

CONFORMED COPY

CREDIT NUMBER 3062 KG

Development Credit Agreement

(Agricultural Support Services Project)

between

KYRGYZ REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 22, 1998

CREDIT NUMBER 3062 KG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 22, 1998, between KYRGYZ REPUBLIC (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Borrower intends to contract from the International Fund for Agricultural Development (IFAD) a loan (the IFAD Loan) in an amount equivalent to five million nine hundred thousand Special Drawing Rights (SDR 5,900,000) to assist in financing Part B of the Project on the terms and conditions set forth in an agreement (the IFAD Loan Agreement) to be entered into between the Borrower and IFAD; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit 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 Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through December 2, 1997) (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) "ACSPP" means the Agency of Chemical Supply and Plant Protection of the Borrower;
- (b) "CRI" means the Crop Research Institute established within the Borrower's Agricultural Academy;
- (c) "FPRI" means the Forage and Pasture Research Institute established within the Borrower's Agricultural Academy;
- (d) "MAWR" means the Borrower's Ministry of Agriculture and Water Resources;
- (e) "NMC" means the National Management Committee established by the Borrower's Government to coordinate activities concerning the establishment and operation of the agricultural market information system referred to in Part E of the Project;
- (f) "PIU" means the Project Implementation Unit, established by the Borrower's MAWR;
- (g) "PIU Advisor" means a consulting firm, satisfactory to the Association, selected for the purpose of advising the PIU on the implementation of the Project;
- (h) "PIU Advisory Agreement" means the agreement to be entered into by the Borrower and the selected consulting firm pursuant to Section 6.01(b) of this Agreement;
- (i) "Project Account" means the account to be opened pursuant to Section 6.01 (c) of this Agreement;
- (j) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated August 26, 1997 and September 9, 1997 between the Borrower and the Association;
- (k) "PSC" means the inter-agency Project Steering Committee to be established and maintained in accordance with the provisions of paragraph 2 of Schedule 4 to this Agreement;
- (l) "SALMLR" means the State Agency for Land Management and Land Resources of the Borrower;
- (m) "Seed Law" means the Law on Seeds of the Kyrgyz Republic, No. 38, dated June 19, 1997;
- (n) "SIPQ" means the State Inspectorate of Plant Quarantine of the Borrower;
- (o) "Som" means the currency of the Borrower; and
- (p) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

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 eleven million one hundred thousand Special Drawing Rights (SDR 11,100,000).

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 for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, 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 5 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 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 December 31, 2003, 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 canceled; 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 charges and service charges shall be payable semiannually on January 1 and July 1 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 January 1 and July 1 commencing July 1, 2008 and ending January 1, 2033. Each installment to and including the installment payable on January 1, 2018, shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) 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 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 them 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

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through MAWR with due diligence and efficiency and in conformity with appropriate administrative, financial, technical 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 Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association 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 Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. 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 Association, and furnish to the Association 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, a plan for the future operation of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the carrying out of 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 Account, for each fiscal year audited, in accordance with auditing standards acceptable to the Association 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 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 financial statements, records and accounts and a 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, and concerning said auditors, 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 separate 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 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 statements of expenditure submitted during each fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) subject to subparagraph (b) to this paragraph:

(i) the right of the Borrower to withdraw the proceeds of the IFAD Loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the IFAD Loan Agreement; or

(ii) the IFAD Loan shall have become due and payable prior to the agreed maturity thereof.

(b) Subparagraph (a) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the

Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely that the event specified in paragraph (a) (ii) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) all conditions precedent to the effectiveness of the IFAD Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement;

(b) the PIU Advisory Agreement, satisfactory to the Association, has been executed on behalf of the Borrower and the PIU Advisor;

(c) the Borrower has opened the Project Account in a commercial bank and made an initial deposit of an amount in Som equivalent to \$25,000 into such account; and

(d) the Borrower has appointed the independent auditors, acceptable to the Association, for purposes of Section 4.01 (b)(i) 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
Erkindik Boulevard, 58
Bishkek 720874
Kyrgyz Republic

Telex:

245156 NUR KH

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)

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.

KYRGYZ REPUBLIC

By /s/ Baktybek Abdrissaev

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Kiyoshi Kodera

Acting Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Works	450,000	100% of foreign expenditures and 90% of local expenditures
(2) Goods	6,110,000	100% of foreign expenditures, 100% of local expenditures (ex- factory cost) and 80% of local expenditures for other items procured locally
(3) Consultants' Services and Training	1,340,000	100%
(4) Operating Costs	1,780,000	100% until June 30, 1999; 85% until June 30, 2000; 65% until June 30, 2001; 45% until June 30, 2002; and 20% thereafter
(5) Refunding of Project Preparation Advance	390,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(6) Unallocated	1,030,000	
TOTAL	11,100,000 =====	

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 for goods or services supplied from the territory of the Borrower; and

(c) the term "operating costs" means incremental costs incurred on account of the Project relating to vehicle and equipment maintenance and operation, office supplies, utilities, salaries and allowances for local staff.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditures for expenditures for: (a) goods and works under contracts costing less than \$200,000 equivalent each; (b) individual training activities costing less than \$5,000 equivalent each; (c) operating costs; and (d) services under contracts costing less than \$50,000 equivalent each for consulting firms, and less than \$25,000 equivalent each for individual consultants, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to improve the incentive framework for, and productivity, profitability, and sustainability of, the Kyrgyz agriculture, by means of assisting the Borrower in: (a) implementing land and agrarian reforms and providing support for farm restructuring; (b) providing emerging private farms with advisory and development services, and training in technology adaptation and use of improved production practices; (c) developing the seed industry; (d) establishing the legal framework, organizations and procedures for plant protection and plant quarantine services; (e) establishing an agricultural market information system; and (f) enhancing the institutional capacity of MAWR.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objective:

Part A: Land and Agrarian Reform, and Support for Farm Restructuring

(i) Completion of the Borrower's program of distribution of land and non-land assets; (ii) establishment of policies and procedures for land auctions; (iii) enhancement of the institutional capacity of governmental agencies, and of farming communities, to support agricultural enterprise restructuring; and (iv) establishment of a legal and regulatory framework for land market development, through provision of technical assistance, training, goods and operating costs.

Part B: Rural Advisory and Development Services

(i) Establishment of rural advisory and development centers at oblast, rayon and village levels and a national secretariat in Bishkek; (ii) implementation of a program of field trials and demonstrations, and of an adaptive research program; (iii) training and extension activities for farmers and farmer groups; and (iv) implementation of a small farmer credit program.

Part C: Seed Industry Development

(i) Acquisition and selection of plant varieties, including international finished germplasm for cereals and forage; (ii) strengthening of MAWR's regulatory services for variety testing, variety registration and seed certification; (iii) establishment of a legal framework, and procedures, for the protection of plant breeder rights; (iv) implementation of a program of seed production on pilot farms; (v) rehabilitation of cereal and forage seed production, cleaning and storage facilities; and (vi) publication and dissemination of official variety testing results and seed industry information, through provision of technical assistance, training,

goods and operating costs and rehabilitation of selected facilities for cereal and forage seed production processing and storage.

Part D: Crop Protection and Plant Quarantine

(i) Establishment of regulatory services for plant protection and pesticide use; (ii) construction and rehabilitation of pilot plant quarantine facilities; (iii) strengthening of plant quarantine services and review of quarantine procedures and regulations; (iv) establishment of a pesticide registration system and of regulations and procedures on the safe distribution and use of pesticides, and monitoring of pesticides utilization and residue contents; and (v) support for the Borrower's membership in plant protection organizations through provision of technical assistance, training, operating costs and goods and rehabilitation of selected quarantine facilities.

Part E: Agricultural Market Information

Establishment of an agricultural market information system through provision of technical assistance, training and goods.

Part F: Enhancement of the Institutional Capacity of MAWR

Provision of technical assistance and training for Project management including audit costs.

* * *

The Project is expected to be completed by June 30, 2003.

SCHEDULE 3

Procurement and Consultants' Services

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 and September 1997 (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 provision shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this part 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 estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$400,000 equivalent, 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 estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$2,200,000 equivalent, 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 estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$124,000 equivalent, 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 estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 equivalent, 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 Association, 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.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association 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 Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) each contract awarded in accordance with the provisions of Section I, Part B of this Schedule; (ii) each contract awarded in accordance with the provisions of Section I, Part C.1 of this Schedule; and (iii) the first three contracts (each one from a different oblast) awarded in accordance with the provisions of Section I, Part C.4 of this Schedule, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first two contracts awarded in accordance with the provisions of Section I, Parts C.2 and C.3 of this Schedule, the following procedures shall apply:

(i) prior to the selection of any supplier under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received; and

(ii) 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 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. 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.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services for financial management, accounting and auditing under Part F of the Project, estimated to cost less than \$25,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for seed development and crop protection under Parts C and D of the Project, estimated to cost less than \$25,000 equivalent per contract, up to an aggregate amount not to exceed \$133,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Single Source Selection

Services for agricultural market information under Part E of the Project, up to an aggregate amount not to exceed \$59,000 equivalent, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 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 Association 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 Association 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 Association, 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 \$50,000 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 the equivalent of \$25,000 or more, but less than the equivalent of \$50,000, 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 Association 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 4

Implementation Program

1. The Borrower shall carry out the Project through MAWR with participation of: (a) SALMLR in respect of Part A of the Project; (b) CRI, FPRI and selected seed farms acceptable to the Association in respect of Part C of the Project; (c) SIPQ and ACSPP in respect of Part D of the Project; and (d) NMC in respect of Part E of the Project.

2. By August 31, 1998, the Borrower shall establish and, thereafter, maintain until completion of the Project, with composition and under terms of reference acceptable to the Association, the PSC and assign to it responsibility to provide oversight and coordination for Project implementation and approve annual work programs and budgets.

3. The Borrower shall maintain NMC until completion of the Project with composition and under terms of reference acceptable to the Association.

4. The Borrower shall cause the PIU Advisor to assist the Borrower in carrying out the Project execution activities in accordance with the PIU Advisory Agreement.

5. The Borrower shall ensure that, throughout the execution of the Project, the PIU shall be maintained with a sufficient number of qualified staff, adequate facilities and resources (including adequate financial management and auditing systems), as satisfactory to the Association.

6. The Borrower shall exercise its rights under the PIU Advisory Agreement in such a manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the PIU Advisory Agreement or any provisions thereof.

7. The Borrower shall maintain the Project Account during the execution of the Project and deposit, semiannually, an amount in Som acceptable to the Association into such account.

8. The Borrower shall: (i) by December 31, 1998, issue policy guidelines, satisfactory to the Association, to implement the compulsory seed certification requirements under the Seed Law; and (ii) by December 31, 2000, submit to the Borrower's Parliament a draft amendment, satisfactory to the Association, relating to the seed certification requirements under the Seed Law.

9. By December 31, 1998, the Borrower shall establish a national seed association, with a charter and by-laws acceptable to the Association.

10. The Borrower shall, by August 31, 1998, submit to the Borrower's Parliament a draft law, satisfactory to the Association, on the protection of plant breeders' rights.

11. The Borrower shall: (i) by August 31, 1998, submit to the Borrower's Parliament a draft law, satisfactory to the Association, on pesticides and pest control; and (ii) by June 30, 1999, issue a manual on pesticide management and application, crop protection and plant quarantine, acceptable to the Association.

12. The Borrower shall: (i) throughout the execution of the Project, ensure that the rural advisory and development centers, established under Part B of the Project, advise farmers and farmer groups on pesticide use only when such use is justified under an integrated pest management approach; (ii) submit to the Association, by

December 31 of each year, reports on the compliance by the rural advisory and development centers with this obligation; and (iii) take into consideration the Association's comments on these reports, including ways to improve compliance with this obligation.

13. The Borrower shall:

(a) by December 31, 1998, submit to the Association, for its review, feasibility studies for the rehabilitation of plant quarantine centers in Bishkek and Osh; and

(b) immediately thereafter, finalize said feasibility studies taking into consideration the Association's comments thereon.

14. The Borrower shall:

(a) by December 31, 1999, submit to the Association, for its review, a plan for the consolidation of existing quarantine laboratories and centers at the rayon level;

(b) immediately thereafter, finalize said plan taking into consideration the Association's comments thereon; and

(c) carry out such plan in accordance with its terms.

15. The Borrower shall ensure that the CRI and the FPRI shall: (i) by March 31 of each year, or such other date as may be agreed upon with the Association, submit to the Association, for its review, their annual seed breeding programs; (ii) immediately thereafter, finalize said programs taking into consideration the Association's comments thereon; and (iii) carry out such programs in accordance with their terms.

16. The Borrower shall ensure that seed production enterprises, selected in accordance with criteria acceptable to the Association, shall: (i) by September 30 of each year, submit to the Association, for its review, feasibility studies with recommendations (including those on cost recovery, as acceptable to the Association) for the production of seeds to be financed under the Credit; (ii) immediately thereafter, finalize said recommendations taking into consideration the Association's comments thereon; and (iii) carry out such recommendations in accordance with their terms.

17. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about December 31, 2000, 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 Association, by March 31, 2001, or such later date as the Association 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 Association's views on the matter.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4) 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 for the Project 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 be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 5,000,000.

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 deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into 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 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 under the respective eligible Categories, and 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;

(b) if the Borrower shall have failed to furnish to the Association, 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 Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association 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 Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, 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 allocated to the eligible Categories 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.

