

CONFORMED COPY

CREDIT NUMBER 2491 KG

Development Credit Agreement

(Rehabilitation Credit)

between

REPUBLIC OF KYRGYZSTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 20, 1993

CREDIT NUMBER 2491 KG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 20, 1993, between REPUBLIC OF KYRGYZSTAN (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter dated April 19, 1993 from the Borrower describing a program of actions, objectives and policies designed to achieve economic stabilization and systemic reforms of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Association in the financing of urgently needed imports and services required during such execution; and

(B) on the basis, inter alia, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower by making the Credit as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications thereof set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 9, shall be modified to read:

"'Project' means the imports and other activities that may be financed out of the proceeds of the Credit pursuant to the provisions of Schedule 1 to the Development Credit Agreement.";

(b) Section 9.06 (c) shall be modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the Program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit."; and

(c) the last sentence of Section 3.02 is deleted.

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) "SITC" means the Standard International Trade Classification, Revision 3 (SITC, Rev. 3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev. 3 (1986);

(b) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(c) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to a letter agreement dated October 13, 1992 between the Borrower and the Bank; and

(d) "Project Implementation Unit" means the unit established in the Borrower's State Commission for Foreign Investments and Economic Assistance for the purpose of coordinating all activities under the Credit.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to forty-three million three hundred thousand Special Drawing Rights (SDR 43,300,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement.

(b) The Borrower shall, for the purposes of the Program, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of

Schedule 4 to this Agreement.

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

Section 2.03. The Closing Date shall be June 30, 1996 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment and service charges shall be payable semiannually on April 15 and October 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each April 15 and October 15 commencing October 15, 2003 and ending April 15, 2033. Each installment to and including the installment payable on April 15, 2013 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years, and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the

above-mentioned repayment modification.

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods and consultants' services to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 2 to this Agreement.

Section 3.03. In order to strengthen the Borrower's capability to carry out the Program, the Borrower shall implement the activities set forth in Schedule 3 to this Agreement.

Section 3.04. The Borrower shall:

(a) ensure that the agreement referred to in paragraph 2 (b) of Schedule 1 to this Agreement is adhered to by the Ministry of Economy and Finance and the National Bank of Kyrgyzstan; and

(b) cause the National Bank of Kyrgyzstan to submit through the Project Implementation Unit to the Association monthly reports on the total volume of the inter-bank foreign exchange auctions and its interventions financed out of the funds reimbursed by the Association to the Borrower.

Section 3.05. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices the expenditures financed out of the proceeds of the Credit.

(b) The Borrower shall:

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

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

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

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audits referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Termination

Section 5.01. 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 VI

Representative of the Borrower; Addresses

Section 6.01. The Vice Chairman of the State Commission for Foreign Investments and Economic Assistance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Vice Chairman of State Commission for Foreign
Investments and Economic Assistance
96 Kievskaya Street
Bishkek
Kyrgyzstan 720300

Telex:

245169 ASKAR SU

For the Association:

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

Cable address:

Telex:

INDEVAS
Washington, D.C.

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

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

REPUBLIC OF KYRGYZSTAN

By /s/ Herman S. Kuznetsov
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Wilfried Thalwitz
Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. Subject to the provisions set forth or referred to in this Schedule, the proceeds of the Credit may be withdrawn from the Credit Account for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required during the execution of the Program and to be financed out of such proceeds in accordance with the allocation of the Credit to the following Categories.

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Pre-identified imports, including related procurement agents' services	23,800,000	100%
(2) Other imports	14,400,000	100%
(3) Consultants' services, training and related equipment	4,700,000	100%
(4) Refunding of Project Preparation	400,000	Amount due pursuant to Section 2.02 (c)

Advance

of this Agreement

TOTAL 43,300,000
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2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) expenditures for goods under Category (1), unless the goods are included in a list of eligible imports as agreed upon between the Borrower and the Association;

(b) expenditures for goods under Category (2), unless the Borrower has submitted to the Association the agreement between the Borrower's Ministry of Economy and Finance and the National Bank of Kyrgyzstan acceptable to the Association pursuant to which a certain amount of the funds reimbursed to the Borrower out of the proceeds of the Credit allocated to Category (2) shall be used for interventions in the inter-bank foreign exchange auction;

(c) expenditures for goods included in the following SITC groups or sub-groups, or any successor groups or sub-groups under future revisions to the SITC, as designated by the Association by notice to the Borrower:

Group	Sub-group	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semi-precious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors
Group	Sub-group	Description of Items
728.43	-	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

(d) expenditures in the currency of the Borrower or for goods supplied from the territory of the Borrower;

(e) payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding the equivalent of SDR 7,600,000 may be made on account of

payments made for such expenditures before such date but after February 1, 1993;

(f) expenditures for goods procured under contracts costing less than \$50,000 equivalent with respect to Category (1) and \$10,000 equivalent, but exceeding \$500,000 equivalent, with respect to Category (2);

(g) expenditures for goods supplied under a contract which any national or international financing institution or agency other than the Association shall have financed or agreed to finance; and

(h) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption.

3. Withdrawals for expenditures under contracts for the procurement of goods estimated to cost the equivalent of less than \$300,000 may be permitted by the Association upon the basis of statements of expenditure under such terms and conditions as the Association shall specify.

SCHEDULE 2

Procurement and Consultants' Services

Section I: Procurement of Goods

1. Contracts for the procurement of goods estimated to cost the equivalent of \$300,000 or more each shall be awarded through international competitive bidding in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines), subject to the following modifications:

(a) Paragraph 2.8 of the Guidelines is deleted and the following is substituted therefor:

"2.8 Notification and Advertising

The international community should be notified in a timely manner of the opportunity to bid. This will be done by advertising invitations to apply for inclusion in a bidder's invitation list, to apply for prequalification, or to bid; such advertisements should be placed in at least one newspaper of general circulation in the Borrower's country and, in addition, in at least one of the following forms:

- (i) a notice in the United Nations publication, Development Forum, Business Edition; or
- (ii) an advertisement in a newspaper, periodical or technical journal of wide international circulation; or
- (iii) a notice to local representatives of countries and territories referred to in the Guidelines, that are potential suppliers of the goods required."

(b) Paragraphs 2.55 and 2.56 of the Guidelines are deleted.

(c) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

2. Contracts for the procurement of goods estimated to cost the equivalent of less than \$300,000 shall be awarded:

(a) on the basis of comparison of price quotations obtained from at least three suppliers from at least two different countries eligible under the Guidelines, in accordance with procedures acceptable to the Association; or

(b) in case of a limited number of suppliers, through limited international bidding procedures on the basis of evaluation and comparison of bids invited from qualified suppliers acceptable to the Association and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof), except that direct contracting procedures acceptable to the Association may be used where considered appropriate under paragraph 3.5 of the Guidelines.

3. Subject to the prior approval of the Association, commonly traded commodities may be procured through organized international commodity markets or other channels of competitive procurement acceptable to the Association, in accordance with procedures acceptable to the Association.

4. With respect to: (i) each contract estimated to cost the equivalent of \$500,000 or more, (ii) each contract awarded under direct contracting procedures, and (iii) the first two contracts for the procurement of goods under each sub-sector included in the pre-identified list of eligible imports, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments under a contract are to be made out of the proceeds of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

5. The provisions of the preceding paragraph 4 of this Schedule shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

6. With respect to each contract not governed by the preceding paragraphs 4 and 5, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

Section II. Employment of Consultants

In order to assist the Borrower in carrying out the activities set forth in Schedule 3 to this Agreement, the Borrower shall employ consultants and procurement agents whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 3

Activities Referred to in Section 3.03 of this Agreement

1. Enterprise Reform, Privatization and Private Sector Development

(a) Detailed implementation planning, legislation, capacity

building and actual implementation of privatization, enterprise reform and competition policy measures.

- (b) Study on privatization in agriculture.
 - (c) Review and drafting of mining legislation.
 - (d) Promotion of reform activities.
2. Legal Reform Coordination
- Establishment and operation of a central legal reform unit.
3. Financial Sector
- (a) Development of audit approach for commercial banks and pilot audits.
 - (b) Assistance and training for commercial banks.
4. Review of Social Safety Issues
- Study on reforms of the health services and pharmaceutical sector.
5. Agriculture
- (a) Study on agricultural policies.
 - (b) Irrigation rehabilitation and water charges studies.
6. Project Implementation and Procurement
- (a) Overall support of the Project Implementation Unit.
 - (b) Management and coordination of technical assistance activities.
 - (c) Strengthening the procurement capabilities of the Project Implementation Unit.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:
- (a) the term "eligible Categories" means Categories (1) and (3) as set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required during the execution of the Program and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term "Authorized Allocation" means an amount equivalent to \$5,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the 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 Association a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the 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.

All such deposits shall be withdrawn by the Association from the Credit Account in the respective equivalent amounts as shall have been justified by said documents and other evidence.

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

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

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

(b) once the total unwithdrawn amount of the Credit, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Program, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise

agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

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

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

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

