

Public Disclosure Authorized

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CREDIT NUMBER 4314 -TJ

Financing Agreement

(Cotton Sector Recovery Project)

between

REPUBLIC OF TAJIKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 29, 2007

Public Disclosure Authorized



FINANCING AGREEMENT

AGREEMENT dated June 29, 2007, entered into between the REPUBLIC OF TAJIKISTAN (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to ten million Special Drawing Rights (SDR 10,000,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are April 15 and October 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Dollars.

ARTICLE III - PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project, through the PIU, in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - TERMINATION

- 4.01. The Additional Condition of Effectiveness consists of the following: the Project Operational Manual, satisfactory to the Association, has been adopted by the Recipient.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 4.03. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty years after the date of this Agreement.

ARTICLE V - REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is the Minister of Finance of the Recipient.
- 5.02. The Recipient's Address is:

Ministry of Finance
3 Akademikov Rajabovikh Ave.
Dushanbe, 734025
Republic of Tajikistan

Facsimile:

(992-372) 213329

- 5.03. The Association's Address is:

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

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI)	1-202-477-6391

AGREED at Dushanbe, Republic of Tajikistan, as of the day and year first above written.

REPUBLIC OF TAJIKISTAN

By /s/ Safarali Najmuddinov

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Cevdet Denizer

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to improve the livelihood of cotton farmers and to create conditions for sustainable growth of cotton production in selected, low income areas of Tajikistan, through debt resolution, improved policy environment, and increased cotton output and profitability.

The Project consists of the following parts:

Part A. Debt Resolution

1. Assistance with the establishment and operation of the Debt Resolution Agency, including: (a) preparation of regulations and manuals for its operation; (b) special review of cotton sector investors' debt claims; and (c) development and implementation of the cotton sector debt resolution public awareness and information campaign.
2. Assistance with the establishment of a special purpose vehicle responsible for management of the funds provided by the Recipient's government and debt levy funds received from farmers through a designated government agency; for the issuance of repayment obligations to identified creditors (as advised by the DRA), and for servicing of these repayment obligations, including preparation of regulations and manuals for the operation of this entity.

Part B. Policy Analysis and Reform Support

Provision of technical assistance to strengthen the Recipient's capacity for the cotton sector policy formulation and analysis and for reform implementation.

Part C. Cotton Supply Chain Development

1. Provision of sub-credits to qualified ginneries in the Selected Districts to finance their needs in working capital.
2. Provision of sub-credits to qualified private sector agricultural enterprises in the Project Districts to finance seed processing equipment.
3. Provision of Project related technical assistance, training and information to rural population of Khalton oblast, including community outreach programs in the Project Districts and farm extension programs in the Selected Districts.

Part D. Project Management

Strengthening the Recipient's capacity for Project management, monitoring and evaluation, including audit, procurement, disbursement and financial management

activities, through financing of Operating Costs incurred by the PIU on account of Project implementation.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient, through the PIU, shall carry out the Project in accordance with the requirements, criteria, organizational arrangements and operational procedures set forth in the Project Operational Manual agreed with the Association. The Recipient shall maintain the Project Operational Manual in form and content satisfactory to the Association and shall not assign, amend, abrogate or waive the Project Operational Manual without the prior approval of the Association.

2. To ensure inter-ministerial coordination of Project activities and for overall Project guidance and supervision the Recipient shall maintain at all times during the implementation of the Project, the Independent Commission with the composition and terms of reference satisfactory to the Association.

3. The Recipient shall ensure that overall responsibility for day to day implementation and management of the Project, including procurement and financial management activities, are entrusted to the PIU. To that end, the Recipient shall maintain the PIU throughout the implementation of the Project with sufficient and suitable human, financial and technical resources and under terms of reference satisfactory to the Association.

4. The Recipient shall maintain the DRA and SPV with sufficient and suitable human, financial and technical resources and under terms of reference satisfactory to the Association, until their respective functions are fully implemented.

5. The Recipient shall take all measures necessary to carry out the EMP in a timely manner, ensuring that adequate information on the implementation of the said measures is suitably included in the Project Reports referred to in Part A of Section II of this Schedule.

6. The Recipient shall: (a) by February 1, 2007 establish the DRA with all regulations and manuals necessary for its operation and satisfactory to the Association; and (b) thereafter maintain the DRA with sufficient and suitable human, financial and technical resources and under terms of reference satisfactory to the Association, until its functions are fully implemented.

7. The Recipient shall: (a) by May 1, 2008 establish the SPV with all regulations and manuals necessary for its operation and satisfactory to the Association; and (b) thereafter maintain the SPV with sufficient and suitable human, financial and technical

resources and under terms of reference satisfactory to the Association, until its functions are fully implemented.

B. Sub-projects

1. The Recipient shall make Sub-credits to Beneficiaries in accordance with eligibility criteria and procedures acceptable to the Association and set forth in the Project Operational Manual.

2. The Recipient shall make each Sub-credit under a Sub-credit Agreement with the respective Beneficiary on terms and conditions approved by the Association, which shall include the following:

(a) The Sub-credit shall be: (i) denominated and repayable in Dollars; (ii) charged interest on the principal amount withdrawn and outstanding from time to time at the rate of 9%; and (iii) repayable over a period not exceeding ten (10) years from the date of the Sub-financing Agreement, inclusive of a grace period not exceeding three (3) years.

(b) The Recipient shall obtain rights adequate to protect its interests and those of the Association, including the right to: (i) suspend or terminate the right of the Beneficiary to use the proceeds of the Sub-credit, or declare to be immediately due and payable all or any part of the amount of the Sub-credit then withdrawn, upon the Beneficiary's failure to perform any of its obligations under the Sub-credit Agreement; and (ii) require each Beneficiary to: (A) carry out its Sub-project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association; (B) provide, promptly as needed, the resources required for the purpose; (C) procure the goods, works and services to be financed out of the Sub-credit in accordance with the provisions of this Agreement; (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association, the progress of the Sub-project and the achievement of its objectives; (E) (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the Sub-project; and (2) at the Association's or the Recipient's request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient and the Association; (F) enable the Recipient and the Association to inspect the Sub-project, its operation and any relevant records and documents; and (G) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing.

3. The Recipient shall exercise its rights under each Sub-credit Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Project. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive any Sub-credit Agreement or any of its provisions.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than one month after the end of the period covered by such report.
2. For purposes of Section 4.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than six months after the Closing Date.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association not later than forty five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient, commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

<u>Procurement Method</u>
(a) Shopping
(b) Direct Contracting

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method	
(a)	Least Cost Selection
(b)	Selection based on Consultants’ Qualifications
(c)	Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(d)	Procedure set forth in paragraph 5.4 of the Consultant Guidelines for the Selection of Individual Consultants
(e)	Single Source Selection

D. Review by the Association of Procurement Decisions

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

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Credit to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Credit Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, works and consultants' services for the Project	4,300,000	100%
(2) Sub-credits under Part C.1 of the Project	4,000,000	100%
(3) Sub-credits under Part C.2 of the Project	1,000,000	100%
(4) Operating Costs	550,000	100%
(5) Refund of Project Preparation Advance	150,000	Amount payable pursuant to Section 2.07 of the General Conditions
TOTAL AMOUNT	<u>10,000,000</u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is March 31, 2013.

SCHEDULE 3**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each April 15 and October 15:	
commencing October 15, 2017 to and including April 15, 2027	1%
commencing October 15, 2027 to and including April 15, 2047	2%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX**Definitions**

1. “Beneficiary” means a recipient of a Sub-credit under Parts C.1 and C.2 of the Project.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
4. “Debt Resolution Agency” or “DRA” mean an agency of the Recipient responsible for review of cotton sector investors’ debt claims, negotiations with them regarding debt restructuring and for debt resolution public awareness and information campaign and referred to in paragraph 6 of Part A of Section I of Schedule 2 to this Agreement.
5. “Environmental Management Plan” or “EMP” means the environmental management plan, satisfactory to the Association, setting forth the measures to be taken during the implementation of the Project to avoid or reduce adverse environmental impacts associated with increased use of agricultural pesticides and operation of ginning plants, the actions needed to implement these measures, and a monitoring plan to track compliance with these measures, adopted by the Recipient on September 15, 2006.
6. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005.
7. “Independent Commission” means a high level commission established for overall Project guidance and supervision by the Resolution of the Recipient’s President dated May 17, 2005 and referred to in paragraph 2 of Part A of Section I of Schedule 2 to this Agreement.
8. “Operating Costs” means incremental operating costs incurred by the PIU (as defined thereafter) on account of Project implementation, management and monitoring, procurement and financial management, including the PIU staff salaries, provision of necessary equipment, training, consultants’ services, office and equipment maintenance and minor repair, equipment rental, vehicle maintenance and repair, local travel, communication, translation and interpretation, bank charges, social charges, and other miscellaneous costs directly associated with the Project, all based on periodic budgets acceptable to the Association.

9. “PIU” means the project implementation unit established for the purposes of day-to-day project management and implementation by Decree No.101 of the Recipient’s Government, dated March 3, 2007.
10. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
11. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated April 26, 2007 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
12. “Project District” means any of the following district of Khatlon oblast of the Recipient: Bokhtar, Farkhor, Kabadiyan, Kumsangir, Shakhrituz, Vakhsh and Vosse, and “Project Districts” means all of these districts collectively.
13. “Project Operational Manual” or “POM” means the manual, satisfactory to the Association, adopted by the Recipient and setting out the operational and administrative procedures for the implementation of the Project, including eligibility criteria, terms and conditions and procedures for provision of Sub-credits, as the same may be amended from time to time by agreement between the Association and the Recipient, and referred to in paragraph 1 of Part A of Section I of Schedule 2 to this Agreement.
14. “Project Preparation Advance” means the advance referred to in Section 2.07 of the General Conditions, granted by the Association to the Recipient pursuant to the letter agreement signed on behalf of the Association on March 14, 2007 and on behalf of the Recipient on March 28, 2007.
15. “Selected District” means any district selected out of the Project Districts for the purposes of Part C.1 of the Project and “Selected Districts” means all of these districts collectively.
16. “Special Purpose Vehicle” or “SPV” means an entity of the Recipient responsible for management of the funds provided by the Recipient’s government for cotton debt restructuring and debt levy funds received from cotton farmers through a designated government agency, for the issuance of repayment obligations to identified creditors, and for servicing of these repayment obligations and referred to in paragraph 7 of Part A of Section I of Schedule 2 to this Agreement.
17. “Sub-credit” means a subsidiary credit provided or proposed to be provided to a Beneficiary under Parts C.1 or C.2 of the Project.

18. “Sub-credit Agreement” means an agreement entered or to be entered between the Recipient and a Beneficiary for the purposes of provision of a Sub-credit under Parts C.1 or C.2 of the Project.
19. “Sub-project” means a project selected by the Recipient in accordance with the eligibility criteria and procedures set forth in POM under Parts C.1 or C.2 of the Project for being financed by a Sub-credit.