

CONFORMED COPY

CREDIT NUMBER 3914 ALB

Development Credit Agreement

(Water Resource Management Project)

between

ALBANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 29, 2004



CREDIT NUMBER 3914 ALB

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 29, 2004, between ALBANIA (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;

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 have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Beneficiary” or “Beneficiaries” means FWUAs, WUAs and the Drainage Boards which will identify and participate in implementing Sub-projects under Part A.1 of the Project;

(b) “Drainage Boards” means the drainage boards established pursuant to the provisions of Chapter 5 of the Irrigation and Drainage Law;

(c) “EMP” means the Environmental Management Plan, satisfactory to the Association, dated February 13, 2004, setting forth procedures and measures to mitigate any adverse impacts to the environment and monitoring measures for Part A.1 of the

Project, as the same may be amended from time to time with the agreement of the Association;

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

(e) “FWUA” means the Federation of the Water Users Association, established pursuant to the provisions of Chapter 4 of the Irrigation and Drainage Law;

(f) “Irrigation and Drainage Law” means Law No. 8518 of the Borrower dated July 30, 1999;

(g) “MOAF” means the Ministry of Agriculture and Food of the Borrower, or any successor thereto;

(h) “National Water Council” means the National Water Council established on October 28, 1996, through the Decision of the Council of Ministers (Decision No. 775), as a central decision-making body to administer water resources of the Borrower;

(i) “NUWUA” means the National Union of Water Users Association, established on April 19, 2004, as a consultative body to represent WUAs;

(j) “PIP” means the project implementation plan for the Project, dated April 21, 2004, as the same may be amended from time to time by agreement between the Association and the Borrower;

(k) “PMU” means the Project Management Unit established under the MOAF’s regulation dated April 5, 1999;

(l) “Project Preparation Advance” means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on September 23, 2003, and on behalf of the Borrower on April 10, 2004;

(m) “River Basin Councils” means the councils to be established under Part B.2(d) of the Project, responsible for managing specific river catchment areas;

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

(o) “Steering Committee” means the committee overseeing the implementation of the Project as well as monitoring the progress on sector reform;

(p) “Sub-project” means a specific development project to be identified by the Beneficiary, approved by the Steering Committee and carried out by the PMU and the Beneficiary utilizing part of the proceeds of the Credit under Part A.1 of the Project;

(q) “Transition Plan” means the plan for the transfer of managerial responsibilities from PMU to relevant government entities and stakeholders, which is incorporated into the PIP; and

(r) “WUA” means the Water Users Association, established pursuant to the provisions of Chapter 3 of the Irrigation and Drainage Law.

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 ten million two hundred thousand Special Drawing Rights (SDR 10,200,000).

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 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, 2009, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

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

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on April 15 and October 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 15 and October 15 commencing October 15, 2014, and ending April 15, 2024. Each installment shall be five per cent (5%) of such principal amount.

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 PMU with due diligence and efficiency and in conformity with appropriate administrative, agricultural, 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 Association shall otherwise agree, the Borrower, through the PMU, shall carry out the Project in accordance with the PIP and 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 PMU, shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower, through PMU, shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made, audited, in accordance with consistently applied auditing standards acceptable to the Association, 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 (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, 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 PMU, shall:

- (i) retain, until at least one (1) year after the Association has received the audit report for, or covering, 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;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 1 of Schedule 4 to this Agreement, the Borrower, through the PMU, shall prepare and furnish to the Association a financial monitoring report, 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 FMR shall be furnished to the Association not later than forty-five (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 FMR shall be furnished to the Association not later than forty-five (45) 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(1) of the General Conditions, the following additional events are specified:

(a) the Irrigation Drainage Law shall have been amended, suspended, abrogated, repealed or waived, or other legal provisions shall have been enacted, so as to affect materially and adversely, in the opinion of the Association, the carrying out of the Project; and

(b) the PIP shall have been amended, suspended, abrogated, repealed or waived, so as to affect materially and adversely, in the opinion of the Association, the carrying out of the Project.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional events are specified, namely, that the events specified in Section 5.01 of this Agreement shall occur.

ARTICLE VI

Termination

Section 6.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE 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
Bulevardi "Deshmoret e Kombit"
Tirana
Albania

Facsimile:
355 42 28494

For the Association:

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

Cable address:
INDEVAS
Washington, D.C.

Telex:
248423 (MCI) or
64145 (MCI)

Facsimile:
(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 Tirana, Albania, as of the day and year first above written.

ALBANIA

By: /s/ Arben Malaj

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Nadir Mohammed

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	7,080,000	80%
(2) Goods	380,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(3) Consultants' services		85%
(a) Technical Services	130,000	
(b) Other Consultants' Services not including Technical Services	880,000	
(4) Training	70,000	100%
(5) Incremental operating costs	940,000	70%
(6) Refunding of Project Preparation Advance	220,000	Amount due pursuant to Section 2.02(c) of this Agreement
(7) Unallocated	500,000	
	<hr/>	
TOTAL	<u>10,200,000</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 or services supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term “technical services” means expenditures incurred for mapping, data collection and water quality monitoring;

(d) the term “incremental operating costs” means operation and maintenance costs which would not have been incurred absent the Project and includes, inter alia, costs with respect to maintenance of equipment and vehicles, salaries paid to the PMU staff, other than civil servants’ salaries, hired for purposes of the Project, office supplies and equipment, utilities, communication, refurbishment of the PMU office, travel expenses, accommodation, per diems for the PMU staff during field trips, advertising for procurement, workshops to be organized by the PMU, and any other reasonable expenditures as may be agreed upon by the Association; and

(e) the term “training” means expenses incurred by the PMU in connection with carrying out of training activities under the Project, including travel costs and per diem for trainees and trainers excluding PMU staff, study tours and workshops, rental of facilities and equipment and training materials and related supplies.

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 under contracts for: (a) goods costing less than \$100,000 equivalent per contract, except for the first two (2) contracts procured under international shopping and national shopping, respectively; (b) works costing less than \$400,000 equivalent per contract, except for the first two (2) contracts procured under national competitive bidding and small works, respectively; (c) for services of individual consultants costing less than \$50,000 equivalent per contract; (d) for services of consulting firms under contracts costing less than \$100,000 equivalent per contract, except for the first contract under Category (3)(a) of this Schedule; (e) incremental operating costs; and (f) training, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to improve the efficiency of the water resources sector in contributing to sustainable economic growth and increasing in agricultural production.

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: System Rehabilitation

1. The carrying out of Sub-projects for, inter alia: (a) rehabilitation and improvement of irrigation facilities; (b) rehabilitation and improvement of flood control and drainage facilities; and (c) rehabilitation of irrigation reservoirs and headworks.
2. The carrying out of field surveys and designing of the Sub-projects, and supervision of civil works under Part A.1 of the Project.
3. Implementation of EMP through: (a) provision of training for farmers in agriculture technologies and on-farm irrigation and drainage maintenance, in order to mitigate environmental risks resulting from increased use of agrochemicals associated with intensified agricultural activities; and (b) periodical environmental monitoring of Sub-projects under Part A.1 of the Project.
4. Identification and selection of Sub-projects in accordance with PIP.

Part B: Institutional Support

1. Irrigation, Drainage and Flood Management Sector

Provision of training and consultants' services to, inter alia: (a) expansion and strengthening of WUAs, FWUAs and NUWUA; (b) post restructuring technical support for the Drainage Boards; (c) strengthening of capacity of the Department of Water Management of MoAF.

2. Water Resource Management

(a) Improvement of legal and institutional framework for management of water resources by: (i) building consensus among stakeholders on appropriate institutional framework; and (ii) assisting to draft necessary legislative amendments to conform to the agreed institutional policy thereafter.

(b) Assessment of flood-prone areas through national survey and development of alternative options for treatment.

(c) Assessment of safety condition of existing dams, and cost of their recovery and closing down depending on their condition, and provision of training regarding the legal and technical aspects of dam safety inspections.

(d) Establishment of the River Basin Councils and strengthening of their capacities.

(e) Review of the current hydrometric stations in the area of the selected River Basin Councils in order to identify current and possible future demand for surface water, improvement of the surface water data collections in these hydrometric stations and rehabilitation of monitoring stations.

(f) Strengthening of the capacity of the technical secretariat of the National Water Council, or its successor organization.

Part C: Project Management

Improvement of PMU's institutional capacity in the area of, inter alia, financial and information management, procurement, monitoring and evaluation.

* * *

The Project is expected to be completed by December 31, 2008.

SCHEDULE 3

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines), and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

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.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) General

Works estimated to cost less than \$400,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Improvement of Bidding Procedures

In order to ensure economy, efficiency, transparency and broad consistency with the provision of Section 1 of the Guidelines:

- (i) invitation to bid shall be advertised locally in regional newspapers and in at least two national newspapers with wide circulation, at least thirty (30) days prior to the deadline for the submission of bids;

- (ii) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders in the bidding process. Government-owned enterprises in Albania shall be permitted to bid only if they are legally and financially autonomous and operate under commercial law of the Borrower;
- (iii) bidding shall not be restricted to pre-registered firms;
- (iv) procuring entities should use the bidding documents approved by the Association prior to their issue to bidders;
- (v) bids shall be opened in public in one location, immediately after the deadline for submission of bids in the presence of the representatives of bidders;
- (vi) in case of higher bid prices compared to the official estimate, all bids may be rejected with the prior concurrence of the Association;
- (vii) in case of less than three (3) responsive bids, all bids may be rejected and new bids may be solicited without prior concurrence of the Association;
- (viii) a single-envelope procedure shall be used for the submission of bids;
- (ix) post-qualification shall be conducted only on the lowest evaluated bidder; no bid shall be rejected at the time of bid opening on qualification grounds;
- (x) bidders who contract as a joint venture shall be held jointly and severally liable;
- (xi) bidders may be required to submit bid securities in an amount appropriate to the estimated value of the contract and in a form acceptable to the Borrower;
- (xii) before rejecting all bids and soliciting new bids, the prior concurrence of the Association shall be obtained;

- (xiii) contracts shall be awarded to the lowest evaluated, substantially responsive bidder who is determined to be qualified to perform in accordance with pre-defined and pre-disclosed evaluation criteria;
- (xiv) post-bidding negotiations shall not be allowed with the lowest evaluated or any other bidders; and
- (xv) contracts of long duration (more than eighteen (18) months) shall contain appropriate price adjustment provisions.

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

Goods 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.

4. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to 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 each contract procured under Part B and with respect to the first two contracts under Part C.1 of this Schedule, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first two contracts procured under Parts C.2, 3 and 4 of this Schedule, the following procedures shall apply:

- (i) prior to the selection of any supplier/execution of any contract under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (iii) 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 Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for audit may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services for technical assistance, preparation and review of design, legal and institutional advice, study tours and quality control, 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 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services of individual consultants 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.

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. Such plan shall be updated every six (6) months during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval. 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: (i) each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more; and (ii) the first contract under technical services, 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 \$50,000 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:
 - (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 October 31, 2006, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and
 - (c) review with the Association, by December 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.

2. For the implementation of Part A.1 of the Project, the Borrower shall select the Sub-projects in the following manner:
 - (a) for Part A.1 (a) and (b) of the Project, prepare and submit to the Association, an environmental assessment for each Sub-project in a new scheme in accordance with the PIP for the Association's review and approval; and
 - (b) for Part A.1 (c) of the Project, prepare and submit to the Association a work plan setting out description, budget and timeframe for each Sub-project in a new scheme in accordance with the PIP for the Association's review and approval.

3. For Part A.1 (a) of the Project, the Borrower shall:
 - (a) enter into a transfer agreement between the Borrower and each Beneficiary, under the terms and conditions referred to in the PIP and which shall have been approved by the Association; and

(b) exercise its rights under such agreements in such manner as to protect the interests of the Association and to accomplish the purposes of the Project, and shall not assign, amend, abrogate or waive any of such agreements, or any provisions thereof without the Association's prior approval.

4. The Borrower shall:

(a) coordinate and monitor the overall execution of Part A.1 the Project and supervise the carrying out by the Beneficiaries of their obligations pursuant to their respective agreements in accordance with the PIP;

(b) prepare and furnish to the Association for review and comment, the budget for the Department of Water Management of the MOAF for each calendar year; and

(c) not later than June 30 of each year, conduct an annual audit for the expenditures for each Drainage Board.

5. The Borrower shall, by March 31, 2005, establish additional five (5) Drainage Boards in accordance with the Irrigation and Drainage Law.

6. The Borrower shall, by March 31, 2005, complete the transfer of managerial responsibilities for irrigation from the Drainage Boards to WUAs.

7. The Borrower shall implement the Transition Plan in a manner acceptable to the Association, and implementation to be monitored on a semi-annual basis in accordance with indication acceptable to the Association. In connection with the implementation of the Transition Plan, the Borrower shall ensure that any new appointments and/or dismissals of personnel in key positions of the Department of Water Management of the MOAF have been determined on the basis of the capacity and qualification of the personnel and in accordance with the relevant laws of the Borrower.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term “Authorized Allocation” means an amount equivalent to \$1,000,000 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 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 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 Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

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

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

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