

CONFORMED COPY

LOAN NUMBER 4041 KZ

Loan Agreement

(Irrigation and Drainage Improvement Project)

between

REPUBLIC OF KAZAKSTAN

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated June 25, 1996

LOAN NUMBER 4041 KZ

LOAN AGREEMENT

AGREEMENT, dated June 25, 1996, between REPUBLIC OF KAZAKSTAN (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, 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 Bank 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 Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(c) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l), and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

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

(a) "CWR" means the Committee for Water Resources, an administrative agency of the Borrower, and includes any successor thereto;

(b) "EU" means the environmental unit to be established by the Borrower within the MOA and referred to in paragraph 3 of Part A of Schedule 5 to this Agreement;

(c) "ICC" means the Borrower's inter-ministerial coordinating committee referred to in paragraph 1 of Part A of Schedule 5 to this Agreement;

(d) "MOA" means the Borrower's Ministry of Agriculture;

(e) "MOEB" means the Borrower's Ministry of Ecology and Bioresources;

(f) "OCCs" means oblast coordinating committees referred to in paragraph 5 of Part A of Schedule 5 to this Agreement;

(g) "Participating Farm" or "Participating Farms" means the farm or farms selected for participation in the Project pursuant to paragraph 2 of Part B of Schedule 5 to this Agreement;

(h) "PIME" means the pilot irrigation management entity referred to in paragraph 7 of Part A of Schedule 5 to this Agreement;

(i) "PIU" means the project implementation unit established within the MOA by MOA Order No. 182, dated November 24, 1995;

(j) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to an exchange of letters dated April 14, 1995, and July 27, 1995, between the Borrower and the Bank;

(k) "Resolution" means the resolution or resolutions, and any attachments and annexes thereto, adopted by the Borrower pursuant to paragraph 1 of Part B of Schedule 5 to this Agreement, as the same may be amended by the Borrower from time to time in agreement with the Bank;

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

(m) "Sub-project" means the sub-project selected for inclusion under Part A of the Project pursuant to paragraph 2 of Part B of Schedule 5 to this Agreement; and

(n) "WUAs" means water user associations referred to in paragraph 6 of Part A of Schedule 5 to 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 the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of eighty million Dollars (\$80,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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, works 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 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 Bank, 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 6 to this Agreement.

(c) Promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan 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 December 31, 2003, 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 per cent ( $3/4$  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 for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ( $1/2$  of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during 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 determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

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

(d) On such date as the Bank may specify by no less than six months' notice

to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on June 1 and December 1 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. (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 Parts A and B of the Project through the MOA, and Part C thereof through the MOA, MOEB and other agencies of the Borrower, all with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, engineering, and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.04. 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 Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about September 30, 1999, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this

Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by October 31, 1999, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

Section 3.05. 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 Bank, the Borrower's national investment program in the irrigation sector;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about September 30, 1997, September 30, 1998, September 30, 1999, September 30, 2000, September 30, 2001, and September 30, 2002, respectively, an annual report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section during the period preceding the date of said report, and setting out the measures deemed appropriate to ensure that the Borrower's investments in the irrigation sector are appropriate and consistent with the objectives of the Project and, specifically, the Borrower's obligation under Section 3.01 (a) of this Agreement to make available the funds and other resources required for the Project; and

(c) review with the Bank, by October 31, 1997, October 31, 1998, October 31, 1999, October 31, 2000, October 31, 2001, and October 31, 2002, respectively, or such later date as the Bank shall request, the annual reports referred to in paragraph (b) of this Section, and, thereafter, continue its implementation of the national investment program in the irrigation sector, taking into account the Bank's views on the matter and the Borrower's obligations under Section 3.01 (a) of this Agreement to make available the funds and other resources required for the Project.

#### 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 Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year, 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 (1) year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special 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.

#### ARTICLE V

##### Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that the Resolution shall have been amended, waived or repealed.

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.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely that the Resolution has been duly adopted by the Borrower and has entered into force.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely that the Resolution has been duly adopted and has entered into force.

Section 6.03. 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 Borrower's Minister of Finance or Deputy Minister of Finance 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  
97 Ablai Khan Avenue  
Almaty, 480091  
Republic of Kazakhstan

Telex:

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  
Washington, D.C.

Telex:

248423 (RCA)  
82987 (FTCC)  
64145 (WUI) or  
197688 (TRT)

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 KAZAKSTAN

By /s/ Bolat Nurgaliyev

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Yukon Huang

Acting Regional Vice President  
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Goods	3,500,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(2) Works	60,400,000	70%
(3) Consultants'	11,600,000	100%

	services		
(4)	Refunding of Project Preparation Advance	1,500,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(5)	Unallocated	3,000,000	
		<hr/>	
	TOTAL	80,000,000	=====

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.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement; and

(b) payments made for expenditures in respect of Category (2), unless the Sub-project in respect of which disbursement is sought has been approved by the Bank in accordance with the provisions of Schedule 7 to this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for goods under contracts costing less than \$200,000 equivalent, works under contracts costing less than \$500,000 equivalent, and services under contracts costing less than: (i) \$100,000 equivalent for consulting firms; and (ii) \$50,000 equivalent for individuals, under such terms and conditions as the Bank shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to: (a) promote sustainable irrigated agricultural production in the Republic of Kazakhstan through irrigation and drainage rehabilitation, improved water management, and strengthened operation and maintenance; (b) introduce more efficient and effective agricultural practices and farmers' information services; and (c) strengthen institutional capacity of irrigation and environmental agencies and entities of the Borrower.

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

Part A: Rehabilitation of Irrigation and Drainage Systems

Carrying out of sub-projects for improving the reliability and efficiency of irrigation water use by rehabilitating farm and inter-farm irrigation and drainage systems.

Part B: Agricultural Development of Privatized Farms

Promotion of agricultural development of privatized farms through the provision of goods and services necessary to improve farmer training, and enhance demonstration activities, and information services.

Part C: Institution Building



1. Improve the institutional capacity of the MOA, MOEB, PIU, and other agencies of the Borrower to implement the Project, through the provision of goods, services and training.

2. Improve the operation and management of inter-farm irrigation systems through the carrying out of a study related to the establishment and operation of the PIME, through the provision of services.

\* \* \*

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

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars)*
On December 1, 2001	1,550,000
On June 1, 2002	1,605,000
On December 1, 2002	1,660,000
On June 1, 2003	1,720,000
On December 1, 2003	1,780,000
On June 1, 2004	1,845,000
On December 1, 2004	1,905,000
On June 1, 2005	1,975,000
On December 1, 2005	2,040,000
On June 1, 2006	2,115,000
On December 1, 2006	2,185,000
On June 1, 2007	2,265,000
On December 1, 2007	2,345,000
On June 1, 2008	2,425,000
On December 1, 2008	2,510,000
On June 1, 2009	2,595,000
On December 1, 2009	2,685,000
On June 1, 2010	2,780,000
On December 1, 2010	2,880,000
On June 1, 2011	2,980,000
On December 1, 2011	3,085,000
On June 1, 2012	3,190,000
On December 1, 2012	3,300,000
On June 1, 2013	3,415,000
On December 1, 2013	3,535,000
On June 1, 2014	3,660,000
On December 1, 2014	3,785,000
On June 1, 2015	3,920,000
On December 1, 2015	4,055,000
On June 1, 2016	4,210,000

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\* 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

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum)

	applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

#### SCHEDULE 4

##### 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 1996 (the Guidelines) and the following provisions of this Section, as applicable.

###### 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 provision shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

###### Notification and Advertising

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

###### Part C: Other Procurement Procedures

###### 1. National Competitive Bidding

Works estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$2,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

###### 2. International Shopping

Goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$3,000,000 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 \$2,000,000 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 Small Works

Works estimated to cost less than \$100,000 equivalent per contract, up to an amount not to exceed \$500,000 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 Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

## Part D: Review by the Bank of Procurement Decisions

### 1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

### 2. Prior Review

With respect to each contract for goods estimated to cost the equivalent of \$200,000 or more, each contract for works estimated to cost the equivalent of \$500,000 or more, the first contract for works procured under national competitive bidding procedures, the first contract for small works procured in accordance with Part C.4, 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

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions 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 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each; or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to: (a) the terms of reference for such contracts; (b) single-source selection of consulting firms; (c) assignments of a critical nature, as reasonably determined by the Bank; (d) amendments to contracts for the employment of consulting firms raising the contract value to

\$100,000 equivalent or above; or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

## SCHEDULE 5

### Implementation Program

#### Part A: General Project Implementation Responsibilities

1. ICC. The Borrower shall maintain until completion of the Project, in a manner and under terms of reference satisfactory to the Bank, an inter-ministerial coordinating committee (ICC), chaired by a high level official of the MOA, with members from the Borrower's Ministries of Finance, Economy, Geology and Construction, MOEB, CWR, PIU, Borrower's Committee for Utilization of Foreign Capital, Borrower's State Committee on Land Relations and Organization of Land Use, Borrower's Hydrometeorological Services, Borrower's State Sanitary-Epidemiological Service under the Borrower's Ministry of Health, and Borrower's Committee on Forests. The ICC shall be responsible for reviewing the progress of Project implementation and resolving any general issues related to inter-agency coordination within the framework of the Project.

2. MOA and PIU. The MOA shall be responsible for overall Project implementation and supervision. The PIU shall be responsible for day-to-day Project administration, management and coordination, including activities related to, inter alia, procurement, accounting, disbursement, auditing, reporting, as well as identification, preparation, analysis, and selection of potential Sub-projects, and monitoring and evaluation of Sub-projects. The PIU shall be assisted by qualified consultants, appointed pursuant to the provisions of Section II of Schedule 4 to this Agreement, who shall advise the PIU on matters related but not limited to: (i) overall Project planning and management; (ii) design and implementation of irrigation and drainage works; (iii) farm management and training; (iv) environment; (v) procurement; (vi) financial management; and (vii) Sub-project evaluation and performance monitoring.

3. EU. By March 31, 1997, the MOA shall establish an environmental unit (EU) within the MOA. The EU shall be headed by a high level official of the MOA and staffed with an appropriate number of environmental specialists. The EU shall be responsible, among other things, for: (i) development and enforcement of sectoral environmental policies and action plans; (ii) planning and management to meet the MOA's responsibilities under the Borrower's environmental legislation; (iii) development of the MOA's environmental assessment capacity for sectoral, regional, and project-specific activities; (iv) coordination of sectoral environmental training; and (v) interaction with other environmental agencies of the Borrower.

4. MOEB. The MOEB shall be responsible for coordinating the environmental aspects of the Project. 5. OCCs. The Borrower shall maintain until completion of the Project, in a manner and under terms of reference satisfactory to the Bank, oblast coordinating committees (OCCs), which shall assist the PIU in the resolution of inter-agency issues related to the Sub-projects on the oblast level.

6. WUAs. The MOA shall examine and develop, to the extent appropriate, with the assistance of consultants, and in a manner satisfactory to the Bank, the framework for establishment and operation of water user associations (WUAs) within the boundaries of former state farms and collectives, whereby WUAs shall be responsible for operation and management of irrigation and drainage systems within such boundaries.

7. PIME. The MOA shall: (a) undertake and, by April 30, 1997, complete a study related to the legal, organizational, operational and technical aspects of a pilot irrigation management entity (PIME), under terms of reference satisfactory to the Bank.

#### Part B: Project-Specific Implementation Responsibilities

1. The Borrower shall adopt a resolution (Resolution), satisfactory to the Bank, establishing the legal and regulatory framework for the carrying out of Part A of the Project, which shall include the procedures, eligibility criteria, and terms and conditions set forth in Schedule 7 to this Agreement.

2. The Borrower shall: (a) select sub-projects (Sub-projects) under Part A of the Project and farms for inclusion in the Project in accordance with the procedures and eligibility criteria set forth in the Resolution and satisfactory to the Bank, including the procedures and eligibility criteria set forth in Schedule 7 to this Agreement; and (b) carry out the Sub-projects in accordance with the terms and conditions set forth in the Resolution and satisfactory to the Bank, including the terms and conditions set forth in Part C of Schedule 7 to this Agreement.

3. The Borrower shall maintain, until the completion of the Project, the PIU, and ensure that the PIU at all times functions in accordance with procedures, and is at all times staffed and managed by persons with qualifications and under terms of references necessary for successful Project implementation, and satisfactory to the Bank.

4. The Borrower shall ensure that national cost recovery rates for operation and maintenance of irrigation and drainage infrastructure outside the boundaries of the former state farms and collectives are no less than fifty-five percent (55%) by December 31, 1997, seventy percent (70%) by December 31, 1998, eighty percent (80%) by December 31, 1999, and greater than ninety percent (90%) by December 31, 2000.

#### SCHEDULE 6

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) 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 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 \$1,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$2,000,000.

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

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan

Account and deposit into the Special Account such amount as the  
Borrower shall have requested and as shall have been shown by  
said documents and other evidence to have been paid out of the  
Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

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

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less 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 equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

## SCHEDULE 7

### Procedures, Eligibility Criteria, and Terms and Conditions Applicable to Participating Farms and Sub-projects

#### Part A: Procedures

1. The Borrower shall, prior to the selection of each Sub-project, submit the proposal for that Sub-project to the Bank for approval.
2. In addition to the general procedures described in paragraph 1 of Part A of this Schedule, the following procedures shall apply to the selection of Sub-projects:
  - (a) Before a farm becomes a Participating Farm, it shall submit to the PIU a letter of intent, expressing interest in, and providing a summary of, the proposed Sub-project.
  - (b) The PIU shall determine, taking into account the information provided in the letter of intent and following consultations with and no objection from the Bank, whether or not to further prepare and appraise the proposed Sub-project.
  - (c) If, following the above procedures, the PIU determines to proceed with the preparation of the proposed Sub-project, the PIU shall, where applicable in consultation with the Participating Farm, prepare for the proposed Sub-project: (i) a feasibility report in the form required under the Resolution and satisfactory to the Bank; and (ii) an environmental impact assessment satisfactory to the Bank. The feasibility report shall contain: (i) a description of the Participating Farm, including its legal status and ownership; (ii) copy of the charter (bylaws) of the Participating Farm; (iii) description of the Sub-project; (iv) estimate of the Sub-project's costs; (v) economic and financial analysis of the Sub-project; (vi) an assessment of the potential impact of the proposed Sub-project, if any, on other riparian countries; and (vii) plan for operation and maintenance, and, when applicable, proposed arrangements for a WUA.
  - (d) Before the PIU approves the Sub-project, the PIU shall submit the proposed Sub-project to the Bank for review and approval. When presenting the proposed Sub-project to the Bank, the PIU shall furnish to the Bank: (i) the reports referred to in paragraph 2 (c) above; (ii) the conclusions of the State Ecological Expertise Review; (iii) the letter of intent referred to in paragraph 2 (a) above; and (iv) such other information as the Bank shall reasonably request.

#### Part B: Eligibility Criteria

1. Participating Farms and Sub-projects shall be selected only with respect to farms and proposals selected and evaluated in accordance with criteria satisfactory to the Bank, including the criteria set forth below.
2. In selecting the Participating Farms and Sub-projects, the Borrower shall ensure that:
  - (a) Sub-projects shall seek to rehabilitate existing irrigation schemes; (no irrigation of new areas is to be provided under the Sub-project, except for such land which was previously irrigated) and, depending on the assessment of the potential impact of the proposed Sub-projects on other riparian countries, shall comply with the policies and procedures in this regard acceptable to the Bank;
  - (b) Sub-projects shall not divert water from major river basins to another;
  - (c) Sub-projects shall not drain or reclaim any significant area of natural wetland which has or is likely to have a significant impact on an important area of wildlife habitat or major fishery;
  - (d) Sub-projects shall not use untreated domestic waste water for irrigation;
  - (e) irrigation of tobacco plants shall not be eligible for inclusion in any Sub-projects;

(f) Sub-projects shall have an economic rate of return and financial rate of return equal to or greater than twelve percent (12%);

(g) farms applying to become Participating Farms shall be private farms;

(h) Sub-projects shall address the risk of encountering unknown archeological or historical sites by adopting and following appropriate procedures, satisfactory to the Bank, addressing such a risk; and

(i) Sub-projects shall not cause the deterioration of water quality in the areas outside Sub-project areas, meet all local and national environmental standards and requirements, and that Sub-projects' design and implementation provide for adequate mitigation measures to ensure full compliance with local and national health, environmental, and safety standards and requirements.

Part C: Terms and Conditions

1. Each Sub-project shall be carried out with due diligence and efficiency under the supervision of qualified and experienced management assisted by competent staff in adequate numbers, and in accordance with sound technical, financial, environmental, commercial and managerial standards, including local and national environmental requirements.

2. The Borrower shall cause the Participating Farms to allow the representatives of the Bank, if the Bank shall so request, to inspect such goods and the sites, works, plants and construction included in the Sub-project, the operation thereof, and any relevant records and documents.

3. The Borrower shall ensure that on-farm investment costs incurred for each Sub-project shall be recovered in accordance with the following criteria:

(a) cost recovery shall be based on a per-hectare fee;

(b) cost recovery shall be achieved during a period of not less than thirty (30) years; and

(c) cost recovery rate shall be not more than eighty percent (80%) and not less than seventy percent (70%).

