

CONFORMED COPY

CREDIT NUMBER 2959 KG

Development Credit Agreement

(Rural Finance Project)

between

KYRGYZ REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 3, 1997

CREDIT NUMBER 2959 KG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 3, 1997, 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 Project will be carried out by Kyrgyz Agricultural Finance Corporation (KAFC) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to KAFC the proceeds of the Credit as provided in this Agreement;

(C) the Borrower intends to contract from the European Union a grant in an amount of about one million seven hundred fifty thousand European Currency Units (ECU 1,750,000) to assist in the financing of Part A of the Project on the terms and conditions set forth in an agreement (the EU Grant Agreement) to be entered into between the Borrower and the European Union;

(D) by agreement dated January 16, 1997 (the Swiss Grant Agreement), the Government of Switzerland has agreed to make a grant (the Swiss Grant) to the Borrower in an aggregate amount of five hundred forty thousand and nine hundred sixty Dollars (\$540,960) to assist in the financing of Part A of the Project on the terms and conditions set forth in the Swiss Grant Agreement; 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 and in the Project Agreement of even date herewith between the Association and KAFC;

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 set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.
- (b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

- (c) Section 6.03 is modified to read:

"If (a) the right of the Borrower to make withdrawals from the Credit Account shall have been suspended with respect to any amount of the Credit for a continuous period of thirty days, or (b) at any time, the Association determines, after consultation with the Borrower, that an amount of the Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Credit, or (c) at any time, the Association determines, with respect to any contract to be financed out of the proceeds of the Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (d) at any time, the Association determines that the procurement of any contract to be financed out of the proceeds of the Credit is inconsistent with the procedures set forth or referred to in the Development Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (e) after the Closing Date, an amount of the Credit shall remain undrawn from the Credit Account, the Association may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be cancelled."

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) "Charter" means the charter, articles of incorporation, articles of association, founders' agreement, bylaws, and any other foundation document of KAFC, as amended to the date of this Agreement;
- (b) "Investment Enterprise" means an enterprise to which KAFC proposes to make or has made a Sub-loan;
- (c) "Investment Project" means a specific development project to be

carried out by an Investment Enterprise utilizing the proceeds of a Sub-loan;

(d) "K AFC" means the Kyrgyz Agricultural Finance Corporation, a Kyrgyz joint stock company established by the Borrower pursuant to Governmental Resolution No. 303, dated July 2, 1996, and licensed by the NBK on March 19, 1997;

(e) "K AFC Equity Investment" means the investment made by the Borrower into the equity of K AFC pursuant to Section 3.02 (a) of this Agreement;

(f) "K AFC Loan" means the loan made by the Borrower to K AFC pursuant to Section 3.02 (a) of this Agreement;

(g) "NBK" means the National Bank of the Kyrgyz Republic, the central bank of the Borrower;

(h) "Operational Manual" means the manual referred to in Section 3.04 of this Agreement;

(i) "Project Agreement" means the agreement between the Association and K AFC, of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(j) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated March 3, 1997, and March 25, 1997, between the Borrower and the Association;

(k) "SFCOP" means the small farmers credit outreach program established by the Borrower, to provide loans and other support to small farmers;

(l) "SFCOP Administration Agreement" means the agreement referred to in Section 3.03 (a) of this Agreement, as such agreement may be amended from time to time;

(m) "Special Accounts" means the accounts referred to in Section 2.02 (b) of this Agreement;

(n) "Sub-loan" means a loan made or proposed to be made by K AFC to an Investment Enterprise for an Investment Project out of the proceeds of the Credit made available by the Borrower to K AFC under the Subsidiary Loan and Equity Investment Agreement, or under the SFCOP Administration Agreement; and

(o) "Subsidiary Loan and Equity Investment Agreement" means the agreement to be entered into between the Borrower and K AFC pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules supplemental to the Subsidiary Loan and Equity Investment 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 nine hundred thousand Special Drawing Rights (SDR 11,900,000).

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: (i) amounts paid (or, if the Association shall so agree, amounts to be paid) by K AFC on account of withdrawals made by an Investment Enterprise under a Sub-loan to meet the reasonable cost of goods, works and services required for the Investment Project in respect of which the withdrawal from the Credit Account is requested; and (ii) 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 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 two special deposit accounts (the Special Accounts) in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against setoff, seizure or attachment, which Special Accounts are hereby designated as KAFC Special Account, which shall be for the purposes of Part A of the Project, and SFCOP Special Account, which shall be for the purposes of Part B of the Project. Deposits into, and payments out of, the two Special Accounts shall be made in accordance with the provisions of Schedule 3 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 cancelled.

Section 2.03. The Closing Date shall be June 30, 2001, or such later date as the Association shall establish. The Association shall promptly notify the Borrower and KAFC 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 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 May 15 and November 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 semiannual installments payable on each May 15 and November 15 commencing November 15, 2007 and ending May 15, 2032. Each installment to and including the installment payable on May 15, 2017 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 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.

Section 2.09. The Executive Director of KAFC is designated as representative of the Borrower in respect of the Project for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Description of the Project; Use of the Proceeds of the Credit

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under this Development Credit Agreement, shall cause KAFC to perform in accordance with the provisions of the Project Agreement all the obligations of KAFC therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable KAFC to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

Section 3.02. (a) The Borrower shall, for the purposes of carrying out Part A of the Project, relend to KAFC and invest into the equity of KAFC the equivalent of the proceeds of the Credit allocated from time to time to Category (1) (a) and (2) under paragraph 1 of Schedule 1 to this Agreement, under a subsidiary loan and equity investment agreement (the Subsidiary Loan and Equity Investment Agreement) to be entered into between the Borrower and KAFC under terms and conditions which shall have been approved by the Association, and which Subsidiary Loan and Equity Investment Agreement shall set forth the Borrower's and KAFC's responsibilities under Part A of the Project, the amount of the KAFC Loan and KAFC Equity Investment, and which shall provide that: (i) the KAFC Loan shall be denominated in the currency of the Borrower; (ii) the KAFC Loan shall be repayable in fifteen (15) years, including a five-year grace period; (iii) KAFC shall pay variable interest rate on the principal amount of the KAFC Loan equivalent to the annual projected inflation rate announced by the NBK at the time of disbursement; (iv) the principal of the KAFC Loan repayable by KAFC shall be equivalent to the value of currency or currencies withdrawn from the Credit Account on account of expenditures for an Investment Project, such equivalent to be determined as of the date or respective dates of withdrawal; and (v) Sub-loans shall be made in accordance with the provisions of the Operational Manual.

(b) The Borrower shall exercise its rights under the Subsidiary Loan and Equity Investment Agreement in such 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 Subsidiary Loan and Equity Investment Agreement or any provision thereof.

Section 3.03. (a) The Borrower shall, for the purposes of carrying out Part B of the Project, provide to KAFC on a grant basis the equivalent of the proceeds of the Credit allocated from time to time to Category (1) (b) and (3) under paragraph 1 of Schedule 1 to this Agreement, under an administration agreement (the SFCOP Administration Agreement) to be entered into between the Borrower and KAFC under terms and conditions which shall

have been approved by the Association, and which shall set forth the Borrower's and KAFC's responsibilities under Part B of the Project.

(b) The Borrower shall exercise its rights under the SFCOP Administration Agreement in such 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 SFCOP Administration Agreement or any provision thereof.

Section 3.04. The Borrower shall ensure that, during Project implementation, KAFC adheres to an operational manual (the Operational Manual), satisfactory to the Association, which shall set 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 KAFC and an Investment Enterprise in connection with any Sub-loan.

Section 3.05. 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 Section 2.03 of and Schedule 2 to the Project Agreement.

Section 3.06. The Borrower and the Association hereby agree that 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, respectively) shall be carried out by KAFC pursuant to Section 2.04 of the Project Agreement.

Section 3.07. 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 and Other Covenants

Section 4.01. (a) 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 sound accounting practices, records and accounts reflecting such expenditures;

(ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained 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; and

(iii) enable the Association's representatives to examine such records.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the Special Accounts 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) after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including 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; 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.

Section 4.02. The Borrower shall take all necessary measures to ensure that the on-lending interest rates charged by the Borrower, K AFC and SFCOP after November 1, 1997, in connection with any agricultural credit programs, shall be equivalent to the rates of inflation projected for the applicable period by the NBK and published by the NBK in NBK's official monthly publication.

Section 4.03. The Borrower shall take all necessary measures to ensure that the proceeds from loan recoveries relating to the budgetary agricultural loans made available by the Borrower's Ministry of Agriculture to farm enterprises or farms between January 1, 1992 and January 1, 2000 are invested by the Borrower into K AFC equity, and the Borrower shall, by November 30 of each year during Project implementation, provide satisfactory evidence to the Association of such investments, except that, between January 1 and December 31, 1997, the Borrower may use a portion, acceptable to the Association, of the proceeds from loan recoveries to meet budgetary obligations relating to agriculture.

ARTICLE V

Remedies of the Association

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

- (a) K AFC has failed to perform any of its obligations under the Project Agreement.
- (b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that K AFC be able to perform its obligations under the Project Agreement.
- (c) The Charter shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial condition of K AFC or its ability to carry out the Project or to perform any of its obligations under the Project Agreement.
- (d) The Borrower, NBK or any other authority having jurisdiction over K AFC shall have taken any action for the dissolution or disestablishment of K AFC or for the suspension of its operations or licenses.
- (e) The EU Grant Agreement shall have failed to become effective by December 31, 1997, or such later date as the Association may agree; provided, however that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds for Part A of the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.
- (f) The right of the Borrower to withdraw the proceeds of the EU Grant or of the Swiss Grant shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the EU Grant Agreement or Swiss Grant Agreement, respectively, unless the Borrower establishes to the satisfaction of the Association that: (i) such

suspension, cancellation or termination not is caused by the failure of the Borrower to perform any of its obligations under such agreements; and (ii) adequate funds for Part A of 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 (d) of the General Conditions, the following additional events are specified:

(a) The event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower and KAFC.

(b) Any event specified in paragraph (c) or (d) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

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

(a) the Subsidiary Loan and Equity Investment Agreement has been entered into by the Borrower and KAFC, respectively;

(b) a management contract for the appointment of a program manager for SFCOP has been executed; and

(c) the Operational Manual, satisfactory to the Association, has been adopted by KAFC.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Project Agreement has been duly authorized or ratified by KAFC, and is legally binding upon KAFC in accordance with its terms; and

(b) that the Subsidiary Loan and Equity Investment Agreement has been duly authorized or ratified by, and is legally binding upon, the Borrower and KAFC in accordance with its terms.

Section 6.03. 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

Representatives of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.09 of this Agreement, 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 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:

INTBAFRAD
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/ Kadir T. Yurukoglu

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) Sub-loans:		
(a) Under Part A (i) of the Project	9,550,000	100% until December 31, 1998, 85% until December 31, 1999, and 75% thereafter
(b) Under Part B (i) of the Project	1,480,000	100%
(2) Goods under Part A (ii) of the Project	80,000	100% of foreign expenditures and 80% of local expenditures
(3) Consultants' Services under Part B (ii) of the Project	730,000	100% of foreign expenditures and 80% of local

		expenditures
(4) Refunding of Project Preparation Advance	60,000	Amount due pursuant to Section 2.02 (c) of this Agreement

TOTAL	11,900,000 =====	

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; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made:

(a) prior to the date of this Agreement;

(b) for expenditures under Category (1) (a), unless Sub-loans under Part A (i) of the Project have been made in accordance with the terms and conditions set forth or referred to in the Operational Manual; and

(c) for expenditures under Category (1) (b), unless: (i) the Borrower has provided to the Association satisfactory evidence of the existence of legal measures necessary for the establishment and operation of rural financial pre-cooperatives and cooperatives; (ii) the SFCOP Administration Agreement has been executed; and (iii) Sub-loans under Part B (i) of the Project have been made in accordance with the terms and conditions set forth or referred to in the Operational Manual.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditures for: (a) Sub-loans; (b) contracts for goods under Part A (ii) of the Project costing less than \$50,000 equivalent each; and (c) contracts under Part B (ii) of the Project, costing less than \$100,000 equivalent each for the employment of consulting firms, and \$50,000 equivalent each for the employment of individual consultants, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in improving the availability of commercially-based credit to, and in developing, on a pilot basis, community-based financial institutions capable of providing financial services to the rural population of the Borrower.

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 objectives:

Part A: K AFC Component

Support of on-going process of farm restructuring, agribusiness enterprises, privatization, and development of a private rural sector through: (i) the financing of Sub-loans to Investment Enterprises; and (ii) the provision of goods to K AFC.

Part B: SFCOP Component

Establishment and support of institutional mechanisms necessary to provide commercially sustainable financial services in the rural sector through: (i) the financing of Sub-loans to Investment Enterprises; and (ii) the provision of consultants' services.

* * *

The Project is expected to be completed by December 31, 2000.

SCHEDULE 3

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means, in the case of KAFC Special Account, Categories (1) (a) and (2) and, in the case of SFCOP Special Account, Categories (1) (b) and (3), 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 \$1,000,000 in respect of the KAFC Special Account, and an amount equivalent to \$250,000 in respect of the SFCOP Special Account, to be withdrawn from the Credit Account and deposited into the Special Accounts 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 in respect of the KAFC Special Account, and an amount equivalent to \$100,000 in respect of the SFCOP Special Account, until (i) in respect of the KAFC Special Account, 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 for Part A of the Project shall be equal to or exceed the equivalent of SDR 3,000,000, and (ii) in respect of the SFCOP Special Account, 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 for Part B of the Project shall be equal to or exceed the equivalent of SDR 500,000.

2. Payments out of the respective 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 respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective 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 respective 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 respective Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Association requests for deposits into the respective 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 respective 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 respective 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 respective 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 any 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 Accounts;

(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 for the respective Special Account, 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 respective 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 any 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 respective 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 any 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 any 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 Accounts.

(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.

