

December 23, 1996

His Excellency
Kemelbek Nanaev
Minister of Finance
Ministry of Finance
Erkindik Boulevard, 58
Bishkek 720874
Kyrgyz Republic

Re: Swiss Grant Agreement for Rural Finance Project
Grant No. TF 020937

Excellency:

I am writing on behalf of the International Development Association (IDA) to indicate IDA's agreement, as administrator of grant funds provided by the Swiss Cooperation Office for Eastern Europe, to make a grant in an amount not exceeding five hundred forty thousand and nine hundred sixty U.S. dollars (\$540,960) (the Grant) to the Kyrgyz Republic (the Recipient).

The Grant is made in response to the Recipient's request for financial assistance and for the purposes and on the terms and conditions set forth in the Annex to this Letter Agreement. The Recipient represents, by confirming its agreement below, that it is authorized to contract and withdraw the Grant for the said purposes and on the said terms and conditions.

Please confirm your agreement with the foregoing, on behalf of the Recipient, by signing, dating, and returning to us the enclosed copy of this Letter Agreement. Upon receipt by IDA of the copy of this Letter Agreement countersigned by you, this Letter Agreement will become effective as of the date of the countersignature.

Very truly yours,

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Yukon Huang
Director
Country Department III
Europe and Central Asia Region

Attachment

AGREED:

KYRGYZ REPUBLIC

By /s/ Taalaibek Koichumanov
Minister of Finance

Date: January 16, 1997

ANNEX

Purposes, Terms, and Conditions of the Grant

1. Activities

1.1. The activities (the Activities) for which the Grant is given consist in assisting the Recipient to establish and operate the Kyrgyz Agricultural Finance Corporation (KAFC) and in providing training to KAFC staff and board members.

2. Implementation Generally

2.1. The Recipient shall: (a) carry out the Activities with due diligence and efficiency; (b) promptly provide the funds, facilities, services and other resources required for that purpose; (c) furnish all information covering the Activities and the use of the proceeds of the Grant as IDA shall reasonably request; (d) from time to

time exchange views with IDA's representatives on the progress and results of the Activities; and (e) take all necessary measures required to enable IDA to visit the territory of the Kyrgyz Republic for purposes related to the Grant. Without limitation on the foregoing, the Recipient shall, if IDA shall so request, prepare and furnish to IDA promptly upon completion of the Activities a report, in form and substance satisfactory to IDA, on the results and impact of the Activities.

3. Procurement

3.1. Consultants' services to be financed out of the proceeds of the Grant 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 International Bank for Reconstruction and Development (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 IDA. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to IDA shall be used. The provisions of the Consultant Guidelines requiring prior IDA 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 IDA 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 IDA; (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.

4. Withdrawal of Grant Proceeds

4.1. The amount of the Grant shall be credited to an account opened by IDA on its books in the name of the Recipient (the Grant Account), and may be withdrawn therefrom by the Recipient in accordance with the provisions of this Section 4, for expenditures in respect of the reasonable cost of services required for the Activities and to be financed out of the proceeds of the Grant.

4.2. The expenditures for the following items may be financed out of the proceeds of the Grant and shall be used exclusively in the carrying out of the Activities:

Item	Amount of the Grant Allocated (in U.S. Dollars)	% of Expenditures to be Financed
(1) Consultants' services	\$540,960	100%

4.3. Notwithstanding the provisions of paragraph 4.2 above, no withdrawals shall be made: (a) for payments made for expenditures prior to the date of signature of this Letter Agreement by IDA; (b) on account of payments for any taxes levied by or in the territory of the Recipient; (c) on account of expenditures in the territories of any country which is not a member of the Bank or for services supplied from such territories; (d) for the purpose of any payment to persons or entities, if such payment, to the Bank's knowledge, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; or (e) after June 30, 1998, or such later date as IDA shall establish by written notice to the Recipient (the Closing Date), except that withdrawals may be made for expenditures incurred prior to the Closing Date if the corresponding application is received by IDA within four months after the Closing Date, after which time any amount of the Grant remaining unwithdrawn from the Grant Account shall be cancelled.

4.4. When the Recipient shall desire to withdraw any amount from the Grant Account, it shall deliver to IDA a written application for withdrawal of such amount in the form specified by IDA. Withdrawal applications shall be: (a) signed on behalf of the Recipient by the Minister of Finance or such other person as he or she shall have authorized in writing; and (b) be accompanied by such evidence in support of the application as IDA shall reasonably request. Authenticated specimen signatures of the person authorized to sign withdrawal applications shall be provided with the first application bearing his or her signature. Each withdrawal application for an amount of the Grant and its supporting evidence must be sufficient in form and substance to

satisfy IDA that the Recipient is entitled to withdraw such amount from the Grant Account and that such amount is to be used in the carrying out of the Activities. IDA shall pay the amounts withdrawn by the Recipient from the Grant Account only to or on the order of the Recipient.

4.5. IDA may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures for: (a) services of consulting firms costing less than \$100,000 equivalent; and (b) services of individual consultants costing less than \$50,000 equivalent, all under such terms and conditions as IDA shall specify by notice to the Recipient.

4.6. Withdrawals of the proceeds of the Grant shall be made in the currency of the Grant. IDA, at the Recipient's request and acting as an agent of the Recipient, shall purchase with the currency of the Grant withdrawn from the Grant Account such currencies as shall be required to pay for expenditures to be financed out of the proceeds of the Grant. Whenever it shall be necessary, for the purposes of this Letter Agreement, to determine the value of one currency in terms of another, such value shall be as reasonably determined by IDA.

4.7 To facilitate the carrying out of the Activities, the Recipient may open and maintain in US dollars a special deposit account (the Special Account) in a commercial bank on terms and conditions satisfactory to IDA, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of the Special Account shall be made in accordance with the provisions of the Attachment to this Annex.

5. Accounts and Audits

5.1. (a) The Recipient 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 Activities of the departments or agencies of the Recipient responsible for carrying out the Activities or any part thereof.

(b) The Recipient shall: (i) have the records and accounts referred to in subparagraph (a) above and the records and accounts for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to IDA; (ii) furnish to IDA 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 IDA shall have reasonably requested; and (iii) furnish to IDA such other information concerning said records and accounts and the audit thereof as IDA shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure, the Recipient shall: (i) maintain or cause to be maintained, in accordance with subparagraph (a) above, records and accounts reflecting such expenditures; (ii) retain, until at least one year after IDA has received the audit report for the fiscal year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures; (iii) enable IDA's representatives to examine such records; and (iv) ensure that such records and accounts are included in the annual audit referred to in subparagraph (b) above 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.

6. Suspension and Cancellation

6.1. IDA may at any time, by notice to the Recipient, suspend the right of the Recipient to make further withdrawals from the Grant Account if any of the following events has occurred and is continuing: (a) the Recipient has failed to comply with any of its obligations herein specified; or (b) the right of the Recipient, or any other entity to which the Bank has made a loan with the guarantee of the Recipient, to make withdrawals under any loan agreement with the Bank or any development credit agreement with IDA shall have been suspended.

6.2. IDA may, by written notice to the Recipient, terminate the right of the Recipient to make further withdrawals from the Grant Account: (a) at any time after the right of the Recipient to make withdrawals from the Grant Account shall have been suspended pursuant to the provisions of paragraph 6.1 above; or (b) if the Recipient

shall have failed to take action, satisfactory to IDA, within six (6) months after the effective date hereof, to carry out the Activities.

Attachment to Annex

Special Account

1. For the purposes of this Attachment:

(a) the term "eligible item" means the item set forth in the table in paragraph 4.2 of the Annex to this Letter Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of services required for the Activities and to be financed out of the proceeds of the Grant; and

(c) the term "Authorized Allocation" means an amount equivalent to \$200,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Attachment.

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

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

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

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

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

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

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

(a) if, at any time, IDA shall have determined that all further withdrawals should be made by the Recipient directly from the Grant Account;

(b) if the Recipient shall have failed to furnish to IDA, within the period of time specified in paragraph 5.1 (b) (ii) of the Annex to this Letter Agreement, any of the audit reports required to be furnished to IDA pursuant to said paragraph in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, IDA shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to the provisions of paragraph 6.1 of the Annex to this Letter Agreement; or

(d) once the total unwithdrawn amount of the Grant shall equal the equivalent

of twice the amount of the Authorized Allocation.

Thereafter, withdrawals from the Grant Account of the remaining unwithdrawn amount of the Grant shall follow such procedures as IDA shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that IDA shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

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

