

Public Disclosure Authorized

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CREDIT NUMBER 3928-TJ
GRANT NUMBER H097-TJ
RELATED TO GEF TRUST FUND GRANT NUMBER TF 053572-TJ

Development Financing Agreement

(Community Agriculture and Watershed Management Project)

between

REPUBLIC OF TAJIKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 14, 2004

Public Disclosure Authorized

CREDIT NUMBER 3928-TJ

GRANT NUMBER H097-TJ

RELATED TO GEF TRUST FUND GRANT NUMBER TF 053572-TJ

DEVELOPMENT FINANCING AGREEMENT

AGREEMENT, dated July 14, 2004, between REPUBLIC OF TAJIKISTAN (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Grant be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Credit are made;

(C) the Borrower intends to contract from the International Bank for Reconstruction and Development (the Bank), acting as an implementing agency (the Implementing Agency) of the Global Environment Facility (GEF) in respect of grant funds provided to the GEF Trust Fund by certain members of the Bank as participants of the GEF, a grant in an amount of four million five hundred thousand dollars (\$4,500,000) (the GEF Trust Fund Grant) to assist in financing part of the Project on the terms and conditions set forth in a trust fund grant agreement of even date herewith between the Borrower and the Implementing Agency (as the same may be amended from time to time, the GEF Trust Fund Grant Agreement, and such term includes all schedules to the GEF Trust Fund Grant Agreement); and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth in Schedule 6 to this Agreement (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) “Beneficiary” means for: (i) a Research and Demonstration Grant (as hereafter defined), a scientific institution, a line ministry, a State committee, a community and an individual resident and/or established and operating in the territory of the Borrower and selected in accordance with the Operational Manual (as hereafter defined); (ii) a Farm Productivity Improvement Grant (as hereafter defined), an individual or a group of farming households, as well as an NBFO (as hereafter defined), resident and/or established and operating in the territory of the Borrower and selected in accordance with the Operational Manual; (iii) a Land Resource Management Grant (as hereafter defined), a group of nine or more households, resident and established in the territory of the Borrower and selected in accordance with the Operational Manual; (iv) a Mobilization Grant (as hereafter defined), a household, a CIG (as hereafter defined), a village, a JDC (as hereafter defined) and a WDC (as hereafter defined) resident and/or established and operating in the territory of the Borrower and selected in accordance with the Operational Manual; and (v) a Rural Infrastructure Grant (as hereafter defined), a community group resident and established in the territory of the Borrower and selected in accordance with the Operational Manual;

(b) “CIGs” means common interest groups established or proposed to be established which implement or which will implement Sub-projects (as hereafter defined), and which are, together with their activities, regulated and governed in accordance with the laws of the Borrower, and which report to JDCs or PCUs (as hereafter defined), as the case may be, and “CIG” means any of them;

(c) “Environmental Management Framework” means the environmental management framework, satisfactory to the Association, setting forth the measures to be taken during the implementation and operation of Sub-projects to avoid or reduce adverse environmental impacts, and the actions needed to implement these measures, adopted by the Borrower on February 23, 2004;

(d) “Farm Productivity Improvement Grant” means a grant made or proposed to be made to a Beneficiary, for a Sub-project, under Part A.1 of the Project, out of the proceeds of the Credit;

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

(f) “Grants” means, collectively, Farm Productivity Improvement Grants, Land Resource Management Grants, Rural Infrastructure Grants, Research and Demonstration Grants, and Mobilization Grants, and “Grant” means any of them;

(g) “*Jamoat*” means a sub-district of the Borrower, generally comprising several villages;

(h) “JDCs” means the *Jamoat* Development Committees established or proposed to be established in each of the Project Watersheds (as hereafter defined), as the case may be, and registered with the Borrower as non-profit, non-government member service providers, and “JDC” means any of them, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time;

(i) “JDC Sub-project Accounts” means the accounts maintained by the JDCs for each Sub-project and referred to in Section 4.03 of this Agreement, and “JDC Sub-project Account” means any of them;

(j) “Land Resource Management Grant” means a grant made or proposed to be made to a Beneficiary, for a Sub-project, under Part A.2 of the Project, out of the proceeds of the Credit, the Grant and the GEF Trust Fund Grant, respectively;

(k) “MIWR” means the Ministry of Irrigation and Water Resources of the Borrower, and includes any successor thereto;

(l) “MOA” means the Ministry of Agriculture of the Borrower, and includes any successor thereto;

(m) “Mobilization Grant” means a grant made or proposed to be made to a Beneficiary, for a Sub-project, under Part B.2 of the Project, out of the proceeds of the Grant;

(n) “NBFO” means a Non-Bank Finance Organization, consisting of a member-owned credit entity, duly established under and operating in accordance with the laws of the Borrower;

(o) “Operational Manual” means, collectively: (i) the Community Mobilization and Rural Production Investments Operational Manual; (ii) the Non-Bank Finance Organization Operational Manual; (iii) the Financial Management and Administrative Procedures Manual; (iv) the Procurement Operational Manual; and (v) the Project Monitoring and Evaluation Operational Manual, referred to in paragraph (b) of Section 3.01, satisfactory to the Association, to be adopted by the Borrower, and setting out the operational and administrative procedures for the implementation of the Project, including the selection, approval, processing, financing, implementation, monitoring, evaluation and supervision of the Sub-projects and the Grants, as the same may be amended from time to time by agreement between the Association and the Borrower;

(p) “PCUs” means the Project Coordination Units established or proposed to be established by the PMU in each of the Project Watersheds to support the WDCs (as hereafter defined), as well as to monitor and evaluate Sub-projects (as hereafter defined), liaise with line agencies, interact with JDCs and Project NGOs (as hereafter defined), and organize training programs, and “PCU” means any of them, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time;

(q) “PCU Sub-project Accounts” means the accounts maintained by the PCUs for each Sub-project and referred to in Section 4.03 of this Agreement, and “PCU Sub-project Account” means any of them;

(r) “PMP” means the pest management plan, satisfactory to the Association, setting forth the measures to be taken during the implementation and operation of Sub-projects to identify and minimize potential adverse impacts on human health and the environment associated with pest control and the use of pesticides, and the actions needed to implement these measures, adopted by the Borrower on February 23, 2004;

(s) “PMU” means the Project Management Unit, established under the Decree of the President of the Borrower No. 216, dated June 26, 1998, which will be responsible for overall coordination and management of the Project, including responsibility for the management and supervision of Project procurement activities, as well as to act as the secretariat and executive of the SLSC (as hereafter defined);

(t) “Project Account” means the account referred to in paragraph (c) of Section 7.01 of this Agreement, opened and maintained by the PMU on behalf of the Borrower in a commercial bank operating on the territory of the Borrower, acceptable to the Association, for the deposit of Borrower counterpart funds required for local Project expenditures;

(u) “Project NGOs” means adequately experienced and suitably qualified Non-Governmental Organizations operating on the territory of the Borrower, acceptable to the Association, selected in accordance with the Operational Manual, and contracted by the PMU to support individuals, households, CIGs, villages, JDCs and WDCs for the purposes of the Project, and “Project NGO” means any of them, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time;

(v) “Project Watersheds” means the highland watersheds comprised of the Surkhob, Toirsu, Vanj and Zarafshan river valleys in the territory of the Borrower, and “Project Watershed” means any of them, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time;

(w) “Research and Demonstration Grant” means a grant made or proposed to be made to a Beneficiary, for a Sub-project, under Part B.1 of the Project, out of the proceeds of the Credit and the GEF Trust Fund Grant, respectively;

(x) “Research Institutes and Line Agencies” means, collectively:

(i) in the case of scientific research institutions, the Horticultural Research Center (Bogparvar) of the Borrower’s Academy of Agricultural Sciences, the Scientific Research Institute of Forestry, the Botanical Institute of the Academy of Sciences, the Soil Science Institute of the Academy of Agriculture in Dushanbe, and the Veterinary Institute, and such other scientific research institutions as may be agreed with the Association; and

(ii) in the case of Ministries of the Government of the Borrower or other entities owned or controlled by the Borrower, the Ministry of Agriculture, the State Committee for Nature Protection, the State Land Committee, the State Statistical Service, and the National Farmer's Training Center, and such other Ministries or entities as may be agreed with the Association;

(y) "Rural Infrastructure Grant" means a grant made or proposed to be made to a Beneficiary, for a Sub-project, under Part A.3 of the Project, out of the proceeds of the Grant;

(z) "SLSC" means the State Level Steering Committee of the Borrower, established by Order of the Government of the Republic of Tajikistan number 145-123.1/12.21, dated March 27, 2004, and includes any successor thereto;

(aa) "Special Accounts" means the accounts referred to in Section 2.02 (b) of this Agreement;

(bb) "Sub-project" means for: (i) a Farm Productivity Improvement Grant, a project to enhance productive farm activities, as well as the establishment of NBFOS, and to be carried out by a Beneficiary under Part A.1 of the Project; (ii) a Land Resource Management Grant, a project to support the adoption of more sustainable use of fragile lands and to be carried out by a Beneficiary under Part A.2 of the Project; (iii) a Rural Infrastructure Grant, a project for the rehabilitation of rural infrastructure and to be carried out by a Beneficiary under Part A.3 of the Project; (iv) a Research and Demonstration Grant, a project for the provision of technical services and advice, as well as the dissemination of activities to promote widespread adoption of technologies, and to be carried out by a Beneficiary under Part B.1 of the Project; and (v) a Mobilization Grant, a small initial confidence building activity to be carried out by a Beneficiary under Part B.2 of the Project;

(cc) "Sub-project Accounts" means, collectively, the PCU Sub-project Accounts and the JDC Sub-project Accounts, and "Sub-project Account" means any of them; and

(dd) "WDCs" means the Watershed Development Committees established or proposed to be established in each of the Project Watersheds, reporting to the SLSC, and "WDC" means any of them, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time.

ARTICLE II

The Financing

Section 2.01. The Association agrees to make available to the Borrower, on the terms and conditions set forth or referred to in this Agreement:

(a) an amount in various currencies equivalent to three million four hundred thousand Special Drawing Rights (SDR 3,400,000) (the Credit); and

(b) an amount in various currencies equivalent to three million nine hundred thousand Special Drawing Rights (SDR 3,900,000) (the Grant).

Section 2.02. (a) (i) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for:

- (A) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of works, goods and services required for the Project and to be financed out of the proceeds of the Credit; and
 - (B) amounts paid (or, if the Association shall so agree, to be paid) on account of withdrawals made by a Beneficiary under a Farm Productivity Improvement Grant, a Land Resource Management Grant, or a Research and Demonstration Grant to meet the reasonable cost of works, goods and services required for a Sub-project under Parts A.1, A.2, and B.1 of the Project in respect of which the withdrawal from the Credit Account is required; and
- (ii) The amount of the Grant may be withdrawn from the Grant Account in accordance with the provisions of Schedule 1 to this Agreement for:

- (A) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of services required for the Project and to be financed out of the proceeds of the Grant; and
- (B) amounts paid (or, if the Association shall so agree, to be paid) on account of withdrawals made by a Beneficiary under a Land Resource Management Grant, a Rural Infrastructure Grant, or a Mobilization Grant to meet the reasonable cost of works, goods and services required for a Sub-project under Parts A.2, A.3, and B.2 of the Project in respect of which the withdrawal from the Grant Account is required.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars two separate special deposit accounts, one for the Parts of the Project financed by the Credit (Special Account A), and one for the Parts of the Project financed by the Grant (Special Account B) in a commercial bank acceptable to the Association and on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, each respective Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be April 30, 2011 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: (i) 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, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum; and (ii) 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, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum .

(b) Each 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 the Grant Account (as the case may be), or canceled; and (ii) at the respective 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 respective 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) Each 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 May 15th and November 15th 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 May 15th and November 15th, commencing November 15, 2014 and ending May 15, 2044. Each installment to and including the installment payable on May 15, 2024 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (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 (6) 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 (5) 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 of the Credit 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 objective of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through the SLSC, the PMU, the WDCs, the PCUs and the JDCs with due diligence and efficiency and in conformity with appropriate administrative, financial, agricultural, scientific, environmental, and accounting 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 and the Operational Manual, and the Borrower shall cause the SLSC, the PMU, the WDCs, the PCUs and the JDCs to perform their respective obligations under the Project in accordance with the provisions of the implementation program set forth in Schedule 4 to this Agreement and the Operational Manual.

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 Financing shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

ARTICLE IV

Financial Covenants

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

(b) The Borrower, through the PMU, shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), 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) The Borrower, through the PMU, shall, under terms of reference satisfactory to the Association, appoint the independent auditors referred to in clause (i) of paragraph (b) of this Section, acceptable to the Association, as soon as possible, but in any case not later than December 31, 2004.

(d) For all expenditures with respect to which withdrawals from the Financing Accounts were made on the basis of statements of expenditure, the Borrower, through the PMU, shall:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 1 of Schedule 4 to this Agreement, the Borrower, through the PMU, shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Financing, 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 Financial Monitoring Report 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 Financial Monitoring Report shall be furnished to the Association not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03. The Borrower, through the PMU, shall cause the PCUs and the JDCs to maintain appropriate financial records and accounts for each Sub-project for which they are responsible in accordance with the procedures stipulated under the Operational Manual, which Sub-project Accounts:

(a) will be in accordance with consistently applied accounting standards acceptable to the Association;

(b) will be adequate to reflect the operations, resources and expenditures related to the Sub-projects for which the relevant PCUs and JDCs are responsible;

(c) will reflect all financial transactions during the Project separately for the Credit, the Grant, and the GEF Trust Fund Grant, as well as Borrower counterpart financing by Project component described in Schedule 2 of this Agreement and by expenditure category under Schedule 1 of this Agreement;

(d) will be maintained independently from any routine budget account or other externally funded Project account; and

(e) in the case of the JDCs, will be provided to the relevant PCUs, and in the case of the PCUs, will be provided to the PMU.

ARTICLE V

Other Covenants

Section 5.01. Commencing with the Borrower's 2005 fiscal year, the Borrower shall, by September 30 of each year, review the provision for counterpart funds that is necessary for Project implementation in the following fiscal year and allocate adequate funds for such purposes in the Borrower's National Budget for such fiscal year.

Section 5.02. The Borrower shall take, or cause to be taken, all measures necessary to ensure that:

(a) the Project is implemented in full compliance with the provisions of the Environmental Management Framework and the PMP in a timely manner;

(b) the status of land degradation in the Project Watersheds is monitored in accordance with arrangements agreed with the Association and that the findings are made publicly available in a manner and within a timeframe satisfactory to the Association;

(c) the PMU and the PCUs are maintained and adequately staffed, under terms of reference acceptable to the Association if the relevant personnel is financed under the Project, and provided with performance-based incentives satisfactory to the Association;

(d) starting not later than forty-five (45) days after the first six (6) month anniversary of the Effective Date, the PMU will provide to the Association a written report of (a) the results of its monitoring and evaluation of the Project and (b) the status of the agreed performance monitoring indicators for the preceding six (6) months, and, thereafter, shall furnish to the Association not later than forty-five (45) days after each subsequent semiannual period another report on the same matters which shall cover such semiannual period;

(e) Sub-projects under Part A of the Project are prepared, cleared, and implemented in accordance with organizational arrangements and operational procedures agreed with the

Association, including those specified in the Operational Manual, and, for each Project Watershed, the first ten (10) Sub-project proposals and associated draft Memorandum of Understanding between the Beneficiary and the relevant JDC will be subject to the Association's prior review and approval;

(f) land use rights shall be promptly registered in the name of the CIGs or households who have performed in accordance with agreed parameters for land resource management Sub-projects under Part A.2 of the Project; and

(g) no human settlements will be displaced as a result of Project activities, and any adverse impacts on vulnerable people of any other restrictions of access to land resulting from Project activities will be mitigated by Project investments directly benefiting the affected people.

ARTICLE VI

Remedies of the Association

Section 6.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified, namely, that:

(a) The Decree of the President of the Borrower No. 216, dated June 26, 1998, shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Association, the ability of the PMU to perform any of its obligations under the implementation plan under Schedule 4 of this Agreement or the Operational Manual.

(b) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the SLSC, the PMU, any of the WDCs, any of the PCUs, or any of the JDCs, or for the suspension of any of their respective activities.

(c) The Operational Manual shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Association, the carrying out of the Project or the realization of its objective.

(d) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the GEF Trust Fund Grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated, in whole or in part, pursuant to the terms of the GEF Trust Fund Grant Agreement.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, or termination is not caused by the failure of the Borrower to perform any of its obligations under the GEF Trust Fund Grant Agreement; and (B) adequate funds for the Project are available to

the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(e) The Borrower shall have failed to perform any of its obligations under the GEF Trust Fund Grant Agreement.

Section 6.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely, that any events specified in paragraphs (a), (b), (c) and (e) of Section 6.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that:

(a) the GEF Trust Fund Grant Agreement has been duly executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of this Agreement, have been fulfilled;

(b) the Operational Manual, satisfactory to the Association, has been duly adopted by the SLSC on behalf of the Borrower; and

(c) the Project Account has been opened and an initial deposit of \$50,000 equivalent has been deposited to meet the initial requirement of counterpart funds for the purposes of Project implementation.

Section 7.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the GEF Trust Fund Grant Agreement has been duly authorized or ratified by the Borrower, and is legally binding upon the Borrower in accordance with its terms.

Section 7.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. 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 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
3, Akademik Rajabovikh Street
Dushanbe, 734025
Republic of Tajikistan

Facsimile:

(992-372) 213329

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) 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 the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF TAJIKISTAN

By /s/ Kozidavlat Koimdodov

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Dennis N. de Tray

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Financing

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Financing, the allocation of the amounts of the Credit and 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 Credit Allocated (Expressed in SDR Equivalent)</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	40,000		75% local
(2) Goods	340,000		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 83% of local expenditures for other items procured locally
(3) Consultants' services including audit		1,120,000	54%
(4) Training and dissemination		210,000	56%
(5) Local fixed term specialists	460,000		83%
(6) Farm Productivity Improvement Grants under Part A.1 of the Project	1,330,000		100% of amounts disbursed
(7) Land Resource Management Grants under Part A.2 of the Project			100% of amounts disbursed
(a) financed under the Credit	160,000		
(b) financed under the Grant		670,000	

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(8) Rural Infrastructure Grants under Part A.3 of the Project		1,260,000	100% of amounts disbursed
(9) Research and Demonstration Grants under Part B.1 of the Project	170,000		100% of amounts disbursed
(10) Mobilization Grants under Part B.2 of the Project		260,000	100% of amounts disbursed
(11) Incremental operating costs	560,000		83% through October 31, 2006 77% through October 31, 2008 70% through October 31, 2010
(12) Unallocated	<u>340,000</u>	<u>380,000</u>	
TOTAL	<u>3,400,000</u>	<u>3,900,000</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 works, 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 works, goods or services supplied from the territory of the Borrower;

(c) the term “training and dissemination” means training activities (other than services financed under Categories (3) and (5)) to be carried out under the Project, including the reasonable and necessary travel and visa expenses incurred by participants in training workshops and study tours, as well as lodging, subsistence and per diem allowances, registration, tuition fees, minor organizational expenses (including costs of stationery, handouts and training materials), and other expenditures directly relating to the training workshop and study tour activity, as may be agreed with the Association;

(d) “incremental operating costs” means reasonable and necessary incremental expenditures, as approved by the Association on the basis of budgets acceptable to the Association, incurred by the PMU, the PCUs, the JDCs, or the Research Institutes and Line

Agencies on account of Project implementation, management and monitoring, including the cost of salaries (other than those financed under Categories (3) and (5)), equipment maintenance and repair, vehicle operation and repair, local travel, communication, translation and interpretation, bank charges, social charges, and other miscellaneous costs, as may be agreed with the Association, but excluding salaries of officials and employees of the Borrower;

(e) “social charges” means the employer’s contribution to social and medical charges assessed by the Borrower in respect of employment contracts concluded with citizens of the Borrower; and

(f) “local fixed term specialists” means long term, individual consultants employed by the PMU for purposes of Project implementation.

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) Category (1) unless the Borrower shall have provided to the Association for its review and no-objection, at least one (1) month prior to their scheduled commencement date, the program for the first six (6) months of civil works proposed to be carried out under the Project, together with the budget related to such proposed works;

(c) Category (5) unless the PMU shall have employed, under terms of reference satisfactory to the Association, an environmental specialist and an accountant, each acceptable to the Association, to provide services for the Project; and

(d) Categories (6), (7) and (8) in respect of a particular Project Watershed unless the relevant WDC, PCU and JDCs shall have been duly established and rendered operational in a manner satisfactory to the Association, and the relevant Project NGO for such Project Watershed shall have been selected by the PMU in accordance with the procedures provided under the Operational Manual, and the PMU and the selected Project NGO shall have signed the contract to be entered into between the PMU and such Project NGO, which contract shall contain terms and conditions satisfactory to the Association.

4. The Association may require withdrawals from the Credit Account and the Grant Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$100,000 equivalent each; (b) works, except the first contract procured under Part C.1 of Schedule 3 of this Agreement estimated to cost the equivalent of \$50,000 or more and the first contract procured under Part C.5 of Schedule 3 of this Agreement; (c) consulting firms under contracts costing less than \$100,000 equivalent each; (d) individual consultants under contracts costing less than \$20,000 equivalent each; (e) all Grants under the Project; (f) training and dissemination; and (g) incremental operating costs; under such terms and conditions as the Association shall specify by notice to the Borrower.

5. If the Association shall have determined at any time that any payment made from the Credit Account or the Grant Account, as the case may be, was used for any expenditure not

consistent with the provisions of this Agreement, the Borrower shall, promptly upon notice from the Association, refund to the Association for deposit into the Credit Account or the Grant Account, as the case may be, an amount equivalent to the amount so used or the portion thereof as specified by the Association.

SCHEDULE 2

Description of the Project

The objective of the Project is to build productive assets of rural communities in selected mountain watersheds in ways that sustainably increase productivity and curtail degradation of fragile lands and ecosystems.

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

Part A: Rural Production Investments

1. Farm Productivity Improvement Grants

Financing of Sub-projects, through the provision of Farm Productivity Improvement Grants to Beneficiaries, to enhance productive activities of farms, including improvements in the productivity of field and horticultural crops, small scale processing facilities and development of distribution mechanisms, improvements in livestock production and animal husbandry, establishment of small-scale farm machinery leasing units, and establishment of NBFOs.

2. Land Resource Management Grants

Financing of Sub-projects, through the provision of Land Resource Management Grants to Beneficiaries, to adopt more sustainable use of fragile lands and to provide land use certificates after three years of maintenance, subject to continued good land use.

3. Rural Infrastructure Grants

Financing of Sub-projects, through the provision of Rural Infrastructure Grants to Beneficiaries, to rehabilitate rural infrastructure, including the provision of safe drinking water, limited rehabilitation of access and feeder roads to improve access to markets, and community-owned mini-hydropower or wind-driven power generation.

Part B: Institutional Support and Capacity Building

1. Support to Scientific Research for Development and Dissemination

Financing of Sub-projects, through the provision of Research and Demonstration Grants to Beneficiaries, for the provision of technical services and advice, as well as the dissemination of activities to promote widespread adoption of technologies, by scientific institutions, including training to communities, support for seed and seedling production, livestock breeding and animal health and husbandry improvements, market and enterprise information analysis and development, and facility rehabilitation and equipment.

2. Community Mobilization and Preparation of Investment Plans

Provision of support and technical advice through Project NGOs to facilitate community mobilization, preparation and implementation of Sub-projects and to strengthen the capacity of CIGs, JDCs and WDCs to undertake their respective Project responsibilities, as well as the financing of Sub-projects, through the provision of Mobilization Grants to Beneficiaries, to support small initial confidence building activities, as well as information and experience sharing, and the provision of training for households, CIGs, Project NGOs, JDCs, PCUs and WDCs.

Part C: Project Management

Provision of support to the PMU and the PCUs for Project coordination and administration, procurement, disbursement, financial management, reporting, monitoring and evaluation activities, as well as support for the secretariat and other services provided to the SLSC by the PMU and to the WDCs, the JDCs and the Project NGOs by the PCUs.

* * *

The Project is expected to be completed by October 31, 2010.

SCHEDULE 3

Procurement

Section I. Procurement of Good and Works

Part A: General

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

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

(a) Grouping of contracts

To the extent practicable, contracts for goods and works shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

(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 \$250,000 equivalent per contract but equal to \$50,000 equivalent or more per contract shall 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 \$100,000 equivalent per contract, after comparison of not less than three responsive quotations, 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, after comparison of not less than three responsive quotations, 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. Community Participation

Goods and works required for Parts A.1, A.2, A.3, B.1, and for Sub-projects financed with Mobilization Grants under Part B.2 of the Project shall be procured in accordance with: (a) the provisions of paragraph 3.15 of the Guidelines; and (b) procedures acceptable to the Association and specified in the Operational Manual.

5. Procurement of Minor Works

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

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to: (i) each contract under Part B.1 of this Section; (ii) the first contract under Part C.1 of this Section estimated to cost the equivalent of \$50,000 or more, as well as the first contract under Part C.5 of this Section; and (iii) any contract for goods estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) each contract procured under Part C.4 of this Section; and (ii) the first three contracts under Parts C.2, C.3 and C.5 of this Section, the following procedures shall apply:

- (i) prior to the selection of any supplier or execution of any contract under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under direct contracting or shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Section.

Part B: Quality- and Cost-based Selection

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

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services for estimated to cost less than \$50,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services required for Parts A.1, A.2, A.3 and B.1 of the Project, and for Sub-projects financed with Mobilization Grants under Part B.2 of the Project, estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Least-cost Selection

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

3. Individual Consultants

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

4. Direct Contracting

Training services, which should be procured by the PMU, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every six (6) months during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$20,000 or more, the report on the comparison of the qualifications and experience of candidates, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

(c) Terms of reference for all consulting assignments, irrespective of the contract value, shall be subject to the Association's prior review and approval.

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 December 31, 2007, 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 March 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.

2. Except as the Association shall otherwise agree, the Borrower shall cause:

(a) the SLSC to review and consider approving the annual Project budgets proposed by the PMU, based upon inputs received from the JDCs and comments thereon provided by the WDCs, as well as to meet quarterly in order to, among other matters, review and consider approving Sub-project proposals prepared and submitted in accordance with the Operational Manual for amounts established under the Operational Manual which first shall have been recommended to it by the WDCs and, if it accepts such recommendations, provide clearance for such proposals to the PMU;

(b) the PMU to be responsible for the overall coordination and management of the Project, including responsibility for the management and supervision of Project procurement activities, acting as the secretariat and executive of the SLSC, facilitating inter-Ministerial coordination, establishing PCUs in each of the Project Watersheds and providing them with institutional project management support (including finance and administration, audit, procurement, monitoring and evaluation of the activities of the PCUs and the JDCs, and operation of the Project information system), and concluding contracts with Project NGOs, satisfactory to the Association;

(c) WDCs to be established in each Project Watershed, and cause the WDCs to meet on a bimonthly basis in order to, among other things, review and consider approving Sub-project proposals prepared and submitted in accordance with the Operational Manual for amounts established under the Operational Manual and, if it considers it appropriate, provide clearance to the PMU for the release of funds to JDC Sub-project Accounts, as well as review and consider

providing recommendations to the SLSC of Sub-project proposals prepared and submitted in accordance with the Operational Manual for amounts established under the Operational Manual;

(d) PCUs to be established in each Project Watershed, and cause the PCUs to provide secretariat support to the WDCs, interact with JDCs and Project NGOs, foster linkages between JDCs and technical agencies, ensure quality control of Sub-projects, organize training programs, and compile progress reports on Sub-projects; and

(e) JDCs to be established in each Project Watershed other than the already existing JDC in the Surkhob Project Watershed, and cause the JDCs to screen community action plans, review associated Sub-project proposals and consider the approval of those prepared and submitted in accordance with the Operational Manual for amounts no greater than that established under the Operational Manual up to a cumulative aggregate amount per Jamoat per calendar year determined in accordance with the Operational Manual, and enter into memoranda of understanding with Beneficiaries, each under terms and conditions satisfactory to the Association, including the terms and conditions set forth in the Operational Manual in that regard.

3. For the purposes of Parts A and B.2 of the Project, the Borrower shall cause the JDCs to enter into Memoranda of Understanding with Beneficiaries, each under terms and conditions satisfactory to the Association, including, without limitation, the eligibility criteria, the procedures (including in respect of procurement and the timing of funds' release), and the terms and conditions set forth in the Operational Manual in that regard, it being understood and agreed that the ten first Sub-project proposals and associated memoranda of understanding for each Project Watershed would be delivered to the Association for its review, together with a request for its no-objection, prior to acceptance and signature, respectively.

4. For the purposes of the implementation of the Project, the Borrower shall cause the PMU to enter into agreements with Project NGOs, each under terms and conditions satisfactory to the Association, including, without limitation, the eligibility criteria, the procedures, the procurement of Mobilization Grants, and the terms and conditions set forth in the Operational Manual in that regard.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means in respect of Special Account A, Categories (1), (2), (5), (6), (7) (a), (9) and (11) set forth in the table in paragraph 1 of Schedule 1 to this Agreement, and, in respect of Special Account B, Categories (3), (4), (7) (b), (8) and (10) 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 Financing 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 \$400,000 in respect of the Special Account A for those Parts of the Project financed under the Credit and an amount equivalent to \$400,000 in respect of the Special Account B for those Parts thereof financed under the Grant, to be withdrawn from the Credit Account or the Grant Account and deposited into the Special Accounts 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 \$250,000 in respect of the Special Account A for those Parts of the Project financed under the Credit and an amount equivalent to \$250,000 in respect of the Special Account B for those Parts thereof financed under the Grant, until: (i) in respect of the Special Account A, the aggregate amount of withdrawals from the Credit Account allocated to Categories (1), (2), (5), (6), (7) (a), (9) and (11) plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for those Parts of the Project financed under the Credit shall be equal to or exceed the equivalent of SDR 2,000,000; and (ii) in respect of the Special Account B, the aggregate amount of withdrawals from the Grant Account allocated to Categories (3), (4), (7) (b), (8) and (10) plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for those Parts of the Project financed under the Grant shall be equal to or exceed the equivalent of SDR 2,000,000.

2. Payments out of the respective 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 respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective 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 respective 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 or the Grant Account and deposit into the respective Special Account such amount or amounts as the Borrower shall have requested.

- (b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Association requests for deposits into the respective 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 or the Grant Account and deposit into the respective 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 respective Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account or 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 Borrower out of the respective 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 any 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 or 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 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 Accounts;

(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 and the Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit and the Grant allocated to the eligible Categories for the respective Special Account, 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 relevant Parts of the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account and the Grant Account of the remaining unwithdrawn amount of the Credit and the Grant allocated to the eligible Categories of the Project 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 respective 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 any 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 respective 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 any 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 any 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 Accounts.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account or the Grant Account, as the case may be, 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. Section 1.01 is amended to read:

“These General Conditions set forth certain terms and conditions generally applicable to development financing granted by the Association as a development credit and development grant to its members. They apply to any development financing agreement providing for any such development finance to the extent and subject to any modifications set forth in such agreement.

2. Paragraph 8 of Section 2.01 is amended to read as follows:

8. “Development Financing Agreement” means the particular Development Financing Agreement to which these General Conditions apply, as such agreement may be amended from time to time. Development Financing Agreement includes these General Conditions as applied thereto, and all schedules and agreements supplemental to the Development Financing Agreement.”

3. The following new paragraphs are added to Section 2.01:

15. “Grant” means the development grant provided for in the Development Financing Agreement.”

16. “Grant Account” means the account opened by the Association on its books in the name of the Borrower to which the amount of the Grant is credited.”

17. “Financing” means, collectively, the Credit and the Grant.

18. “Financing Accounts” means, collectively, the Credit Account and the Grant Account (or, where the context so requires, either of the Credit Account or the Grant Account).

4. The term “Credit”, wherever used in the following Articles and Sections of the General Conditions, is amended to read “Financing”: Sections 2.01 (3), 2.01 (12), 4.01, Article V, Article VI (excluding Section 6.05), Section 7.01 (d), Article VIII, and Article IX.

5. The term “Credit Account”, wherever used in the following Articles and Sections of the General Conditions, is amended to read “Financing Accounts”: Section 2.01 (6), 4.01, Article V, Article VI, and Section 12.03.

6. The term “Development Credit Agreement”, wherever used in the General Conditions, is amended to read the Development Financing Agreement.

7. Section 3.01 is modified to read as follows:

“Section 3.01. *Financing Accounts.* The amount of the Credit shall be credited to the Credit Account and may be withdrawn from the Credit Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions. The amount of the Grant shall be credited to the Grant Account and may be withdrawn from the Grant Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions.”

8. The phrase “(including any development financing agreement or development grant agreement)” is added to Section 6.02 (a) (ii) after the words “any development credit agreement” and before the words “between the Borrower and the Association”, to Section 6.02 (c) (i) after the words “any development credit agreement” and before the words “with the Association”, and to Section 7.01 (b) (i) after the words “any other development credit agreement” and before the words “between the Borrower and the Association”:

9. Section 6.05 is amended to read as follows:

“Except as the Borrower and the Association shall otherwise agree, any cancellation of any amount of the Credit shall be applied *pro rata* to the several installments of the principal amount of the Credit maturing after the date of such cancellation.”