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GRANT NUMBER 0251-TAJ(SF)

GRANT AGREEMENT  
(Special Operations)  
(Strengthening Public Resource Management Program)

between

REPUBLIC OF TAJIKISTAN

and

ASIAN DEVELOPMENT BANK

DATED 13 APRIL 2011

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TAJ 44061

**GRANT AGREEMENT  
(Special Operations)**

GRANT AGREEMENT dated 13 April 2011 between the REPUBLIC OF TAJIKISTAN ("Recipient") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) ADB has received from the Recipient a development policy letter dated 24 February 2011 ("Policy Letter"), setting forth certain objectives, policies and actions, described in Schedule 1 to this Grant Agreement, designed to develop the Recipient's program for strengthening public resource management ("Program");

(B) the Recipient has applied to ADB for a grant for the purposes of the Program; and

(C) ADB has agreed to provide a grant to the Recipient from ADB's Special Funds resources upon the terms and conditions set forth herein;

NOW THEREFORE the parties agree as follows:

**ARTICLE I**

**Grant Regulations; Definitions**

Section 1.01. All the provisions of the Special Operations Grant Regulations of ADB, dated 7 February 2005 ("Grant Regulations"), are hereby made applicable to this Grant Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) Section 2.01(15) is deleted and the following is substituted therefor:

24. The term "Program" means the program for which ADB has agreed to make the Grant, as described in the Grant Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Recipient.

(b) The term "Project" wherever it appears in the Grant Regulations shall be substituted by the term "Program".

(c) Section 2.01(17) is deleted and the following is substituted therefor:

26. The term "Program Executing Agency" means the entity or entities responsible for the carrying out of the Program as specified in the Grant Agreement.

(d) The term “Project Executing Agency” wherever it appears in the Grant Regulations shall be substituted by the term “Program Executing Agency”.

Section 1.02. Wherever used in this Grant Agreement the several terms defined in the Grant Regulations have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in the Grant Agreement have the following meanings:

(a) “Counterpart Funds” means the Somoni proceeds accruing to the Recipient and generated from the Grant proceeds under the Program and referred to in paragraphs 5 and 6 of Schedule 4 to this Grant Agreement;

(b) “Deposit Account” means the account referred to in paragraph 4 of Schedule 2 to this Grant Agreement;

(c) “Eligible Imports” means the total imports of the Recipient during the relevant period minus the following imports during the same period:

- (i) imports from countries which are not members of ADB;
- (ii) imports of ineligible items specified in Attachment 1 to Schedule 2 to this Grant Agreement; and
- (iii) imports financed by official international or bilateral aid agencies or any other loans or grants made by ADB;

(d) “Eligible Items” means the Eligible Imports and services in connection with the delivery and installation of such imports;

(e) “First Tranche” means the portion of the proceeds of the Grant in an amount not exceeding twenty million Dollars (\$20,000,000) to be initially withdrawn pursuant to, and subject to, the provisions of paragraph 5 of Schedule 2 to this Grant Agreement;

(f) “GoT” means the government of the Recipient;

(g) “Incentive Tranche” means the portion of the proceeds of the Grant in an amount not exceeding twelve million Dollars (\$12,000,000) to be withdrawn pursuant to, and subject to, the provisions of paragraph 6 of Schedule 2 to this Grant Agreement;

(h) “Loan Disbursement Handbook” means ADB’s Loan Disbursement Handbook (2007, as amended from time to time);

(i) “LTI” means TC’s Large Taxpayers Inspectorate or any successor thereto;

(j) “MOF” means the Ministry of Finance of the Recipient or any successor thereto acceptable to ADB;

(k) “MOLSP” means the Ministry of Labor and Social Protection of the Recipient or any successor thereto acceptable to ADB;

(l) "MTIP" means a medium term investment plan (2012-2014) for implementing tax administration reforms, as detailed in paragraph 9 of Schedule 4 to this Grant Agreement;

(m) "NBT" means the National Bank of Tajikistan or any successor thereto;

(n) "Parliament" means the Majlisi Oli of the Recipient;

(o) "Policy Matrix" means the policy matrix as referred to in the Policy Letter and agreed between the Recipient and ADB, and which sets out inter alia the policy actions for the Program as set forth in Attachments to Schedule 2 to this Grant Agreement;

(p) "Program Executing Agency" for the purposes of, and within the meaning of, the Grant Regulations means MOF, which is responsible for the carrying out of the Program;

(q) "Second Tranche" means the balance of the proceeds of the Grant remaining in the Grant Account after the utilization of the First Tranche and Incentive Tranche, to be withdrawn pursuant to, and subject to, the provisions of paragraph 7 of Schedule 2 to this Grant Agreement;

(r) "Somoni" or "TJS" means the lawful currency of the Recipient;

(s) "Special Account" means the account referred to in paragraph 5 of Schedule 4 to this Grant Agreement;

(t) "TC" means the Tax Committee of the Recipient or any successor thereto acceptable to ADB; and

(u) "VAT" means a value added tax.

## **ARTICLE II**

### **The Grant**

Section 2.01. ADB agrees to make available to the Recipient from ADB's Special Funds resources on terms and conditions set forth in this Grant Agreement an amount of forty five million Dollars (\$45,000,000).

### **ARTICLE III**

#### **Use of Proceeds of the Grant**

Section 3.01. The Recipient shall cause the proceeds of the Grant to be applied to the financing of expenditures on the Program in accordance with the provisions of this Grant Agreement.

Section 3.02. The proceeds of the Grant shall be withdrawn in accordance with the provisions of Schedule 2 to this Grant Agreement, as such Schedule may be amended from time to time by agreement between the Recipient and ADB.

Section 3.03. Except as ADB may otherwise agree, the Recipient shall procure, or cause to be procured, the Eligible Items to be financed out of the proceeds of the Grant in accordance with the provisions of Schedule 3 to this Grant Agreement.

Section 3.04. Withdrawals from the Grant Account shall be made only on account of expenditures relating to Eligible Items which:

- (a) are produced in, and are supplied from, such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement; and
- (b) meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. The Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 30 April 2013 or such other date as may from time to time be agreed between the Recipient and ADB.

### **ARTICLE IV**

#### **Particular Covenants**

Section 4.01. In the carrying out of the Program, the Recipient shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Grant Agreement.

Section 4.02. (a) The Recipient shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Grant and to record the progress of the Program.

(b) The Recipient shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.

Section 4.03. (a) As part of the reports and information referred to in Section 6.04 of the Grant Regulations, the Recipient shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (i) the Counterpart Funds and the use thereof; and (ii) the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

(b) Without limiting the generality of the foregoing or Section 6.04 of the Grant Regulations, the Recipient shall furnish, or cause to be furnished, to ADB quarterly reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

## **ARTICLE V**

### **Effectiveness**

Section 5.01. The following is specified as an additional condition to the effectiveness of this Grant Agreement for the purposes of Section 9.01(e) of the Grant Regulations: all policy actions set out in Attachment 2 to Schedule 2 of this Grant Agreement shall have been carried out to the satisfaction of ADB.

Section 5.02. A date 30 days after the date of this Grant Agreement is specified for the effectiveness of the Grant Agreement for the purposes of Section 9.04 of the Grant Regulations.

## **ARTICLE VI**

### **Miscellaneous**

Section 6.01. The Minister of Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.02 of the Grant Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the Grant Regulations:

#### For the Recipient

Ministry of Finance  
3 Akademikov Rajabovikh Street  
734025 Dushanbe City  
Republic of Tajikistan

Facsimile Numbers:

992 (372) 213 329  
992 (372) 216 237.

For ADB

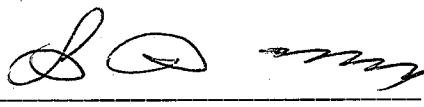
Asian Development Bank  
6 ADB Avenue  
Mandaluyong City  
1550 Metro Manila  
Philippines

Facsimile Numbers:

(632) 636-2444  
(632) 636-2424.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Grant Agreement to be signed in their respective names as of the day and year first above written and to be delivered at the principal office of ADB.

REPUBLIC OF TAJIKISTAN

By 

S. M. NAJMIDDINOV  
Minister of Finance

ASIAN DEVELOPMENT BANK

By 

JOJI TOKESHI  
Country Director  
Tajikistan Resident Mission

**SCHEDULE 1****Description of the Program**

1. The principal objective of the Program is to strengthen public resource management of the Recipient. Specifically, the Program shall support (a) improvement of selected aspects of tax policy and administration, (b) design, implementation and evaluation by MOLSP of social safety net pilot programs, and (c) improvement of selected aspects of public financial management. The Program is described in more detail in the Policy Letter.
2. In support of the Program:
  - (a) the proceeds of the Grant shall be used to finance the foreign currency expenditures incurred for the Eligible Items; and
  - (b) the Counterpart Funds shall be used to finance the local currency expenditures relating to the implementation of certain programs and other activities consistent with the objectives of the Program pursuant to the provisions of paragraph 6 of Schedule 4 to this Grant Agreement.
3. The Program is expected to be completed by 30 April 2013.



**SCHEDULE 2****Allocation and Withdrawal of Grant Proceeds**

1. Except as ADB may otherwise agree, the following provisions of this Schedule shall apply to the withdrawal of Grant proceeds from the Grant Account.

2. Withdrawals from the Grant Account shall be made for financing foreign currency expenditures incurred for Eligible Items under the Program.

3. (a) An application for withdrawal from the Grant Account shall be submitted to ADB by the Recipient and shall be in a form satisfactory to ADB.

(b) Such withdrawal applications shall be accompanied by a certificate of the Recipient confirming that with respect to each year during which the proceeds of the Grant are expected to be disbursed, the value of the Eligible Imports is expected to be equal to or greater than the amount of the Grant expected to be disbursed during such year.

(c) The Recipient shall allow experts appointed by ADB to verify the value of Eligible Imports during any period in respect of which the Recipient has certified the value of Eligible Imports in its withdrawal application.

4. (a) Prior to submitting the first application to ADB for withdrawal from the Grant Account, the Recipient shall nominate an account (Deposit Account) at the NBT into which all withdrawals from the Grant Account shall be deposited. The Deposit Account shall be established, managed and liquidated in accordance with terms and conditions satisfactory to ADB.

(b) Separate accounts and records in respect of the Deposit Account shall be maintained in accordance with consistently maintained sound accounting principles. Upon ADB's request, the Recipient shall have the Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with appropriate auditing standards. Promptly after their preparation but in any event not later than 6 months after the date of ADB's request, certified copies of such audited accounts and records shall be furnished to ADB, all in the English language.

(c) Throughout the Program implementation period, the Recipient shall submit trade statistics and any other information as ADB may require from time to time to assess the Recipient's compliance with the formula for determining Eligible Imports.

5. Notwithstanding any other provisions of this Grant Agreement and except as ADB may otherwise agree, no withdrawals shall be made from the Grant Account for the First Tranche unless ADB is satisfied, after consultation with the Recipient, that the Recipient has met the conditions for the release of the First Tranche specified in Attachment 2 to this Schedule.

6. Notwithstanding any other provisions of this Grant Agreement and except as ADB may otherwise agree, no withdrawals shall be made from the Grant Account for the Incentive Tranche unless ADB is satisfied, after consultation with the Recipient, that (a) sufficient progress has been achieved by the Recipient in the carrying out of the Program; (b)

the conditions that were met for the release of the First Tranche continue to be complied with by the Recipient; and (c) the Recipient has met the conditions for the release of the Incentive Tranche specified in Attachment 3 to this Schedule.

7. Notwithstanding any other provisions of this Grant Agreement and except as ADB may otherwise agree, no withdrawals shall be made from the Grant Account for the Second Tranche unless ADB is satisfied, after consultation with the Recipient, that (a) sufficient progress has been achieved by the Recipient in the carrying out of the Program; (b) the conditions that were met for the release of the First Tranche and the Incentive Tranche continue to be complied with by the Recipient; and (c) the Recipient has met the conditions for the release of the Second Tranche specified in Attachment 4 to this Schedule.

**Negative List**

No withdrawals will be made for the following:

- (i) expenditures for goods included in the following groups or sub-groups of the United Nations Standard International Trade Classification, Revision 3 (SITC, Rev. 3) or any successor groups or sub-groups under future revisions to the SITC, as designated by ADB by notice to the Recipient:

**Table A12: Ineligible Items**

| <b>Chapter</b> | <b>Heading</b> | <b>Description of Items</b>   |
|----------------|----------------|---|
| 112            |                | Alcoholic beverages   |
| 121            |                | Tobacco, unmanufactured; tobacco refuse   |
| 122            |                | Tobacco, manufactured (whether or not containing tobacco substitute)  |
| 525            |                | Radioactive and associated materials  |
| 667            |                | Pearls, precious and semiprecious stones, unworked or worked  |
| 718            | 718.7          | Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors   |
| 728            | 728.43         | Tobacco processing machinery  |
| 897            | 897.3          | Jewelry of gold, silver or platinum-group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems) |
| 971            |                | Gold, nonmonetary (excluding gold ore and concentrates)   |

Source: United Nations.

- (ii) expenditures in the currency of the Recipient or for goods supplied from the territory of the Recipient;
- (iii) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loan or grant from the ADB;
- (iv) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (v) expenditures for narcotics;
- (vi) expenditures for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party; and
- (vii) expenditures on account of any payment prohibited by the Recipient in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

**Conditions for Release of the First Tranche****Tax Policy and Administration**

1. GoT shall have taken measures to eliminate, through amendments to the Tax Code, selected VAT exemptions (among others, on medical services provided by private sector, sales of handicrafts, and air navigation services) and the profit tax exemption on the dividends payable to local enterprises from other local enterprises.
2. GoT shall have taken measures to rationalize, through amendments to the Tax Code, the property tax rates by removing a broad range of rates and establishing single rates for various categories of property (commercial, residential, and other).
3. GoT shall have introduced amendments to the Tax Code to provide TC with the authority to develop procedures for electronic submission of tax returns to facilitate taxpayers compliance with filing requirements and better risk-based audit.
4. GoT shall have provided through, amendments to the Tax Code for recovery of tax arrears from taxpayers in installments based on credible financing plans agreed upon between TC and such taxpayers. TC shall have adopted instructions on recovery of tax arrears in installments.
5. TC shall have issued revised VAT forms which specify types of documents to be attached thereto (no more than 10 documents for the large taxpayers) to improve tax and data collection.
6. GoT shall have approved the Tax Administration Development Program for 2011-2015 which sets out objectives, targets and indicative costs of reforms in the following areas: (a) functional reorganization of TC and its offices; (b) introducing performance management; (c) building human resources capacity; and (d) introducing information and communication technologies.
7. TC shall have increased the number of taxpayers to be handled by LTI by 20% from the baseline of December 2010 (from 202 taxpayers to at least 242).

**Social Safety Net Pilot Programs**

8. MOLSP shall have started implementation of a pilot on non-cash based transactions in 4 districts of Dushanbe (Sino, Shomansur, Somoni, and Firdawsi) and the cities of Kurgantuyube and Kulyab for pension payments through individual bank accounts to improve efficiency and transparency in delivering social payments.
9. GoT shall have approved a pilot program to improve targeting and delivery of social assistance and social benefits (gas, electricity and child education subsidies) to eligible households (approximately 10,000) in the Yavan district and the town of Istaravshan. MOF shall have transferred to MOLSP the entire TJS4.15 million allocated in the 2011 state budget for the pilot.

## Public Financial Management

10. The Law on Internal Audit in Public Sector shall have been adopted by the Parliament requiring each government body with an annual amount of state budget funding exceeding 1,500,000 indicators<sup>1</sup> and with more than 800 employees to establish an internal audit unit.

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<sup>1</sup> An "indicator" is a unit of account used in the implementation of different policies, such as taxation and social protection. As of 1 January 2011, one indicator is equivalent to TJS40 for all calculations, except for fines and penalties, where the indicator is equivalent to TJS35.

**Conditions for Release of the Incentive Tranche****Tax Policy and Administration**

1. TC shall have issued necessary normative acts to implement the amendments to the Tax Code relating to selected VAT and profit tax exemptions. The local governments of at least Dushanbe, Khudjand, Isfara, Kurgantyuube, and Kulyab (5 largest cities by the size of population) shall have issued necessary normative acts relating to rationalization of property tax rates in pursuance of the amended Tax Code.
2. TC shall have developed and approved (a) detailed procedures for electronic submission of tax returns; and (b) a detailed plan for development of software for electronic filing system for large taxpayers.
3. TC shall have adopted clear procedures for including and removing taxpayers from the list of taxpayers with arrears to be published on its website, including a timeline for prompt removal of taxpayers that no longer meet the necessary requirements to be on such list.
4. TC shall have institutionalized a consultation process aimed at simplifying taxation system through the establishment of a business consultative group comprising (a) at least 20% female professionals, and (b) representatives of the business community. The group shall have developed its work plan and a schedule of quarterly meetings.
5. TC shall have included a written test among the selection criteria for recruitment of LTI auditors beginning July 2011.
6. TC and the Customs Service of the Recipient shall have entered into an agreement on electronic system for information exchange to provide necessary access to import and export data.
7. GoT shall have allocated adequate resources, based on the approved MTIP, in the draft state budget for 2012 and in a rolling draft budget for 2013 submitted to the Parliament for implementing tax administration reforms.

**Social Safety Net Pilot Programs**

8. MOLSP shall have rolled out the pilot to improve targeting and delivery of social assistance and social benefits (gas, electricity and child education subsidies) to eligible households in the Yavan district and the town of Istaravshan.
9. GoT shall have allocated no less than TJS4.15 million in the draft state budget for 2012 submitted to the Parliament for the pilot program referred to in paragraph 8 above.

Public Financial Management

10. Selected government bodies (MOF, MOLSP, Ministry of Health, Ministry of Education, Ministry of Transport, and TC) shall have established their internal audit units with approved work plans for 2011. MOF shall have approved a medium-term action plan for implementation of the Law on Internal Audit in Public Sector.

11. GoT shall have submitted to the Parliament for approval a new Law on Public Finance to unify its medium-term expenditure framework with the annual budgeting process.

**Conditions for Release of the Second Tranche****Tax Policy and Administration**

1. TC shall have undertaken analyses of, and published on its website the findings on: (a) the impact of elimination of selected VAT and the profit tax exemptions on overall tax revenue; (b) the impact of property tax rationalization on local tax revenue; and (c) the impact of recovery of arrears in installments on the overall recovery of arrears.
2. TC shall have (a) launched a pilot on electronic filing system by selected taxpayers in LTI based on the recommendations of the technical working group; and (b) published on its website the list of taxpayers with arrears in accordance with the tax legislation.
3. The business consultative group shall have presented a report on the consultation process with detailed recommendations to TC for consideration.
4. TC shall have improved forms for filing the corporate profit tax based on recommendations of the technical working group.
5. TC shall have approved for immediate implementation by LTI (a) clear written internal business processes and standard operating procedures; and (b) a time bound IT strategic plan which identifies the costs, financing plan, areas for development partners' support and milestones, all based on the recommendations of the technical working group.
6. TC shall have increased the number of taxpayers to be handled by LTI by at least 40% from the baseline of December 2010 (from 202 to at least 282).
7. TC shall have (a) approved detailed job descriptions for each staff position, and (b) adopted a policy to provide annual training to each tax auditor in LTI and to 100% of professional and support women staff in LTI (including accountants, auditors and human resources staff).
8. TC shall have initiated work on creating a risk-based planning system for tax audits by having approved risk indicators for taxpayers based on the recommendations of the technical working group.
9. GoT shall have allocated adequate resources, based on the updated MTIP, in the draft state budget for 2013 and in a rolling draft budget for 2014 submitted to the Parliament implementing tax administration reforms.



Social Safety Net Pilot Programs

10. MOLSP shall have posted on its website the final independent evaluation reports on both pilot programs and shall have taken decisions on the recommendations provided in the reports, including those on gender analyses.

Public Financial Management

11. The internal audit units established in the selected government bodies shall have submitted to MOF an annual report on their activities in 2011 according to the MOF approved template.

12. MOF shall have developed procedures and issued instructions (including a budget call circular) to implement the new Law on Public Finance approved by the Parliament.

### **SCHEDULE 3**

#### **Procurement**

1. Except as ADB may otherwise agree, the procedures referred to in the following paragraph of this Schedule shall apply in the procurement of Eligible Items to be financed out of the proceeds of the Grant.

2. (a) Except as provided in subparagraph 2(b) of this paragraph, each contract for Eligible Items shall be awarded on the basis of either the purchaser's normal commercial procurement practices, in the case of procurement by the private sector, or the Recipient's prescribed procurement procedures, in the case of procurement by the public sector, having due regard for the principles of economy and efficiency.

(b) Each supply contract for Eligible Items which are commonly traded commodities shall be awarded on the basis of procedures appropriate to the trade.

## SCHEDULE 4

### Program Implementation and Other Matters

#### Implementation Arrangements

1. The Recipient shall ensure that MOF, as the Program Executing Agency, has the overall responsibility for implementing the Program, including, but not limited to, the maintenance of all Program records, reporting to ADB, and administering the Grant withdrawals and the allocation and appropriation of the Counterpart Funds.

2. The Recipient shall furnish to ADB, by 30 June 2011 and 30 June 2012, respectively, certified copies of the state budget execution reports for 2010 and 2011, as submitted to the Parliament, with a certified English translation of the relevant parts thereof, providing specifically information on: (a) intergovernmental fiscal transfers from the republican to the local budget accounts; (b) expenditures by education, health and social protection institutions; and (c) financial flows on bank accounts related to regular and special safety net programs.

#### Policy Actions and Dialogue

3. The Recipient shall ensure that all policies adopted and actions taken under the Program, as set forth in the Policy Letter and the Policy Matrix, continue to be in effect for the duration of the Program.

4. The Recipient shall keep ADB informed of policy discussions with other multilateral and bilateral aid agencies that may have implications for the implementation of the Program and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Recipient shall take into account ADB's views before finalizing and implementing any such proposal.

#### Special Account for Counterpart Funds

5. (a) Immediately after the Effective Date, the Recipient shall establish, in a manner satisfactory to ADB, a Special Account as a sub-account of the Treasury Single Account at the NBT for the specific purpose of depositing and utilizing the Counterpart Funds.

(b) Whenever the Recipient withdraws proceeds of the Grant from the Grant Account, the Recipient shall promptly, but not later than within 5 days of the withdrawal, deposit into the Special Account the Somoni amounts equivalent to the amount of the proceeds so withdrawn. Promptly after the deposit of the Counterpart Funds into the Special Account, the Recipient shall furnish to ADB an official notification confirming the amount of the Grant proceeds deposited into the Deposit Account, their conversion into a Somoni equivalent, and its deposit into the Special Account, specifying the date of such transactions and the exchange rate applied.

(c) Except as ADB may otherwise agree, the Counterpart Funds shall be utilized not later than the Program completion, to meet the expenditures to be incurred pursuant to the provisions of paragraph 6 below.

d) The Recipient shall ensure that NBT furnishes to ADB, on a monthly basis, the Special Account's statements of account, which include the following information: (i) the dates and amounts withdrawn; and (ii) MOF's official certification on the purpose of the withdrawals identifying the specific budget expenditure categories to be funded. Such monthly statements shall be furnished to ADB not later than by the 15th day of the succeeding month.

(e) Separate accounts and records in respect of the Special Account and the use of the Counterpart Funds shall be maintained in accordance with sound accounting principles and shall be audited by independent auditors acceptable to ADB in accordance with terms of reference acceptable to ADB and sound auditing standards for the periods ending 31 July 2011, 30 April 2012, and on the Grant Closing Date, or such other dates as ADB may request. Certified copies of such audited accounts and records shall be furnished to ADB promptly after their preparation but in any event not later than 2 months after the close of the periods to which they relate.

#### Use of Counterpart Funds

6. The Recipient shall ensure that the Counterpart Funds shall be used for financing budgetary expenditures to sustain delivery of the core publicly funded programs and activities in support of the Program and shall, in particular, provide necessary budget appropriations to allow withdrawals from the Special Account in support of:

(a) priority social safety net measures and activities implemented by the Recipient, including (i) subventions to the Social Protection Fund under MOLSP (up to TJS30 million in 2011 and up to TJS35 million between January 2012 and the Program completion), (ii) utilities (gas and electricity) compensations payments to the populations (up to TJS40 million in 2011 and up to TJS45 million between January 2012 and the Program completion), (iii) social assistance under the MOLSP's pilot to the Yavan district and the town of Istaravshan (no less than TJS4.2 million in 2011 and the same amount between January 2012 and the Program completion), (iv) utility, food, medicine and expenditures in education, health and social protection under the republican budget (up to TJS33 million in 2011 and TJS35 million between January 2012 and the Program completion), and (v) subventions to poor regions (local governments) for expenditures in education, health and social projection, including benefits for children from vulnerable families, but excluding salaries (up to TJS40 million in 2011 and TJS 45 million between January 2012 and the Program completion); and

(b) other priority programs and projects implemented by the Recipient and satisfactory to ADB for improvements in tax administration (no less than TJS18 million between January 2012 and the Program completion) and the social benefits payment system in poor regions (up to TJS2 million in 2011).

#### Governance and Anticorruption

7. The Recipient shall: (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to

the Program; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

#### Technical Working Group

8. The Recipient shall ensure that:

(a) by 30 April 2011, TC shall have established a technical working group, which will be assisted by consultants under ADB financed technical assistance to support implementation of the Program, to provide operational level advice on reforms;

(b) by 29 July 2011, the technical working group shall have held its first meeting, prepared its work plan, and commenced works on the following: (i) improvement of procedures for collecting overdue amounts from taxpayers with arrears; (ii) improvement of the forms for corporate profit tax; (iii) development of written business procedures and standard operating procedures for LTI and its time bound information technology strategic plan identifying the costs, financing plan, areas for development partners' support and milestones; and (iv) development of a risk-based planning system for tax audits, including risk indicators.

#### Medium Term Investment Plan

9. The Recipient shall ensure that (a) the MTIP is jointly approved by TC and MOF in a timely manner to provide for detailed identification of financial resources and annual costing of tax administration reforms; and (b) the MTIP is annually updated based on the implementation progress and recommendations of the technical working group and approved by TC and MOF.

#### Independent Evaluation of Pilots

10. The Recipient shall ensure that no later than 31 March 2012, MOLSP shall have commissioned independent evaluations of the pilot programs, including gender analyses, so that the final evaluation reports with specific recommendations shall be presented to MOLSP for consideration by 30 June 2012.

#### Safeguard Policy Statement

11. The Recipient shall ensure that ADB's Safeguard Policy Statement (2009) is complied with in the implementation of any activities financed out of the proceeds of the Grant.

#### Monitoring and Review

12. The Recipient and ADB shall carry out regular reviews of the Program with respect to the outcome, outputs and policy actions for the Program. A mid-term review shall be undertaken in October- November 2011.