

CONFORMED COPY

CREDIT NUMBER 3063 KG

Development Credit Agreement

(Irrigation Rehabilitation Project)

between

KYRGYZ REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 22, 1998

CREDIT NUMBER 3063 KG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 22, 1998, between KYRGYZ REPUBLIC (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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 Association to assist in the financing of the Project; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through December 2, 1997) (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective

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

- (a) "ICC" means the Borrower's Inter-ministerial Coordinating Committee referred to in paragraph 2 of Schedule 4 to this Agreement;
- (b) "MOAWR" means the Borrower's Ministry of Agriculture and Water Resources;
- (c) "Panel of Experts" means the review panel referred to in paragraph 5 of Schedule 4 to this Agreement;
- (d) "PIU" means the Project Implementation Unit, established within the Department of Water Resources of the MOAWR;
- (e) "Som" means the currency of the Borrower;
- (f) "Special Account" means the account referred to in Section 2.02(b) of this Agreement; and
- (g) "Sub-project" means either a sub-project for the rehabilitation of sections of primary and secondary inter-farm canals and/or drainage channels or a sub-project for an irrigation dam, selected and carried out by the Borrower in accordance with the provisions of paragraph 4 of Schedule 4, and Schedule 6, to this Agreement.

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 twenty-six million Special Drawing Rights (SDR 26,000,000).

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

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2004, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other

eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on April 1 and October 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 1 and October 1 commencing October 1, 2008, and ending April 1, 2033. Each installment to and including the installment payable on April 1, 2018 shall be one and one-fourth percent ($1-1/4\%$) of such principal amount, and each installment thereafter shall be two and one-half percent ($2-1/2\%$) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project, through the MOAWR, 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 Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of

the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.07 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 shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the carrying out of the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section, and the records and accounts for the Special Account, for each fiscal year audited, in accordance with auditing standards acceptable to the Association consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year so audited, and (B) an opinion on such financial statements, records and accounts and a report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning such records and accounts and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

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

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

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during each fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related

withdrawals.

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) consultants with qualifications, experience and terms of reference satisfactory to the Association, shall have been appointed to assist the Borrower in carrying out Part B(ii) of the Project;

(b) independent auditors, acceptable to the Association, shall have been appointed; and

(c) a financial management system, satisfactory to the Association, shall have been established.

Section 5.02. 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 VI

Representative of the Borrower; Addresses

Section 6.01. 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 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Erkindik Boulevard, 58
Bishkek 720874
Kyrgyz Republic

Telex:

245156 NUR KH

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)

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.

KYRGYZ REPUBLIC

By /s/ Baktybek Abdrissaev

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Kiyoshi Kodera

Acting Regional Vice President
Europe and Central Asia

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Works		70%
(a) Irrigation dams	5,190,000	
(b) Inter-farm canals and drainage channels	8,150,000	
(2) Goods	5,040,000	100% of foreign expenditures, 100% of local expenditures (ex-factory costs) and 80% of local expenditures for other items procured locally
(3) Consultants' Services and Training	4,230,000	100%
(4) Maintenance Costs for Part C(i) of the Project	1,860,000	70%
(5) Unallocated	1,530,000	
TOTAL	26,000,000 =====	

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;

(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; and

(c) the term "maintenance costs for Part C (i) of the Project" means the costs for works relating to the maintenance of selected irrigation infrastructure, over and above the maintenance and operation budget for fiscal year 1997, including water charges, for the irrigation infrastructure.

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, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 19,000, may be made in respect of Categories (2) and (3) on account of payments made for expenditures before that date but after June 30, 1997; and

(b) payments made for expenditures in respect of Category (1) set forth in the table in paragraph 1 above, unless the Sub-project in respect of which disbursement is sought has been approved by the Association in accordance with the provisions of Schedule 6 to this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$200,000 equivalent each; (b) works under contracts costing less than \$1,000,000 equivalent each; (c) training; (d) maintenance costs for Part C (i) of the Project; and (e) services under contracts costing less than \$75,000 equivalent each for consulting firms, and less than \$40,000 equivalent each for individual consultants, 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 increase the productivity of irrigated agriculture in the Project area through improved water supply.

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 objective:

Part A: Rehabilitation and Completion of Irrigation Infrastructure

(i) Rehabilitation and completion of irrigation dams, including the improvement of their monitoring systems.

(ii) Rehabilitation of sections of primary and secondary inter-farm canals and drainage channels.

Part B: Institutional Capacity Building

Improvement of the institutional capacity of the PIU, and other agencies of the Borrower, by means of:

(i) the provision of goods and consultants' services to the PIU to improve its Project management, review dam safety and auditing capacity;

(ii) the provision of goods, training and consultants' services to the PIU to improve its Project design, bidding document preparation, procurement, and contract management capacity; and

(iii) the provision of goods and consultants' services to oblast' and rayon offices of the MOAWR to improve their system operation, management and maintenance capacity.

Part C: Maintenance of Irrigation Infrastructure

Provision of: (i) works for maintenance of selected irrigation infrastructure; and (ii) goods for emergency repairs of irrigation infrastructure.

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The Project is expected to be completed by June 30, 2004.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with 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 and September 1997 (the Guidelines) and the following provisions of Section I of this Schedule.

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:

Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$1,000,000 equivalent per contract, up to an aggregate amount not to exceed \$11,100,000 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 \$1,450,000 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 \$300,000 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. Direct Contracting

Spare parts which must be purchased from the original supplier to be compatible with existing equipment and costing \$350,000 equivalent or less in the aggregate, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

5. Procurement of Small Works

Works estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$8,100,000 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 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 prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to: (i) each contract awarded in accordance with the provisions of Section I, Part B of this Schedule; (ii) the first contract awarded in accordance with the provisions of Section I, Part C.1 of this Schedule; and (iii) the first contract awarded in accordance with the provisions of Section I, Part C.5 of this Schedule, 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

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section 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 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Single Source Selection

The first contract under Part B(ii) of the Project and services under Part B(iii) of the Project may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

3. Least-Cost Selection

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

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under 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 Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection 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 for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$75,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$40,000 or more, the qualifications, experience, 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.

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 September 30, 2000, 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, 2000, 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. Throughout the implementation of the Project, the Borrower shall maintain, in a manner and under terms of reference satisfactory to the Association, an ICC, composed by the First Deputy Minister of the MOAWR (as its Chair), the Deputy Minister of Finance, the First Deputy Minister of Environmental Protection, the Advisor to the Department of Agricultural Development of the Office of the Prime Minister, the Deputy Chief of the Donor Cooperation Unit of the Foreign Investment Agency of the State Commission of Foreign Investments and Economic Aid, and the PIU director (as its Secretary). 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.

3. The MOAWR shall be responsible for Project implementation and supervision. The PIU shall be responsible for day-to-day Project administration, management and coordination, including activities related to procurement, accounting, disbursement, auditing, reporting, as well as the identification, preparation, analysis, and selection of proposed Sub-projects, and the monitoring and evaluation of Sub-projects. Throughout the implementation of the Project, the PIU shall be maintained with a sufficient number of qualified staff, consultants, adequate resources and terms of reference satisfactory to the Association.

4. The Borrower shall: (a) select the Sub-projects in accordance with the procedures and eligibility criteria set forth in Parts A and B of Schedule 6 to this Agreement; and (b) carry out the Sub-projects in accordance with the terms and conditions set forth in Part C of Schedule 6 to this Agreement.

5. Throughout the implementation of the Project, the Borrower shall maintain a Panel of Experts, whose composition and terms of reference shall be acceptable to the Association and whose primary purposes shall be to: (i) review the proposed plans for rehabilitation and completion works of irrigation dams, including the improvement of their monitoring systems; (ii) inspect such works at least once during construction; and (iii) upon completion of such works, inspect the works at least once every five years.

6. The Borrower shall:

(a) not later than June 30 of each year, before submitting to the Borrower's Parliament its annual budget proposal for the Department of Water Resources of the MOAWR, provide to the Association, for its review, a draft annual budget proposal showing that proposed budgetary allocations to the Department of Water Resources, including the expected collections of water charges and other revenues, but excluding proposed expected expenses for investment projects, will amount to at least Som 350,000,000 in fiscal year 1999, and at least Som 400,000,000 in fiscal year 2000; and

(b) immediately thereafter, finalize said draft annual budget proposal taking into consideration the Association's comments thereon.

7. The Borrower shall:

(a) not later than September 30 of each year, prepare and submit to the Association, for its review, a work program for Sub-project preparation activities to be carried out during the following fiscal year; and

(b) immediately thereafter, finalize said program taking into consideration the Association's comments thereon.

8. The Borrower shall:

(a) not later than December 31, 1999, prepare and submit to the Association, for its review, a national irrigation rehabilitation action plan, including proposals for the development of irrigation institutions, for inter-farm and intra-farm rehabilitation, and for budgetary allocations to the Department of Water Resources for the years after fiscal year 2000; (b) immediately thereafter, finalize said action plan taking into consideration the Association's comments thereon; and

(c) carry out said action plan in accordance with its terms.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods 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 \$1,500,000 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 \$750,000 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 7,000,000.

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

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

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

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

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

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

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

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

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

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

(d) Refunds to the Association made pursuant to 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.

SCHEDULE 6

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

Part A: Procedures

1. The Borrower shall, through the PIU and prior to the selection of each Sub-project, submit the proposal for that Sub-project to the Association for its review and approval.

2. In submitting a proposal for a Sub-project to the Association for its review and approval, the PIU shall prepare and furnish to the Association:

(a) If the Sub-project is for inter-farm canals and/or drainage channels: (i) a feasibility report satisfactory to the Association; (ii) an environmental assessment satisfactory to the Association; (iii) the conclusions of a State ecological expertise review satisfactory to the Association; (iv) a report on the process and results of the public consultation with the communities and other interested parties in the Sub-project satisfactory to the Association; and (v) such other information as the Association shall reasonably request. The feasibility report shall contain: (i) a description of the Sub-project, including the condition of the intra-farm infrastructure; (ii) design criteria and technical details of the Sub-project; (iii) cost estimates for the Sub-project; (iv) an economic analysis of the Sub-project; and (v) an assessment of the potential impact, if any, of the Sub-project on other riparian countries.

(b) If the Sub-project is for an irrigation dam: (i) a dam site examination

report satisfactory to the Association; (ii) a design report satisfactory to the Association; (iii) an environmental assessment satisfactory to the Association; (iv) the conclusions of a State ecological expertise review satisfactory to the Association; (v) a report on the process and results of the public consultation with the communities and other interested parties in the Sub-project satisfactory to the Association; (vi) the report of the Panel of Experts; and (vii) such other information as the Association shall reasonably request. The design report shall contain: (i) an examination of alternatives for the Sub-project; and (ii) engineering designs and cost estimates for the Sub-project. In addition, only for irrigation dams with major completion or rehabilitation works and unless otherwise agreed by the Association, the PIU shall prepare and furnish to the Association: (i) an assessment of the condition of the irrigation canal infrastructure associated with the dam; and (ii) an economic analysis.

Part B: Eligibility Criteria

1. Sub-projects shall be selected in accordance with criteria satisfactory to the Association, including the criteria set forth below.
2. In selecting a Sub-project for an inter-farm canal and/or drainage channel, the Borrower, through the PIU, shall ensure that:
 - (a) the Sub-project shall seek to rehabilitate an existing irrigation infrastructure, with no irrigation of new areas or expansion of the existing irrigation infrastructure;
 - (b) depending on the assessment of the potential impact, if any, of the Sub-project on other riparian countries, the Sub-project shall be in conformity with policies and procedures acceptable to the Association;
 - (c) the intra-farm infrastructure associated with the Sub-project shall be in a condition to convey water to the farms of that infrastructure; and
 - (d) the Sub-project shall have an economic rate of return equal to or greater than fifteen percent (15%).
3. In addition to the criteria listed in paragraph 2 of Part B above, the Borrower, through the PIU, shall ensure for each Sub-project that:
 - (a) the Sub-project 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;
 - (b) the Sub-project shall address the risk of encountering unknown archaeological or historical sites by adopting and following appropriate procedures, satisfactory to the Association, addressing such a risk; and
 - (c) the Sub-project shall be in conformity with all local and national environmental standards and requirements, and its design and implementation shall 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 appropriate administrative, financial, technical, engineering and environmental standards, including local and national environmental requirements.
 2. The Borrower, through the PIU, shall allow the representatives of the Association, if the Association shall so request, to inspect the sites, works, plants, goods and construction included in the Sub-project, the operation thereof, and any relevant records and documents.
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