AGREEMENT, dated May 6, 1988, between REPUBLIC OF CYPRUS (the Borrower) and 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, has requested the Bank to assist in the financing of the Project;

(B) the Borrower intends to request from the Kuwait Fund for Arab Economic Development (the Kuwait Fund) a loan (the Kuwait Fund Loan) in an amount equivalent to about fifteen million dollars ($15,000,000) to assist in financing part of the Project on the terms and conditions set forth in an agreement (the Kuwait Fund Loan Agreement) to be entered into between the Borrower and the Kuwait Fund;

(C) the Borrower intends to contract from various suppliers of water treatment and water supply equipment credits (the
Suppliers Credits) in respective amounts equivalent to about seven million dollars in 1988 and about eighteen million dollars in 1989;

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I
General Conditions; Definitions

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

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

(a) "domestic water" means water used for domestic and industrial purposes, supplied either in bulk by WDD to Water Boards or Village Councils, or on a retail basis by Water Boards or Village Councils to individual consumers;

(b) "irrigation water" means water used for irrigation made available pursuant to the Project described in Schedule 2 to the First Loan Agreement, the Project described in Schedule 2 to this Agreement, the Prior Irrigation Projects and the Operational Irrigation Schemes;

(c) "First Loan Agreement" means the Loan Agreement dated April 11, 1984 between Republic of Cyprus and International Bank for Reconstruction and Development for the Southern Conveyor Project for Water Resources Development (Loan No. 2386-CY);

(d) "Prior Irrigation Project" means the Paphos Irrigation Project (Loan No. 960-CY), the Vasilikos-Pendaskinos Project for Water Resources Development (Loan No. 1658-CY) and Khrysokhou Irrigation Project (Loan No. 2279-CY);

(e) "Operational Irrigation Schemes" means all the Borrower’s irrigation schemes and projects, other than the Prior Irrigation Projects, the Project described in Schedule 2 to the First Loan Agreement and the Project described in Schedule 2 to this Agreement;

(f) "MANR" means the Borrower’s Ministry of Agriculture and Natural Resources;

(g) "WDD" means the Water Development Department within MANR; and

(h) "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 Loan Agreement, an amount in various currencies equivalent to thirty million dollars ($30,000,000).

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 goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, 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 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1995, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

   (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.

   (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.

   (iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on May 15 and November 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. 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 MANR with due diligence and efficiency and in conformity with appropriate agricultural, engineering, technical, administrative and financial practices, all in accordance with an action plan agreed upon between the Borrower and the Bank, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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. In order to carry out Part F.2 of the Project, the Borrower shall: (a) assign staff and recruit short-term consultants in accordance with a timetable agreed upon between the Borrower and the Bank; and (b) carry out the recommendations of said studies specifically with respect to the Kokkinokhoria aquifer, and the control of groundwater pumping in a manner and in accordance with a timetable to be agreed upon between the Borrower and the Bank.

Section 3.04. The Borrower shall: (a) furnish to the Bank for its approval, not later than (i) July 31, 1988, terms of reference for a study of the ecology of the Akrotiri Salt Lake and the water balance of the Phasouri Marsh, and (ii) March 31, 1990, an environmental management plan for said lake and said marsh, based on the conclusions of said study; and (b) not later than March 31, 1991, implement said plan.

Section 3.05. Unless the Bank shall otherwise agree, the Borrower shall: (i) not later than June 30, 1989, complete and furnish to the Bank the study referred to in Part G.1 of Schedule 2 to the First Loan Agreement; and (ii) exchange views with the Bank on the findings and recommendations of such study and undertake such actions as are necessary to implement said recommendations and as are agreed upon between the Borrower and the Bank.

Section 3.06. (a) The Borrower shall employ a panel of independent engineering experts, whose qualifications, experience and terms of reference shall be satisfactory to the Bank to inspect the tunneling works for the Dharizos Diversion Tunnel at least twice a year during the construction of said tunnel; such inspections shall be carried out in accordance with sound engineering practices and shall, inter alia, determine whether the geological conditions warrant or require any changes in tunnel design or construction methods.

(b) Promptly after each inspection pursuant to paragraph (a) of this Section, the Borrower shall take all necessary action to carry out any recommendations of said experts.

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: (i) in respect of the Project, of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof; and (ii) in respect of each of the Borrower’s irrigation schemes and domestic water supply schemes.

(b) The Borrower shall:

   (i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

   (ii) furnish to the Bank as soon as available, but in any case not later than 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 Bank shall have reasonably requested; and

   (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time
reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account 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. Not later than March 31, 1990, the Borrower shall establish charges for irrigation water which shall be sufficient to recover 38% of the weighted average unit cost of such water.

Section 4.03. For purposes of Section 4.02 of this Agreement: (a) the "weighted average unit cost" is calculated by multiplying the unit cost for each water scheme by the corresponding projected volume of water sold, totalling the results, and dividing such total by the total volume of water available under said schemes and projects; (b) the term "unit cost" means operation and maintenance costs plus capital costs; (c) the term "operation and maintenance costs" means the full cost of adequate operation and maintenance, including costs for energy, materials, operation and maintenance equipment, wages, salaries and administration costs, both for the individual water schemes and incurred at WDD headquarters; and (d) the term "capital costs" means the full capital cost of a water scheme including replacement investments, calculated at an interest rate of 9% per annum over a period of 40 years after a grace period of five years.

Section 4.04. The Borrower shall make budgetary allocations sufficient to cover any short-fall in WDD’s operating costs, debt service and working capital requirements related to its irrigation water operations.

Section 4.05. In order to establish tariffs for domestic water the Borrower shall: (a) as soon as the facilities to be constructed under the Project are completed, introduce and thereafter maintain a unified tariff for bulk water; and

(b) except as the Bank shall otherwise agree, maintain tariffs charged on all domestic water at levels which shall in respect of the Borrower’s domestic water supply schemes: (i) be sufficient to cover the full operating and maintenance costs (including contingencies for working capital requirements) and debt service requirements or depreciation, whichever is higher; and (ii) take into account, commencing with the introduction of domestic water tariffs for 1989, any shortfall or surplus in the required revenues in the previous year.

Section 4.06. For the purposes of Sections 4.04 and 4.05 of
this Agreement: (a) the term "working capital requirements" means, in respect of the Borrower’s irrigation or domestic water supply schemes, the difference between current assets (accounts receivable, inventories and cash) and current liabilities (accounts payable and amounts due to suppliers); and (b) the term "debt service requirements" means the aggregate amount of amortization and interest on debt in respect of an irrigation or domestic water supply scheme, and includes Government advances to be amortized over 40 years after a grace period of five years at an interest rate of 9% per annum.

Section 4.07. In order to implement charges for irrigation water and tariffs for domestic water the Borrower shall each year:

(a) carry out studies to determine the appropriate level of charges for all irrigation water in the following year, in accordance with Section 4.02 of this Agreement and with a methodology acceptable to the Bank;

(b) on the basis of forecasts prepared by the Borrower and satisfactory to the Bank, review whether its domestic water tariffs would permit the Borrower to meet in the current year the requirements set forth in Section 4.05 of this Agreement based on the average water tariffs for the current and the two next following years;

(c) not later than March 31, starting with March 31, 1989, furnish to the Bank for its review and comment proposed schedules of charges for irrigation water and tariffs for domestic water to be charged in the following year;

(d) not later than November 30, adopt the charges and tariffs for the following year, taking into account the Bank’s comments; and

(e) not later than the next following March 31, implement the revised charges and tariffs for the current year.

Section 4.08. For the purposes of collection of charges for irrigation water and tariffs for domestic water, the Borrower shall take all measures necessary to ensure:

(a) payment in full of all amounts by farmers, Water Boards and Village Councils, respectively, for irrigation water and bulk domestic water within 90 days of billing; and

(b) that its Water Boards and Village Councils regularly adjust the cost of domestic water supplied to consumers on a retail basis to reflect fully the current bulk domestic water tariffs.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall, until the completion of the Project, maintain the Project Implementation Unit, the Project Policy and Coordination Committee, the two Project Advisory Committees, the Project Monitoring and Evaluation Unit and the Project Operational Unit within WDD, referred to in Schedule 5 to the First Loan Agreement, with such terms of reference as shall be acceptable to the Bank.

Section 5.02. The Borrower shall ensure that the membership of the Project Advisory Committee for irrigation shall be expanded to include the District Officer of Limassol, and farmers’ representatives from the Larnaca, Limassol and Famagusta districts.

Section 5.03. The Borrower shall ensure that:

(a) the Project Monitoring and Evaluation Unit shall prepare the report referred to in Section 9.07 (c) of the General Condi-
(b) the staff of said unit shall at all times include at least one economist and one engineer.

Section 5.04. The Borrower shall by July 31, 1988, or such later date as the Bank may agree, employ an experienced financial manager within WDD’s accounting unit who shall be responsible, inter alia, for financial planning, calculation of water tariffs, customer billings and collections, and recording of capital and operating expenses.

Section 5.05. The Borrower shall:

(a) cause the facilities to be constructed under the Project to be operated and maintained at all times in accordance with appropriate agricultural, technical, engineering and irrigation practices;

(b) cause all necessary safety inspections, renewals and repairs thereof to be made from time to time; and

(c) provide, promptly as needed, the funds, facilities, services and other resources required therefor.

ARTICLE VI

Amendments to the First Loan Agreement

Section 6.01. Section 3.03 of the First Loan Agreement is superseded by Section 3.05 of this Agreement.

Section 6.02. Section 3.09 of the First Loan Agreement is superseded by Section 3.03 of this Agreement.

Section 6.03. Sections 4.04, 4.05 and 4.06 of the First Loan Agreement are hereby superseded by Sections 4.02 through 4.08 of this Agreement.

ARTICLE VII

Remedies of the Bank

Section 7.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified:

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

(A) The Kuwait Fund Loan Agreement shall have failed to become effective and any conditions precedent to the right of the Borrower to make withdrawals thereunder, if any, have not been met by December 31, 1988, or such later date as the Bank may agree; or

(B) the Borrower shall have failed to obtain Suppliers Credits in amounts equivalent to at least seven million dollars by December 31, 1988, and at least eighteen million dollars by December 31, 1989.

(ii) Subparagraph (i) of this Section shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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

(A) the right of the Borrower to withdraw the proceeds of the Kuwait Fund Loan made to the
Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the Kuwait Fund Loan Agreement; or

(B) that loan shall have become due and payable prior to the agreed maturity thereof.

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

Section 7.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, the event specified in paragraph (b) (i) (A) of Section 7.01 of this Agreement shall occur, subject to the proviso of paragraph (b) (ii) of that Section.

ARTICLE VIII

Termination

Section 8.01. 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 IX

Representative of the Borrower; Addresses

Section 9.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 9.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Nicosia
Cyprus

Cable address: MINFINANCE
Telex: 3399
Nicosia

For the Bank:

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

Cable address: INTBAFRAD
Telex: 440098 (ITT),
Washington, D.C. 248423 (RCA) or 64145 (WUI)

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

REPUBLIC OF CYPRUS

By /s/ Andrew Jacovides
Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ Eugenio Lari
Acting Regional Vice President
Europe, Middle East and North Africa

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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (Expressed in Dollar Equivalent)</th>
<th>% Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Civil works</td>
<td>24,500,000</td>
<td>50%</td>
</tr>
<tr>
<td>for Part A of the Project</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Equipment and materials</td>
<td>2,000,000</td>
<td>100% of foreign expenditures and 80% of local expenditures for imported items acquired locally</td>
</tr>
<tr>
<td>(3) Technical assistance and training</td>
<td>2,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Unallocated</td>
<td>1,500,000</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>30,000,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

2. For the purposes of this Schedule:

   (a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

   (b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.
SCHEDULE 2

Description of the Project

The objectives of the Project, which will complete the Borrower’s Southern Conveyor Scheme for Water Resources Development, are: (1) to ensure adequate domestic and industrial water supplies to the Famagusta, Larnaca, Limassol and Nicosia districts; (2) to maintain irrigated crop production in the Kokkinokhoria area and prevent further seawater intrusion into the aquifer in said area; (3) to deliver irrigation water to a total area of about 4,300 ha; (4) to bring into effect cost recovery measures for domestic and irrigation water in order to optimize the economic benefit to be derived from the Borrower’s water resources; and (5) to restructure the institutional framework for the improved management of those resources.

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: Dhiarizos Diversion

Diversion of water from the Dhiarizos river to the Kouris reservoir by the construction of:

(a) a weir with off-take structure at Arminou on the Dhiarizos river;

(b) a pipeline of about 1.6 km length, connecting the Arminou weir off-take with the tunnel referred to in paragraph (c) of this Part;

(c) a concrete-lined tunnel of about 14.5 km length; and

(d) an outlet structure through which water spills into the Kryos tributary of the Kouris river.

Part B: Irrigation Development, Land Consolidation and Farm Roads

(a) Construction of night storage reservoirs and a network of pipelines, including hydrants, valves and water meters, to deliver irrigation water to farms in an area of about 4,300 ha in the Akrotiri, Parekklisha, Mazotos and Kiti areas.

(b) Consolidation of up to 2,300 ha of land in the area referred to in paragraph (a) of this Part.

(c) Construction of about 74 km of farm roads in the consolidated area, referred to in paragraph (b) of this Part and of about 30 km of farm roads in the non-consolidated area referred to in paragraph (a) of this Part.

Part C: On-farm Development

Financing of specific on-farm irrigation systems, planting of tree crops, greenhouses and plastic tunnels, through medium term loans to farmers in the areas referred to in Part B (a) of the Project.

Part D: Domestic Water Supply

(a) Construction of two water treatment plants, one at Limassol with an initial capacity of about 40,000 m³/day and one at Tersephanou with an initial capacity of about 50,000 m³/day.

(b) Construction and installation of transmission facilities for water from the Tersephanou water treatment plant to Nicosia, including a balancing reservoir at Dhaîl and a booster pumping station with a capacity of about 40,000 m³/day.
(c) Construction of distribution reservoirs and networks of pipelines to deliver drinking water to about twenty villages in the Nicosia, Larnaca and Limassol districts.

Part E: Operation and Maintenance

Equipping of existing offices with small computers and equipment for the operation and maintenance of irrigation distribution networks and for land consolidation.

Part F: Institutional Improvements and Training

1. Supervision of construction under Parts A, B and D of the Project.

2. Carrying out of studies, under terms of reference acceptable to the Bank, on system operations, ecology, mathematical modelling for aquifers, aquifer recharge, reuse of treated sewage and diversion of Ezousa river water.

3. Implementation of institutional reforms for better water development planning and management.

4. (a) Computerization of WDD’s customer billing and collection system and O & M data processing.

(b) Training of WDD’s personnel in data processing, computerized customer billing and collection, O & M data processing, automated system operation, financial management and water system management.

* * * * *

The Project is expected to be completed by June 30, 1995.

SCHEDULE 3

Amortization Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Payment of Principal (expressed in dollars)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each May 15 and November 15 beginning November 15, 1991 through May 15, 2003</td>
<td>1,250,000</td>
</tr>
</tbody>
</table>

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

<table>
<thead>
<tr>
<th>Time of Prepayment</th>
<th>Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not more than three years before maturity</td>
<td>0.20</td>
</tr>
<tr>
<td>More than three years but</td>
<td>0.40</td>
</tr>
</tbody>
</table>
SCHEDULE 4

Procurement and Consultants’ Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, works and goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

2. Bidders for the works included in Part A of the Project shall be prequalified as described in paragraph 2.10 of the Guidelines.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Republic of Cyprus may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

Goods estimated to cost less than the equivalent of $350,000 per contract may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list of at least three qualified suppliers eligible under the Guidelines and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

   (a) With respect to each contract estimated to cost the equivalent of $350,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

   (b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished
pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c)(ii) of this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in carrying out Part F.1, 3 and 4 of the Project, the Borrower shall employ engineering, geohydrological and other consultants. In order to assist the Borrower in carrying out Part F.2 of the Project, the Borrower shall employ a panel of consultants with expertise in water resources system analysis, agricultural economy, geohydrology and micro-computer software. The qualifications, experience and terms and conditions of employment of all such consultants shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1 and 2 set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to 500,000 dollars to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, 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 may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Bank requests for replenishment of the Special Account at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made 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 the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Bank when either of the following situations first arises:

(i) the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(ii) the total unwithdrawn amount of the Loan allocated to the eligible Categories minus the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) 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 any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Bank, 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. No further deposit by the Bank into the Special Account shall be made until the Borrower has made such deposit or refund.

(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 for crediting to the Loan Account.