

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4016-KG
GRANT NUMBER H139-KG

Project Agreement

(Small Towns Infrastructure and Capacity Building Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

COMMUNITY DEVELOPMENT AND INVESTMENT AGENCY

Dated February 3, 2005

Public Disclosure Authorized



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GRANT NUMBER H139-KG

PROJECT AGREEMENT

AGREEMENT, dated February 3, 2005, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and COMMUNITY DEVELOPMENT AND INVESTMENT AGENCY (ARIS).

WHEREAS (A) by the Development Financing Agreement of even date herewith between the Kyrgyz Republic (the Borrower) and the Association, the Association has agreed to make available to the Borrower: (i) an amount in various currencies equivalent to eight million two hundred thousand Special Drawing Rights (SDR 8,200,000) (the Credit); and (ii) an amount in various currencies equivalent to two million one hundred thousand Special Drawing Rights (SDR 2,100,000) (the Grant), on the terms and conditions set forth in the Development Financing Agreement, but only on condition that ARIS agree to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by a subsidiary grant agreement to be entered into between the Borrower and ARIS, the proceeds of the Credit and the Grant provided for under the Development Financing Agreement will be made available to ARIS on the terms and conditions set forth in said Subsidiary Grant Agreement; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

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

ARTICLE II

Execution of the Project

Section 2.01. (a) ARIS declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Financing Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and environmental practices, including compliance with the provisions of the EMP, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association, the Borrower and ARIS shall otherwise agree, ARIS shall carry out the Project in accordance with the Implementation Program set forth in the Schedule to this Agreement.

Section 2.02. Except as the Association shall otherwise agree, procurement of goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit and the Grant shall be governed by the provisions of Schedule 3 to the Development Financing Agreement.

Section 2.03. (a) ARIS shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement.

(b) For the purposes of Section 9.06 of the General Conditions and without limitation thereto, ARIS shall:

- (i) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Association and ARIS, a plan for the future operation of the Project; and
- (ii) afford the Association a reasonable opportunity to exchange views with ARIS on said plan.

Section 2.04. ARIS shall duly perform all its obligations under the Subsidiary Grant Agreement. Except as the Association shall otherwise agree, ARIS shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Grant Agreement or any provision thereof.

Section 2.05. (a) ARIS shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Subsidiary Grant Agreement and other matters relating to the purposes of the Financing.

(b) ARIS shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Financing, or the performance by ARIS of its obligations under this Agreement and under the Subsidiary Grant Agreement.

ARTICLE III

Management and Operations of ARIS

Section 3.01. ARIS shall carry on its operations and conduct its affairs in accordance with sound administrative, financial and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. ARIS shall at all times operate and maintain its equipment and other property and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and environmental practices.

Section 3.03. ARIS shall take out and maintain with responsible insurers, or make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

Section 3.04. ARIS shall not amend its Charter or in any way change its legal or institutional character without prior approval by the Association.

ARTICLE IV

Financial Covenants

Section 4.01. (a) ARIS shall 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 Project.

(b) ARIS shall:

- (i) have its financial statements (balance sheets, statements of income and expenses and related statements) 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 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 and accounts and the audit of such financial statements and concerning said auditors, as the Association may from time to time reasonably request.

Section 4.02. (a) Without limitation upon ARIS's reporting obligations set out in paragraph 3(b) of the Schedule to this Agreement, ARIS shall prepare and furnish to the Association a financial monitoring report (FMR), 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 the Grant 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 the period not covered by the previous FMR until the end of such calendar quarter.

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Financing Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Association and of ARIS thereunder shall terminate on the date on which the Development Financing Agreement shall terminate in accordance with its terms.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telex or facsimile to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. Deliveries made by facsimile transmission shall also be confirmed by mail. The addresses so specified are:

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 |

For ARIS:

Community Development and Investment Agency
164-A Chui Avenue
Bishkek City
Kyrgyz Republic

| | |
|--------|------------|
| Phone: | Facsimile: |
|--------|------------|

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(996-312) 611-306

(996-312) 611-801

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of ARIS, or by ARIS on behalf of the Borrower under the Development Financing Agreement, may be taken or executed by the Executive Director of ARIS or such other person or persons as the Executive Director of ARIS shall designate in writing and ARIS shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original and all collectively but one instrument.

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ J. Christopher Lovelace

Authorized Representative

COMMUNITY DEVELOPMENT AND INVESTMENT AGENCY

By /s/ Elmira Ibraimova

Authorized Representative

SCHEDULE

Implementation Program

1. ARIS shall carry out the Project in accordance with the requirements set forth or referred to in the Operational Manual.
2. ARIS shall maintain the Operational Manual in form and content satisfactory to the Association and shall not assign, amend, abrogate or waive the Operational Manual without obtaining the prior approval of the Association. The Operational Manual shall cover, inter alia, the following matters: (a) eligibility criteria for Sub-grants and Sub-projects; (b) the principles and procedures to be followed for the approval of Sub-grants and Sub-projects; (c) beneficiary contribution requirements for Sub-projects; and (d) the indicators to be utilized by the ARIS in monitoring the progress of the Project.
3. ARIS 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 July 31, 2007 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 September 30, 2007 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.
4. ARIS shall provide Sub-grants to the Local Self-Governments pursuant to the Sub-project Approval Letter to be entered into between the ARIS and each Local Self-Government and Participating Entity which is adequate to protect interests of the Borrower and the Association and accomplish the purposes of the Project, and which shall, inter alia, include the following:
 - (a) the Local Self-Government shall carry out a Sub-project with due diligence and efficiency and in conformity with appropriate technical, sanitary, financial and environmental practices, including compliance with the provisions of the EMP, and

shall maintain adequate records, and provide, promptly as needed, the funds, facilities and other resources required for a Sub-project;

(b) the Local-Self Government shall provide a portion of the cost of a Sub-project which shall be not less than 3% of total Qualifying Sub-project Expenditures, in accordance with the principles set forth in the Operational Manual;

(c) all works, goods and services to be financed out of the proceeds of a Sub-grant shall be procured in accordance with the procedures set forth in Schedule 3 to the Development Financing Agreement and in the Operational Manual, including EMP, and shall be used exclusively for the carrying out of Sub-projects;

(d) the Local-Self Government shall take out and maintain such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including such insurance to cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of a Sub-grant to the place of use or installation, any indemnity hereunder to be made payable in a currency freely usable by the Local Self-Government to replace or repair such goods;

(e) ARIS shall have the right to inspect, by itself or jointly with representatives of the Association, if the Association shall so request, Sub-project sites, plants, goods and any relevant records and documents; and

(f) ARIS shall have the right to suspend or terminate the right of the Local Self-Government to the use of the Sub-grant upon failure to perform its obligations; and require the refund of disbursed amounts upon failure by such Local-Self Government to perform its obligations under the Sub-project Approval Letter.

5. Except as the Association shall otherwise agree, ARIS shall furnish to the Association for its review each Sub-project evaluation, including Sub-project applications, carried out for Sub-projects under Part A.1 of the Project before approving it.