

Public Disclosure Authorized

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**CREDIT NUMBER 3871 KG**

# **Development Credit Agreement**

**(Payments and Banking System Modernization Project)**

**between**

**KYRGYZ REPUBLIC**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated June 9, 2004**

Public Disclosure Authorized



**CREDIT NUMBER 3871 KG**

**DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated June 9, 2004, between the KYRGYZ REPUBLIC (the Borrower) and the 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) Parts A, B and D of the Project will be carried out by the National Bank of the Kyrgyz Republic (NBKR) with the Borrower's assistance, and as part of such assistance, the Borrower will make available to NBKR part of the proceeds of the Credit as provided for in this Agreement;

(C) Part C.1 of the Project will be carried out by the Savings and Settlement Company (SSC) with the Borrower's assistance, and as part of such assistance, the Borrower will make available to SSC part of the proceeds of the Credit as provided for in this 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;

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**General Conditions; Definitions**

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth below (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) “Card Processing Center” or “CPC” means the card processing center established by Decree No. 7-0 of the Chairman of NBKR dated January 26, 2004, and referred to in Part A.2 of Schedule 2 to this Agreement;

(b) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(c) “Inter-bank Card Company” or “ICC” means the joint stock company to be established under Part A of the Project and referred to in Part A.2 of Schedule 2 to this Agreement;

(d) “MoF” means the Ministry of Finance of the Borrower or any successor thereto;

(e) “NBKR” means the National Bank of the Kyrgyz Republic, the Borrower’s central bank, established and operating pursuant to the Borrower’s Law No. 59 on the National Bank of the Kyrgyz Republic dated July 29, 1997, as the same may be amended from time to time;

(f) “NBKR Subsidiary Loan Agreement” means the agreement to be entered into pursuant to Section 3.01 (b) of this Agreement between the Borrower and NBKR, as the same may be amended from time to time, and such term includes all schedules to the NBKR Subsidiary Loan Agreement;

(g) “Payments System Committee” means the committee referred to in paragraph 7 of Schedule 4 to this Agreement;

(h) “PIU” means the project implementation unit, operating within the Directorate on Investments and Technical Assistance Coordination of the NBKR and referred to in paragraph 3 of Schedule 4 to this Agreement;

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

(j) “SSC” means the Savings and Settlement Company, a joint stock company, established by a Resolution No. 24/20 of the NBKR dated June 22, 1996, and operating pursuant to the joint Resolution No. 171 of the NBKR and the Government of the Borrower dated March 28, 2003;

(k) "SSC Subsidiary Loan Agreement" means the agreement to be entered into pursuant to Section 3.01 (c) of this Agreement between the Borrower and SSC, as the same may be amended from time to time, and such term includes all schedules to the SSC Subsidiary Loan Agreement; and

(l) "Subsidiary Loan Agreements" means either the NBKR Subsidiary Loan Agreement or the SSC Subsidiary Loan Agreement as the case may be.

## **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 this Agreement, an amount in various currencies equivalent to six million one hundred thousand Special Drawing Rights (SDR 6,100,000).

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 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 separate special deposit account in NBKR on terms and conditions satisfactory to the Association. Deposits into, and payments out of the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be October 31, 2008, 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 15 and July 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each January 15 and July 15 commencing July 15, 2014, and ending January 15, 2044. Each installment to and including the installment payable on January 15, 2024 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three 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 (6) 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 (5) 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 Part C.2 of the Project through its MoF, Part C.1 of the Project through the SSC and Parts A, B and D of the Project through the NBKR with due diligence and efficiency and in conformity with appropriate financial, economic, banking and administrative practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) For the purposes of Parts A, B and D of the Project, the Borrower shall make available the proceeds of the Credit allocated to Categories (1) (a) and (b), (2) (a), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement, to NBKR under a subsidiary loan agreement (the NBKR Subsidiary Loan Agreement) to be entered into between the Borrower and NBKR, under the terms and conditions which shall have been approved by the Association and which shall include those set forth in Section I of Schedule 5 to this Agreement.

(c) For the purposes of Part C.1 of the Project, the Borrower shall make available the proceeds of the Credit allocated to Category (2) (b) set forth in the table in

paragraph 1 of Schedule 1 to this Agreement, to SSC under a subsidiary loan agreement (the SSC Subsidiary Loan Agreement) to be entered into between the Borrower and SSC, under the terms and conditions which shall have been approved by the Association and which shall include those set forth in Section II of Schedule 5 to this Agreement.

(d) The Borrower shall exercise its rights under the Subsidiary Loan Agreements 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 Subsidiary Loan Agreements or any provision thereof.

(e) 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 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 9.06 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.

Section 3.04. 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) in respect of Parts A, B and D of the Project shall be carried out by the NBKR.

Section 3.05. 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) in respect of Part C.1 of the Project shall be carried out by the SSC.



## ARTICLE IV

### Financial Covenants

Section 4.01. (a) The Borrower shall, and shall cause:

- (i) NBKR to maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the whole Project; and
- (ii) SSC to prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect its operations and financial condition.

(b) The Borrower shall, and shall cause NBKR to:

- (i) have the respective financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association) audited, in accordance with consistently applied auditing standards acceptable to the Association, 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 (or such other period agreed to by the Association): (A) certified copies of the respective financial statements referred to in paragraph (a) of this Section for such year (or such other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records, accounts and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) The Borrower shall, and shall cause SSC to:

- (i) have the respective financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association) audited, in accordance with consistently applied auditing standards acceptable to the Association, 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 (or such other period agreed to by the Association), (A) certified copies of the respective financial statements referred to in paragraph (a) of this Section for such year (or such other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records, accounts and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(d) 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) 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, or covering, the fiscal year in which the last withdrawal from the Credit Account was made;
- (ii) enable the Association's representatives to examine such records; and ensure that such statements of expenditure are included in any audit that the Association may have requested pursuant to paragraphs (b) and (c) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.03, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing

separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;

- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

## **ARTICLE V**

### **Remedies of the Association**

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

(a) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of NBKR or for the suspension of its operations.

(b) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of SSC or for the suspension of its operations.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, the events specified in paragraphs (a) or (b) 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 this Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the NBKR Subsidiary Loan Agreement has been executed on behalf of the Borrower and NBKR; and

(b) the SSC Subsidiary Loan Agreement has been executed on behalf of the Borrower and SSC.

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 NBKR Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and NBKR and is legally binding upon the Borrower and NBKR in accordance with its terms; and

(b) that the SSC Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and SSC and is legally binding upon the Borrower and SSC 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**

### **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  
Kyrgyz Republic  
58 Erkindik Blvd.  
Bishkek City 720040  
Kyrgyz Republic

Telex:	Facsimile:
245-156NUR KH	(996 312) 61645

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

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

KYRGYZ REPUBLIC

By /s/ Bolot Abildaev

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ J. Christopher Lovelace

Authorized Representative

**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:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods for:		
(a) Parts A.1, 3 and 4, Part B and Part D of the Project	2,900,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 83% of local expenditures for other items procured locally
(b) Part A.2 of the Project	1,050,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 83% of local expenditures for other items procured locally
(c) Part C.2 of the Project	500,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 83% of local expenditures for other items procured locally

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(2) Consultants' Services, including audit for:		
(a) Parts A and B of the Project	750,000	85% services of expenditures for services of consultants domiciled within the territory of the Borrower, 72% of foreign expenditures for services of other consultants and 100% of eligible social charges
(b) Part C.1 of the Project	100,000	85% services of expenditures for services of consultants domiciled within the territory of the Borrower, 72% of foreign expenditures for services of other consultants and 100% of eligible social charges
(c) Part C.2 of the Project	200,000	85% services of of expenditures for services of consultants domiciled within the territory of the Borrower, 72% of foreign expenditures for services of other consultants and 100% of eligible social charges

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(3) Training for Parts A and D of the Project	30,000	100%
(4) Incremental operating costs	20,000	90%
(5) Unallocated	<u>550,000</u>	
TOTAL	<u>6,100,000</u>	

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;

(c) the term “social charges” means any payments, premia, or contributions for, health benefits, unemployment benefits, disability insurance, workers’ compensation benefits, retirement (pension or social security) benefits, and life insurance, which constitute payment for the drawdown of future benefits to the staff concerned;

(d) the term “training” means expenditures incurred in connection with training, workshops, and study tours to be carried out under the Project, including the travel costs and per diem allowances for the trainees and other expenditures as shall be agreed with the Association; and

(e) the term “incremental operating costs” means incremental operating expenditures incurred by the PIU on account of overall Project implementation, management and monitoring, including office supplies, communication costs, support for information systems, advertising costs, bank charges, travel and per diem costs of the PIU staff and other reasonable expenditures directly associated with implementation of Project activities, all based on an annual budget acceptable to the Association.

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



(a) expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 406,000, may be made in respect of Categories (1), (2), (3) and (4) on account of payments made for expenditures before that date but after January 15, 2004; and

(b) expenditures in respect of Category (1) (b) of this Schedule unless the ICC has been duly established as a joint stock company with the participation of commercial banks.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$100,000 equivalent per contract, except for the first contract for goods under international shopping and national shopping to be procured in accordance with the procedures referred to in Parts C.1 and C.2 of Section I of Schedule 3 to this Agreement; (b) for services of individual consultants costing less than \$35,000 equivalent per contract; (c) for services of consulting firms under contracts costing less than \$100,000 equivalent per contract; (d) training; and (e) incremental operating costs, all 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 the implementation of the national payments system modernization program and banking system reform.

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: Payments System Modernization

1. Design and implementation of a modern, fully automated bulk-clearing system (BCS) for effective processing of high volume and low value inter-bank transactions, through the provision of consultant's services, training and goods.
2. Design and implementation of a national inter-bank card system by establishing a CPC and ICC, through the provision of consultant's services, training and goods.
3. Design and implementation of a real-time gross settlement system (RTGS) for the settlement of large value or urgent inter-bank transactions on a real-time basis, through the provision of consultant's services, training and goods.
4. Project management support for the payments system infrastructure by providing advisory services and studies for the development and implementation of the BCS, CPC and RTGS, through the provision of consultant's services and training.

#### Part B: General Ledger System

Design and implementation of a general ledger for the NBKR to ensure its compatibility with the requirements of the improved payment system, including carrying out a feasibility study, through the provision of consultant's services and goods.

#### Part C: Banking System

1. Carrying out audits of financial statements for SSC, through the provision of consultants' services.
2. Strengthening of SSC's operations and institutional capacity to improve financial services delivery, product diversification and modernize its technical capacity including network and outreach streamlining, through the provision of consultant's services and goods.

Part D: Project Implementation and Administration

Support to the PIU in the Project implementation and administration, through the provision of training, goods and financing of operating costs.

\* \* \*

The Project is expected to be completed by April 30, 2008.

### **SCHEDULE 3**

#### **Procurement**

##### Section I. Procurement of Goods and Works

###### Part A: General

Goods 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, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

###### Part B: International Competitive Bidding

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. International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract 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.

###### 2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract 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 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 each contract for goods estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first contract for goods to be procured in accordance with the procedures referred to in Parts C.1 and C.2 of this Section I, 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;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (iii) 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 Sections I and 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, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto 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, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision 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 estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for audit may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services of consulting firms estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded 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

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every 12 months

during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$35,000 or more, the report on the comparison of the qualifications and experience of candidates, 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. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

(c) Notwithstanding the provisions of sub-paragraphs (a) and (b) above terms of reference for consultants' services shall be furnished to the Association for its prior review and approval.

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 following agencies of the Borrower shall, on behalf of the Borrower, implement the following parts of the Project, subject to the provisions of paragraph 2 of this Schedule:

<u>Agency</u>	<u>Parts of the Project</u>
MoF	Part C.2
NBKR	Parts A, B and D
SSC	Part C.1

2. NBKR shall be responsible for the financial management, procurement and disbursement of consultant's services and goods financed under Part C of the Project.

3. The Borrower shall, and shall cause NBKR to, maintain the PIU until completion of the Project, with staff, resources and terms of reference satisfactory to the Association, and shall assign to it responsibility for overall Project management and coordination, including:

- (a) preparation of disbursement applications under the Credit;
- (b) management of the Special Account referred to in Section 2.02 (b) of this Agreement;
- (c) maintenance of records and accounts related to the Project and arranging for the audit thereof;
- (d) participation in administration of bidding procedures and of contracts under the Project; and
- (e) preparation of quarterly progress reports and submission thereof to the Borrower and the Association not later than forty-five (45) days after the end of each quarter, the first such report to be furnished to the Association not later than November 15, 2004.

4. The Borrower shall, and shall cause NBKR through PIU to, prepare and furnish to the Association for its review and concurrence: (a) by October 31 each year an annual work program for the Project for the following calendar year, including procurement and financing plans; and (b) by February 15 each year an annual progress report.



5. The Borrower shall, and shall cause NBKR to, take all measures necessary to enable the PIU to carry out its responsibilities relating to the overall Project administration and coordination, including among other things, the administration of the Special Account, the Project accounting, financial management, Project reporting, auditing arrangements and procurement.

6. The Borrower shall, and shall cause NBKR to, maintain the PIU headed by a qualified and experienced officer assisted by competent staff in adequate numbers and assigned with such functions and responsibilities, satisfactory to the Association, as shall be required to enable it to undertake the overall coordination and supervision of day-to-day Project implementation activities.

7. The Borrower shall, and shall cause NBKR to, maintain a Payments System Committee with such membership, staffing, functions and responsibilities as shall be required to enable it to provide advisory and policy guidance to NBKR on matters relating to the payments system.

8. The NBKR shall ensure that by March 31, 2005, the rules and regulations between the participants in the inter-bank card system, satisfactory to the Association, will be established.

9. The Borrower and the Association have agreed that if within six (6) months from the date of this Agreement there will be no grant funds secured for purposes of strengthening of SSC's operations and institutional capacity, Part C.2 of the Project will be cancelled, unless the Association will otherwise agree.

10. 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 June 30, 2006, 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 October 31, 2006, 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

### **Principal Terms and Conditions of the Subsidiary Loan Agreements**

#### Section I. NBKR Subsidiary Loan Agreement

The following terms and conditions shall be included in the NBKR Subsidiary Loan Agreement to be entered into pursuant to Section 3.01 (b) of this Agreement:

1. NBKR (the NBKR Sub-borrower) shall repay to the Borrower the aggregate amount of the proceeds of the Credit withdrawn from the Credit Account, from time to time, for carrying out of Parts A, B and D of the Project (the NBKR Subsidiary Loan) over a period not to exceed twelve (12) years, including a grace period of two (2) years.
2. The NBKR Subsidiary Loan shall be denominated in United States Dollars and repaid to the Borrower, at least semi-annually, in Dollars or Som, at the official rate of exchange as determined by the NBKR on the respective dates on which the proceeds of the NBKR Subsidiary Loan are repaid by the NBKR Sub-borrower.
3. The NBKR Sub-borrower shall pay to the Borrower interest on the principal amount of the NBKR Subsidiary Loan, withdrawn and outstanding from time to time, semiannually at a rate equal to 1.5% per annum.
4. The NBKR Sub-borrower shall pay to the Borrower a portion of the applicable commitment charges payable under Section 2.04 of this Agreement, allocable to the part of the proceeds of the Credit made available but not withdrawn by the Sub-borrower.

#### Section II. SSC Subsidiary Loan Agreement

The following terms and conditions shall be included in the SSC Subsidiary Loan Agreement to be entered into pursuant to Section 3.01 (c) of this Agreement:

1. SSC (the SSC Sub-borrower) shall repay to the Borrower the aggregate amount of the proceeds of the Credit withdrawn from the Credit Account, from time to time, for carrying out of Part C.1 of the Project (the SSC Subsidiary Loan) over a period not to exceed twenty (20) years, including a grace period of three (3) years.
2. The SSC Subsidiary Loan shall be denominated in United States Dollars and repaid to the Borrower, at least semi-annually, in Dollars or Som, at the official rate of exchange as determined by the NBKR on the respective dates on which the proceeds of the SSC Subsidiary Loan are repaid by the SSC Sub-borrower.

3. The SSC Sub-borrower shall pay to the Borrower interest on the principal amount of the SSC Subsidiary Loan, withdrawn and outstanding from time to time, semiannually at a rate equal to 1% per annum.

4. The SSC Sub-borrower shall pay to the Borrower a portion of the applicable commitment charges payable under Section 2.04 of this Agreement, allocable to the part of the proceeds of the Credit made available but not withdrawn by the SSC Sub-borrower.

## **SCHEDULE 6**

### **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 \$400,000 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 \$200,000 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 2,500,000.
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 payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account 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.