

CONFORMED COPY

CREDIT NUMBER 2717 KG

Development Credit Agreement
(Private Enterprise Support Project)

between

KYRGYZ REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 20, 1995

CREDIT NUMBER 2717 KG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 20, 1995, between KYRGYZ REPUBLIC (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) 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, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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

(a) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated April 28, 1994 and May 21, 1994 between the Borrower and the Association;

(b) "Special Account A" and "Special Account B" mean the accounts referred to in Section 2.02 (b) of this Agreement. Special Account A and Special Account B are, collectively, referred to as "Special Accounts";

(c) "PAU" means the project administration unit established within the Directorate General of the State Commission on Foreign Investment and Economic Assistance of the Borrower;

(d) "FERD" means the Fund for Enterprise Reconstructing and Development established by the Borrower pursuant to a Decree dated April 6, 1995;

(e) "Charter of the FERD" means the Decree dated April 6, 1995, establishing the FERD, the by-laws of the FERD, and the FERD's operating procedures and statement of policy, as amended from time to time;

(f) "Subsidiary Agreement" means the agreement to be entered into between the Borrower and the FERD pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Agreement;

(g) "Fund Manager" means an international banking institution satisfactory to the Association selected pursuant to the provisions of Section II.1 of Schedule 3 of this Agreement for the purposes of assisting in the carrying out of Parts A and B of the Project;

(h) "Fund Management Agreement" means the agreement to be entered into by the Borrower and the Fund Manager according to the provisions of Section 3.01 (b) (i) of this Agreement;

(i) "Sub-loan" means a loan made or proposed to be made by the FERD to a Beneficiary for an Investment Project out of the proceeds of the Credit;

(j) "Beneficiary" means (i) a private enterprise to which the FERD proposes to make or has made a Sub-loan, whose subscribed and fully paid in capital is controlled at least 51% by private investors or (ii) an enterprise to which the Fund Manager on behalf of the FERD proposes to make or has made a Technical Assistance Loan;

(k) "Investment Project" means: (i) a specific development project to be carried out by a Beneficiary utilizing the proceeds of a Sub-loan, including incremental working capital needs of a Beneficiary to expand or modernize its production; and (ii) the increase of the working capital of a Beneficiary using the proceeds of a Sub-loan;

(l) "TA Financing" means financing made or proposed to be made by the FERD for the provision of consultants' services under Part B of the Project out of the proceeds of the Credit made available to the FERD under the Subsidiary Agreement; and

(m) "TA Sub-project" means a specific technical assistance intervention for the benefit of a Beneficiary under Part B of the Project using proceeds of a TA Financing.

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 the Development Credit Agreement, an amount in various currencies equivalent to ten million one hundred thousand Special Drawing Rights (SDR 10,100,000).

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) amounts paid (or, if the Association shall so agree, to be paid) by the Borrower on account of withdrawals made by the Beneficiary under a Sub-loan to meet the reasonable cost of goods and services required for the Investment Project in respect of which the withdrawal from the Credit Account is requested; and (ii) expenditures made (or, if the Association 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 Credit.

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

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

Section 2.03. The Closing Date shall be June 30, 2000 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 cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or 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 payment 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 semi-annually on June 15 and December 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each June 15 and December 15 commencing June 15, 2005 and ending December 15, 2029. Each installment to and including the installment payable on December 15, 2014 shall be one and one-fourth per cent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years, 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 terms of repayment of installments under paragraph (a) above by 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. If so requested by the Borrower, the Association may revise such modification 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.

(c) 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.

Section 2.09. The Fund Manager is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions in respect of Parts A and B of the Project.

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end:

(a) shall carry out Part C of the Project through the PAU with due diligence and efficiency and in conformity with appropriate administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Part C of the Project;

(b) (i) shall cause the Fund Manager selected in accordance with the provisions of Section II.1 of Schedule 3 to this Agreement to carry out Parts A and B of the Project with due diligence and efficiency and in conformity with appropriate administrative and financial practices and in accordance with the Fund Management Agreement under terms and conditions which shall have been approved by the Association, and which shall include the operating procedures to be followed by the Fund

Manager, the eligibility criteria for Sub-loans, the procedures for and terms and conditions of Sub-loans, the procedures for and terms and conditions of TA Financing, all as set forth in Schedule 4 to this Agreement, (ii) shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Fund Manager to carry out Parts A and B of the Project, and (iii) shall not take or permit to be taken any action which would prevent or interfere with the carrying out of said Parts A and B of the Project by the Fund Manager;

(c) shall relend the proceeds of the Credit and make available part of the proceeds of the Credit to the FERD under a subsidiary agreement to be entered into between the Borrower and the FERD under terms and conditions which shall have been approved by the Association which shall include: (i) a variable interest rate indexed to the rate of ten year US Treasury bonds and a final maturity of fifteen years, including five years of grace, for the funds relent out of the proceeds of the Credit for the purpose of Part A of the Project, and the principal amount of the Sub-loan to be denominated in Dollars, to be in the equivalent amount of the proceeds withdrawn from the Credit from time to time; and (ii) a grant in respect of the funds made available out of the proceeds of the Credit for the TA Financing under Part B of the Project; and

(d) shall exercise its rights under the Subsidiary Agreement and the Fund Management Agreement in such a 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 the Subsidiary Agreement or Fund Management Agreement or any provision of any such agreement.

Section 3.02. During the execution of the Project, the Borrower shall maintain the PAU under the leadership of a suitably qualified director assisted by qualified staff in adequate numbers for the purpose of, inter alia, the monitoring of the performance of the Fund Manager under the Fund Management Agreement.

Section 3.03. 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.

Section 3.04. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall:

(a) prepare 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, of such scope and in such detail as the Association shall reasonably request, for the future operation of the Project;

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

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

Section 3.05. (a) The Borrower shall, through the PAU, by March 31, 1997, carry out a mid-term review and prepare, under terms of reference satisfactory to the Association, a report on the progress achieved under the Project and the appropriateness of the implementation arrangements for the Project 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, including a recommendation on the renewal of the Fund Management Agreement, and recommending remedial actions, if needed.

(b) The Borrower shall review with the Association, by June 30, 1997 or such later date as the Association shall request, the report referred to in paragraph (a) 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 said report and the Association's views on the matter.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain through the PAU records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Part C of the Project.

(b) The Borrower shall cause the Fund Manager to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Parts A and B of the Project.

(c) The Borrower shall:

- (i) have the records and accounts referred to in paragraphs (a) and (b) 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 Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

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

- (i) maintain, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account, or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association'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

Remedies of the Association

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

(a) the Fund Manager shall have failed to perform any of its obligations under the Fund Management Agreement;

(b) as a result of events which have occurred after the date of the Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Fund Manager will be able to perform its obligations under the Fund Management Agreement;

(c) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the FERD;

(d) the Charter of the FERD shall have been amended, suspended, abrogated, repealed or waived so as to materially affect the execution of Parts A or B of the Project; and

(e) the Fund Management Agreement shall have expired or have been terminated by either party thereto.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) 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; and

(b) the events specified in paragraphs (c), (d) or (e) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Fund Management Agreement has been executed on behalf of the Borrower and the Fund Manager pursuant to the provisions of Section 3.01 (b) (i) of this Agreement; and

(b) the Subsidiary Agreement has been executed on behalf of the Borrower and the FERD pursuant to the provisions of Section 3.01 (c) of this Agreement.

Section 6.02. The following is an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely that the Subsidiary Agreement has been duly authorized or ratified by the Borrower and the FERD and is legally binding upon the Borrower and the FERD in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of

this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Vice Chairman of the State Commission on Foreign Investment and Economic Assistance 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:

State Commission on Foreign
Investment and Economic
Assistance
58a Erkindik Blvd.
720003 Bishkek
Kyrgyz Republic

Telex:

245169 AFKARSU

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

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

KYRGYZ REPUBLIC

By /s/ Almaz T. Chukin

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Wilfried Thalwitz

Regional Vice President

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Part A of the Project:		
(a) Sub-loans for specific development projects, including incremental working capital	6,330,000	100% of amounts disbursed
(b) Sub-loans for free-standing incremental working capital	2,680,000	100% of amounts disbursed
(2) TA Financing under Part B of the Project	20,000	100% of amounts disbursed
(3) Services in respect of the management of the FERD	20,000	100%
(4) Consultants' services and training under Part C of the Project for:		100%
(a) the PAU	40,000	
(b) the financial sector and other studies	13,000	
(5) Goods under Part C of the Project for:		100% of foreign expenditures, 100% of local expenditures (ex-factory cost); and
(a) the PAU	40,000	
(b) the FERD	70,000	90% of local expenditures for other items procured locally
(6) Audit of Project accounts	110,000	100%
(7) Refunding of Project Preparation Advance	640,000	Amounts due pursuant to Section 2.02 (c) of this Agreement

(8)	Unallocated	137,000
	TOTAL	10,100,000

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 working capital" means increases in initial stock of raw materials and other semi-finished input goods, spare parts and energy supplies, but does not include salaries and other cash expenditures unrelated to the acquisition of working capital assets.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made:

(a) for expenditures prior to the date of this Agreement; and

(b) in respect of a Sub-loan, unless the Sub-loan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Sections I through III of Schedule 4 to this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for goods, works and services under contracts not exceeding \$200,000 equivalent in respect of expenditures under Part A of the Project, including expenditures under Categories (3) and (6) and in respect of expenditures under Parts B and C of the Project not exceeding \$50,000, 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 promote the adaptation of private enterprises to a market based system and export through provision of an integrated program of technical assistance and provision of loans and to assist in the strengthening of key financial institutions of the Borrower.

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: Lending Component

Operation of a credit facility for the financing of specific development projects and incremental working capital of export oriented and import substituting private enterprises through the provision of Sub-loans.

Part B: Enterprise Support

Provision of consultants' services to enterprises for the preparation of diagnostic studies and the preparation and implementation of business and investment plans.

Part C: Financial Sector Support

Strengthening of key financial institutions through the provision of training, the carrying out of an audit of Sberbank, a study of the insurance sector, and such other studies as the Borrower and the Association may agree.

* * *

The Project is expected to be completed by December 31, 1999.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

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

Part B: International Competitive Bidding

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

Part C: Other Procurement Procedures

1. Limited International Bidding

Works under Part A of the Project estimated to cost \$300,000 equivalent or more per contract, which the Association agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Competitive Bidding

Works under Part A of the Project estimated to cost \$300,000 equivalent or less per contract and \$3,000,000 equivalent or less in the aggregate, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

3. International Shopping

Goods under Part A of the Project estimated to cost \$2,000,000 equivalent or less per contract and \$12,000,000 equivalent or less in the aggregate, and vehicles, computers and office equipment under Part C of the Project estimated to cost \$150,000 equivalent or less in the aggregate, 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.

4. National Shopping

Goods under Part C of the Project estimated to cost \$50,000 equivalent or less 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.

5. Direct Contracting

Direct contracting procedures acceptable to the Association

may be used where considered appropriate under the Guidelines.

6. Procurement of Civil Works with Small Value

Works (including repairs to existing facilities and installation of equipment) estimated to cost \$100,000 equivalent or less per contract, and not to exceed \$3,000,000 in the aggregate, shall be procured under lump sum, fixed price contracts awarded on the basis of bids obtained from three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and, where applicable, relevant drawings. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to successfully complete the contract.

Part D: Review by the Association 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 Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for goods and works estimated to cost \$2,000,000 equivalent or more, each contract procured under the provisions of Part B of this Schedule and the first two contracts for goods and the first two contracts for works procured under Part C.1 of the Schedule, the procedures set forth in paragraphs 2 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

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Association shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of

consulting firms, (c) assignments of a critical nature, as reasonably determined by the Association, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4

Terms and Conditions of, and Procedures for Sub-loans and TA Financing

The following eligibility criteria for Sub-loans, terms and conditions of Sub-loans, procedures for Sub-loans and procedures for and terms and conditions of Technical Assistance Loans shall be incorporated in the Fund Management Agreement according to Section 3.01 (b) of this Agreement.

I. Eligibility Criteria for Sub-loans:

- (a) detailed business plan acceptable to the Association;
 - (b) the projected debt servicing capacity in foreign exchange of the Beneficiary (defined as the ratio of expected annual interest and principal payments to cash-flow generated from operations of the Beneficiary), shall be no less than 1.2 over the life of the Investment Project;
 - (c) the debt to equity ratio shall be no more than 1.5:1.0, with the ratios calculated on the basis of the Beneficiary's total debts, inclusive of those to be incurred under the Investment Project;
 - (d) in the case of Sub-loans for specific development projects, a financial and an economic rate of return of at least 15%; and
 - (e) in the case of Sub-loans for incremental working capital, a restructured balance sheet depicting improved financial structure indicators (e.g., debt/equity, liquidity ratio) and operating and financial performance indicators (e.g., stock and assets turnover, profitability, cash-flow) would be the additional criteria applicable to assessment and justification for lending for free-standing working capital.
- All the above ratios and criteria to be calculated on the basis of guidelines satisfactory to the Association to be set forth in the operating procedures of the Fund Management Agreement.
- (f) the by-laws, management structure and procedures of the Beneficiary is consistent with private enterprise governance principles.

II. Terms and Conditions of, and Procedures for Sub-loans:

1. The principal amount of each Sub-loan made or proposed to be made out of the proceeds of the Credit shall be:

- (a) denominated in Dollars; and
- (b) in a maximum principal amount of \$1 million equivalent, provided that the principal amount shall be: (i) no more than 80 percent of the total investment cost of the Investment Project, including incremental working capital for expansion and modernization projects; (ii) no more than 70 percent of the total investment cost of the Investment Project, including incremental working capital in the case of newly established Beneficiaries; and (iii) up to \$200,000 equivalent in the case of Sub-loans for free-standing, incremental working capital.

2. The maturity of each Sub-loan shall be no less than one year and no more than eight years, including a grace period of no less than six months and no more than one year.

3. The interest rate of Sub-loans shall be a market determined rate, set in accordance with a methodology acceptable to the Association.

4. No expenditures for goods or services required for an Investment Project shall be eligible for financing out of the proceeds of the Credit unless the Sub-loan for such Investment Project shall have been approved by the Association and such expenditures shall have been made not earlier than ninety (90) days prior to the date on which the Association shall have received the application and information required under paragraph 2 (a) of this Schedule in respect of such Sub-loan.

5. When presenting a Sub-loan to the Association for approval, the Borrower shall cause the Fund Manager to furnish to the Association an application, in form satisfactory to the Association, together with (i) a description of the Beneficiary and an appraisal of the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Credit; (ii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization of the Sub-loan to be used for the Investment Project; (iii) an evaluation of the environmental impact; and (vi) such other information as the Association shall reasonably request.

6. Sub-loans shall be made on terms whereby the FERD shall obtain, by written contract with the Beneficiary which shall be based to the extent possible, on the model contract approved by the Association, rights adequate to protect the interests of the Association, the Borrower and the FERD, including, the right to:

(a) require the Beneficiary to carry out and operate the Investment Project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(b) require that: (i) the goods, works and services to be financed out of the proceeds of the Credit be procured in accordance with the provisions of Schedule 3 to this Agreement; and (ii) such goods, works and services shall be used exclusively in the carrying out of the Investment Project;

(c) inspect, by itself or jointly with representatives of the Association if the Association shall so request, such goods, works, plants and construction included in the Investment Project, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Beneficiary take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Credit to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Beneficiary to replace or repair such goods;

(e) obtain all such information as the Association, the Borrower or the FM shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary and to the benefits to be derived from the Investment Project;

(f) require that the Beneficiary comply with the

Borrower's environmental guidelines and regulations; and

(g) suspend or terminate the right of the Beneficiary to the use of the proceeds of the Credit upon failure by such Beneficiary to perform its obligations under its contract with the FERD.

III. Terms and Conditions of, and Procedures for TA Financing:

1. The FERD shall make available to Beneficiaries for the purposes of Part B of the Project funds blended on loan and grant terms. The principal amount of each loan portion of the TA Financing made, or proposed to be made, out of the proceeds of the Credit shall be:

(a) denominated in Dollars;

(b) in a maximum principal amount of \$75,000 equivalent provided that the Fund Manager shall determine the principal amount of the loan portion on the Beneficiary's ability to pay such portion of the total cost of the TA Sub-project; and

(c) repayable in accordance with an amortization schedule prepared in accordance with guidelines acceptable to the Association to be set forth in the operating procedures of the Fund Management Agreement.

2. The interest rate of the loan portion shall be indexed to five-year US Treasury bonds and shall provide for a margin of 2 percent thereabove.

3. Each request for authorization to make withdrawals from the Credit Account in respect of a TA Financing shall contain: (i) a summary description of the proposed TA Sub-project; and (ii) the terms and conditions of the TA Financing, including the schedule of amortization therefor.

4. The FERD shall enter in a written contract with the Beneficiary which shall, to the extent possible, be based on the model contract approved by the Association. Such contract shall specify the grant portion to be made available to the Beneficiary for the TA Sub-project and include rights adequate to protect the interests of the Association, the Borrower and the FERD, including: (a) similar rights as referred to in paras. (e), (f) and (g) of Section II. 6 of this Schedule; (b) the undertaking of the Beneficiary to cover the local cost related to the TA Sub-project; (c) the undertaking by the Beneficiary to cover the following cumulative proportions of the costs of consultants' services, training and study tours:

up to \$30,000	30 percent
from \$30,000 to \$50,000	40 percent
from \$50,000 to \$80,000	50 percent
over \$80,000	100 percent

and (d) the undertaking by the Beneficiary to procure the services financed out of the proceeds of the Credit in accordance with the provisions of Section II of Schedule 3 to this Agreement.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) and (2) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in the case of Special Account A;

(b) the term "eligible Categories" means Categories (3), (4), (5) and (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in the case of Special Account B;

(c) 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

(d) the term "Authorized Allocation" means: (i) in the case of Special Account A an amount equivalent to \$200,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$100,000 until the aggregate amount of withdrawals from the 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 \$900,000; and (ii) in the case of Special Account B an amount equivalent to \$1,000,000 to be withdrawn from the Credit Account and deposited in 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 \$500,000 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 \$2,400,000.

2. Payments out of the Special Accounts 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 Accounts have been duly opened, withdrawals of the Authorized Allocations and subsequent withdrawals to replenish the Special Accounts shall be made as follows:

(a) For withdrawals of the respective Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits which do not exceed the aggregate amount of such 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 in the Special Accounts such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Accounts, the Borrower shall furnish to the Association requests for deposits into the Special Accounts 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 respective Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the respective Special Account for eligible

expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account 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 a 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 Accounts:

(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; or

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

(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 for Parts A and B of the Project, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to Part A of the Project, shall equal the equivalent of twice the amount of the Authorized Allocation; or

(e) once the total unwithdrawn amount of the Credit allocated to the eligible Categories for Part C of the Project, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to Part C of 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 for Parts A and B of the Project shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Accounts 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 a 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 a 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.

