

CONFORMED COPY

CREDIT NUMBER 2998-YEM

Development Credit Agreement

(Southern Governorates Rural Development Project)

between

REPUBLIC OF YEMEN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 5, 1997

CREDIT NUMBER 2998-YEM

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated November 5, 1997, between REPUBLIC OF YEMEN (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) by agreement dated December 15, 1997 (the IFAD Loan Agreement), the International Fund for Agricultural Development (IFAD) has agreed to make a loan to the Borrower in an aggregate principal amount of eight million one hundred fifty thousand Special Drawing Rights (SDR8,150,000) (the IFAD Loan) to assist in financing Parts B and C of the Project on the terms and conditions set forth in the IFAD Loan Agreement;

(C) the IFAD Loan is to be administered by the Association in accordance with the Agreement of May 20, 1978 between IFAD and the Association pursuant to a letter of appointment to be entered into between IFAD and the Association; 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."

(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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Manual of Procedures" means the manual, dated September 1997, specifying the managerial, financial, administrative, engineering and environmental policies and procedures for the execution of the Project and the eligibility criteria for selection of Subprojects (as such term is defined hereinafter) under Part C(2) of the Project; as the same may be amended from time to time with the agreement of the Association;

(b) "MAWR" means the Ministry of Agriculture and Water Resources of the Borrower;

(c) "PMU" means the Project Management Unit established by the Borrower for implementation of this Project, referred to in Paragraph 3 (a) of Schedule 4 to this Agreement;

(d) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated April 14, 1997 and June 12, 1997 between the Borrower and the Association;

(e) "Southern Governorates" means the Governorates of Hadramawt, Shabwa, Abyan and Lahej;

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

(g) "Steering Committee" means the Committee referred to in Paragraph 1 of Schedule 4 to this Agreement, established by the Borrower to supervise implementation of the Project; and

(h) "Subproject" means any activity under Part C(2) of the Project for the economic development, improvement of the environment or the social infrastructure of communities in the Southern Governorates and to be financed out of the proceeds of the IFAD Loan.

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 seven hundred thousand Special Drawing Rights (SDR 17,700,000).

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 in a commercial bank on terms and conditions satisfactory to the Association, 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 5 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be June 30, 2004 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 (60) 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 February 1 and August 1 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 semi-annual installments payable on each February 1 and August 1 commencing February 1, 2008 and ending August 1, 2037. Each installment to and including the installment payable on August 1, 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 (6) 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 (5) 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 MAWR with due diligence and efficiency and in conformity with appropriate administrative, environmental, and agricultural 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 IFAD Loan and 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 for the future operation 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 Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six (6) 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 are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to

support the related withdrawals.

ARTICLE V

Remedies of the Association

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

(a) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of the IFAD Loan made to the Borrower for the financing of the Project shall have been suspended, terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or canceled or to the terms of the

(B) the amount withdrawn and outstanding under the IFAD Loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(b) the Manual of Procedures shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations of the PMU or its ability to carry out the Project.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (b) of Section 5.01 of this Agreement shall occur; and

(b) the event specified in paragraph (a)(i)(B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (a)(ii) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that all conditions precedent to the effectiveness of the IFAD Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

Section 6.02. The date one hundred twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Planning and Development is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Planning and Development
P.O. Box 175
Sana'a
Republic of Yemen

Cable address: Telex:

CENPLAN Sana'a

For the Association:

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

Cable address: Telex:

INDEVAS 248423 (MCI) or
Washington, D.C. 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 Sana'a, Republic of Yemen, as of the day and year first above written.

REPUBLIC OF YEMEN

By /s/ Abdulkader Bajamal

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Kemal Dervis

Regional Vice President
Middle East and North Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

SCHEDULE WAS DONE IN COLUMN FORMAT

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;

(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; and

(c) the term "Incremental Operating Costs" means the incremental expenses incurred on account of Project implementation, management and monitoring, including

office rental, office supplies, vehicle and equipment operation and maintenance, utilities and communications expenses, travel and supervision costs, local contractual staff salaries, but excluding salaries of officials of the Borrower 's civil service, and costs for meetings of the Steering Committee.

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 Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (i) works under contracts not exceeding \$1,000,000 equivalent; (ii) goods under contracts not exceeding \$200,000 equivalent; (iii) contracts for consulting firms not exceeding \$100,000 equivalent; (iv) Incremental Operating Costs; and (v) contracts for individual consultants and training not exceeding \$50,000 equivalent, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to develop or rehabilitate land located in poor rural regions of the Southern Governorates for allocation to landless farm families; (b) to raise the welfare in impoverished rural communities in the Southern Governorates through off-farm income-generating activities; and (c) to develop rural communities in the Southern Governorates.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Land Development

1. Development or rehabilitation of farming land through well drilling, provision of pumping equipment, conveyance of water from wells to fields, leveling of fields, leaching, deep ploughing, canal construction, tree planting, soil amendment, reclamation of land, and provision of vehicles therefor.

2. Rehabilitation of state farm lands in the Hadramawt Governorate through well drilling and cleaning, provision of pumping equipment, conveyance of water from wells to fields, canal lining, leveling of fields, leaching, deep ploughing, weeding, canal construction, tree planting, soil amendment, and reclamation of land.

3. Provision of training and extension assistance to farmers.

Part B: Off-Farm Income Development

1. Support for livestock development through training in animal health protection, and the provision of veterinary equipment and medicines.

2. Support for artisanal fishing on the south coast west of Mukalla through training and assistance in preparation of applications for credit to purchase boats and fishing gear.

3. Assistance to new and existing micro and small enterprises, and promotion of other revenue-earning services, including provision of training and apprenticeships in agriculturally related fields, artisanal activities, building skills, and other revenue-generating services, and provision of vehicles therefor.

4. Development of institutional capacity for micro finance and small enterprise lending activities through provision of technical assistance and training.

Part C: Rural Community Development

1. Development of community management skills and institutions through provision of training and logistical support to community organizations and provision of vehicles therefor.

2. Provision of grants for community Subprojects in water supply and sanitation, community centers, flood protection works and other local community infrastructure.

Part D: Implementation and Future Projects

1. Development of the institutional capacity of the PMU for implementation of the Project through provision of equipment, technical assistance, and training.

2. Carrying out of studies for preparation of future agriculture projects.

* * *

The Project is expected to be completed by December 31, 2003.

SCHEDULE 3

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 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 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 works shall be grouped in bid packages estimated to cost \$1,000,000 equivalent or more each, and contracts for goods shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each.

(b) Preference for domestically manufactured goods and domestic contractors

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 and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures.

1. National Competitive Bidding

Works estimated to cost less than \$1,000,000 equivalent per contract, and goods estimated to cost less than \$200,000 per contract, up to an aggregate amount not to exceed \$1,300,000 equivalent, 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, up to an aggregate amount not to exceed \$750,000 equivalent, 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, up to an aggregate amount not to exceed \$ 250,000 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. Procurement of Goods and Works through Community Participation

Goods and works required for Part C (2) of the Project up to an aggregate amount not to exceed \$2,000,000 shall be procured in accordance with procedures acceptable to the Association.

5. Procurement of Small Works

Works estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$4,000,000 equivalent, 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 Association, 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 Association 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 \$1,000,000 or more and each contract for goods estimated to cost the equivalent of \$200,000 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, 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

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 estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with

the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Individual Consultants

Services for the PMU and other tasks estimated to cost less than \$100,000 equivalent per contract that meet the requirements set forth in paragraph 5.01 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 Association 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 \$200,000 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 \$100,000 or more, but less than the equivalent of \$200,000, 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 \$50,000 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. The Project shall be carried out by MAWR through the Steering Committee and the PMU in accordance with the Manual of Procedures, as such manual may be updated from time to time by agreement between the Borrower and the Association.

2. (a) For the purpose of ensuring the proper coordination and execution of the Project, the Borrower shall maintain the Steering Committee, with membership and terms of reference satisfactory to the Association.

(b) The functions of said Steering Committee shall include, inter alia:

(i) appointment of senior staff of the PMU;

(ii) review and approval of the annual work programs budgets and reports for the operation of the PMU;

(iii) appointment of auditors and review of auditor's reports;
and

(iv) review of annual staff performance reviews to be carried
out in accordance with the Manual of Procedures by January 31 of
each year.

3. (a) For the purpose of ensuring the proper supervision of the execution of the Project, the Borrower shall maintain the PMU with organization, staffing and terms of reference satisfactory to the Association; and to this end: (i) shall by December 31, 1997, appoint a senior community development specialist, a senior business development adviser, a senior engineer, and a finance manager satisfactory to the Association in accordance with Section II of Schedule 3 to this Agreement; and (ii) shall by March 31, 1998, appoint other key staff satisfactory to the Association in accordance with Section II of Schedule 3 to this Agreement.

(b) The Borrower shall ensure that the PMU will:

(i) prepare annual work programs, budgets and reports in
accordance with the Manual of Procedures;

(ii) furnish to the Association prior to November 30 of each
year its proposed annual work programs, budgets and reports
for the next year;

(iii) afford the Association a reasonable opportunity to review
such proposed annual work programs, budgets and reports; and

(iv) following the approval by the Association, carry out the
Project activities in accordance with the annual work
program.

4. (a) In carrying out Part A of the Project and, prior to initiating any activity to develop the land sites under the Project the Borrower shall: (i) demarcate such sites in accordance with the Manual of Procedures; and (ii) grant freehold title on individual plots of land to beneficiaries selected in accordance with the Manual of Procedures.

(b) The Borrower shall recover from the each of the beneficiaries granted freehold title in accordance with Paragraph 4 (a) above, an amount equivalent to fifty percent of the cost of pumps, engines, and irrigation systems. Such amount shall be repaid over a fifteen year term, including three years grace, commencing from the start of farming operations. The amounts to be so recovered shall be secured by a mortgage over the title to such plots of land. The title would also be subject to covenants concerning cultivation of the land, membership in the water users' association, and agreements: (i) not to sell the land for a ten year period, (ii) not to use the land for non-agricultural purposes, and (iii) not to drill shallow wells.

(c) The Borrower shall appoint, in accordance with Section II of Schedule 3 to this Agreement, a financial institution satisfactory to the Association to collect the amounts secured by mortgages under Paragraph 4 (b) above. Amounts so collected will be deposited into an escrow account to be used for local community projects. The Borrower shall authorize one or more local community organizations to select local community projects and administer the escrow account in accordance with procedures satisfactory to the Association.

5. The Borrower shall ensure that the PMU will: (a) by December 31, 1998, prepare and furnish to the Association for approval, a manual for operation and maintenance of the groundwater irrigation schemes under Parts A (1) and A (2) of the Project; (b) by December 31, 1999, prepare and furnish to the Association for approval, a manual for operation and maintenance of the spate irrigation scheme under Part A (2) of the Project; (c) by December 31 of each year, assist the water user associations to review and revise the charges paid by water users under such schemes so as to cover all operation and maintenance costs; (d) cause the PMU to inspect the irrigation systems under Parts A (1) and A (2) of the Project periodically, and to assist the water user associations to maintain such irrigation systems in accordance with sound engineering practice, under arrangements satisfactory to the Association; and (e) prepare and

furnish to the Association for review by December 31, 1998, a water management program for the spate irrigation system under Part A (2) of the Project to ensure that the allocation and distribution of water will be equitable and efficient.

6. The Borrower shall: (i) prepare and furnish to the Association by December 31, 1998, a plan to control groundwater abstraction in the areas developed for groundwater irrigation under the Project; (ii) carry out such plan by limiting abstraction in each aquifer to those amounts recommended under such plan; and (iii) prepare and furnish to the Association by March 31 in each year a report on monitoring and assessment of groundwater levels during the preceding year for each of the areas developed for groundwater irrigation under the Project.

7. With regard to Part C (2) of the Project, the Borrower shall ensure that the PMU shall

(i) appraise Subprojects in accordance with the Manual of Procedures, and that such Subprojects meet the criteria set forth therein;

(ii) prepare summary environmental assessments identifying any potential adverse environmental effects to be produced by proposed Subprojects; and

(iii) thereafter, carry out said Subprojects, including measures to screen and mitigate any adverse environmental effects.

8. The Borrower shall:

(a) maintain and cause the PMU to 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) cause the PMU to prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about September 30, 2000, a mid-term 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 November 1, 2000 or such later date as the Association shall request, the report referred to in subparagraph (b) of this paragraph, 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 \$500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for 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 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.

