

CONFORMED COPY

CREDIT NUMBER 2959 KG

Project Agreement

(Rural Finance Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

KYRGYZ AGRICULTURAL FINANCE CORPORATION

Dated July 3, 1997

CREDIT NUMBER 2959 KG

PROJECT AGREEMENT

AGREEMENT, dated July 3, 1997, between the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and KYRGYZ AGRICULTURAL FINANCE CORPORATION (KAFC).

WHEREAS (A) by the Development Credit Agreement of even date herewith between Kyrgyz Republic (the Borrower) and the Association, the Association has agreed to lend to the Borrower an amount in various currencies equivalent to eleven million nine hundred thousand Special Drawing Rights (SDR 11,900,000) on the terms and conditions set forth in the Development Credit Agreement, but only on condition that KAFC agree to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by a subsidiary loan and equity investment agreement to be entered into between the Borrower and KAFC, the proceeds of the Credit provided for under the Development Credit Agreement will be made available to KAFC on the terms and conditions set forth in said subsidiary loan and equity investment agreement; and

WHEREAS KAFC, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

## ARTICLE II

### Execution of the Project; Management and Operations of K AFC

Section 2.01. (a) K AFC declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out the Project and conduct its operations and affairs in accordance with sound financial standards and practices, with qualified and experienced management and personnel.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and K AFC shall otherwise agree, K AFC shall carry out the Project in accordance with the implementation program set forth in Schedule 3 to this Agreement.

Section 2.02. (a) K AFC shall, during Project implementation, adhere to the Operational Manual, satisfactory to the Association, which sets forth the eligibility criteria for Investment Enterprises, and the terms and conditions to be contained in any Sub-loan agreement to be entered into between K AFC and an Investment Enterprise in connection with any Sub-loan.

(b) K AFC undertakes that, unless the Association shall otherwise agree, Sub-loans will be made in accordance with the procedures set forth or referred to in Schedule 1 to this Agreement and the terms and conditions set forth or referred to in the Operational Manual.

(c) K AFC shall exercise its rights in relation to each Investment Project in such manner as to: (i) protect the interests of the Association and of K AFC; (ii) comply with its obligations under this Agreement and the Subsidiary Loan and Equity Investment Agreement, and the SFCOP Administration Agreement; and (iii) achieve the purposes of the Project.

Section 2.03. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required, respectively, for Parts A (ii) and B (ii) of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 2 to this Agreement.

Section 2.04. (a) K AFC shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section, K AFC shall: (i) 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 Association and K AFC, a plan designed to ensure the continued achievement of the Project's objectives; and (ii) afford the Association a reasonable opportunity to exchange views with K AFC on said plan.

Section 2.05. K AFC shall duly perform all its obligations under the Subsidiary Loan and Equity Investment Agreement, and the SFCOP Administration Agreement. Except as the Association shall otherwise agree, K AFC shall not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the Subsidiary Loan and Equity Investment Agreement, or the SFCOP Administration Agreement, or any provision thereof.

Section 2.06. (a) K AFC shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan and Equity Investment Agreement, and the SFCOP Administration Agreement, and other matters relating to the purposes of the Credit.

(b) K AFC shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by K AFC of its

obligations under this Agreement, the Subsidiary Loan and Equity Investment Agreement, or the SFCOP Administration Agreement.

### ARTICLE III

#### Financial and Other Covenants

Section 3.01. (a) KAFC shall maintain procedures and records adequate to monitor and record the progress of the Project and of each Investment Project (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of KAFC.

(b) KAFC shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available but in any case not later than six (6) months after the end of each such year, (A) certified copies of its financial statements for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and financial statements as well as the audit thereof as the Association shall from time to time reasonably request.

Section 3.02. KAFC shall, during Project implementation, maintain an average recovery rate on all of its outstanding Sub-loans and all other loans in its portfolio equal to or greater than seventy-five percent (75%).

### ARTICLE IV

#### Effective Date; Termination Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 4.02. (a) This Agreement and all obligations of the Association and of KAFC thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate; or
- (ii) a date twenty (20) years after the date of this Agreement.

(b) If the Development Credit Agreement terminates before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify KAFC of this event.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

### ARTICLE V

#### Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been

duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other addresses as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Association:

International Development Association  
Washington, D.C. 20433  
United States of America

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

248423 (MCI) or  
64145 (MCI)

For KAFC:

Kyrgyz Agricultural Finance Corporation  
195, Abdymomunova Str.  
Bishkek c., 720040  
Kyrgyz Republic

Section 5.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of KAFC or by KAFC on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by its Executive Director, or by such other person or persons as the Board of Directors shall designate in writing, and the Chair of the Board of Directors shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Kadir T. Yurukoglu

Acting Regional Vice President  
Europe and Central Asia

KYRGYZ AGRICULTURAL  
FINANCE CORPORATION

By /s/ Baktybek Abdrissaev

Authorized Representative

#### SCHEDULE 1

##### Procedures for and Terms and Conditions of Sub-loans

1. The terms and conditions of Sub-loans shall be specified in the Operational Manual.
2. Sub-loans shall be made on terms whereby KAFC shall obtain, by written contract with the Investment Enterprise or by other appropriate legal means, rights adequate to protect the interests of the Association and KAFC, including the right to:
  - (a) require the Investment Enterprise to carry out and operate the Investment

Project with due diligence and efficiency and in accordance with sound technical, financial, managerial and environmental standards and practices, and to maintain adequate records;

(b) require that: (i) the goods and consultants' services to be financed out of the proceeds of the Credit shall be procured at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and, in the case of consultants' services, of their quality and the competence of the parties rendering them; and (ii) such goods and services shall be used exclusively in the carrying out of the Investment Project;

(c) inspect, by itself or jointly with representatives of the Association if the Association shall so request, such goods, works, plants and construction included in the Investment Project, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Investment Enterprise shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Credit to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Investment Enterprise to replace or repair such goods;

(e) obtain all such information as the Association or KAFC shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Investment Enterprise and to the benefits to be derived from the Investment Project; and (f) suspend or terminate the right of the Investment Enterprise to the use of the proceeds of the Credit upon failure by such Investment Enterprise to perform its obligations under its contract with KAFC.

## SCHEDULE 2

### Procurement and Consultants' Services

#### Section I. Procurement of Goods

##### Part A: General

Goods under Part A (ii) of the Project 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 (the Guidelines) and the following provisions of Section I of this Schedule.

##### Part B: International Competitive Bidding

Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

##### Part C: Other Procurement Procedures

###### 1. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$100,000 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.

##### 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 Part A (ii) of 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 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

With respect to each contract for goods procured in accordance with the provisions of Part B of this Section, the procedures set forth in paragraphs 2 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 under Part B (ii) of the Project 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 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Selection Under a Fixed Budget

Services for consultants and training may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

2. 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 Part B (ii) of 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 for consultants' services and training estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms for consultants' services estimated to cost the equivalent of \$50,000 or more, but less than the equivalent of \$100,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 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 3

Implementation Program

1. KAFC 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 May 31, 1999, 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 July 31, 1999, or such later date as the Association shall request, the report referred to in subparagraph (b) of this paragraph, 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.

2. During Project implementation, KAFC shall maintain a sufficient number of qualified staff and adequate facilities, necessary for Project implementation and satisfactory to the Association.

3. KAFC shall: (i) by January 31, 1998, prepare and submit to the Association, for its review and comment, a draft medium term (2 to 3 year) business plan, setting forth general policies and strategies related to KAFC's operations; (ii) within thirty (30) days following the Association's review of and comment upon such a draft, finalize and adopt the business plan, taking into consideration the Association's comments and recommendations on the draft; and (iii) thereafter, carry out such a plan in accordance with its terms.

