

CONFORMED COPY

CREDIT NUMBER 3539 TJ

Development Credit Agreement
(Second Structural Adjustment Credit)

between

REPUBLIC OF TAJIKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 9, 2001

CREDIT NUMBER 3539 TJ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 9, 2001, between REPUBLIC OF TAJIKISTAN (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower a letter dated May 29, 2001, describing a program of actions, objectives and policies designed to achieve structural adjustment 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 support of the Program during the execution thereof; 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 in two tranches 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, (as amended through October 6, 1999) with the modifications thereof set forth below (the General Conditions)

constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 12, is modified to read:

"'Project' means the program, referred to in the Preamble to the Development Credit Agreement, in support of which the Credit is made.";

(b) Section 4.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account shall be made in the currency of the deposit account specified in Section 2.02 of the Development Credit Agreement.";

(c) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in accordance with the provisions of the Development Credit Agreement and of these General Conditions";

(d) The last sentence of Section 5.03 is deleted;

(e) Section 9.06 (c) is modified to read:

"(c) Not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, 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

(f) Section 9.04 is deleted and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07.

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

(a) "ALCO" means the Agency of Bank Liquidation and Collection in the National Bank of Tajikistan of the Borrower;

(b) "Barki-Tajik" means the Barki-Tojik, a joint-stock company established by the Resolution of the Government No. 12 on April 19, 1993;

(c) "Customs Code" means the Customs Code of the Borrower, enacted on November 4, 1995 (Law No. 198);

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

(e) "Financial Control Office" means the Borrower's audit office in charge of auditing the national budget;

(f) "FY" means the fiscal year of the Borrower beginning on January 1 and ending December 31 of each year;

(g) "Law on Public Finance" means the Borrower's budget systems law, setting out procedures for administration of government finance;

(h) "Law on Telecommunication" means the law regulating the telecommunication sector of the Borrower;

(i) "Medium- and Large-Scale Enterprises" means state-owned enterprises which have 100 or more working spaces as specified in the Borrower's Presidential Decree No.

631, dated December 29, 1996;

(j) "MTEF" means the Medium Term Expenditure Framework, adopted by the Minister of Finance of the Borrower on March 15, 2001;

(k) "PIP" means the Public Investment Program adopted by the Ministry of Finance of the Borrower through Order No. 1 of January 8, 2001;

(l) "Privatization" means the sale of more than 75% of an enterprise's shares or sale of assets through liquidation of the enterprise; for the purpose of this definition, sale will only be deemed to have taken place upon the receipt of payment for the said shares and assets by the Borrower;

(m) "TADAZ" means the Tajik Aluminum Plant, state-owned enterprise responsible for the production of aluminum;

(n) "Tajigas" means the Tajigas, a state unitary enterprise, established by the Resolution of the Government No. 139 on April 11, 2001;

(o) "Tajiktelekom" means the Tajiktelekom, a joint-stock company established on August 26, 1996; and

(p) "Treasury Account" means the Treasury Account set out in Treasury Law of the Borrower.

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 thirty-nine million four hundred thousand Special Drawing Rights (SDR 39,400,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c) and (d) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain in its central bank, a deposit account in Dollars on terms and conditions satisfactory to the Association. All withdrawals from the Credit Account shall be deposited by the Association into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Credit shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association shall have determined at any time that any proceeds of the Credit shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association, (i) deposit into the Deposit Account an amount equal to the amount of said payment, or (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

(d) No withdrawals shall be made from the Credit Account after the aggregate of the proceeds of the Credit withdrawn from the Credit Account shall have reached the equivalent of SDR 19,700,000, unless the Association shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Association:

(i) with the progress achieved by the Borrower in the carrying out of the Program;

(ii) that the macroeconomic policy framework of the Borrower is satisfactory, as measured on the basis of indicators agreed between the Borrower and the Association; and

(iii) that the actions described in Schedule 2 to this Agreement have been taken satisfactory to the Association.

If, after said exchange of views, the Association is not so satisfied, the Association may give notice to the Borrower to that effect and, if within 90 days after such notice, the Borrower shall not have taken steps satisfactory to the Association, in respect of (i), (ii) and (iii) above, then the Association may, by notice to the Borrower, cancel the unwithdrawn amount of the Credit or any part thereof.

Section 2.03. The Closing Date shall be December 31, 2002, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of 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 charges and service charges shall be payable semiannually on June 15 and December 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each June 15 and December 15 commencing December 15, 2011 and ending June 15, 2041. Each installment to and including the installment payable on June 15, 2021 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 per capita gross national product (GNP), as determined by the Association, shall have exceeded for three (3) consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; 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 the Association of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) 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; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above 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.

(d) 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 and the actions specified in Schedule 2 to this Agreement.

(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.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association on any proposed action to be taken after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 2 to this Agreement.

Section 3.02. Upon the Association's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than six (6) months after the date of the Association's request for such audit, 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

(c) furnish to the Association such other information concerning the Deposit Account and the audit thereof as the Association shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (1) 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 Minister of Finance of the Borrower is designated as the 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:

Minister of Finance
3, Akademic Rajobovkho Street
Dushanbe, 734025
Republic of Tajikistan

Facsimile:

(992-372) 213329

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (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 District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF TAJIKISTAN

By /s/ Sadriddin Akramov

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Tanju Yurukoglu

Acting Regional Vice President
Europe and Central Asia

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Credit shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied

from the territory of the Borrower;

2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another credit or a loan;

3. expenditures for goods included in the following groups or subgroups of 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) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Borrower:

Group	Subgroup	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 semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	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)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);

6. expenditures (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation.

SCHEDULE 2

Actions Referred to in
Section 2.02 (d) of this Agreement

1. The law on the Financial Control Office has been enacted.
2. The Borrower has made satisfactory progress in implementing a reform program, including: (a) revision of the Customs Code in line with international standards; (b) revision of customs procedures and regulations to increase transparency of custom transactions; (c) strengthening of the internal audit function of customs administration; and (d) the first phase of the modernization of customs administration ending on May 31, 2002.
3. The Law on Public Finance has been enacted.
4. The Borrower has: (a) prepared the budget for FY2002 for Ministries of Agriculture, Education, Health and Telecommunications of the Borrower, based on the MTEF planning circulars and process manuals; (b) integrated the PIP into the medium term budget framework and the budget for FY2002; (c) incorporated loans and grants from international financial institutions and donors into the budgetary process; (d) allocated all counterpart funds in the budget so that all expenditure items are funded; and (e) continued preparation of the budget for FY2003 based on the MTEF planning circulars and process manuals, integrating the PIP.
5. The Borrower has: (a) transferred all the assets, from banks to be closed due to noncompliance with the minimum capital requirements as set out in the Borrower's banking legislation, to ALCO; and (b) commenced liquidation of assets of those closed banks.
6. The Borrower has amended its Tax Code so as to: (a) allow for full tax deductibility of loan loss provisions; (b) tax banks solely on their fixed assets; and (c) preclude the tax authorities from arbitrary freezing of deposits and imposing fees and penalties on client accounts without court orders.
7. The Borrower has amended its Law on Collateral in accordance with a methodology agreed with the Association so as to: (a) reduce the fee for transferring the ownership of the collateral upon borrowers' default; and (b) unify the amount of fee for all types of collateral.
8. The Borrower has ensured that: (a) the accounts payable and receivables of Barki-Tajik, Tajiktelekom and Tajikgas are to be kept current within the 90 days sales equivalent and settled through cash mechanisms; (b) utility services to the public, public enterprises, including TADAZ, and budgetary institutions, who are not current on their payments, are cut off; and (c) resources for the budgetary institutions to pay for their utility bills has been allocated for its FY 2002 budget.
9. The Borrower has: (a) installed functional computerized system for speedy public access to, and maintenance of the land use right records in its State Land Committee both at rayon and state level; and (b) reduced fees for registration of land use right certificate to the equivalent of \$6.
10. The Borrower has adopted a strategic plan for case-by-case Privatization of Medium- and Large-Scale Enterprises over a three year period.
11. The Borrower has: (a) appointed an acceptable audit firm for the purpose of the audit of TADAZ in accordance with international accounting standards (IAS); (b) completed the IAS audit of TADAZ; and (c) issued a resolution adopting an action plan for TADAZ, setting forth the following: (i) financial restructuring and recapitalization; (ii) technical rehabilitation and operational restructuring; (iii) technical, managerial and market know-how through a contract with an international standard firm; and (iv) competitive selection procedures, approved by the Association, for the above-mentioned contract.
12. The Borrower has completed Privatization of 100 Medium- and Large- Scale Enterprises in addition to 280 Medium- and Large-Scale Enterprises already privatized.
13. The Borrower has caused: (a) the rayon-level administrations to hold general body meetings in not less than 60 state and collective farms (SCFs) to resolve the distribution of the SCF's land to private individuals or group of individuals; (b) its State Land Committee to issue the land use rights certificates to private individuals

or groups of individuals in not less than 40 SCFs of the 60 SCFs mentioned above; and (c) an increase of 10% in the budget of the State Land Committee, covering the last 6 months of FY2001, to enable the State Land Committee to undertake tasks mentioned in sub-paragraphs (a) and (b) above.

14. The Law on Telecommunication has been enacted, and the commission on regulation for the telecommunication sector has been established.

15. The Borrower has consolidated the various bank accounts of Borrower's ministries under the Treasury Account.

