

CONFORMED COPY

LOAN NUMBER 4353 UZ

Loan Agreement

(Enterprise Institution Building Project)

between

REPUBLIC OF UZBEKISTAN

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated July 10, 1998

LOAN NUMBER 4353 UZ

LOAN AGREEMENT

AGREEMENT, dated July 10, 1998, between the REPUBLIC OF UZBEKISTAN (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through December 2, 1997) (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined

in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Beneficiary Enterprises" means the privatized enterprises selected for post privatization assistance under Part A of the Project pursuant to paragraph 3 of the Attachment to Schedule 5 to this Agreement.

(b) "CCPB" means Case-by-Case Privatization Bureau established by MoF and GKI pursuant to the Resolution.

(c) "CSM" means the Center on Coordination of Functioning and Control of the Securities Market established by the Decree of the President of the Republic of Uzbekistan, dated March 26, 1996.

(d) "EIBB" means the Enterprise Institution Building Bureau established by MoF and GKI pursuant to the Resolution.

(e) "GKI" means the Committee on Management of the State Property and Entrepreneurship Support of the Republic of Uzbekistan and includes any successor or successors thereto.

(f) "MoF" means the Ministry of Finance of the Borrower and includes any successor thereto.

(g) "NDV" means the Borrower's National Depository, called "Vakt", for the registration of securities.

(h) "PIAs" means the Project Implementation Arrangements, among MoF, GKI and EIBB and MoF, GKI and CCPB, pursuant to paragraph 2 of Schedule 5 to this Agreement, as such arrangements may be modified from time to time with the prior written consent of the Bank.

(i) "PIFs" means the Privatization Investment Funds established under the Regulation.

(j) "Regulation" means Regulation No. 220 of the Borrower's Cabinet of Ministers, dated June 18, 1996, entitled "On Measures for Arranging Operations of Investment Funds", as may be amended with the concurrence of the Bank.

(k) "Resolution" means the Resolution, dated April 22, 1998, No. 170 of the Borrower's Cabinet of Ministers, as may be amended with the concurrence of the Bank.

(l) "Selected Enterprises" means the enterprises offered and selected for privatization under Part B of the Project pursuant to paragraph 4 of Schedule 5 to this Agreement.

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

(n) "Supervisory Board" means the Supervisory Board established under the Resolution.

(o) "TSE" means the Tashkent Stock Exchange, a joint-stock company, established and existing pursuant to its Charter under the applicable laws of the Borrower.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to twenty-eight million Dollars (\$28,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of

goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes Parts A and C and Part B of the Project, open and maintain in Dollars two separate special deposit accounts, Special Account A and Special Account B respectively, in a bank or banks, acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account A for Parts A and C of the Project and Special Account B for Part B of the Project shall be made in accordance with the provisions of Schedules 6 and 7 respectively to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2003, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) one half of one percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

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

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable semiannually on June 15 and December 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

#### ARTICLE III

##### Execution of the Project

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

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

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about September 30, 2000, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by December 15, 2000, or such later date as the Bank shall request, the report referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank views on the matter.

Section 3.04. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Accounts for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

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

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

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

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

#### ARTICLE V

##### Effective Date; Termination

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

(a) The Borrower has, through MoF and GKI, entered into PIAs with EIBB and CCPB in accordance with the provisions of paragraph 2 of Schedule 5 to this Agreement.

(b) The Borrower's Cabinet of Ministers has adopted a resolution, including a list of 200 enterprises whose shares can be sold to PIFs, acceptable to the Bank, amending its Resolution No. 220 of June 18, 1996 entitled: "On Measures for Arranging Operations of Investment Funds".

(c) The Borrower has appointed a financial manager, acceptable to the Bank, to review the Borrower's financial management system for the Project in accordance with terms of reference satisfactory to the Bank.

Section 5.02. The date sixty (60) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VI

##### Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance  
Mustakillik Square 5  
Tashkent 700078  
Republic of Uzbekistan

For the Bank:

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

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

248423 (MCI) or  
64145 (MCI)

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

REPUBLIC OF UZBEKISTAN

By /s/ Jamshed Saifiddinov

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ W. Roider

Acting Regional Vice President  
Europe and Central Asia

#### SCHEDULE 1

#### Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Consultants' services and training		100%
(a) under Parts A and C of the Project	13,730,000	
(b) under Part B of	8,930,000	

	the Project		
(2)	Goods		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
	(a) under Parts A and C of the Project	970,000	
	(b) under Part B of the Project	230,000	
(3)	Incremental operating costs		100% up to December 31, 1999; 80% up to December 31, 2000; 60% up to December 31, 2001; and 40% thereafter
	(a) under Parts A and C of the Project		
	(b) under Part B of the Project		
(4)	Unallocated	2,610,000	
	TOTAL	28,000,000	

2. For the purposes of this Schedule:

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

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "incremental operating costs" means the incremental expenses incurred by CCPB and EIBB on account of Project implementation, management and monitoring, including salaries of their local personnel (but excluding salaries of officials of the Borrower), office rental and furniture, utility services, audit, equipment operation and maintenance, office supplies, local travel and supervision costs based upon an annual budget acceptable to the Bank.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$500,000 may be made in respect of Categories 1(b), 2(b) and 3 set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after December 31, 1997.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts costing less than \$200,000 equivalent for goods, \$10,000 equivalent for services of individual consultants, and \$100,000 equivalent for services of consulting firms, \$50,000 equivalent for incremental operating costs, and training, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) improve efficiency of privatized enterprises; (b) support the implementation of the Borrower's policy of case-by-case privatization to improve enterprise efficiency and attract foreign know-how and capital; (c) enhance effectiveness of capital markets, widen public participation therein and protect shareholders; and (d) strengthen the institutional capacity to facilitate enterprise reform, consistently with the Resolution.

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

objectives:

PART A: Post Privatization Advisory Services

1. Carrying out of diagnostic studies of Beneficiary Enterprises aimed at identifying and prioritizing the enterprises' needs for advisory services and assessing their receptivity to consulting services.
2. Preparation of terms of reference for and provision of advisory services to Beneficiary Enterprises in respect of or relating to their rehabilitation and restructuring, including the development of their marketing strategy and quality management systems, provision of partner search, upgrade of products to international standards, and implementation of modern accounting, financial and commercial management systems, and preparation of feasibility studies for presentation to credit institutions.
3. Strengthening of EIBB through the provision of consultants' services, computers and office equipment and development of local consultant companies.

PART B: Case-by-Case Privatization

1. Provision of advisory services, including services by investment banks, for managing case-by-case privatization of Selected Enterprises, analyzing their investment requirements and, if appropriate, preparing their shares for public placement on the stock markets, including the public relations required for such placement.
2. Strengthening of CCPB through the provision of consultants' services, computers and office equipment.

PART C: Capital Market Development

1. Development of the CSM by providing assistance in the regulation of securities markets commensurate with international practices in areas, including: (a) the promotion of an active secondary market and the surveillance of the secondary market; (b) the promotion of disclosure and information exchange in such areas as listing and quotation of shares, the financial status of issuers, prices and turnover and trading information (prices, bids and offers); and (c) on-the-job training and twinning with other regulatory authorities for the staff of the CSM.
2. Provision of assistance to support the development of secondary trading in the TSE and over the counter market, including: (a) development of systems for the exchange of information on market activity; (b) advice on issues which may hinder share trading such as corporate finance, availability of reliable information on corporate activities and earnings, and identification and resolution of other impediments to corporate governance/restructuring; and (c) advice on methods for supporting the development of trade in shares in unlisted corporations.
3. Technical upgrade of the operating practices and computer systems of the NDV with a view to supporting improvements in key areas, including: (a) the legal framework of the NDV; (b) linking securities transfer to cash transfer; (c) the reduction of settlement times and fees; (d) risk management; (e) legal issues related to securities settlement; (f) establishing electronic links with the CSM, the TSE and the Central Bank of Uzbekistan (the settlement agent); and (g) increased customer orientation through the establishment of user groups and objectives for customer services.
4. Provision of training of the staff of the CSM, TSE and NDV, under the auspices of the CSM acting as coordinator, in relevant fields, including finance, risk management and corporate and financial law.

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The Project is expected to be completed by June 30, 2003.

SCHEDULE 3



## Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars)*
December 15, 2003	595,000
June 15, 2004	610,000
December 15, 2004	630,000
June 15, 2005	645,000
December 15, 2005	665,000
June 15, 2006	685,000
December 15, 2006	705,000
June 15, 2007	725,000
December 15, 2007	750,000
June 15, 2008	770,000
December 15, 2008	795,000
June 15, 2009	815,000
December 15, 2009	840,000
June 15, 2010	865,000
December 15, 2010	890,000
June 15, 2011	920,000
December 15, 2011	945,000
June 15, 2012	975,000
December 15, 2012	1,000,000
June 15, 2013	1,030,000
December 15, 2013	1,060,000
June 15, 2014	1,095,000
December 15, 2014	1,125,000
June 15, 2015	1,160,000
December 15, 2015	1,195,000
June 15, 2016	1,230,000
December 15, 2016	1,265,000
June 15, 2017	1,300,000
December 15, 2017	1,340,000
June 15, 2018	1,375,000

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

### SCHEDULE 4

#### Procurement and Consultants' Services

##### Section I. Procurement of Goods

##### Part A: General

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

##### Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

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

##### (a) Grouping of contracts

To the extent practicable, contracts for computers shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. International Shopping

Goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$600,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$100,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to each contract under Part B of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first two contracts under Part C of this Section, the following procedures shall apply:

(i) prior to the selection of any supplier under shopping procedures the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;

(ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and

(iii) the procedures set forth in paragraphs 2 (f) and 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Consultant's Qualifications

Services for consultants under Part A of the Project, estimated to cost less than \$100,000 equivalent per contract, shall be procured under contracts awarded in accordance with the provisions of paragraph 3.7 of the Consultant Guidelines.

2. Selection of Particular Types of Consultants

Services of investment banks for the case-by-case privatization under Part B of the Project shall, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.17 of the Consultant Guidelines.

3. Least-Cost Selection

Audit services shall be procured in accordance with the provisions of paragraph 3.6 of the Consultant Guidelines.

4. Individual Consultants

Services of consultants for EIBB, under Parts A and C of the Project, and CCPB, under Part B of the Project, shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms, estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$10,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

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

#### SCHEDULE 5

##### Implementation Program

1. The Project shall be carried out by EIBB and CCPB under the general supervision and guidance of the Supervisory Board.

2. (a) The Borrower shall, through MoF and GKI, enter into Project implementation arrangements with EIBB and CCPB on terms and conditions, satisfactory to the Bank, including those specified in the Attachment to this Schedule.

(b) The Borrower shall cause MoF and GKI to exercise its rights under the PIAs in such manner as to protect the interests of the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the PIAs or any provision thereof.

3. The Borrower shall cause MoF and GKI to, until completion of the Project, maintain EIBB and CCPB with qualified and experienced staff, acceptable to the Bank, in adequate numbers and provide them with such funds, facilities, and other resources as may be required for the implementation of their respective parts of the Project.

4. (a) The Borrower shall offer the following enterprises for privatization under Part B of the Project: (i) Almalyk Mining and Metallurgical Kombinat; (ii) UzCabel (Power & Telecommunication Cables); (iii) Andizhan Cable; (iv) Okhangoron Cement; (v) Kuvasai Cement; and (vi) Nishanpakhtatozlash.

(b) In addition to the enterprises listed in subparagraph (a) hereof, CCPB shall, by December 31 each year commencing in 1998, select in consultation with the Bank, at least five other enterprises for privatization under Part B of the Project for each following year in accordance with criteria agreed with the Bank.

(c) For the purposes of Part B of the Project, the term "privatization" means the transfer of ownership, control or management of State Enterprises to the private sector through the sale of assets of, equity capital in, or the transfer of management control over a State Enterprise to the private sector, including the sale of a business as a going concern. The term "State Enterprise" means those legal entities that are significantly owned or controlled by the Borrower either directly or indirectly through another legal entity significantly owned or controlled by the Borrower. The term "significantly" represents twenty five percent or more shares in an enterprise.

5. In consideration of the objectives of privatization supported by the Bank, the Borrower undertakes and agrees not to permit: (a) purchase by any entities directly or indirectly owned or controlled by it (including the Associations) of shares which have been acquired by PIFs at the special PIF auctions pursuant to the Regulation, or (b) enterprises to repurchase their own shares that have been acquired by PIFs as mentioned in sub-clause (a) hereof. For the purposes of this Schedule, the term "Associations" has the same meaning ascribed thereto in Article 77 of the Borrower's Civil Code, 1997, insofar as it relates to associations established by entities directly owned or controlled by the Borrower and includes any other entities owned or controlled by the Borrower.

#### Attachment to Schedule 5

##### Terms and Conditions of Project Implementation Arrangements

###### General Obligations

1. (a) EIBB shall carry out Parts A and C of the Project and CCPB shall carry out Part B of the Project on behalf of the Borrower under the general supervision and guidance of the Supervisory Board.

(b) EIBB and CCPB shall carry out their respective parts of the Project under

the PIAs in accordance with the Project Implementation Plan, agreed with the Bank, in a manner satisfactory to the Bank.

2. EIBB and CCPB shall maintain their accounts and carry out their audits in respect of their respective parts of the Project consistent with the provisions of Article IV of this Agreement.

#### Post Privatization Advisory Services under Part A of the Project

3. EIBB shall, with the prior written consent of the Bank, select enterprises for participation under Part A of the Project: (a) that have been designated by the Borrower for investment by PIFs, or (b) on the basis, inter alia, of the following criteria:

(i) Enterprises which are majority owned or controlled by shareholders other than the Borrower or any person (including corporate entities) representing the interest of the Borrower or any entities majority owned or controlled by the Borrower.

(ii) Enterprises 30 percent of the shares of which are either owned or controlled by outside shareholders. The term "outside shareholders" means (1) shareholders other than the Borrower or any other entity or individual representing the interest of the Borrower, or (2) non-employee shareholders.

(iii) Enterprises that are willing to enter into an agreement with EIBB to collaborate with consultants and pay a share of the costs of their advisory services (25 percent).

(iv) Enterprises whose improvements in profitability can be achieved initially, within the constraints of existing equipment and technology, through management, organizational, accounting, financial and marketing improvements.

(v) Enterprises that are not subject to control by the Associations as regards their inputs and outputs (such as price control, restrictions on sales, dependence on monopoly state-owned supplier).

4. EIBB shall:

(a) estimate the costs of advisory services of consultants for each case and have the same approved by the Bank; and

(b) enter into contracts, on behalf of the Borrower, with the Beneficiary Enterprises and consultants on terms and conditions approved by the Bank, including the following:

(i) EIBB shall be responsible for direct payment of 100 percent of the fees and expenses of the advisory services to the consultants selected for the assignment.

(ii) EIBB shall, unless otherwise agreed by the Supervisory Board, recover from the Beneficiary Enterprises 25 percent of the total advisory services costs paid to the consultants.

5. EIBB shall use the proceeds collected from the contribution of the Beneficiary Enterprises to cover EIBB's operating costs. The Borrower/MoF shall provide the necessary funds to cover the remaining portion of the costs in case the proceeds collected from the Beneficiary Enterprises are not sufficient to cover EIBB's operating costs.

#### Case-by-Case Privatization under Part B of the Project

6. CCPB shall:

(a) engage: (i) a senior privatization advisor to assist in organizing the

tenders and other related activities in the case-by-case privatization transactions; and (ii) a senior legal advisor to assist in negotiating contracts between the Borrower and the investment banks selected for case-by-case privatization transactions pursuant to paragraph (b) hereof, and to provide other legal advice relating to these transactions as required; and

(b) select an international investment bank or banks ("Investment Bank", which term shall include the consortium of other advisors, such as legal advisors, technical advisors, auditors and accounting firms, led by said bank or banks, as the case may be) for each case-by-case privatization transaction on the basis of criteria agreed with the Bank, including the following:

(i) The Investment Bank has, unless otherwise agreed by the Borrower and the Bank, been the lead advisor to various governments in at least five successful case-by-case privatizations with receipts of at least \$25 million each.

(ii) The reputation of the Investment Bank is of a high standard, as mutually agreed by the Borrower and the Bank.

(c) engage the Investment Bank to undertake a three phase privatization process on behalf of the Selected Enterprises, as specified in sub-paragraph (d) hereof, under terms of reference and on terms and conditions, acceptable to the Bank, including the following:

(i) The contract with the Investment Bank shall cover all three phases, including sale.

(ii) The Borrower understands and agrees that if the Borrower/CCPB terminates its contract with the Investment Bank and selects another investment bank not approved by the Bank, the Bank may suspend further disbursements under Part B of the Project. The Borrower/CCPB shall, in such case, reimburse to the Bank the fees paid to the Investment Bank with the proceeds of the Loan.

(d) submit reports to the Bank as follows: Phase 1: the report of the Investment Bank on its initial evaluation of the potential for privatization of the Selected Enterprises; Phase 2: the report of the Investment Bank on the valuation of the Selected Enterprises, the options for its sale and the recommended sales option; restructuring and efficiency enhancing options; and investment requirements; and Phase 3: (i) the sales process for the Selected Enterprises recommended by the Investment Bank and that adopted by the Borrower; (ii) the criteria of selection for a winning tender as developed by the Investment Bank and that adopted by the Borrower; and (iii) the evaluation of the tender offers and the Borrower's reasons for selection of a winning bidder; and

(e) engage regulatory advisers, with the prior written consent of the Bank, in case Selected Enterprises are monopolies or in sectors that raise major policy issues, to separately examine and report on regulatory questions prior to a possible privatization sale.

7. The Borrower shall, unless otherwise agreed by the Bank, refrain from changing either the share structure or selling or otherwise distributing the shares of the companies proposed for the case-by-case privatization under Part B of the Project until the investment banker engaged pursuant thereto proposes a change in the structure or sale or distribution as part of the agreed privatization plan.

Capital Market Development under Part C of the Project

8. EIBB shall:

(a) engage consultants to assist in designing a detailed, strategic implementation plan which clearly identifies the needs of CSM, NDV and TSE under Part C of the Project and a well-coordinated time-plan for the provision of the required equipment and services to them; and

(b) seek the Bank's approval of the strategic implementation plan developed

under sub-paragraph (a) above and solicit bids for a contract for complete equipment and services to be supplied under Part C of the Project (if it is found expedient by the Borrower and the Bank to execute a separate contract for computer hardware and software equipment, the EIBB shall take responsibility for ensuring that the provision of advisory and computer support services is closely coordinated with the procurement of equipment).

9. The Supervisory Board shall act as a coordinator and ensure cooperation among CSM, NDV, TSE and the consultants.

#### SCHEDULE 6

##### Special Account A for Parts A and C of the Project

1. For the purposes of this Schedule:

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

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

(c) the term "Authorized Allocation" means an amount equivalent to \$100,000 to be withdrawn from the Loan Account and deposited into Special Account A pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$50,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$150,000.

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

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

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

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

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

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

eligible expenditures.

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

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

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

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

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

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

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

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

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

#### SCHEDULE 7

##### Special Account B for Part B of the Project

1. For the purposes of this Schedule:

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

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in



accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$100,000 to be withdrawn from the Loan Account and deposited into Special Account B pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$50,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$150,000.

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

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

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

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

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

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

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

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

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

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

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into

by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in Special Account B as of the date of such notice will be utilized in making payments for eligible expenditures.

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

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

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

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

