Development Grant Agreement

(Reducing Technical Barriers for Entrepreneurship and Trade Project)

between

KYRGYZ REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 18, 2006
DEVELOPMENT GRANT AGREEMENT

AGREEMENT, dated October 18, 2006, between KYRGYZ REPUBLIC (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

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

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth in Schedule 6 to this Agreement (the General Conditions), constitute an integral part of this Agreement.

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

(a) “Beneficiary” means an enterprise or an individual entrepreneur duly registered in accordance with the Recipient’s applicable laws on entrepreneurship, eligible to receive and administer a Sub-grant (hereinafter defined) for a Sub-project (hereinafter defined) selected in accordance with criteria set forth in the Guidelines for operation of Sub-grants (hereinafter defined);

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

(c) “Guidelines for Operation of Sub-grants” means the guidelines setting forth principles and procedures for selection, approval, evaluation, implementation and
supervision of Sub-grants to be adopted by the Recipient pursuant to paragraph 3 (b) of Schedule 2 to this Agreement;

(d) “MITT” means the Ministry of Industry, Trade and Tourism of the Recipient or any successor or successors thereto;

(e) “NISM” means the National Institute for Standards and Metrology of the Recipient or any successor or successors thereto;

(f) “PIU” means the Project Implementation Unit to be established by the Recipient within MITT pursuant to Section 5.01 (a) of this Agreement;

(g) “Procurement Plan” means the Recipient’s procurement plan, dated February 8, 2006 covering the initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding eighteen (18) month periods (or longer) of Project implementation;

(h) “Project Operational Manual” means the manual, to be adopted by the Recipient pursuant to Section 5.01 (b) of this Agreement, describing procedures for implementation of the Project, consistent with the provisions of this Agreement and with the national laws and regulations of the Recipient and including, *inter alia*: (i) procedures governing administrative, procurement, accounting, financial management, including adequate measures for procurement and forensic audits and complaint mechanisms in case of misuse of the proceeds of the Grant, and monitoring and evaluation arrangements; and (ii) sample formats for annual reports; as the same may be amended from time to time with the agreement of the Association;

(i) “Project Preparation Advance” means the project preparation advance granted by the Association to the Recipient pursuant to the letter agreement signed on behalf of the Association on November 22, 2005, and on behalf of the Recipient on January 21, 2006;

(j) “Project Steering Committee” means the committee to be established by the Recipient and referred to in paragraph 3 of Schedule 4 to this Agreement;

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

(l) “Sub-grant Agreement” means an agreement to be entered into between the Recipient and an eligible Beneficiary pursuant to the provisions of paragraph 8 (b) of Schedule 4 to this Agreement;

(m) “Sub-grant/s” means a sub-grant/s made or proposed to be made to a Beneficiary out of the proceeds of the Grant for the carrying out of a Sub-project;
(n) “Sub-project” means a specific project under Part C.3 (b) of the Project referred to in Schedule 2 to this Agreement, which is proposed to be carried out by an eligible Beneficiary utilizing a Sub-grant; and

(o) “Technical unit” means the unit operating within the NISM of the Recipient and referred to in paragraph 2 of Schedule 4 to this Agreement.

ARTICLE II

The Grant

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to three million five hundred thousand Special Drawing Rights (SDR 3,500,000).

Section 2.02. (a) The amount of the Grant may be withdrawn from the Grant Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for carrying out of the Project and to be financed out of the proceeds of the Grant; and (ii) amounts paid (or, if the Association shall so agree, amounts to be paid) by the Recipient on account of withdrawals made by a Beneficiary of a Sub-grant to meet the reasonable cost of goods, works and services required for the implementation of a Sub-project under Part C.3 (b) of the Project in respect of which the withdrawal from the Grant Account is requested.

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

(c) Promptly after the Effective Date, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be April 30, 2011, or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.
Section 2.04. (a) The Recipient shall pay to the Association a commitment charge on the principal amount of the Grant not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Recipient from the Grant Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.05 of this Agreement.

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

Section 2.05. Commitment charges shall be payable semiannually on May 15 and November 15 in each year.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project, through MITT and NISM, with due diligence and efficiency and in conformity with appropriate financial, administrative and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Recipient and the Association shall otherwise agree, the Recipient shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and services required for the Project, including goods, works and services for Sub-project under Part C.3 (b) of the Project, and to be financed out of the proceeds of the Grant shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.
(b) The Recipient shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than twelve (12) months after the date of the preceding Procurement Plan, for the Association’s approval.

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

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

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

ARTICLE IV

Financial Covenants

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

(b) The Recipient, through MITT, shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made, audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Association): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
(iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

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

(i) retain, until at least one (1) year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(ii) enable the Association’s representatives to examine such records; and

(iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Recipient’s progress reporting obligations set out in paragraph 5 (b) of Schedule 4 to this Agreement the Recipient, through MITT, shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

(i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Grant, and explains variances between the actual and planned uses of such funds;

(ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and

(iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the
Association not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

**ARTICLE V**

**Effectiveness; Termination**

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

(a) that the PIU has been established by the Recipient and is fully operational, with structure, functions and staffing necessary to start implementation of the Project; and

(b) that the Project Operational Manual, satisfactory to the Association, has been adopted by the Recipient.

Section 5.02. The date ninety days (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

**ARTICLE VI**

**Representative of the Recipient; Addresses**

Section 6.01. The Minister of Economy and Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 6.02 The following addresses are specified for the purposes of Section 11.01 of the General Conditions:
For the Recipient:

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

Telex: 245-156NUR KH
Facsimile: (996-312) 661645

For the Association:

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

Cable address: INDEVAS
Telex: 248423 (MCI)
Facsimile: (202) 477-6391

Washington, D.C. 64145 (MCI)

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

KYRGYZ REPUBLIC

By: /s/ Akylbek Japarov
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Dinara Djoldosheva
Authorized Representative
SCHEDULE 1
Withdrawal of the Proceeds of the Grant

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (Expressed in SDR Equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works</td>
<td>27,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Goods</td>
<td>2,684,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Consultants’ services</td>
<td>552,000</td>
<td>90% of foreign expenditures and 100% of local expenditures</td>
</tr>
<tr>
<td>(4) Sub-grants pursuant to Part C.3 (b) of the Project</td>
<td>69,000</td>
<td>100% of amounts Disbursed</td>
</tr>
<tr>
<td>(5) Operating costs</td>
<td>76,000</td>
<td>100%</td>
</tr>
<tr>
<td>(6) Refunding of Project Preparation Advance</td>
<td>92,000</td>
<td>Amount due pursuant to Section 2.02 (b) of this Agreement</td>
</tr>
</tbody>
</table>

**TOTAL** 3,500,000

2. For the purposes of this Schedule:

   (a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Recipient for goods or services supplied from the territory of any country other than that of the Recipient;

   (b) the term “local expenditures” means expenditures in the currency of the Recipient or for goods or services supplied from the territory of the Recipient; and
the term “operating costs” means expenditures incurred on account of the implementation of the Project such as PIU staff salaries, office rent and maintenance, equipment, materials and supplies, communication costs, translation costs, bank charges, travel, and other reasonable expenditures directly associated with implementation of the Project activities, all based on an annual budget acceptable to the Association.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for: (a) expenditures prior to the date of this Agreement; (b) expenditures in respect of Category (4) in the table in paragraph 1 of Schedule 1 to this Agreement unless, the Guidelines for Operation of Sub-grants, satisfactory to the Association, has been adopted by the Recipient and the Sub-grant Agreement has been executed and delivered; and (c) expenditures in respect to Categories (1) and (2) in the table in paragraph 1 of Schedule 1 to this Agreement, unless a streamlined list of products subject to mandatory conformity assessment, satisfactory to the Association, has been adopted by the Recipient.

4. The Association may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than $20,000 equivalent per contract; (b) works costing less than $10,000 equivalent per contract; (c) services of individual consultants costing less than $20,000 equivalent per contract; (d) services of consulting firms under contracts costing less than $50,000 equivalent per contract; (e) operating costs and Sub-grants under Part C.3 (b) of the Project, all under such terms and conditions as the Association shall specify by notice to the Recipient.

5. If the Association shall have determined at any time that any amount of the Grant was used in a manner inconsistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Association, refund to the Association for deposit into the Grant Account, an amount equivalent to the amount so used.
SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Recipient to streamline the national technical regulation and standards framework for business, develop systems to enhance quality and safety of products and increase enterprise competitiveness in pilot areas.

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

Part A: Technical Regulation

Provision of support to MITT in: (a) developing of a work plan for implementation of the Law “On the Fundamentals of Technical Regulations in Kyrgyz Republic”, No. 67, dated May 22, 2004; (b) developing of technical regulations in critical sectors with high contribution to gross domestic product and export potential such as agro-business and food processing; (c) designing and establishing an integrated information system linking the key participants of technical regulations system, including the standardization body; and (d) establishing of the required World Trade Organization (WTO) enquiry point for processing inquiries and notification of adopted technical regulations and related regulatory documents to the WTO and its members.

Part B: Metrology and Standards

1. Strengthening of NISM institutional capacity by providing e’talons, instrumentations and electronic test measuring equipment to enable NISM to provide basic measurement needs of the industry and ensure the accuracy and traceability of measurements performed by the domestic laboratory infrastructures.

2. Establishment of procedures for preparation, adoption and application of standards in accordance with the WTO’s Agreement on the Technical Barrier to Trade and provision of information on standards and international practice necessary for development of technical regulations.

Part C: Accreditation and Quality Enhancement

1. Setting up an accreditation scheme, including an accreditation body, based on international standards.

2. Provision of support on a pilot basis in upgrading and accreditation of selected laboratories operating in the agro-business and food processing sectors, and selected certifying bodies in quality management systems and products in accordance with criteria set forth in the Project Operational Manual.
3. On a pilot basis provision of: (a) technical assistance to enterprises willing to introduce quality in their production lines and management systems in accordance with criteria set forth in the Project Operational Manual; and (b) Sub-grants to enterprises and individual entrepreneurs selected pursuant to the Guidelines for Operation of Sub-grants.

Part D: Project Management

Support to the PIU and TU in the Project implementation and administration, through the provision of training, goods and financing of operating costs.

* * *

The Project is expected to be completed by October 31, 2010.
SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants’ services) shall be procured in accordance with the provisions of Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

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

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

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

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Recipient.

B. Other Procurement Procedures

1. Shopping. Goods estimated to cost less than $100,000 equivalent per contract and works estimated to cost less than $50,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

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

Section III. Particular Methods of Procurement of Consultants’ Services

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

B. Other Procedures

1. Selection Based on Consultants’ Qualifications. Services estimated to cost less than $100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

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

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

Section IV. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association.
SCHEDULE 4

Implementation Program

1. The Recipient, through MITT, shall ensure that the PIU shall be responsible for: (i) Project management, coordination and monitoring, including evaluation and reporting to the Project Steering Committee; (ii) preparation of withdrawal applications under the Grant; (iii) management of the Special Account referred to in Section 2.02 (b) of this Agreement; (iv) procurement of goods, works and services for the Project; (v) maintenance of records and accounts related to the Project and arranging for the audit thereof; (vi) preparation of an annual work program; and (vii) overall responsibility for accounting, financial reporting and management, and preparing of FMRs for the Project.

2. The Recipient, through NISM, shall maintain the TU during execution of the Project, with staffing and resources adequate to enable the TU to carry out the technical aspects of the implementation of Parts B and C of the Project, including developing terms of reference and technical specifications for evaluation and selection and overseeing of implementation of activities under Parts B and C of the Project, all satisfactory to the Association.

3. The Recipient shall, by June 1, 2006, establish and thereafter maintain the Project Steering Committee consisting of representatives of the ministries and agencies involved in the Project activities implementation, including an accreditation body referred to in Part C.1 of Schedule 2 to this Agreement and a private sector, which will provide policy advice and guidance during the execution of the Project.

4. The Recipient shall, by October 1, 2006, ensure that a Protocol on Cooperation to be entered into between the MITT and NISM, satisfactory to the Association, is approved by the Project Steering Committee. The Protocol on Cooperation shall, inter alia, set forth basic principles of cooperation between the two agencies in the area of technical regulations reform within the Project framework for the next four (4) year period, including institutional arrangements and role and responsibilities of the MITT, NISM and the accreditation body referred to in Part C.1 of Schedule 2 to this Agreement.

5. The Recipient, through MITT, shall:

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

   (b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about September 30, 2008, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to
ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by December 20, 2008, or such later date as the Association shall request, the report referred to in sub-paragraph (b) of this paragraph, 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.

6. The Recipient, through PIU: (a) shall provide to the Association, by May 31 and November 30 of each year throughout the execution of the Project, a semi-annual report on the progress of Project implementation, of such scope and such detail as the Association shall reasonably request, including a draft annual Project plan for the following year; and (b) shall carry out annual assessment to monitor the impact of the Project.

7. The Recipient shall carry out Part C.3 (b) of the Project in accordance with the provisions of the Guidelines for Operation of Sub-grants and shall not amend, suspend, abrogate, repeal or waive any provision of the Guidelines for Operation of Sub-grants without prior approval of the Association.

8. For the purposes of carrying out activities under Part C.3 (b) of the Project referred to in Schedule 2 to this Agreement, the Recipient, through MITT, shall ensure that:

(a) the Sub-projects for financing from the proceeds of the Grant are selected in accordance with criteria and selection procedures set forth in the Guidelines for Operation of Sub-grants; and

(b) the approved Sub-projects are to be financed on a grant basis pursuant to a standard agreement, a format and substance of which shall be acceptable to the Recipient and the Association (the Sub-grant Agreement).
SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

   (a) the term “eligible Categories means Categories (1), (2), (3), (4) and (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

   (c) the term “Authorized Allocation” means an amount equivalent to $200,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to $100,000 until the aggregate amount of withdrawals from the Grant Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 1,000,000.

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

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

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

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

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

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

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

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

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

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

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

Thereafter, withdrawal from the Grant Account of the remaining unwithdrawn amount of the Grant allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.
6.  (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Recipient shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

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

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

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

Modifications to the General Conditions

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

1. Sections 3.02, 3.03, 3.04 (a), 3.04 (b), 6.05 and Article VII are deleted in their entirety.

2. Wherever used in the General Conditions, the following terms are modified to read as follows:

   (a) The term “Borrower” is modified to read “Recipient”.

   (b) The term “Credit” is modified to read “Grant”.

   (c) The term “Credit Account” is modified to read “Grant Account”.

   (d) The term “Development Credit Agreement” is modified to read “Development Grant Agreement”.

3. Section 1.01 is modified to read as follows:

   “Section 1.01. Application of General Conditions

   These General Conditions set forth the terms and conditions generally applicable to the Development Grant Agreement to the extent and subject to any modifications set forth in such agreement.”

4. Paragraph 3 of Section 2.01 is modified to read as follows:

   “3. “Recipient” means the party to the Development Grant Agreement to which the Grant is made.”

5. Article III is modified as follows:

   (a) The heading of Article III is modified to read “Grant Account; Partial Payment”, and the heading of Section 3.04 is modified to read “Partial Payment”.

   (b) The words “The principal of, and service charges on, the Credit” in Section 3.05 are modified to read “All amounts required to be paid under the Development Grant Agreement”.

6. Article IV is modified as follows:
(a) Section 4.02 (a) is modified to read as follows:

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

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

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

(c) Section 4.03 is modified to read as follows:

“Section 4.03. Amount of the Grant

The amount of the Grant withdrawn from time to time shall be the equivalent in terms of SDR (determined as of the date or respective dates of withdrawal from the Grant Account) of the value of the currency or currencies so withdrawn.”

(d) Section 4.06 (b) is modified to read as follows:

“(b) All amounts which the Recipient shall be required to pay under the Development Grant Agreement shall be paid without restrictions of any kind imposed by, or in the territory of, the Recipient.”

7. Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. Treatment of Taxes

Except as otherwise provided in the Development Grant Agreement, the proceeds of the Grant may be withdrawn to pay for taxes levied by, or in the territory of, the Recipient on the goods or services to be financed under the Grant, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association’s policy of requiring economy and efficiency in the use of the proceeds of its credits and grants. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Grant is
excessive or otherwise unreasonable, the Association may, by notice to the Recipient, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Grant Agreement as required to be consistent with such policy of the Association.”

8. Article VI is modified as follows:

(a) The word “credit” in paragraphs (a) (ii) and (c) (i) of Section 6.02 is replaced with the words “credit, grant or financing”.

(b) Section 6.03 (c) is modified by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

9. Section 8.01 (a) is modified to read as follows:

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

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

“Section 12.05. Termination of Development Grant Agreement.

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