

CONFORMED COPY

LOAN NUMBER 4644 UZ

Loan Agreement

(Rural Enterprise Support Project)

between

REPUBLIC OF UZBEKISTAN

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated March 5, 2002

LOAN NUMBER 4644 UZ

LOAN AGREEMENT

AGREEMENT, dated March 5, 2002, between REPUBLIC OF UZBEKISTAN (the Borrower) and 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 (the Project), 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 October 6, 1999) (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) “Agro-service Credit” or “Credit” means a credit made or proposed to be made by MOF to an eligible agro-service enterprise under Part D of the Project;

(b) “Agro-service Enterprise” or “Enterprise” means a recipient of a Credit under Part D of the Project;

(c) “Credit Guidelines” means credit guidelines referred to in Part B.1 of Schedule 5 to this Agreement;

(d) “Eligible Categories” means categories (1), (2), (3), (4) and (5) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(e) “Eligible Expenditures” means the expenditures for goods, works, services, incremental operating costs, Subloans and Credits referred to in Section 2.02(a) of this Agreement;

(f) “I&D” means irrigation and drainage;

(g) “MOF” means the Ministry of Finance of the Borrower, or any successor

thereto;

(h) “Participating Districts” means the Borrower’s districts of Akhangaran (Tashkent region), Ellikalin (Republic of Karakalpakstan), Marhamat (Andijan region), Nishan (Kashkadarya region) and Sherabad (Surhandarya region);

(i) “PFI” means a banking or financial institution of the Borrower selected by MOF for the purposes of Part C of the Project according to eligibility criteria specified in Part B.1 of Schedule 5 to this Agreement;

(j) “PIP” means the Project Implementation Plan for the carrying out of the Project, prepared and adopted by the Borrower and satisfactory to the Bank, as the same may be amended from time to time with the agreement of the Bank;

(k) “Project Management Report” means each report prepared in accordance with Section 4.02 of this Agreement;

(l) “Project Preparation Advance” means the project preparation advance granted by the Bank to the Borrower pursuant to the letter agreement signed on behalf of the Bank on June 13, 1997, and on behalf of the Borrower on November 1, 1997;

(m) “RRA” means the Rural Restructuring Agency, an independent administrative body operating under the Borrower’s Ministry of Agriculture and Water Resources, or any successor thereto;

(n) “Soum” means the lawful currency of the Borrower;

(o) “Special Accounts” means the accounts referred to in Part B of Schedule 1 to this Agreement;

(p) “Subloan” means a loan made or proposed to be made by a PFI to an eligible subloan beneficiary under Part C of the Project out of the proceeds of the Loan lent by MOF to said PFI;

(q) “Subloan Beneficiary” or “Beneficiary” means any private or successfully restructured state or collective farm or other rural enterprise in Participating Districts which meets the eligibility criteria set forth in paragraph 3 of Part B of Schedule 5 to this Agreement and is selected to be a recipient of a Subloan under Part C of the Project;

(r) “Subsidiary Loan” means a loan made or to be made by the Borrower to any PFI pursuant to Section 3.01(c) of this Agreement; and

(s) “Subsidiary Loan Agreement” means any agreement to be entered into between the Borrower and PFI pursuant to Section 3.01(c) of this Agreement, as the same may be

amended from time to time.

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 thirty six million one hundred forty thousand Dollars (\$36,140,000).

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: (i) amounts paid (or, if the Bank shall so agree, to be paid) by PFI or MOF on account of withdrawals made under Subloans or Credits under Part C or Part D of the Project, respectively; and (ii) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works, services and incremental operating costs required for the Project (except Parts C and D of the Project) and to be financed out of the proceeds of the Loan; and in respect of the fee referred to in Section 2.04 of this Agreement.

(b) Promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan 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 canceled.

Section 2.03. The Closing Date shall be July 31, 2006, 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 fee in the amount of three hundred sixty one thousand and four hundred Dollars (\$361,400). On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. 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 2.06. (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 2.07 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) three-fourths of one percent ($\frac{3}{4}$ 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 2.06, 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 new 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 2.07. Interest and other charges shall be payable semiannually in arrears on April 15 and October 15 in each year.

Section 2.08. 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, and, to this end, shall carry out Parts A, B, D and E of the Project through RRA, and shall cause PFIs to carry out Part C of the Project, all with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, agricultural and environmental 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.

(c) For the purposes of Part C of the Project, the Borrower shall relend the proceeds of the Loan allocated to Category (4) of the table in Part A of Schedule 1 to this Agreement to PFIs under Subsidiary Loan Agreement to be entered into between the Borrower, each PFI and RRA under terms and conditions which shall have been approved by the Bank, including those set forth in Schedule 5 to this Agreement.

(d) The Borrower shall exercise its rights under Subsidiary Loan Agreements in such manner as to protect the interests of the Borrower and 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 Subsidiary Loan Agreements or any provision thereof.

Section 3.02. Without limitation upon any of its obligations under Section 3.01 of this Agreement, the Borrower shall: (a) open the Project Account in a commercial bank acceptable to the Bank, and deposit into said Account an initial amount equivalent to three hundred thousand Dollars (\$300,000); (b) thereafter maintain the Project Account, and replenish said Account promptly before the beginning of each calendar semester with funds sufficient to enable the Borrower to meet its obligations under Section 3.01 of this Agreement for such period; (c) use the amount in the Project Account exclusively for financing the Borrower's contribution to Project expenditures; and (d) ensure that sufficient annual allocations will be made, including in the Borrower's budget, for the Borrower's counterpart contribution to the costs of the Project.

Section 3.03. Except as the Bank 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 Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.04. For the purposes of Section 9.07 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 future operation 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 a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Accounts for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, 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: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements, records and accounts and 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 such records and accounts, and the audit thereof, and concerning said auditors, as the Bank may 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 Project Management Reports or statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate 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 Project Management Reports 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.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Bank for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than September 30, 2002, or such later date as the Bank shall agree, to prepare quarterly Project management reports, acceptable to the Bank, each of which:

- (i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report; and (B) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;
- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

Section 4.03. (a) The Borrower shall cause each PFI and Agro-service Enterprise to maintain records and accounts adequate to reflect in accordance with sound accounting practices their operations and financial condition and to register separately the operations, resources and

expenditures related to the Project.

- (b) The Borrower shall cause each PFI and Agro-service Enterprise to:
 - (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) 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: (A) certified copies of its financial statements for such year as so audited; and (B) 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 such records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that the Credit Guidelines shall have been amended, suspended, repealed or waived without the Bank's prior consent.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely, that the event specified in 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 Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

- (a) The amount specified in Section 3.02 (a) of this Agreement has been deposited into the Project Account; and
- (b) A contract with independent auditors, acceptable to the Bank, has been

concluded for the purposes of Section 4.01 (b) of this Agreement.

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

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Finance
Mustakillik Square 5
Tashkent 700078
Republic of Uzbekistan

Telex:

116360 IKBOL

Facsimile:

(998-71) 133-6361

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)

Facsimile:

(202) 477-6391

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

REPUBLIC OF UZBEKISTAN

By /s/ Mamarizo Nurmurodov

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ David Pearce

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

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:

<u>Category</u>	Amount of the Loan Allocated (Expressed in <u>Dollars</u>)	% of Expenditures to be <u>Financed</u>
(1) Works	11,240,000	77%
(2) Goods	12,670,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally

(3)	Consultants' services including training	2,880,000	100%
(4)	Subloans under Part C of the Project	5,930,000	100% of amount disbursed
(5)	Incremental operating costs	470,000	80% for expenditures incurred up to June 30, 2003; 60% for expenditures incurred up to June 30, 2004; and 40% thereafter
(6)	Refunding of Project Preparation Advance	1,000,000	Amounts due pursuant to Section 2.02 (b) of this Agreement
(7)	Fee	361,400	Amount due under Section 2.04 of this Agreement
(8)	Unallocated	<u>1,588,600</u>	
	TOTAL	<u>36,140,000</u>	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for 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;

(c) the term "incremental operating costs" means the incremental expenses incurred by RRA and by Rural Business Advisory Centers on account of Project implementation, management, monitoring and supervision, including office supplies, office equipment maintenance, communication, local travel, vehicles operation and maintenance, commercial bank charges, audit of Project accounts, salaries of the support staff of RRA, but excluding salaries of civil servants of the Borrower; and

(d) the term "training" means: (i) fees of consultants, including educational or other institutions and organizations, that provide training services; and (ii) cost of study tours, cost of

workshops, and related travel expenditures, and boarding, lodging and per diem allowances.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments: (a) made for expenditures prior to the date of this Agreement; and (b) under Category (4) set forth in the table in paragraph 1 above, unless the Credit Guidelines have been adopted and agreed upon with the Bank in accordance with the provisions of paragraph 4 of Part B of Schedule 5 to this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) goods and works under contracts costing less than \$150,000 equivalent each; (b) services under contracts costing less than \$100,000 equivalent each for consulting firms and less than \$25,000 equivalent each for individual consultants; (c) sub-loans under Part C of the Project; and (d) training and incremental operating costs, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall open and maintain in Dollars a special deposit account in a commercial bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Bank shall have received: (i) the first Project Management Report referred to in Section 4.02 (b) of this Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Bank of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank determines at any time that any Project Management Report does not

adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Bank determines at any time that all further withdrawals should be made by the Borrower directly from the Loan Account; or

(c) 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 (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank 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 Bank determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 the Special Account.

(d) Refunds to the Bank made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

Annex A
to
SCHEDULE 1

Operation of Special Account
When Withdrawals Are Not Made

On the Basis of Project Management Reports

1. For the purposes of this Annex the term “Authorized Allocation” means an amount equivalent to \$1,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Loan, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of \$2,500,000.

2. Withdrawals of the Special Account’s Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

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

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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 the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, 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 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 the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B to SCHEDULE 1

Operation of Special Account When Withdrawals Are Made

On the Basis of Project Management Reports

1. Except as the Bank may otherwise specify by notice to the Borrower, all withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.
2. Each application for withdrawal from the Loan Account for deposit into the Special Account shall be supported by a Project Management Report.
3. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$1,000,000.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) increase profitability and productivity of the Borrower's agricultural sector; (ii) support the emergence of private sector initiatives; and (iii) ensure sustainability of the agricultural sector through rehabilitation of irrigation and drainage (I&D) systems and improved land management in the Participating Districts.

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: Rural Business Advisory Services

Provision of technical assistance, office equipment and renovation of offices to establish Rural Business Advisory Centers in Tashkent and in each of the Participating Districts to assist participants in the rural enterprise restructuring process to become familiar with policies, laws, regulations and procedures underlying the restructuring process, as well as with business planning activities and to provide them with agro-technical and market information.

Part B: Rehabilitation of Irrigation and Drainage Systems in Participating Districts

1. Establishment and development of water users' associations in the Participating Districts

with the responsibility for future operation and maintenance of I&D systems.

2. Preparation of detailed designs and tender documents, and supervision of I&D systems rehabilitation.
3. Rehabilitation of on-farm I&D systems on approximately 100,000 hectares.
4. Rehabilitation of inter-farm I&D systems serving approximately 100,000 hectares.

Part C: Rural Finance

Provision through selected PFIs of short-term (up to eighteen (18) months) and medium-term (up to five (5) years) Subloans to private and successfully restructured state or collective farms and other rural enterprises in Participating Districts for initial working capital and investments.

Part D: Credits for Agro-service Enterprises

Provision of long-term (up to ten (10) years) Credits to private Agro-service Enterprises in Participating Districts for working capital and investments.

Part E: Project Implementation Support

Provision of technical assistance, training, equipment and incremental operating costs for project implementation, management, monitoring and supervision.

* * *

The Project is expected to be completed by January 31, 2006.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal</u> (Expressed in <u>Dollars</u> ** The figures in this column represent the amount in Dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.
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April 15, 2007	900,000
October 15, 2007	915,000
April 15, 2008	935,000
October 15, 2008	950,000
April 15, 2009	970,000
October 15, 2009	990,000
April 15, 2010	1,010,000
October 15, 2010	1,030,000
April 15, 2011	1,050,000
October 15, 2011	1,070,000
April 15, 2012	1,090,000
October 15, 2012	1,110,000
April 15, 2013	1,130,000
October 15, 2013	1,155,000
April 15, 2014	1,175,000
October 15, 2014	1,200,000
April 15, 2015	1,225,000
October 15, 2015	1,245,000
April 15, 2016	1,270,000
October 15, 2016	1,295,000
April 15, 2017	1,320,000
October 15, 2017	1,345,000
April 15, 2018	1,375,000
October 15, 2018	1,400,000
April 15, 2019	1,425,000
October 15, 2019	1,455,000
April 15, 2020	1,485,000
October 15, 2020	1,510,000
April 15, 2021	1,540,000
October 15, 2021	1,570,000

SCHEDULE 4

Procurement

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 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. 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.

2. The following provisions shall apply to goods and works 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 works estimated to cost \$300,000 equivalent or more each and, contracts for goods estimated to cost \$100,000 equivalent or more each shall be grouped in bid packages.

(b) Preference for domestically manufactured goods and domestic contractors

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 and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works under Part B of the Project estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$3,269,000 equivalent, and works under Parts C and D of the Project estimated to cost less than \$300,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods under Parts A, B and E of the Project estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, and goods under Parts C and D of the Project estimated to cost less than \$100,000 equivalent per contract 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.

3. National Shopping

Goods under Parts A, B and E of the Project estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, and goods under Parts C and D of the Project estimated to cost less than \$50,000 equivalent per contract 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.

4. Procurement of Small Works

Works under Parts A and B of the Project estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$633,000 equivalent, and works under Parts C and D of the Project estimated to cost less than \$50,000 equivalent per contract may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) 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 relevant drawings, where applicable. 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 complete the contract successfully.

5. Commercial Practices

Goods under Parts C and D of the Project estimated to cost not more than \$10,000 equivalent per contract, and technical services under Parts C and D of the Project estimated to cost not more than \$5,000 may be procured in accordance with relevant commercial practices, provided that such practices involve, whenever feasible, obtaining quotations from more than one supplier or contractor, and that due account is taken of other relevant factors such as time of delivery and efficiency and reliability of the supplier and, when relevant, availability of maintenance and spare parts.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations 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.1 of this Section and each contract under Part C.1 of this Section estimated to cost \$200,000 equivalent or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first two contracts to be procured in accordance with the procedures referred to in Part C.1 above and estimated to cost less than \$200,000 equivalent per contract; (ii) the first two contracts to be procured in accordance with the procedures referred to

in Part C.2 above; (iii) the first two contracts to be procured in accordance with the procedures referred to in Part C.3 above; and (iv) all contracts to be procured in accordance with the procedures referred to in Part C.4 above, 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 direct contracting or 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), 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 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

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. Least-cost Selection

Services for audit of the Project accounts estimated to cost less than \$200,000 equivalent

per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services for training and study tours estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines 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 \$100,000 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 less than the equivalent of \$100,000, 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 \$25,000 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 the 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

Part A: Project Management and Monitoring

1. The Borrower shall carry out the Project in accordance with the requirements and procedures set forth or referred to in the PIP.

2. 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 March 30, 2004, 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 June 30, 2004, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

3. The Borrower shall maintain the RRA until completion of the Project, with staff, resources and terms of reference satisfactory to the Bank and assign to it responsibility for overall Project management and coordination including:

(a) preparation and submission to the Bank, by February 1 of each year, for its review and concurrence, of an annual work program for the Project for the following calendar year, including procurement and financing plans;

(b) maintenance of Project financial records and accounts;

- (c) preparation of applications for withdrawal of the proceeds of the Loan;
 - (d) preparation of bidding and contract documents and management of procurement procedures under the Project, including coordination of the recruitment of foreign and national consultants required for the Project implementation;
 - (e) supervision of implementation of work programs under the Project; and
 - (f) preparation and submission to the Borrower and the Bank, starting in September 2002, of semi-annual reports on the progress of Project implementation.
4. Not later than by June 30, 2002, the Borrower shall prepare a draft enactment regarding subrogation with respect to land use rights pledged as collateral acceptable to the Bank.
5. Not later than by March 1, 2002, the Borrower shall reduce the foreign exchange surrender requirement with respect to export of cotton fiber and seed produced by rural enterprises in Participating Districts in excess of state procurement quota to a level not more than 50 percent, except as the Bank shall otherwise agree, and to be applied starting to the cotton crop of the year 2002.

Part B: Subsidiary Loan Agreements

1. A banking or a financial institution of the Borrower may be selected as PFI for purposes of Part C of the Project provided that such an institution:
- (a) has been audited by external auditors acceptable to the Bank and its audit reports covering the last two (2) fiscal years are satisfactory to the Bank;
 - (b) has a network of branches with adequate experience in extending loans to both rural enterprises and individual farmers;
 - (c) has a capital adequacy ratio of not less than 10% and a CAMEL rating of not less than 3;
 - (d) is in compliance with the regulatory requirements of the Central Bank of the Borrower; and
 - (e) has adopted, based on the audit reports referred to in (a) above, adequate policies and procedures for its credit operations.
2. Each Subsidiary Loan Agreement shall comply with, but not be limited to, the following terms and conditions:

(a) the amount of the Subsidiary Loan shall be denominated either in Soums or in Dollars, at the option of PFI and MOF;

(b) PFI shall use proceeds of the Subsidiary Loan exclusively for the provision of Subloans under Part C of the Project;

(c) PFI shall repay the amount withdrawn and outstanding under the Subsidiary Loan Agreement: (i) over a period not exceeding 10 years, with a grace period not exceeding 4 years; and (ii) with interest at a rate to be determined at such level as shall ensure a reasonable spread for the PFI over the interest rate applicable to Subloans provided by it, but no less than LIBOR plus 2;

(d) PFI shall use the amounts repaid to it under Subloans, and not required to meet the PFI's debt-service obligations under the Subsidiary Loan Agreement, for the provision of further Subloans under Part C of the Project; and

(e) PFI shall apply the Credit Guidelines referred to in paragraph 4 below for the provision of Subloans under Part C of the Project.

3. To be eligible for a Subloan a Beneficiary should:

(a) be registered in one of the Participating Districts and be actively involved in agricultural production and/or agribusiness, including supply of inputs for agricultural production;

(b) present to PFI its financial statements along with a business plan, including analysis of technical feasibility and financial viability; and

(c) satisfy a collateral ratio requirement of at least 1.2 to be applied over the life of the subproject.

4. The Borrower shall cause RRA to adopt, not later than by June 30, 2002, Credit Guidelines satisfactory to the Bank to be applied to Subloans under Part C of the Project. Credit Guidelines shall cover such matters as the maximum amount of a Subloan, the eligibility criteria for Beneficiaries, Subloan approval procedures, collateral requirements under Subloan agreements, repayment periods for short-term and medium-term Subloans, the basis for determination of interest and other charges on Subloans, procurement procedures to be followed by Beneficiaries and reporting requirements under Subloan agreements. The Credit Guidelines should include, inter alia, the following:

(a) for Subloans in Soums interest rate should reflect PFI's cost of funds set on the basis of Central Bank refinancing rate plus transaction costs and risk premium of the Subloan;

(b) for Subloans in Dollars the interest rate should reflect the PFI's cost of funds

(LIBOR Base Rate plus 2) plus transaction costs and risk premium of the Subloan;

(c) maturity period for small seasonal Subloans (up to \$5,000 equivalent) shall be not more than eighteen (18) months, including grace period of not more than nine (9) months; and maturity period for medium-term Subloans (up to \$100,000 equivalent, except as the Bank shall otherwise agree) shall be not more than five (5) years, including grace period of not more than two (2) years; and

(d) except as the Bank shall otherwise agree procurement of goods, works and consultants' services to be financed out of the proceeds of Subloans shall be governed by the provisions of Schedule 4 to this Agreement.

Part C: Agro-service Credits

1. To be eligible for a Credit each Agro-service Enterprise shall at the time of Credit appraisal:

(a) have a projected debt to equity ratio of no more than 4; and

(b) have a projected debt service coverage ratio of no less than 1.3.

2. Each Agro-service Credit shall comply with, but not be limited to, the following terms and conditions:

(a) except as the Bank shall otherwise agree, no Credits shall be less than \$100,000 or more than the lesser of: (i) \$2,000,000; or (ii) 80% of the estimated cost of a sub-project to be financed by this Credit or the equivalent thereof in Soums, as the case might be, at the exchange rate effective the date of application;

(b) credits shall be denominated in Dollars and provided for the period of not more than ten (10) years, including grace period of not more than three (3) years;

(c) each Credit shall carry an interest rate of not less than LIBOR Base Rate in effect at the date of the Agro-service Credit agreement plus a margin of three percent (3%);

(d) except as the Bank shall otherwise agree procurement of goods, works and consultants' services to be financed out of the proceeds of Agro-service Credits shall be governed by the provisions of Schedule 4 to this Agreement;

(e) each Enterprise shall maintain for the duration of an Agro-service Credit agreement a minimum debt service coverage ratio and a maximum debt to equity ratio as specified in paragraph 1 above; and

(f) each Enterprise shall take out and maintain such insurance against such risks and in such amounts as shall be consistent with sound business practice.

