

CONFORMED COPY

CREDIT NUMBER 4826 -KG
GRANT NUMBER H619 -KG

Financing Agreement

(Additional Financing for the National Road Rehabilitation (Osh-Batken-Isfana) Project)

between

KYRGYZ REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 1, 2010

CREDIT NUMBER 4826 -KG
GRANT NUMBER H619 -KG

FINANCING AGREEMENT

AGREEMENT dated October 1, 2010, entered into between KYRGYZ REPUBLIC (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). The Recipient and the Association hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant and a credit (collectively, “Financing”) in the following amounts to assist in financing the project described in Schedule 1 to this Agreement (“Project”):
 - (a) an amount equivalent to three million Special Drawing Rights (SDR 3,000,000) (“Grant”); and
 - (b) an amount equivalent to three million seven hundred thousand Special Drawing Rights (SDR 3,700,000) (“Credit”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are January 15 and July 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is US Dollars.

ARTICLE III - PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project, through the MoTC in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - TERMINATION

- 4.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 4.02. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE V - REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is its Minister of Finance.

5.02. The Recipient's Address is:

Ministry of Finance
58 Erkindik Blvd.
Bishkek City, 720040
Kyrgyz Republic

Telex:

245-156 NUR KH

Facsimile:

(996-312) 661645

5.03. The Association's Address is:

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

Cable:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI)

Facsimile:

1-202-477-6391

AGREED at Bishkek, Kyrgyz Republic, as of the day and year first above written.

KYRGYZ REPUBLIC

By /s/ Chorobek Imashev

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Alexander Kremer

Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are to: (i) contribute to the reduction of transport costs and travel time along the Osh-Batken-Isfana Road corridor; (ii) improve road safety planning; and (iii) repair and rehabilitate road infrastructure in and around Osh and Jalal-Abad cities, thereby creating temporary jobs.

The Project consists of the Original Project as amended as follows:

Part A: Road Repairs and Rehabilitation

1. Provision of works and consultants' services for the rehabilitation of segments of the Osh-Batken-Isfana road corridor.
2. Provision of works and consultants' services for the repair of urban roads within the city of Osh and the assessment of financing options for road maintenance activities by municipalities.
3. Provision of works and consultants' services for the rehabilitation of urban roads in and around the greater Osh and Jalal-Abad city vicinities.

Part B: Road Safety Enhancement

Provision of goods, and consultants' services for: (i) the development and launch of a national road safety program; (ii) preparation of pilot demonstration projects for road safety; and (iii) improvement of road safety planning.

Part C: Project Management and Implementation

1. Provision of goods, consultants' services, training, and Operating Costs, including an audit, to support Project coordination, implementation and management.
2. Provision of consultants' services for the development and implementation of a communication strategy for the Project activities.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements**

1. The Recipient, through the MoTC, shall carry out the Project in accordance with the requirements, criteria, organizational arrangements and operational procedures set forth in the Project Operational Manual and the EIA, and shall not assign, amend, abrogate or waive any provisions of the Project Operational Manual or the EIA without prior approval of the Association.
2. The Recipient shall maintain the PIU within MoTC, throughout the duration of the Project with organization, staffing and terms of reference at all times satisfactory to the Association. The Recipient shall cause the PIU to: (a) maintain arrangements satisfactory to the Association for the overall management, coordination and supervision of the Project implementation in accordance with the Project Operational Manual and the EIA; (b) operate the Project financial management system in a manner satisfactory to the Association; (c) gather data to maintain Project indicators; (d) coordinate the procurement and disbursement process; and (e) prepare and submit progress reports and financial monitoring reports.
3. The Recipient, through the MoTC, shall, not later than December 15 of each calendar year, during the implementation of the Project, starting December 15, 2010, submit to the Association an Annual Work Program for the following calendar year, satisfactory to the Association, and shall agree with the Association on activities to be taken under the Project in the following calendar year and the related road maintenance budget.
4. The Recipient, through the MoTC, shall, not later than June 1 of each calendar year, during the implementation of Part A of the Project, starting June 1, 2011: (i) take all necessary measures, including ensuring access to all relevant information related to the Project, to facilitate an independent technical audit; and (ii) act promptly upon the findings and recommendations of such audit under terms of reference acceptable to the Association.
5. For the purpose of carrying out the Project, the Recipient shall cause MoTC to update in form and substance satisfactory to the Association, the Project Operational Manual and furnish same to the Association by not later than December 31, 2010.
6. By not later than October 31, 2010 and for the purpose of carrying out Part A.2 of the Project, the Recipient shall, through MoTC to enter into and thereafter maintain, throughout the duration of the Project, implementation arrangements with the

Municipality of Osh city, satisfactory to the Association, in accordance with the Project Operational Manual and the EIA.

B. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Safeguards

1. The Recipient shall, through the MoTC: (a) prepare, prior to the commencement of any works under the Project, Site-Specific Environmental Management Plan(s), satisfactory to the Association, in accordance with the EIA and an EMP; (b) disclose such Site-Specific EMP(s) and conduct proper consultations in accordance with the EIA; (c) carry out the Project in accordance with the Site-Specific EMP; and (d) not amend, suspend or abrogate any of the provisions of the Environmental Management Plan without the prior agreement of the Association.

2. In carrying out the Project, the Recipient shall ensure that no land shall be acquired and no activity shall be undertaken involving resettlement and/or land acquisition.

3. Prior to the commencement of works under Part A.3 of the Project, MoTC shall have completed and furnished to the Association, the Social Assessment which justifies the selection of a particular road segment for carrying out any works under Part A.3 of the Project. The Recipient shall ensure that the selection of any road segment for carrying out any works under Part A.3 of the Project, shall be conducted in accordance with the procedures and selection methods and criteria set forth in the Social Assessment and satisfactory to the Association.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators acceptable to the Association. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than forty five (45) days after the end of the period covered by such report.

2. Not later than June 30, 2011, the Recipient shall carry out jointly with the Association, a midterm review of the progress made in carrying out the Project (hereinafter referred to as the Midterm Review). The Midterm Review shall cover, *inter*

alia: (a) progress made in meeting the Project's objectives; and (b) overall Project performance against Project performance indicators.

3. The Recipient shall prepare at least four (4) weeks prior to the Midterm Review, and furnish to the Association, a separate report describing the status of implementation of each component of the Project and a summary report of Project implementation generally.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. The Recipient shall prepare and furnish to the Association not later than forty five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method
<p>(a) National Competitive Bidding, subject to the following additional provisions:</p> <ol style="list-style-type: none"> 1. The eligibility of bidders shall be as defined under Section I of the Guidelines Procurement under IBRD Loans and IDA credits; accordingly, no bidder or potential bidder shall be declared ineligible for contracts financed by the Association for reasons other than those provided in Section I of the Guidelines Procurement under IBRD Loans and IDA credits. Exclusion from participation as a result of debarment should result from violation of clearly identified grounds of misconduct and in accordance with a fair and transparent process; 2. Procuring entities shall use the appropriate standard bidding documents acceptable to the Association; 3. An extension of bid validity, if justified by exceptional circumstances, shall be requested in writing from all bidders before the expiration date and for a minimum period required to complete the evaluation or award contract; 4. No national preferences may be applied on the basis of the origin of products or labor; 5. Entities in which the State owns a majority shareholding shall not be invited to participate in tenders for the Government unless they are and can be shown to be legally and financially autonomous and they operate under commercial law; 6. Pre-qualification shall be conducted for large works contracts and shall be applied upon the Association's agreement; 7. The pre- and post- qualification criteria shall only pertain to past contract performance, financial, managerial and technical capabilities of bidders;

<p>8. Joint venture partners shall be jointly and severally liable for their obligations;</p> <p>9. State unit costs shall not be used for contract budgeting and evaluation for civil works contracts;</p> <p>10. Bids shall be opened in public, immediately after the deadline for their submission. No bids can be rejected at bid opening and under the circumstances referred to Article 6 of the Recipient’s Public Procurement Law;</p> <p>11. No bids shall be rejected solely because they exceed the estimated price. Bids can be cancelled and new bids invited, only if the conditions of clause 2.62 of the Guidelines Procurement under IBRD Loans and IDA credits, are met;</p> <p>12. All bid evaluation criteria shall be quantifiable in monetary term;</p> <p>13. Qualification criteria for bid evaluation shall be applied on a pass or fail basis;</p> <p>14. Contracts shall be awarded to qualified bidder having submitted the lowest evaluated substantially responsive bid and no negotiation shall take place;</p> <p>15. There should be an effective and independent protest mechanist allowing bidders and interested parties to protest and to have their protest handled in a timely manner; and</p> <p>16. Advance no objection of the Association is required for any modifications in the contract scope/conditions during contract implementation.</p>
(b) Shopping
(c) Direct Contracting

C. Particular Methods of Procurement of Consultants’ Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Selection Based on the Consultants’ Qualifications
(b) Least Cost Selection
(c) Single-Source Selection
(d) Procedures set forth in paragraphs 5.2, 5.3 and 5.4 of the Consultant Guidelines for the Selection of Individual Consultants

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the category of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Credit and of the Grant to the Category below, and the percentage of expenditures to be financed for Eligible Expenditures in said Category. To the extent practicable and relevant for Category (1), the proceeds of the Grant shall be disbursed before disbursement of the proceeds of the Credit:

Category	Amount of the Credit Allocated (expressed in SDR)	Amount of the Grant Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of taxes)
(1) Works, Goods Operating Costs, Training and Consultants' services including audits for the Project	3,700,000	3,000,000	100%
TOTAL AMOUNT	<u>3,700,000</u>	<u>3,000,000</u>	

3. For the purposes of this Schedule:

(a) the term "Training" means Project related study tours, training courses, seminars, workshops and other training activities, not included under goods or service providers' contracts, including costs of training materials, space and equipment rental, travel, per diem costs of trainees and trainers and trainers' fees;

(b) the term "Operating Costs" means incremental expenditures incurred by the MoTC on account of Project implementation, management and monitoring, including: dissemination of Project related information, travel costs, lodging and per diem for field trips related to Project implementation, at the rates specified under the financial management requirements set forth in the Project Operational Manual; vehicle rent; supplies and utilities; salaries of contractual PIU staff including Social Charges; mail, advertisement costs, translation costs, commercial bank charges, communication costs, office equipment and maintenance, hardware and software, as such costs shall be agreed with the Association on an annual basis, but excluding salaries of officials and/or employees of the Recipient's civil service as well as any contributions by employers to the Social Fund; and

(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.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed SDR 1,200,000 out of the Grant, may be made for payments made prior to this date but on or after September 1, 2010, for Eligible Expenditures.

2. The Closing Date is December 31, 2013.

SCHEDULE 3**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each January 15 and July 15:	
commencing January 15, 2021 to and including July 15, 2030	1%
commencing January 15, 2031 to and including July 15, 2050	2%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX**Section I. Definitions**

1. “Annual Work Program” means the annual work plan of activities supported by the Project to be carried out in each calendar year, as prepared by the Recipient, through the MoTC, as agreed between the Recipient and the Association pursuant to paragraph 3 of Section I.A of Schedule 2 to this Agreement, together with the proposed annual budget for road maintenance for the following year.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 with the modifications set forth in Section II of this Appendix.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006 and May 2010.
5. “Environmental Impact Assessment” or “EIA” means the environmental impact assessment, dated July, 2009, prepared, updated and disclosed in-country by the Recipient on, August 4, 2009, and through Infoshop on August 5, 2009, satisfactory to the Association, consisting of, *inter alia*: (i) a detailed description of the sites where the Project activities are to be carried out; (ii) the potential and actual adverse environmental impacts of the activities referred to under paragraph (i) above; and (iii) an Environmental Management Plan setting out measures to be taken during the implementation and operation of the Project, to mitigate, eliminate or otherwise offset adverse environmental impacts under the Project, including preparation of detailed Site-Specific EMPs based on the detailed designs.
6. “Environmental Management Plan” or “EMP” means Section 6 of the EIA, which sets out the general mitigation and monitoring measures which should be further specified and detailed in the Site-Specific EMPs, together with adequate institutional, monitoring and reporting arrangements capable of ensuring proper implementation of, and regular feedback on compliance with, its terms, as the same may be amended and supplemented from time to time with the Association’s prior written approval.
7. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010.

8. “MoTC” means the Ministry of Transport and Communication of the Recipient or any successor or successors thereto.
9. “Original Financing Agreement” means the financing agreement for the National Road Rehabilitation (Osh-Batken-Isfana) Project between the Recipient and the International Development Association, dated December 3, 2009, as amended to the date of this Agreement (Credit No. 4658/ Grant No. H520-KG).
10. “Original Project” means the Project described in the Original Financing Agreement.
11. “PIU” means the Project Implementation Unit established within MoTC, for purposes of Project management and referred to in paragraph 2 of Section I.A of Schedule 2 to this Agreement.
12. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006 and May 2010.
13. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated September 9, 2010 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
14. “Project Operational Manual” means the manual, to be updated by the Recipient, pursuant to paragraph 5 of Section I.A of Schedule 2 to this Agreement, and satisfactory to the Association, setting forth the operational and administrative responsibilities, procedures and rules for the implementation of the Project, including financial management requirements for the Project, consistent with the provisions of this Agreement and with the national laws and regulations of the Recipient, as the same may be amended and supplemented from time to time with the Association’s prior written approval.
15. “Site Specific Environmental Management Plan” or “Site-Specific EMP,” means the document to be prepared by the respective contractor pursuant to the EIA, the EMP and paragraph 1 of Section I.C of Schedule 2 to this Agreement, and satisfactory to the Association, in respect of works to be undertaken by the Recipient under the Project prior to commencement of such works defining, for specific contracts, lots or sections of the work, the details of measures to manage potential environmental risks and to mitigate, reduce and/or offset adverse environmental impacts associated with the implementation of activities under the Project.
16. “Social Assessment” means the social assessment, to be conducted by MoTC prior to the commencement of the works under Part A.3 of the Project, to review

the distribution of benefits accruing from the activities under Part A.3 of the Project, including but not limited to social equity, opportunity for temporary labor, economic return on the investment, the perception of fairness and the possibility for the promotion of social reconciliation.

Section II. Modifications to the Anti-Corruption Guidelines

The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:

“... (b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”
2. Section 11(a) is modified to read as follows:

“... (a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Footnotes:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the

Bank's sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”

“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank's website and otherwise be made known to staff and other stakeholders.”