipment estimated to cost less than \$20,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 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.

3. Direct Contracting

Materials for agricultural development activities (such as seed, seedlings, fertilizer) estimated to cost less than \$10,000 equivalent per contract up to an aggregate amount not to exceed \$100,000 equivalent, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Direct Contracting/Force Account Works which meet the requirements of paragraphs 3.7 or 3.8 of the Guidelines, to be procured under contracts estimated at less than \$200,000 and costing \$2,000,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be carried out through direct contracting or by force account in accordance with the provisions of said paragraphs of the Guidelines.

5. The following provisions shall apply to works to be procured under contracts awarded in accordance with paragraphs 1 and 4 of this Part C. To the extent practicable, contracts for works shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each.

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 Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for works estimated to cost the equivalent of \$200,000 or more, and each contract for goods estimated to cost \$100,000 or more, 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, other than a contract on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure, 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 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 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

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.

Part C: Other Procedures for the Selection of Consultants

Individual Consultants

Services for tasks that 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 Association 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 Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 1, 2 and (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$10,000 or more, but less than the equivalent of \$50,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$10,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

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.

SCHEDULE 4

Implementation Program

1. Implementation Structure

(a) To facilitate effective management of the carrying out of the Project, the Borrower shall maintain within MOA throughout project implementation:

(i) the Agricultural Development Steering Committee chaired by the Secretary of Agriculture and including senior representatives of MOA, the Ministry of Finance, the National Planning Commission and NARC;

(ii) the Technical Advisory Subcommittee chaired by a qualified local professional and including senior technical research and extension staff, representatives of donors, NGOs and farmer representatives, with the Project Coordinator acting as Member Secretary, which shall meet periodically, (and no less than three times in each year) to review the Project and advise the Agricultural Development Steering Committee; and

(iii) the Project Coordination Unit (the PCU) charged with the overall coordination of the carrying out of the Project and with acting as a secretariat for the Agricultural Development Steering Committee;

(b) The PCU shall be headed at all times by a Project Coordinator with qualifications, skills and experience acceptable to the Association, reporting directly to the Secretary of Agriculture;

(c) The Borrower shall ensure that the Agricultural Development Steering Committee will, not later than December 31, 1997, adopt and issue a Policy Framework Statement, satisfactory to the Association, setting forth a vision for: (i) farmer involvement in the identification, design, and implementation of project activities; (ii) sustainability of research and extension activities; and (iii) reduction of public involvement and increased role of the private sector in agriculture;

(d) The Technical Advisory Subcommittee shall hold its first meeting, to set performance criteria and modus operandi acceptable to the Association, to be used during Project implementation, by no later than January 31, 1998; and

(e) By no later than March 31, 1998, NARC shall introduce and implement a management information system, acceptable to the Association, at all research stations participating in the Project, to enable the Borrower to ensure uniformity in assessing performance.

2. Project Accounts

(a) In order to facilitate Project implementation, and as of the Effective Date, the Borrower shall cause NARC, each Project District and each Central and Regional Office of DOA to (i) maintain a Project Account to adequately record all Project-related expenditures, and (ii) provide in each month of the Project, its monthly statements of expenditures to the PCU; and

(b) In each year until completion of the Project the PCU shall provide to the Association:

(i) by no later than June 30, commencing June 30, 1998, its annual work program and budget for the following year (including details of civil works, procurement, training and staffing);

(ii) by no later than June 30 and December 31, commencing June 30, 1998, consolidated progress reports concerning implementation of the Project; and

(iii) by no later than January 15, commencing January 15, 1998, consolidated, unaudited Project Accounts for NARC, DOA and PCU for the preceding fiscal year.

3. Committees and Staff

(a) Until completion of the Project the Borrower shall retain, within MOA, a Project Coordinator and shall not replace the Project Coordinator or nominate a new Project Coordinator without prior consultation with the Association;

(b) The Borrower shall cause NARC and DOA to engage, under terms and conditions satisfactory to the Association, and by no later than December 31, 1997, a research management advisor in NARC and an extension management specialist in DOA, each with qualifications, skills and experience acceptable to the Association; and

(c) The Borrower shall cause DOA, by no later than March 31, 1998:

(i) to review and thereafter put into effect a plan for the distribution of district staff based on identified needs and agricultural development in Project Districts and to formalize collaboration between agricultural and livestock field staff; and

(ii) to develop strategies, make budgetary provision and thereafter implement incentives to motivate Project field staff.

4. Mid-Term Review

The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about December 31, 1999 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 Association, by June 30, 2000 or such later date as the Association 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 Association's views on the matter.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1 through 4 set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the 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 \$1,500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association 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 Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 8,000,000.

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 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 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 Association shall, on behalf of the Borrower, withdraw from the Credit 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 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 paid 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;

(b) if the Borrower shall have failed to furnish to the Association, 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 Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association 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 Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments 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 for the Project 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; or (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.

