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CREDIT NUMBER 3796 UZ

Development Credit Agreement

(Drainage, Irrigation and Wetlands Improvement Phase-I Project)

between

REPUBLIC OF UZBEKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 5, 2004

CREDIT NUMBER 3796 UZ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated February 5, 2004, between REPUBLIC OF UZBEKISTAN (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) the Borrower has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional assistance towards the financing of the Project and by an agreement of even date herewith between the Borrower and the Bank (the Loan Agreement), the Bank is agreeing to provide such assistance in an aggregate principal amount equal to thirty five million Dollars (\$35,000,000) (the Loan);

(C) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Credit provided for in this Agreement be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Loan provided for in the Loan Agreement are made; 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 (as amended through October 6, 1999) (the General Conditions), constitute an integral part of this Agreement.

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

(a) "EMP" means the Environmental Management Plan for the Project, satisfactory to the Association, prepared and adopted by the Borrower, describing the

environmental mitigation, monitoring and institutional measures for the Project and constituting an integral part of the PIP (hereinafter defined);

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

(c) “KPCC” means the Karakalpak Project Coordination Committee to be established by the Borrower to provide overall supervision and coordination for Project implementation;

(d) “Loan Agreement” means the agreement of even date herewith between the Borrower and the Bank for the Project, as such agreement may be amended from time to time, and such term includes the “General Conditions applicable to Loan and Guarantee Agreements for Single Currency Loans” of the Bank, dated May 30, 1995, as amended through December 2, 1997, as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement;

(e) “MAWR” means the Ministry of Agriculture and Water Resources of the Borrower;

(f) “PIU” means the Project Implementation Unit, established by the Borrower within MAWR, for purposes of management of Project implementation;

(g) “PIP” means the Project Implementation Plan for the carrying out of the Project prepared and adopted by the Borrower, as the same may be amended from time to time with the agreement of the Association;

(h) “Project Preparation Advance” means the project preparation advance granted by the Bank to the Borrower pursuant to the letter agreement signed on behalf of the Bank on October 3, 2000 and on behalf of the Borrower on November 16, 2000, and the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on April 29, 2003 and on behalf of the Borrower on May 2, 2003;

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

(j) “Tumans” means a district level administrative unit, as defined in the law of the Borrower; and

(k) “WUAs” means Water Users Associations to be established in the Project area to improve water management and to undertake operation and maintenance of the irrigation and drainage systems and to promote sustainable irrigated agriculture through participatory irrigation management.

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 eighteen million four hundred thousand Special Drawing Rights (SDR 18,400,000).

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, works and services required for the Project 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, 2010 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 May 15 and November 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 May 15 and November 15 commencing November 15, 2013 and ending May 15, 2038. Each installment to and including the installment payable on May 15, 2023 shall be one and one-fourth percent ($1-1/4\%$) of such principal amount, and each installment thereafter shall be two and one-half percent ($2-1/2\%$) 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 the MAWR with due diligence and efficiency and in conformity with appropriate irrigation and drainage, engineering, environmental, administrative and financial 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 9.06 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, through the MAWR, shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

- (b) The Borrower, through the MAWR, shall:
 - (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association, 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: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
 - (iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may 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, through the MAWR, shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the 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.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Schedule 4 to this Agreement, the Borrower shall, through the MAWR, prepare and furnish to the Association a financial monitoring report for such period, in form and substance satisfactory to the Association, which:

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

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

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified, namely, that the PIP shall have been amended, suspended, abrogated or waived without the Association's prior consent.

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

ARTICLE VI

Effective Date; Termination

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

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The 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 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Mustakilik Square 5
Tashkent 700008
Republic of Uzbekistan

Telex:

11 6360 IK BOL

Facsimile:

(998-71) 144-5643

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

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

REPUBLIC OF UZBEKISTAN

By /s/ Mamarizo Nurmuratov

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Martin Raiser

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit and the Loan

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>Amount of the Loan Allocated (Expressed in USD)</u>	<u>% of Expenditures to be Financed</u>
(1) Works			
(a) South Karakalpakstan Main Drain under Part A.1 of the Project	1,840,000	29,650,000	76%
(b) Rehabilitation of collector drains under Part A.2 of the Project	1,760,000		80%
(c) Rehabilitation of main, branch and lateral canals under Part B.3 of the Project	1,180,000		80%
(d) Irrigation and drainage works in WUA areas under Part B.2 of the Project	4,400,000		80%
(e) Environmental Management Plan works under Part B.4 of the Project	1,180,000		80%

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>Amount of the Loan Allocated (Expressed in USD)</u>	<u>% of Expenditures to be Financed</u>
(2) Goods	810,000		100 % of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(3) Consultants' Services			100% for foreign consulting firms and foreign individual consultants, 100% for local consulting firms, 70% for local individual consultants and 100% of eligible social charges
(a) Engineering design and construction supervision, development of WUAs, design and supervision of irrigation and drainage works, and auditing services, under Parts B, D.1 and D.2 of the Project	3,820,000		
(b) Monitoring, evaluation and supervision of Environmental Management Plan, institutional development, technical assistance and training under Parts C and D.3 of the Project	1,250,000		
(c) Preparation of Phase II project under Part D.4 of the Project	740,000		

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>Amount of the Loan Allocated (Expressed in USD)</u>	<u>% of Expenditures to be Financed</u>
(4) Incremental Operating Costs of the PIU			
(a) PIU staff salaries	300,000		70% of PIU staff salaries and 100% of eligible social charges
(b) Other	150,000		90%
(5) Refunding of Project Preparation Advance	970,000		Amount due pursuant to Section 2.02 (c) of this Agreement
(6) Fee		350,000	Amount due under Section 2.04 of the Loan Agreement
(7) Unallocated	<u> </u>	<u>5,000,000</u>	
TOTAL	<u>18,400,000</u>	<u>35,000,000</u>	

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods 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 supplied from the territory of the Borrower;

(c) the term “foreign consulting firm” means a consulting firm which is registered or incorporated in the territory of any country other than that of the Borrower;

(d) the term “foreign individual consultant” means an individual consultant who is not a citizen of the territory of the Borrower;

(e) the term “local consulting firm” means a consulting firm which is registered or incorporated in the territory of the Borrower;

(f) the term “local individual consultant” means an individual consultant who is a citizen of the territory of the Borrower;

(g) the term “eligible social charges” means the employer’s contribution to social and medical charges assessed by the Borrower on employment contracts with citizens of the Borrower; and

(h) the term “Incremental Operating Costs of the PIU” means expenditures incurred by the PIU on account of management of Project implementation for salaries of staff, including eligible social charges (but excluding salaries of civil servants), communications, utilities, printing and publications, office rent, maintenance and supplies, office security systems, vehicle operation and maintenance, transportation and field trip expenses, and such other expenditures as may be agreed upon by the Association.

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: (a) works under contracts costing less than \$300,000 equivalent each; (b) goods, equipment and vehicles under contracts costing less than \$100,000 equivalent each; (c) services costing less than \$100,000 equivalent each for consulting firms and \$10,000 equivalent each for individual consultants; (d) training; and (e) Incremental Operating Costs of the PIU; all 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 to: (a) increase the productivity of irrigated agriculture, employment and incomes in the Karakalpakstan region of the Borrower; (b) improve the water quality of the Amu Darya river through the safe disposal of the drainage affluent and enhance the quality of wetlands in the Amu Darya delta; and (c) assist in the development of institutions for improving water management, operation and maintenance of the irrigation and drainage systems and for promoting sustainable irrigated agriculture through participatory irrigation management.

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: South Karakalpakstan Drainage Disposal System

1. South Karakalpakstan Main Drain: Construction of the South Karakalpakstan Main Drain for disposing drainage effluent from the Project area to the Aral Sea through:

(a) South Karakalpakstan Main Collector: Completion of the partially constructed South Karakalpakstan Main Collector, which includes: (i) remodeling the Beruni collector drain in order to reverse its flow towards the Akcha Darya; (ii) linking the Beruni collector drain with Ayazkala collector drain; (iii) enlarging the existing Ayazkala collector drain up to its outfall in the Akcha Darya; and (iv) connecting the existing collector drains in the area to South Karakalpakstan Main Collector; and

(b) Akchadarya Main Drain: Completion of construction of Akchadarya Main Drain, linking the South Karakalpakstan Main Collector with the Jana Darya, including channel excavation, channel protection works, and wetland control structures.

2. Improvements to Collector Drains: Selective improvements to the main and secondary collector drains in South Karakalpakstan, including general cleaning, deepening where required, removal of constrictions, hydraulic and protection works at the junctions with the South Karakalpakstan Main Collector and selective rehabilitation of other related hydraulic structures.

Part B: Irrigation Improvements and Command Area Development

1. Development of Water Users Associations: Establishment of WUAs in the Project area which would participate in irrigation management, including, water distribution, operation and maintenance of the system and collection of water charges, identification and prioritization of rehabilitation works to be undertaken and participation in monitoring of implementation thereof.

2. (a) Irrigation and Drainage Improvements within the areas managed by the WUAs: Improvement of critical infrastructure as prioritized by the WUAs, including land leveling and/or construction of additional field drains.

(b) Technical Assistance and Training for Improving Irrigation and Drainage and Agricultural Practices: Increasing agricultural production through: (i) farmers' participatory training involving training of specific target groups in various agro-technical fields and farm management; (ii) demonstration of technologies to increase production, improve water use efficiencies and reduce environmental degradation, including development of demonstration plots and provision of machines, equipment and services for precision land leveling and essential agricultural extension services; and (iii) establishment of a farmers' information services desk to provide relevant information to farmers on making their farms more productive and sensitive to emerging market demands.

3. Main and Secondary Irrigation System Improvements: Selective improvements to the main and secondary irrigation canals in South Karakalpakstan, including rehabilitation of water control structures, removing constrictions if any, and canal cleaning.

4. Environmental Management Plan Works: Carrying out of required mitigation works as identified in the EMP.

Part C: Monitoring and Evaluation of Project Impact and Environmental Management Plan

Provision of continuous feedback to the MAWR, KPCC, and PIU on the Project's performance and impact, particularly, the implementation of the EMP, including but not limited to: (a) impact on the level of employment and household incomes in the Project area and estimation of the Project's overall benefits; (b) impact on agricultural production; (c) impact of irrigation and drainage improvements on ground water levels and quality and soil salinity; and (d) environmental impact of construction activities and implementation of mitigation measures identified in EMP.

Part D: Project Management, Institutional Development and Training

1. Provision to the PIU of: (a) incremental operating costs for management of Project implementation; and (b) technical assistance in the areas of irrigation and drainage, agricultural development, procurement, financial management, and auditing services.

2. Provision of technical assistance in the areas of detailed design, contract administration and construction supervision and procurement.

3. Carrying out of selected institutional strengthening activities, including: (a) introduction of modern tools for irrigation scheduling in the Project area; (b) provision of technical assistance in the areas of budgeting and accounting for Project operation and management; (c) training and study tours; and (d) carrying out of a study for improving water management in the Borrower's territory and the operation of the key hydraulic infrastructure on the river and in the Project area.

4. Carrying out of project preparation activities, including feasibility studies and preparation of bidding documents for a Phase II project.

* * *

The Project is expected to be completed by December 31, 2009.

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: (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines); and (b) the provisions of the following Parts of this Section I.

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) Prequalification

Bidders for works estimated to cost more than \$10,000,000 equivalent shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Grouping of contracts

To the extent practicable, contracts for works for WUAs shall be grouped in bid packages estimated to cost \$2,000,000 equivalent or more each.

(c) 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 \$300,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

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

3. National Shopping

Office equipment and vehicles estimated to cost less than \$50,000 equivalent per contract, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

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

(a) With respect to: (i) each contract for goods and works procured in accordance with international competitive bidding procedures referred to in Part B above; and (ii) each contract for works procured in accordance with national competitive bidding procedures referred to in Part C.1 above, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) each contract for goods procured in accordance with international shopping procedures referred to in Part C.2 above; and (ii) each contract for goods procured in accordance with national shopping procedures referred to in Part C.3 above, the following procedures shall apply:

- (A) prior to the selection of any supplier under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (B) prior to the execution of the contract procured under shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (C) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

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

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, 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

1. Least-cost Selection

Auditing services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. 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 in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

3. Single Source Selection

Services under Part D of the Project, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$10,000 or more, the report on the comparison of the qualifications and experience of candidates, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

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

SCHEDULE 4

Implementation Program

1. The Borrower shall carry out the Project in accordance with the requirements set forth or referred to in the PIP.
2. The Borrower shall maintain the PIU until completion of the Project with staff, resources and terms of reference satisfactory to the Association, and shall assign to it responsibility for Project management and coordination, including:
 - (a) preparation of disbursement applications under the Credit;
 - (b) management of the Special Account referred to in Section 2.02 (b) of this Agreement;
 - (c) maintenance of records and accounts related to the Project and arranging for the audit thereof;
 - (d) participation in administration of bidding procedures and of contracts under the Project; and
 - (e) preparation of quarterly progress reports in a format acceptable to the Association and submission thereof to the Borrower and the Association not later than 30 days after the end of each quarter, the first such report to be furnished to the Association not later than March 31, 2004.
3. The Borrower, through the PIU, shall prepare and furnish to the Association by November 30 in each year, for its review and concurrence: (a) an annual work program for the Project for the following calendar year, including procurement and financing plans; and (b) an annual progress report.
4. By December 31, 2003, the Borrower shall establish and thereafter maintain the KPCC until completion of the Project with composition, resources and terms of reference satisfactory to the Association to provide overall management and coordination of Project implementation.
5. The Borrower shall ensure that all measures necessary for the carrying out of the Environmental Management Plan shall be taken in a timely manner and shall include adequate information on the carrying out of such measures in the quarterly progress reports referred to in paragraph 2 (e) of this Schedule.
6. By July 31, 2004, the Borrower shall: (a) employ consultants, with qualifications, experience and terms of reference satisfactory to the Association, for the carrying out of monitoring and evaluation activities of the Project; and (b) thereafter, take all measures

necessary to ensure that consultants shall be maintained until completion of the Project, in accordance with their terms of reference and the terms and conditions of their contracts, for the activities under (a) above.

7. (a) Without any limitation or restriction upon any of its obligations under this Agreement, the Borrower shall make adequate annual budgetary allocations for the operation and maintenance of the infrastructure constructed and/or rehabilitated under the Project, the first such annual budgetary allocation to be made for the fiscal year 2007, and, thereafter, maintain said annual budgetary allocations.

(b) Unless otherwise agreed with the Association during the Project mid-term review, the level of said annual budgetary allocations shall be: (i) US\$1,000,000 equivalent annually for the South Karakalpakstan Main Drain; and (ii) US\$1,800,000 million equivalent annually for the operation and maintenance of the main irrigation and drainage infrastructure within the command area of South Karakalpakstan.

8. 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 July 31, 2006, 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 October 31, 2006, 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), (2), (3) and (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, works 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 \$1,000,000 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 \$500,000, 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 10,000,000.
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 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 paragraph 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.