

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER
4015-KG
GRANT NUMBER TF053554

Development Credit Agreement

(Agribusiness and Marketing Project)

between

KYRGYZ REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 3, 2005

Public Disclosure Authorized



**CREDIT NUMBER 4015-KG
GRANT NUMBER TF053554**

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated February 3, 2005, between the KYRGYZ REPUBLIC (the Borrower) and the 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 (the Project), has requested the Association to assist in the financing of the Project;

(B) certain activities under Parts B.2 and B.3 of the Project will be carried out by private financial institutions of the Borrower meeting certain eligibility criteria (the Participating Financial Institutions) with the Borrower's assistance and, as part of such assistance, the Borrower will make a part of the proceeds of the credit provided for in Article II of this Agreement (the Credit) available to the Participating Financial Institutions, as set forth in this Agreement;

(C) the Government of Japan has agreed to provide a grant in an amount equivalent to four million seven hundred fifty thousand Dollars (\$4,750,000) (the Grant) to assist in the financing of the Project on the terms and conditions set forth in an agreement of even date between the Borrower and the Association as the administrator of grant funds provided by the Government of Japan (the Japanese Grant Agreement); and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

(a) “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Except as otherwise provided in the Development Credit Agreement, the proceeds of the Credit may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Credit, or on their importation,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. 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 Credit is excessive or otherwise unreasonable, the Association may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Credit Agreement as required to be consistent with such policy of the Association.”

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

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) “ABCC” means the Agribusiness Competitiveness Center to be established by the Borrower which will be responsible for coordination, overseeing and implementation of Parts A.1, A.2 and A.3 of the Project or any successor thereto and referred to in paragraphs 2 and 3 of Schedule 4 to this Agreement;

(b) “Agri-Credit Guidelines” means the guidelines, including eligibility criteria, main terms and conditions, monitoring, evaluation and reporting requirements for the Investment Credit Facility and the Structured Finance Facility (each hereinafter defined), satisfactory to the Association, to be adopted by the Borrower, as the same may be amended from time to time by agreement between the Association and the Borrower;

(c) “Beneficiary” means any private agribusiness enterprise eligible under the Agri-Credit Guidelines and selected for assistance under Parts B.2 and B.3 of the Project;

(d) “Credit Line Management Unit” or “CLMU” means the Project Management Unit established by the Borrower under the Rural Finance II Project financed by the Association’s Credit No. 3259-KG which will be responsible for coordination, overseeing and implementation of Part B of the Project, including financial management and disbursement of the Project, or any successor thereto and referred to in paragraph 4 of Schedule 4 to this Agreement;

(e) “EA” means the Environmental Assessment to be carried out for Sub-projects (hereinafter defined) requiring such assessment in accordance with the requirements of the Agri-Credit Guidelines;

(f) “Environmental Guidelines” means the Guidelines for Identification, Assessment and Mitigation of Environmental Impacts of Sub-projects under Parts B.2 and B.3 of the Project prepared by the Borrower as a part of the Environmental Impact Assessment of the Project, acceptable to the Association, to be adopted by the Borrower and referred to in paragraph 8 of Schedule 4 to this Agreement;

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

(h) “Investment Credit Facility” means a credit facility for provision of investment loans at commercial terms to eligible private agribusiness enterprises through eligible PFIs (hereinafter defined), in accordance with the requirements set forth or referred to in the Agri-Credit Guidelines;

(i) “MAWRPI” means the Ministry of Agriculture, Water Resources and Processing Industry of the Borrower or any successor thereto;

(j) “MoEDIT” means the Ministry of Economic Development, Industry and Trade of the Borrower or any successor thereto;

(k) “MoF” means the Ministry of Finance of the Borrower or any successor thereto;

(l) “PFIs” or “Participating Financial Institutions” means the private financial institutions established and operating in accordance with the applicable laws of the Borrower, meeting certain eligibility criteria provided under the Agri-Credit Guidelines and approved by the Association for participation in the Project under Parts B.2 and B.3 of the Project;

(m) “PMAO” means the Project Monitoring and Advisory Office to be established by the Borrower under Part C of the Project and referred to in paragraph 5 of Schedule 4 to this Agreement;

(n) “Procurement Plan” means the Borrower’s procurement plan, dated November 9, 2004, 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;

(o) “Som” means the lawful currency of the Borrower;

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

(q) “Structured Finance Facility” means a facility for provision of transaction finance and seasonal working capital loans at commercial terms to eligible private agribusiness enterprises through eligible PFIs, in accordance with the requirements set forth or referred to in Agri-Credit Guidelines;

(r) “Sub-loan” means a loan made or to be made by a PFI to an eligible Beneficiary for a Sub-project in accordance with the requirements set forth or referred to in the Agri-Credit Guidelines;

(s) “Sub-loan Agreement” means the agreement to be entered into between a Beneficiary and a PFI pursuant to the provisions of paragraph 9 of Schedule 4 to this Agreement for the provision to the Beneficiary of a Sub-loan for the carrying out of a Sub-project in accordance with the requirements set forth or referred to in the Agri-Credit Guidelines;

(t) “Sub-project” means a specific project to be carried out by a Beneficiary utilizing the proceeds of a Sub-loan in accordance with the requirements set forth or referred to in the Agri-Credit Guidelines; and

(u) “Subsidiary Loan Agreement” means the agreement to be entered into between the Borrower and each PFI pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to five million five hundred thousand Special Drawing Rights (SDR 5,500,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for Parts A, B.1, B.4 and C of the Project and to be financed out of the proceeds of the Credit; and (ii) amounts paid (or if the Association shall so agree amounts to be paid) on account of Sub-loans under Sub-loan Agreements under Parts B.2 and B.3 of the Project.

(b) The Borrower 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. Deposits into, and payments out of the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2010 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 15 and November 15 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 15 and November 15 commencing May 15, 2015 and ending November 15, 2044. Each installment to and including the installment payable on November 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 to conform to the schedule of installments as provided in paragraph (a) above.

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

ARTICLE III

Execution of the Project

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

(b) For purposes of Parts B.2 and B.3 of the Project, the Borrower shall relend a portion of the proceeds of the Credit to eligible PFIs under a subsidiary loan agreement to be entered into between the Borrower and each PFI, under terms and conditions which shall have been approved by the Association and which shall include those set forth in Schedule 5 to this Agreement.

(c) The Borrower shall exercise its rights under each Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any Subsidiary Loan Agreement or any provision thereof.

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

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the 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 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 designed to ensure the continued achievement of the Project; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain, and shall cause ABCC to maintain with respect to the Project activities for which it is responsible, 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 shall, and shall cause ABCC to:
 - (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) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) 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 12 (b) of Schedule 4 to this Agreement, the Borrower 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 Credit, 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

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) that the Japanese Grant Agreement shall have failed to become effective by April 28, 2005, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that 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;

- (b) (i) subject to subparagraph (ii) of this paragraph the right of the Borrower to withdraw the proceeds of the Grant shall have been

suspended, cancelled or terminated in whole or in part, pursuant to the terms of the Japanese 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 Japanese 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;

(c) the ABCC's Charter shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial condition of ABCC or its ability to perform any of its obligations under this Agreement;

(d) the Agri-Credit Guidelines shall have been amended, suspended, abrogated, repealed or waived without the Association's prior consent;

(e) the Borrower shall have taken any action for the suspension of the activities of ABCC, CLMU and PMAO; and

(f) the ABCC's Director shall have been hired for, and terminated from, the Director position by the Borrower without the Association's prior consent.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, the events specified in paragraphs (c) or (d) or (e) or (f) of Section 5.01 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 VI

Effective Date; Termination

Section 6.01. 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 the ABCC has been established by the Borrower.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. 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 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

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

Telex:

Facsimile:

245-156NUR KH

(996 312) 661645

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 Bishkek, Kyrgyz Republic, as of the day and year first above written.

KYRGYZ REPUBLIC

By /s/ Bolot Abildaev

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ J. Christopher Lovelace

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Public sector investment	700,000	100%
(2) Goods	60,000	100%
(3) Consultants' services and training, including audit	960,000	100% of local expenditures 90% of foreign expenditures
(4) Sub-loans under Sub-loan Agreements under Part B.2 and B.3 of the Project	3,350,000	100% of eligible Sub- loans disbursed by the PFIs by December 31, 2006, and 80% thereafter
(5) Incremental operating costs	280,000	100%
(6) Unallocated	<u>150,000</u>	
TOTAL	<u>5,500,000</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 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 for services supplied from the territory of the Borrower;

(c) the term “public sector investment” means expenditures incurred on account of goods, works, and services for improvement of the Borrower’s public sector investment program referred to in Part A.3 of Schedule 2 to this Agreement to support the efficient production and marketing of agricultural and food commodities which shall have been approved by the Association during the Project implementation;

(d) the term “training” means expenditures incurred in connection with training, workshops, and study tours to be carried out under the Project, including the travel costs and per diem allowances for the trainees and other expenditures as shall be agreed with the Association;

(e) the term “incremental operating costs” means incremental operating expenditures incurred by the ABCC, CLMU and PMAO, respectively, on account of overall Project implementation, management, monitoring and reporting, including their staff salaries, social charges, office rent and supplies, communication costs, support for information systems, advertising costs, bank charges, travel and per diem costs of the ABCC, CLMU and PMAO staff, respectively, and other reasonable expenditures directly associated with implementation of Project activities, all based on an annual budget acceptable to the Association; and

(f) the term “social charges” means any payments, premia, or contributions for health benefits, unemployment benefits, disability insurance, workers’ compensation benefits, retirement (pension or social security) benefits, and life insurance, which constitute payment for the drawdown of future benefits to the staff concerned.

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, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 75,000, may be made in respect of Categories (2), (3) and (5) in the table in paragraph 1 above on account of payments made for expenditures before that date but after October 20, 2004; and

(b) expenditures in respect of Category (4) in the table in paragraph 1 above, unless the relevant Sub-loan has been made in accordance with the Agri-Credit Guidelines.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$100,000 equivalent per contract; (b) works costing less than \$350,000 equivalent per contract; (c) services of individual consultants costing less than \$25,000 equivalent per contract; (d) services of consulting firms costing less than \$50,000 equivalent per contract; (e) training; (f) Sub-loans; and (g) incremental operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in: (i) expanding the level of activity of processing, marketing, and trade enterprises downstream of the farmgate; (ii) increasing the number and economic importance of producer organizations; and (iii) improving the functioning of markets and trade linkages between producers, and primary and secondary level trade organizations.

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: Market Development Project

1. Support to private enterprises and business (producer) associations of agribusiness sector by: (a) establishing the ABCC responsible for: (i) building and upgrading capacity of local consultants in providing advisory services; (ii) assisting private sector with business and technical advice through contracting international management consulting firms; (iii) assisting private agribusiness enterprises and business/producer associations on the matching grant basis with the clients who have agreed to contribute partially to the direct costs of Sub-projects; (iv) management and implementation of Part A of the Project; (v) disseminating the Project activities lessons learned and developing the policy advice on the development of the competitiveness of the agri-business sector; and (b) establishing a market development services (MDS) within the ABCC as its sub-unit providing: (i) market analysis; (ii) trade advisory services; (iii) marketing and sales services; (iv) marketing and sales training; and (v) other related services as reasonable for private sector clients.
2. Improving export linkages by hiring a trade linkage contractor responsible for locating foreign buyers of Kyrgyz agricultural and food commodities and for the identification of specific barriers to increased sales of such commodities in specific foreign markets.
3. Strengthening the Borrower's public sector investment program by addressing the challenges in marketing infrastructure and technologies of public-goods or partial public-goods nature that are identified under the Parts A.1 and A.2 of the Project.
4. Training to public sector organizations on ways of improving their operation in a market-based economy and on the development of appropriate public-private sector linkages in the agro-food sector of the economy.

Part B: Access To Credit

1. Provision of technical assistance and training to the commercial banks, including PFIs, in the investment lending and risk mitigation tools for lending to agricultural production and processing.
2. Provision of Sub-loans through the Investment Credit Facility to eligible Beneficiaries in accordance with the criteria and principles set forth or referred to in the Agri-Credit Guidelines.
3. Provision of Sub-loans through the Structured Finance Facility to eligible Beneficiaries in accordance with the criteria and principles set forth or referred to in the Agri-Credit Guidelines.
4. Provision of necessary support to the CLMU responsible for the coordination, overseeing and implementation of Part B of the Project, including the overall Project financial management and disbursement.

Part C: Project Monitoring and Advisory Office

Setting up the PMAO within the MAWRPI for: (i) liaison between the MAWRPI and other agencies of the Recipient involved in the Project implementation; and (ii) management of the activities under Part A.4 of the Project.

* * *

The Project is expected to be completed by June 30, 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 for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

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

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 Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding. Works estimated to cost less than \$350,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding and the additional provisions set forth or referred to in the Annex to this Schedule.

2. 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.

3. 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.

4. Commercial Practices. Items estimated to cost less than \$500,000 equivalent per contract and to be financed under Sub-loans made for Sub-projects under Parts B.2 and B.3 of the Project, may be procured in accordance with commercial practices acceptable to the Association.

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 Under a Fixed Budget. Services for assignments which the Bank agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

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

3. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

4. 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.

5. 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.

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. If the Procurement Plan provides for prior review of contracts for the employment of individual consultants, the record of justification for such contracts, referred to in paragraph 5 of Appendix 1 to the Consultant Guidelines, shall be subject to Prior Review by the Association. All other contracts shall be subject to Post Review by the Association.

**Annex
To
Schedule 3**

National Competitive Bidding procedures of the Recipient may be used for procurement of works for Parts B.2 and B.3 of the Project provided that the following provisions are complied with:

A. Registration and Licensing

(a) Bidding shall not be restricted to pre-registered/licensed firms.

(b) Where registration or licensing is required, bidders: (i) shall be allowed a reasonable time to complete the registration or licensing process; and (ii) shall not be denied registration/licensing for reasons unrelated to their capability and resources to successfully perform the contract, which shall be verified through post-qualification.

(c) Foreign bidders shall not be precluded from bidding. If a registration or licensing process is required, a foreign bidder declared the lowest evaluated bidder shall be given a reasonable opportunity to register or to obtain a license.

B. Advertising

Invitations to bid shall be advertised in the Bulletin of State Procurement and in at least one widely circulated national daily newspaper allowing a minimum of thirty (30) days for the preparation and submission of bids.

C. Pre-qualification

When pre-qualification shall be required for large or complex works, invitations to pre-qualify for bidding shall be advertised in at least one widely circulated national daily newspaper a minimum of thirty (30) days prior to the deadline for the submission of pre-qualification applications. Minimum experience, technical and financial requirements shall be explicitly stated in the pre-qualification documents.

D. Participation by Government-owned enterprises

Government-owned enterprises in the Kyrgyz Republic shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law and are not a dependent agency of the contracting authority. Furthermore, they will be subject to the same bid and performance security requirements as other bidders.

E. Bidding Documents

Procuring entities shall use the appropriate standard bidding documents for the procurement of goods, works or services, acceptable to the Association.

F. Bid Opening and Bid Evaluation

(a) Bids shall be opened in public, immediately after the deadline for submission of bids.

(b) Evaluation of bids shall be made in strict adherence to the monetarily quantifiable criteria declared in the bidding documents.

(c) Domestic preference should not be applied.

(d) Contracts shall be awarded to qualified bidder having submitted the lowest evaluated substantially responsive bid and no negotiation shall take place.

G. Price Adjustment

Civil works contracts of long duration (for example, more than eighteen (18) months) shall contain an appropriate price adjustment clause.

H. Rejection of Bids

All bids shall not be rejected and new bids solicited without the Association's prior concurrence.

I. Rejection of an Individual Bid

An individual bid shall be rejected only in the following cases:

(a) The bidder is not qualified;

(b) The bidder does not accept the correction of an arithmetical error in his bid by the Tender Commission of the procuring entity;

(c) The bidder is not responsive to the requirements of the bidding documents; or

(d) Under the circumstances referred to in Article 6 of the Law on State Procurement of Goods, Construction and Services.

J. Resolution of the Government of the Kyrgyz Republic No. 626 of October 3, 2003

The provisions of the Resolution of the Government of the Kyrgyz Republic No. 626 of October 3, 2003 shall not apply.

K. State unit costs shall not be used for bidding and evaluation of bids for civil works contracts.

SCHEDULE 4

Implementation Program

1. The Borrower shall carry out the Project in accordance with the requirements set forth or referred to in the Agri-Credit Guidelines.
2. The Borrower shall ensure: (a) that within six (6) months after the effectiveness of this Agreement, the ABCC has been staffed and is fully operational, with structure, functions necessary to carry out the implementation of Parts A.1, A.2 and A.3 of the Project; (b) that not later than March 31, 2006, the ABCC's financial management system has become operational and is acceptable to the Association; and (c) that CLMUs' financial manager carries out the accounting requirements for the ABCC until the financial management system of ABCC has been found acceptable by the Association.
3. The Borrower shall maintain the ABCC until completion of the Project with staff, resources and terms of reference, satisfactory to the Association, and shall assign to it responsibility for the overall coordination of Part A of the Project, including:
 - (a) maintenance of records and accounts related to the Part A of the Project;
 - (b) administration of bidding procedures and contracts under Parts A, B and C of the Project;
 - (c) preparation of quarterly progress reports for Part A of the Project and submission thereof to the Borrower and the Association not later than thirty (30) days after the end of each calendar quarter, the first such report to be furnished to the Association not later than December 31, 2005;
 - (d) provision of business and technical advice to the private sector;
 - (e) organizing consultation workshops in close cooperation with other programs and institutions involved in agribusiness development to promote linkage between public and private sectors in agribusiness;
 - (f) facilitating the selection process of local consultants, developing and organizing their in class and on the job training in consulting management;
 - (g) coordinating the selection process and identifying potential ABCC clients among private agribusiness enterprises, each of which shall have no more than 49% of state ownership to be eligible to participate in Part A of the Project;
 - (h) entering into a written contract with each selected private agribusiness enterprise, the form and terms and conditions of which shall have been approved by the Association and which shall, inter alia, include the amount of the cost-sharing for a Sub-

project to be provided by the selected private agribusiness enterprise which shall be not less than 3% of the cost services procured under the contract;

(i) monitoring and evaluation of the activities carried out by each agribusiness enterprise, including feedback from them on a regular basis;

(j) monitoring implementation of contracts carried out by international consultants; and

(k) operation of the MDS referred to in Part A.3 of Schedule 2 to this Agreement.

4. The Borrower shall maintain the CLMU until completion of the Project with staff, resources and terms of reference satisfactory to the Association, and shall assign to it responsibility for coordination, overseeing and implementation of Part B of the Project, and the overall Project financial matters, including:

(a) financial management and disbursement for the Project, including preparation of withdrawal applications under the Credit;

(b) management of the Special Account referred to in Section 2.02 (b) of this Agreement;

(c) maintenance of records and accounts related to the Project and arranging for the audit thereof;

(d) preparation of quarterly progress reports for Part B of the Project and submission thereof to the Borrower and the Association not later than thirty (30) days after the end of each calendar quarter, the first such report to be furnished to the Association not later than December 31, 2005;

(e) preparation of FMRs for the Project as referred to in Section 4.02 of this Agreement; and

(f) managing the implementation of the technical assistance and training to PFIs.

5. The Borrower, through the MAWRPI, shall, not later than thirty (30) days after the effectiveness of this Agreement, establish, and thereafter, maintain the PMAO until completion of the Project with staff, resources and terms of reference satisfactory to the Association, and shall assign to it, inter alia, the following responsibilities:

(a) acting as the MAWRPI's Liaison Office with the MoEDIT with respect to the Project's activities;

(b) carrying out of oversight of the implementation of the activities under Part A.4 of the Project as agreed between the Borrower and ABCC;

(c) collation and facilitation of the flow of information between the MAWRPI and ABCC; and

(d) acting as the liaison between the MAWRPI and the CLMU in respect of the Project activities monitoring data reflected in the FMRs.

6. The Borrower, through the ABCC and the CLMU, shall prepare and furnish to the Association by September 30 in each year, for its review and concurrence: (a) an annual work program for Parts A and B of the Project, respectively, for the following calendar year, including procurement and financing plans; and (b) an annual progress report.

7. The Borrower shall take all measures necessary to enable the ABCC, the CLMU and the PMAO, as the case may be, to carry out their respective responsibilities set forth in paragraphs 3, 4 and 5 above, including among other things, the administration of the Special Account, accounting, financial management and auditing, and procurement arrangements for the Project.

8. The Borrower, through the ABCC and the CLMU, shall ensure that the carrying out of the measures required under the Environmental Guidelines, including the Environmental Assessment to be carried out for all Sub-projects requiring such assessment, shall be taken in a timely manner and in compliance with: (a) environmental standards satisfactory to the Association; and (b) all applicable laws and regulations of the Borrower relating to health, safety, pest management and environmental protection, and shall include adequate information on the carrying out of such measures in the quarterly progress reports referred to in paragraphs 3 (c) and 4 (d) of this Schedule.

9. For purposes of Parts B.2 and B.3 of the Project, each Sub-loan shall be provided on the basis of a standard Sub-Loan Agreement in accordance with the terms and conditions set forth in the Agri-Credit Guidelines. Each Sub-loan Agreement shall include inter alia: (a) the purpose and use of the Sub-project and cost sharing to be made by the Beneficiary with respect to the financing of the Sub-project; (b) the obligations of the Beneficiary to maintain records and accounts for expenditures incurred under the Sub-project and financed from the proceeds of the Credit; (c) the obligation of the Beneficiary to enable representatives of the Association, if the Association shall so request, to visit the Sub-project sites to be financed under the Sub-loan Agreement; and (d) the repayment terms and conditions of the Sub-loan.

10. The Borrower shall take all measures necessary to ensure that the PFI shall obtain the Association's prior approval of the first three Sub-loans proposed by each PFI under each of the two credit facilities, irrespective of the amount of the proposed Sub-loan, and subsequently any Sub-loan proposed to be provided by a PFI in an amount

equivalent to \$100,000 or more, and shall, for this purpose, furnish to the CLMU and the Association an application including: (a) a description of the Beneficiary, including financial information, and an appraisal of the Sub-project, including a detailed description of the expenditures proposed to be financed from the proceeds of the Credit; (b) the proposed terms and conditions of the Sub-loan, including the schedule of amortization of the Sub-loan; and (c) such other information as the CLMU or the Association shall reasonably request.

11. The Borrower shall take all measures necessary to ensure that the PFIs shall each furnish to the CLMU a quarterly summary report listing the Sub-loans provided by it in the preceding calendar quarter and evidencing compliance with the terms and conditions for such Sub-loan as set forth in the Agri-Credit Guidelines.

12. 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 June 30, 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 September 30, 2007, 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.

SCHEDULE 5

Principal Terms and Conditions of the Subsidiary Loan Agreements

The following terms and conditions shall be included in the Subsidiary Loan Agreements entered into pursuant to Section 3.01 (b) of this Agreement:

(a) The Subsidiary Loan will be denominated in Som and/or Dollars in accordance with the provisions of the Agri-Credit Guidelines.

(b) The interest rate on the Som portion will be variable (floating) based on the reference rate which shall be equal to the average between the annual inflation rate projected by the National Bank of the Kyrgyz Republic for the current year and the actual inflation rate of the preceding year. The reference rate shall be reviewed jointly with the Association, the Ministry of Finance of the Borrower and PFIs and revised semi-annually as necessary. An initial fixed margin of 1% will be added by the Borrower to the basic reference rate to compensate the Borrower for the administration costs, and a fixed margin of no less than 1% to cover the foreign exchange risks borne by the Borrower.

(c) The interest rate on the Dollar portion will be variable (floating) interest rate based on the reference rate which shall equal the 6-month LIBOR rate for Dollars. The reference rate shall be reviewed jointly with the Association, the Ministry of Finance of the Borrower and PFIs and revised semi-annually. A minimum margin of 1% will be added at all times to the basic reference rate by the Borrower to compensate the Borrower for the costs associated with administration of the Credit and Subsidiary Loans, and risk coverage.

(d) The principal amount of the Subsidiary Loan shall be repaid by PFIs over a period of fifteen (15) years, inclusive of a grace period not exceeding three (3) years, in accordance with a detailed amortization schedule that will be furnished to the PFI by the Ministry of Finance of the Borrower before the expiration of the grace period indicated above.

(e) The selection of Sub-projects shall be made in accordance with the provisions of the Agri-Credit Guidelines and the Environmental Guidelines.

SCHEDULE 6

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 Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term “Authorized Allocation” means an amount equivalent to \$500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$250,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 1,500,000.

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

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

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

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is

requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

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

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

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

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

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

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