

CONFORMED COPY

**IDA GRANT NUMBER H212 KG
JAPANESE GRANT NUMBER TF056324**

Development Grant Agreement

(Water Management Improvement Project)

between

KYRGYZ REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 21, 2006

**IDA GRANT NUMBER H212 KG
JAPANESE GRANT NUMBER TF056324**

DEVELOPMENT GRANT AGREEMENT

AGREEMENT, dated June 21, 2006, between KYRGYZ REPUBLIC (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Recipient, 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 Recipient intends to contract from the Government of Japan, a grant in an amount of four million four hundred thousand United States dollars (US\$4,400,000) (the Co-financing) to assist in financing of Parts A, B and C of the Project on the terms and conditions set forth in an agreement to be entered into between the Recipient and the Association (the Japanese Co-financing Agreement).

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Grant to the Recipient 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 May 1, 2004), with the modifications set forth in Schedule 6 to this Agreement (the General Conditions), constitute an integral part of this Agreement.

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

(a) "DWR" means the Department of Water Resources within the Recipient's Ministry of Agriculture, Water Resources and Processing Industry or any successor or successors thereto;

(b) "EMP" means the environmental management plan approved by the Recipient on October 20, 2005, and referred to in paragraph 4 of Schedule 4 to this Agreement;

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

(d) “MAWRPI” means the Recipient’s Ministry of Agriculture, Water Resources and Processing Industry or any successor or successors thereto;

(e) “MoEF” means the Recipient’s Ministry of Economy and Finance or any successor or successors thereto;

(f) “NWC” means the Recipient’s National Water Council established by a Government Resolution #64 dated February 3, 2006, or any successor or successors thereto;

(g) “PIU” means the Project Implementing Unit to be established by the Recipient, through DWR, which will be responsible for the day to day implementation of the Project;

(h) “Procurement Plan” means the Recipient’s procurement plan, dated February 16, 2006, covering the initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding eighteen (18) month periods (or longer) of Project implementation;

(i) “Project Implementation Plan” means the plan describing: (i) procedures for implementation of the Project, consistent with the provisions of this Agreement and with the national laws and regulations of the Recipient and including, *inter alia*: (i) procedures governing administrative, procurement, accounting, financial management, and monitoring and evaluation arrangements; and (ii) sample formats for annual reports; as the same may be amended from time to time with the agreement of the Association; and

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

ARTICLE II

The Grant

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to thirteen million two hundred thousand Special Drawing Rights (SDR 13,200,000).

Section 2.02. (a) The amount of the Grant may be withdrawn from the Grant 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 carrying out the Project and to be financed out of the proceeds of the Grant.

(b) The Recipient may, for the purposes of the Project, open and maintain in Dollars a separate 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.

Section 2.03. (a) The Recipient shall pay to the Association a commitment charge on the principal amount of the Grant 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 Recipient from the Grant 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 2.04 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 Recipient; and (iii) in Dollars or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of Section 4.02 of the General Conditions.

Section 2.04. Commitment charges shall be payable semiannually on April 15 and October 15 in each year.

Section 2.05. The Closing Date shall be December 31, 2011, or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient 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 DWR, with due diligence and efficiency and in conformity with appropriate administrative, environmental, financial, economic and engineering 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 Recipient and the Association shall otherwise agree, the Recipient, through DWR, shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Recipient shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than twelve (12) months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Recipient 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 Recipient and the Association, a plan designated to ensure the sustainability of the Project; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient 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 Recipient, through DWR, 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) 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 Grant Account were made on the basis of statements of expenditure, the Recipient, through DWR, 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 Grant 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 Recipient's progress reporting obligations set out in paragraph 14 (b) of Schedule 4 to this Agreement, the Recipient, through DWR, 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 Grant, 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) 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 events are specified:

- (a) (i) subject to sub-paragraph (ii) of this paragraph, the right of the Recipient to withdraw the proceeds of any grant made to the Recipient for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or
- (ii) sub-paragraph (i) of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Association that: (A) such suspension, cancellation or termination is not caused by the failure of the Recipient to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

ARTICLE VI

Effectiveness; Termination

Section 6.01. The following events are specified as conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) that the Japanese Co-financing Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals thereunder, except only the effectiveness of the Development Grant Agreement, have been fulfilled; and

(b) that the PIU has been established by the Recipient with structure, satisfactory to the Association, and operational to start implementation of the Project.

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 Recipient; Addresses

Section 7.01. The Ministry of Economy and Finance of the Recipient is designated as representative of the Recipient 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 Recipient:

Ministry of Economy and Finance
58 Erkindik Blvd.
Bishkek City, 720040
Kyrgyz Republic

Telex:

245-156 NUR KH

Facsimile:

(996-312) 661645

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) 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 Bishkek, Kyrgyz Republic, as of the day and year first above written.

KYRGYZ REPUBLIC

By: /s/ Akylbek Japarov

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ James Christopher Lovelace

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

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

<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods	1,380,000	100%
(2) Works	10,500,000	85%
(3) Consultants' services, including audit	295,000	90% of local expenditures and 70% foreign expenditures
(4) Training	50,000	100%
(5) Incremental operating costs	170,000	100%
(6) Unallocated	<u>805,000</u>	
TOTAL	<u>13,200,000</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 Recipient for services supplied from the territory of any country other than that of the Recipient;

(b) the term "local expenditures" means expenditures in the currency of the Recipient for services supplied from the territory of the Recipient;

(c) the term "incremental operating costs" means incremental operating expenditures incurred by the PIU and State Water Administration referred to in Part B (a) of Schedule 2 of this Agreement on account of overall Project implementation, management and monitoring, including office supplies, communication costs, support for information systems, advertising costs, bank charges, salaries of the PIU support staff, travel and per diem costs of the PIU staff and other reasonable expenditures directly

associated with implementation of Project activities, all based on an annual budget acceptable to the Association; and

(d) the term “training” means expenditures incurred on account of Project related study tours, training courses, seminars, workshops and other training activities, including travel and per diem costs of trainees and trainers.

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 Grant 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; (b) works costing less than \$1,000,000 equivalent per contract; (c) services of individual consultants costing less than \$25,000 equivalent per contract; (d) services of consulting firms under contracts costing less than \$100,000 equivalent per contract; (e) training; and (f) incremental operating costs, all under such terms and conditions as the Association shall specify by notice to the Recipient.

5. If the Association shall have determined at any time that any amount of the Grant was used in a manner inconsistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Association, refund to the Association for deposit into the Grant Account, an amount equivalent to the amount so used.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Recipient in improving: (a) irrigation services delivery and water management for the benefit of a sustainable increase in agricultural productivity; and (b) a national water resource governance for the benefit of water users and the nation as a whole.

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

Part A: Rehabilitation and Modernization of Irrigation Infrastructure

Provision of civil works, goods, technical assistance, and training to: (a) rehabilitate and modernize existing off-farm irrigation systems; and (b) improve the safety of irrigation dams if any of the said off-farm irrigation systems is supplied with water from such irrigation dam.

Part B: Management of Water Resources

Provision of technical assistance, training, goods and works to: (a) establish and support new water management institutions, including the State Water Administration (SWA) and River Basin Councils, including incremental operating cost for the SWA; (b) strengthen existing water management institutions, including the State Hydro-meteorological Service; (c) strengthen the financial and technical capacity of DWR; and (d) support Water Users' Associations in water management improvements.

Part C: Organization of Beneficiaries

Provision of technical assistance, training, goods and works to: (a) establish about five (5) pilot Federations of Water Users' Associations; and (b) transfer minor irrigation systems to Water Users' Associations.

Part D: Project Management

Provision of: (a) technical assistance, training, goods and incremental operating costs to the PIU for the Project management, administration and coordination, including procurement and financial management; and (b) works for the PIU office renovation.

* * *

The Project is expected to be completed by June 30, 2011.

SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under

IBRD Loans and IDA Credits” dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants’ services shall be procured in accordance with Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants’ Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts for goods estimated to cost more than \$100,000 equivalent per contract and works estimated to cost more than \$1,000,000 equivalent per contract shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Recipient and works to be carried out by domestic contractors.

B. Other Procurement Procedures

1. National Competitive Bidding. Works estimated to cost less than \$1,000,000 equivalent per contract may be procured under contracts awarded on the basis of National Competitive Bidding and the additional provisions set forth or referred to in Annex to Schedule 3 to this Agreement.

2. Shopping. Goods estimated to cost less than \$100,000 equivalent per contract and works estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods and works which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

Section III. Particular Methods of Procurement of Consultants’ Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Selection Based on Consultants’ Qualifications. 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, 3.7 and 3.8 of the Consultant Guidelines.

2. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

3. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

**Annex
to
SCHEDULE 3**

National Competitive Bidding of the Recipient may be used for procurement of goods and works for the Project, provided that the following provisions are complied with:

A. Registration and Licensing

(a) Bidding shall not be restricted to pre-registered/licensed firms.

(b) Where registration or licensing is required, bidders: (i) shall be allowed a reasonable time to complete the registration or licensing process; and (ii) shall not be denied registration/licensing for reasons unrelated to their capability and resources to successfully perform the contract, which shall be verified through post-qualification.

(c) Foreign bidders shall not be precluded from bidding. If a registration or licensing process is required, a foreign bidder declared the lowest evaluated bidder shall be given a reasonable opportunity to register or to obtain a license.

B. Advertising

Invitations to bid shall be advertised in the Bulletin of State Procurement and in at least one (1) widely circulated national daily newspaper allowing a minimum of thirty (30) days for the preparation and submission of bids.

C. Pre-qualification

When pre-qualification shall be required for large or complex works, invitations to pre-qualify for bidding shall be advertised in at least one (1) widely circulated national daily newspaper a minimum of thirty (30) days prior to the deadline for the submission of pre-qualification applications. Minimum experience, technical and financial requirements shall be explicitly stated in the pre-qualification documents.

D. Participation by Government-owned enterprises

Government-owned enterprises in the Kyrgyz Republic shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law and are not a dependent agency of the contracting authority. Furthermore, they will be subject to the same bid and performance security requirements as other bidders.

E. Bidding Documents

Procuring entities shall use the appropriate standard bidding documents for the procurement of goods, works or services, acceptable to the Association.

F. Bid Opening and Bid Evaluation

(a) Bids shall be opened in public, immediately after the deadline for submission of bids.

(b) Evaluation of bids shall be made in strict adherence to the monetarily quantifiable criteria declared in the bidding documents.

(c) Domestic preference should not be applied.

(d) Contracts shall be awarded to qualified bidder having submitted the lowest evaluated substantially responsive bid and no negotiation shall take place.

G. Price Adjustment

Civil works contracts of long duration (more than eighteen (18) months) shall contain an appropriate price adjustment clause.

H. Rejection of Bids

All bids shall not be rejected and new bids solicited without the Association's prior concurrence.

I. Rejection of an Individual Bid

An individual bid shall be rejected only in the following cases:

(a) the bidder is not qualified;

(b) the bidder does not accept the correction of an arithmetical error in his bid by the Tender Commission of the procuring entity;

(c) the bidder is not responsive to the requirements of the bidding documents; or

(d) under the circumstances referred to in Article 6 of the Law "on the State Procurement of the Kyrgyz Republic".

J. State unit costs shall not be used for bidding and evaluation of bids for civil works contracts.

SCHEDULE 4

Implementation Program

1. The Recipient shall carry out the Project in accordance with the provisions of the Project Implementation Plan, and shall not amend, suspend, abrogate, repeal or waive any provision of the Project Implementation Plan without prior approval of the Association.
2. The Recipient, through DWR, shall maintain the PIU during the execution of Project with staff whose qualification and terms of reference shall be satisfactory to the Association and resources adequate to enable it to effectively implement the Project.
3. The Recipient, through DWR, shall ensure that the PIU shall be responsible for:
(a) Project management, coordination and monitoring, including evaluation, and reporting to the NWC; (b) preparation of withdrawal applications under the Grant; (c) management of the Special Account referred to in Section 2.02 (b) of this Agreement; (d) procurement of goods, works and services; (e) maintenance of records and accounts related to the Project and arranging for the audit thereof; (f) preparation of an annual work program; and (g) overall responsibility for accounting, financial reporting and management, and preparation of FMRs for the Project.
4. The Recipient, through DWR, shall implement the EMP in a manner satisfactory to the Association and shall provide the Association with a summary status of the implementation (including results from environmental monitoring) as part of annual Project reporting or when specifically requested by the Association.
5. The Recipient, through DWR, shall ensure that the rehabilitation and construction works under Parts A, B and C of the Project are carried out in accordance with national environmental laws, standards and procedures of the Recipient.
6. The Recipient, through DWR, shall prepare and furnish to the Association for its prior review and approval, a design report for each off-farm irrigation system or irrigation dam under Part A of the Project, which shall contain: (i) a description of the current state of the off-farm irrigation system or irrigation dam; (ii) a description, bill of quantities, cost estimates and an economic analysis of the proposed rehabilitation and modernization; (iii) information on the Water Users' Associations that are supplied with water from the off-farm irrigation system, including information on its institutional and financial status, implementation capacity, its operation and maintenance plan and the estimate of the irrigation service fee; (iv) information on the environmental considerations; (v) information on the water use in the river basin from which the off-farm irrigation system abstracts the water; and (vi) such other information as the Association shall reasonably request.
7. The Recipient, through DWR, shall ensure that all off-farm irrigation system rehabilitation and modernization activities under Part A of the Project are selected in accordance with criteria set forth in the Project Implementation Plan, including the criteria set forth below:

(a) rehabilitation and modernization activities under Part A of the Project shall be carried out for an existing irrigation systems and shall not result in an increase of an irrigation area beyond the currently existing area;

(b) depending on the assessment of the potential impact of an irrigation system rehabilitation and modernization activities under Part A of the Project on other neighboring countries, they shall be carried out in conformity with policies, rules and procedures acceptable to the Association, and inter-state agreements to which the Recipient is a party; and

(c) the rehabilitation and modernization activities proposal of each irrigation system under Part A of the Project shall have an economic rate of return equal to or larger than twelve percent (12%).

8. The Recipient, through DWR, shall maintain the independent Panel of Experts on Dams established under the Irrigation Rehabilitation Project (Credit Number 3063 KG) financed by the Association, which will serve for the purposes of Part A (b) of the Project. The Panel shall have a composition and terms of reference of which shall have been approved by the Association, and shall convene, as agreed between the Recipient, through DWR, and the Association, to provide an independent opinion on complex irrigation dam safety issues.

9. The Recipient shall maintain the NWC which will provide policy guidance and oversight of the activities under Part B of the Project.

10. The Recipient shall ensure that any law and regulation in force governing the water resources management and setting off irrigation fees shall not be amended in a manner which will adversely affect the implementation of the Project activities. Any new law, regulation or amendment thereof shall be satisfactory to the Association.

11. The Recipient, through DWR shall by October 31 each year prepare and furnish to the Association for its review and approval, an annual work program and budget for the Project activities to be carried out during the following calendar year, and shall finalize the said work program based on recommendations of the Association.

12. The Recipient, through DWR, shall ensure that by December 1 of each year, the PIU prepares and furnishes to the Association for its prior review and approval, an annual training plan describing training, workshops and study tours to be carried out under the Project.

13. The Recipient, through DWR, shall maintain, throughout the Project execution, the Water Users' Association's Support Units established under the Association's financed On-Farm Irrigation Project (Credit Number 3369 KG) to ensure that the Project receives necessary support during the implementation of the activities.

14. The Recipient 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, 2008, 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, 2008, 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), (4) and (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, works and services required for the Project and to be financed out of the proceeds of the Grant, 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 Grant 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 Grant 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 2,500,000.
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 Recipient 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 Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.
 - (b)
 - (i) For replenishment of the Special Account, the Recipient 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 Recipient 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 Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient 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 Grant 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 Recipient out of the Special Account, the Recipient 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 Recipient directly from the Grant 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 Recipient 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 Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Grant 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 Grant Account of the remaining unwithdrawn amount of the Grant allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Recipient. 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 Recipient 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 Recipient 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 Recipient shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Recipient 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 Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 6

Modifications to the General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Sections 3.02, 3.03, 3.04 (a), 3.04 (b), 6.05 and Article VII are deleted in their entirety.
2. Wherever used in the General Conditions, the following terms are modified to read as follows:
 - (a) The term “Borrower” is modified to read “Recipient”.
 - (b) The term “Credit” is modified to read “Grant”.
 - (c) The term “Credit Account” is modified to read “Grant Account”.
 - (d) The term “Development Credit Agreement” is modified to read “Development Grant Agreement”.
3. Section 1.01 is modified to read as follows:

“Section 1.01. *Application of General Conditions*

These General Conditions set forth the terms and conditions generally applicable to the Development Grant Agreement to the extent and subject to any modifications set forth in such agreement.”
4. Paragraph 3 of Section 2.01 is modified to read as follows:

“3. “Recipient” means the party to the Development Grant Agreement to which the Grant is made.”
5. Article III is modified as follows:
 - (a) The heading of Article III is modified to read “Grant Account; Partial Payment”, and the heading of Section 3.04 is modified to read “Partial Payment”.
 - (b) The words “The principal of, and service charges on, the Credit” in Section 3.05 are modified to read “All amounts required to be paid under the Development Grant Agreement”.
6. Article IV is modified as follows:
 - (a) Section 4.02 (a) is modified to read as follows:

“Section 4.02. *Currencies in which Payments are to be Made*

 - (a) The Recipient shall pay all amounts required to be paid by it under the Development Grant Agreement in the currency specified in such agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”

- (b) Wherever used in Section 4.02 (c) and (e) of the General Conditions, the words “principal and service charges” are modified to read “amounts”.
 - (c) Section 4.03 is modified to read as follows:

“Section 4.03. *Amount of the Grant*

The amount of the Grant withdrawn from time to time shall be the equivalent in terms of SDR (determined as of the date or respective dates of withdrawal from the Grant Account) of the value of the currency or currencies so withdrawn.”
 - (d) Section 4.06 (b) is modified to read as follows:

“(b) All amounts which the Recipient shall be required to pay under the Development Grant Agreement shall be paid without restrictions of any kind imposed by, or in the territory of, the Recipient.”
- 7. Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Development Grant Agreement, the proceeds of the Grant may be withdrawn to pay for taxes levied by, or in the territory of, the Recipient on the goods or services to be financed under the Grant, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association’s policy of requiring economy and efficiency in the use of the proceeds of its credits and grants. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Grant is excessive or otherwise unreasonable, the Association may, by notice to the Recipient, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Grant Agreement as required to be consistent with such policy of the Association.”
- 8. Article VI is modified as follows:
 - (a) The word “credit” in paragraphs (a) (ii) and (c) (i) of Section 6.02 is replaced with the words “credit, grant or financing”.
 - (b) Section 6.03 (c) is modified by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.
- 9. Section 8.01 (a) is modified to read as follows:

“(a) All amounts which the Recipient shall be required to pay under the Development Grant Agreement shall be paid without deduction for, and free from, any taxes levied by, or in the territory of, the Recipient.”

10. Section 12.05 and its heading are modified to read as follows:

“Section 12.05. *Termination of Development Grant Agreement.*

The obligations of the Recipient under the Development Grant Agreement shall terminate on the date twenty (20) years after the date of the Development Grant Agreement.”