

Public Disclosure Authorized

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LOAN NUMBER 4774-KZ

Loan Agreement

(Agricultural Competitiveness Project)

between

REPUBLIC OF KAZAKHSTAN

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated August 26, 2005

Public Disclosure Authorized



LOAN NUMBER 4774-KZ

LOAN AGREEMENT

AGREEMENT, dated August 26, 2005, between REPUBLIC OF KAZAKHSTAN (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through May 1, 2004) (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) “CC” means the Coordination Center to be established by the Borrower referred to in Part D.2 of Schedule 2 to this Agreement;

(b) “CGS” means the Competitive Grant Scheme to be established by the Borrower pursuant to the Operational Manual (hereinafter defined) for purposes of Parts A.2 (iii), B.2 and C.1 (iii) and C.2 (iii) of the Project;

(c) “CGS Agent” means a financial institution, acceptable to the Bank, which will act as an agent for the Borrower under the CGS;

(d) “CGS Agent Agreement” means the agreement to be entered into between the Borrower and CGS Agent pursuant to Section 3.02 (a) of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the CGS Agent Agreement;

(e) “Environmental Guidelines” means the guidelines on the safe operation of agricultural laboratories and environmental screening of Sub-project(s) (hereinafter defined), which are a part of the Operational Manual;

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

(g) “GB” means the Governing Board to be established by the Borrower referred to in Part D.1 of Schedule 2 to this Agreement;

(h) “Grant” means a competitive Grant made or proposed to be made by the CGS Agent under CGS under Parts A.2 (iii), B.2, C.1 (iii) and C.2 (iii) of the Project out of the proceeds of the Loan and/or the Republican Budget of the Borrower;

(i) “Grant Agreement” means the agreement to be entered into between the CGS Agent and each Grant recipient referred to in paragraph 1 (c) of Part B of Schedule 5 to this Agreement;

(j) “MoA” means the Borrower’s Ministry of Agriculture and includes any successor or successors thereto;

(k) “MoF” means the Borrower’s Ministry of Finance and includes any successor or successors thereto;

(l) “Operational Manual” means the manual adopted by the Borrower for the operation of the CGS;

(m) “Pest Management Plan” means a plan on the safe handling, use and disposal of pesticides used in the implementation of Sub-project(s) prepared by the Borrower;

(n) “PIP” means the project implementation plan setting forth procedures for implementation of the Project, as such plan may be amended from time to time upon agreement with the Borrower and the Bank;

(o) “Procurement Plan” means the Borrower’s procurement plan, dated February 18, 2005 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 3.03 to this Agreement, to cover succeeding eighteen (18) month periods (or longer) of Project implementation;

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

(q) "Sub-project(s)" means the sub-project(s) selected and approved under CGS in accordance with criteria and procedures set forth in the Operational Manual and financed in part by a Grant.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to twenty-four million Dollars (\$24,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and works required for the Project and to be financed out of the proceeds of the Loan; and (ii) amounts paid (or, if the Bank, shall so agree, to be paid) by the Borrower on account of withdrawals made by a recipient of a Grant to meet the reasonable cost of goods, works and services required for implementation of a Sub-project under Parts A.2 (iii), B.2, C.1 (iii) and C.2 (iii) of the Project in respect of which the withdrawal from the Loan Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be July 30, 2010 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. Such fee shall be payable not later than sixty (60) days after the Effective Date.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) “Interest Period” means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
- (ii) “Interest Payment Date” means any date specified in Section 2.07 of this Agreement.
- (iii) “LIBOR Base Rate” means, for each Interest Period, the London interbank offered rate for six-month deposits in single currency for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) “LIBOR Total Spread” means, for each Interest Period: (A) three-fourths of one percent (3/4 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months’ notice to the Borrower of the new basis. The

new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on April 15 and October 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out the Project through MoA with due diligence and efficiency and in conformity with appropriate administrative, environmental and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

(c) Without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall make available for the purposes of the carrying out of the Project, including Parts A.2 (iii), B.2, C.1 (iii) and C.2 (iii) and technical assistance referred to in Schedule 2 to this Agreement, an amount not exceeding forty six million eight hundred thousand Dollars (\$46,800,000) to be utilized under the terms and conditions set forth in Schedules 4 and 5 to this Agreement.

Section 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Bank and the Borrower otherwise agree, the Borrower shall, for purposes of Parts A.2 (iii), B.2, C.1 (iii) and C.2 (iii) of the Project:

(a) make available under the CGS Agent Agreement the proceeds of the Loan allocated from time to time to Category (3) of the table set forth in paragraph 1 of Schedule 1 to this Agreement and the proceeds the Republican Budget of the Borrower allocated for Grants to the CGS Agent for transferring to Grant recipients for Sub-projects selected in accordance with the procedures, eligibility criteria, and on terms and

conditions set forth in the Operational Manual, which shall be satisfactory to the Bank, and shall include, without limitation, reporting, procurement, suspension and termination provisions.

(b) exercise its rights under the CGS Agent Agreement in such manner as to protect the interests of the Borrower and the Bank, and to accomplish the purposes of the Project, and, shall not assign, amend, abrogate or waive the CGS Agent Agreement or any provision thereof without prior approval of the Bank.

Section 3.03. (a) Except as the Bank shall otherwise agree procurement of: (i) the goods and works required for the Project and to be financed out of the proceeds of the Loan; and (ii) selection and employment of consultant's services required for the Project shall be governed by the provisions of Schedule 4 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

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

Section 3.04. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan designated to ensure the continued achievement of the Project's objectives; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower, through MoA, shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower, through MoA, 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 Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Bank), (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 Bank), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

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

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank'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 Bank), 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 7 (b) of Part A of Schedule 5 to this Agreement, the Borrower shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, 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 Loan, 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 Bank 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 Bank not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Termination

Section 5.01. The date one hundred twenty (120) 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
33 Pobedy Street
Astana
Republic of Kazakhstan

Cable address:	Telex:	Facsimile:
	264126 (FILIN)	(7) (3172) 717762

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

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

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

REPUBLIC OF KAZAKHSTAN

By /s/ Arman Dunaev

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Loup Brefort

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>Maximum % of Expenditures to be financed</u>
(1) Works	5,300,000	70%
(2) Goods	6,700,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 84% of local expenditures for other items procured locally
(3) Grants	11,000,000	100% of amounts disbursed
(4) Unallocated	<u>1,000,000</u>	
TOTAL	<u>24,000,000</u>	

2. For the purposes of this Schedule:

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

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; (b) under Category (3) in the table in paragraph 1 above, unless: (i) the GB and the CC have been established by the Borrower; (ii) the PIP and the Operational Manual, satisfactory to the Bank, have been adopted by the Borrower in accordance with legislation of the Borrower; and (iii) the Grant has been made in accordance with criteria and procedures set forth in the Operational Manual; and (c) any expenditures under any Category in the table in paragraph 1 above, unless the Bank has received payment in full of the front-end fee referred to in Section 2.04 of this Agreement.

4. The Bank may require withdrawals from the Loan 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; and (c) Grants, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to increase the competitiveness of the agricultural sector by facilitating access to markets and knowledge by: (i) improving the quality and safety of agricultural products, access to information and market efficiency; and (ii) increasing the quality, quantity and relevance of public and private investments in applied agricultural research and extension and knowledge transfer.

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

Part A: Quality and Safety Management of Agricultural Products

1. Establishing a group of experts responsible for harmonization of regulations and standards on quality and safety of agricultural products and provision of technical assistance and training to public and private sector on food safety regulations and standards.
2. Strengthening quality and safety of food and agricultural products monitoring by: (i) upgrading the existing public Veterinarian Testing Center (microbiology, radiology, toxicology, biochemistry) and Plant Protection Testing Center (entomology, phytopathology, virology, herbology and microbiology), including construction of a new building for laboratory and provision of equipment and training; (ii) improving seeds and input testing laboratories; (iii) training and provision of Grants through CGS for selected Sub-projects submitted by laboratories and quality testing centers.

Part B: Agricultural Marketing

1. Strengthening market information system by: (i) adding quality classifications and price differentials to the existing product price lists; (ii) increasing quality and frequency of price information, including information on perishable agricultural products; (iii) adding price information with traded quantities; (iv) making web page information accessible to farmers and traders through newspapers, radios, TVs, cellular phones and other suitable medium; (v) information use monitoring, (vi) enhancing analytical capacity of public and private actors, and (vii) training of private companies and associations on collection, processing and analysis of data, its use, and development of market information system.
2. Provision of Grants through CGS for Sub-projects in market-oriented infrastructure, including but not limited to milk collection points, slaughter houses, storages, distribution networks, and image enhancement to setting up and/or developing marketing associations or partnerships.

Part C: Applied Agricultural Research and Extension

1. Strengthening applied agricultural research by: (i) providing technical assistance to design, implement and monitor a plan to reorganize agricultural research system; (ii) financing an advance education for young scientists; and (iii) providing Grants through CGS for selected applied agricultural research Sub-projects.
2. Strengthening agricultural extension by: (i) developing a Government funded system for provision of extension services to agricultural entities, including selection and output oriented monitoring of extension agents; (ii) training and certifying extension agents; and (iii) providing Grants through CGS for agricultural extension Sub-projects.

Part D: Institutional Development and Agricultural Policy

1. Establishing the GB consisting of representatives from relevant ministries and agencies of the Borrower as well as private sector and agricultural associations which will be responsible for developing policy guidelines for the Project.
2. Establishing the CC responsible for the Project management and implementation of policy guidelines approved by GB set forth or referred to in the Operational Manual and PIP, and administration of CGS.
3. Establishing a roster of independent technical reviewers comprising of national and international experts which will be responsible for the evaluation of Sub-project proposals in: (i) laboratories and quality improvement plans; (ii) market driven infrastructure; (iii) applied agricultural research; and (iv) agricultural extension in accordance with criteria set forth in the Operational Manual.
4. Provision of technical assistance to carry out the Project evaluation.
5. Strengthening capacity of public sector to analyze, monitor and develop agricultural policies by establishing group of experts on agricultural policy responsible for preparing proposals and recommendations on agricultural competitiveness, including fisheries, and training and study tours for staff of the MoA.

* * *

The Project is expected to be completed by January 30, 2010.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	Payment of Principal (Expressed in <u>Dollars)</u> ¹
On each April 15 and October 15 beginning October 15, 2010 through April 15, 2022	1,000,000.000

¹ The figures in this column represent the amount in Dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 4

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 for 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, except for consultants' services for the development of a Government funded system for provision of extension services under Part C.2 (i) of the Project to be financed by the Republican Budget of the Borrower which will be procured in accordance with the Borrower's Law on Procurement dated May 16, 2002 as amended. The Borrower may procure local consultants to do preparatory work for the Project during the period between signing of this Agreement and declaring it effective based on its Law on Procurement.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank 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 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 Borrower.

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.

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. Community Participation. Goods, works and services required to be financed by Grants may be procured on the basis of community participation in accordance with the Operational Manual.

4. Direct Contracting. Goods and works which the Bank 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 \$200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Least-cost Selection. Services for assignments which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$200,000 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.

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 subject to prior approval of the Bank.

4. 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 Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

Section IV. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. If the Procurement Plan provides for prior review of contracts for the employment of consulting firms and individual consultants, irrespective of the value of the contract, the terms of references and draft contracts shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. All other contracts shall be subject to Post Review by the Bank.

SCHEDULE 5

Implementation Program

Part A: General

1. The Borrower shall:
 - (a) carry out of the Project through MoA;
 - (b) MoA shall maintain CC during the Project implementation with staff whose qualification and terms of reference shall be satisfactory to the Bank and resources adequate to enable it to effectively implement the Project; and
 - (c) MoA shall ensure that CC shall be responsible for: (i) Project management, implementation, coordination and monitoring, including evaluation and reporting to the GB; (ii) preparation of withdrawal applications under the Loan; (iii) management of the Special Account referred to in Section 2.02 (b) of this Agreement; (iv) administration of CGS; (v) procurement of goods, works and services; (vi) maintenance of records and accounts related to the Project and arranging for the audit thereof; and (vii) preparation of an annual work program; and
 - (d) MoA shall have the overall responsibility for accounting, financial reporting and management, and preparing of FMRs for the Project.
2. The Borrower, through MoA, shall take all necessary measures to implement the Project in accordance with PIP and it shall not assign, amend, abrogate or waive any provision of the PIP without prior approval of the Bank.
3. The Borrower, through MoA, shall take all necessary measures to implement Parts A.2 (iii), B.2 and C.1 (iii) and C.2 (iii) of the Project in accordance with the Operational Manual and it shall not assign, amend, abrogate or waive any provision of the Operational Manual without prior approval of the Bank.
4. The Borrower, through MoA, shall maintain during the Project implementation a GB referred to in Part D.1 of Schedule 2 to this Agreement with the composition and terms of reference satisfactory to the Bank.
5. The Borrower, through MoA, shall, not later than one month after the Project effectiveness, establish and, thereafter maintain during the Project implementation a roster of independent technical reviewers referred to in Part D.3 of Schedule 2 to this Agreement with the composition and terms of reference satisfactory to the Bank.
6. The Borrower, through CC: (a) shall provide to the Bank, by April 1 of each year, throughout the execution of the Project, an annual evaluation report based on a survey carried out each year, except for the first year, on the Project implementation, in

such scope and such detail as the Bank shall reasonably request, including a draft annual Project plan for the following year; and (b) shall provide to the Bank by March 1 and by September 1 of each year, throughout the execution of the Project, a semiannual Project monitoring report to assess the efficiency of the Project.

7. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators acceptable to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about April 1, 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 Bank, by July 1, 2008 or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

Part B: Grants under Parts A.2 (iii), B.2, C.1(iii) and C.2(iii) of the Project

1. The Borrower, through MoA, shall ensure:

(a) that Sub-project proposals for Grants in laboratories and quality improvement plans, market oriented infrastructure, applied agricultural research and agricultural extension under Part A.2 (iii), B.2, C.1 (iii) and C.2 (iii) of the Project shall be selected, appraised, implemented and evaluated in accordance with the principles, procedures and criteria set forth in the Operational Manual, the Environmental Guidelines and the Pest Management Plan;

(b) that the Bank shall have the right to review the Sub-project proposals for awarding Grants at any time during the execution of the Project; in case of disagreement on the justification applied for approval or rejection of the Sub-project proposals, the Bank shall have the right to require a modification of selection results; and

(c) that the award of the Grant shall be made by the CGS Agent in accordance with the standard Grant Agreement form included in the Operational Manual, whereby: (i) the Sub-projects proposals for the carrying out of which the Grant is awarded is adequately described; (ii) the Grant recipient shall be required to carry out

such Sub-project proposals as described and within the budgetary limits set forth in the Grant Agreement and to procure goods and services required for the carrying out of the Sub-project proposals in accordance with the procedures set forth in the Grant Agreement; (iii) the amount of each Grant shall be based upon estimated cost of goods, works and services and operating costs that will be required for the Sub-project, and shall not exceed the limit of each Grant set forth in the Operational Manual; and (iv) the purpose and use of the Sub-project and cost sharing to be made by the Grant recipient with respect to the financing of the Sub-project is in accordance with the requirements set forth in the Operational Manual.

2. The Borrower, through MoA, shall ensure that the CGS Agent Agreement shall, inter alia, include, namely, that: (i) the proceeds of the Grant will be disbursed by the CGS Agent in a timely manner and in compliance with the terms and conditions and procedures referred to or set forth in the CGS Agent Agreement and the Operational Manual; (ii) the CGS Agent will make field visits to the Sub-project sites to verify the Sub-project implementation state and will submit its findings to the MoA and CC; (iii) CGS Agent will undertake all necessary actions and exercise all of its rights in the CGS Agent Agreement, including suspension or termination of the right of Grant recipients to use the proceeds of the Grant upon failure by the Grant recipient to perform any of its obligation under the Grant Agreement; (iv) CGS Agent will be empowered, upon failure by the Grant recipient to carry out its obligations under the Grant Agreement, to terminate it with prior agreement of MoA, cease disbursement of the Grant provided thereunder and request other appropriate remedies available under the laws of the Borrower; (v) up to a maximum 30% of the Grant funds will be advanced to the CGS Agent into a treasury or commercial bank account to assure that the proceeds of the Grant are disbursed to the Grant recipients in a timely manner; and (vi) the CGS Agent will furnish to the MoA and CC documentation of expenditure in a period of sixty (60) days to assure that no Grant funds will be advanced for a period of longer than sixty (60) days.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1), (2) and (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and works required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term “Authorized Allocation” means the amount of \$1,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$500,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$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 Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for 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 Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
 - (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

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

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

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

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

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

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

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

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

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

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

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

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