

Public Disclosure Authorized

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CREDIT NUMBER 4975-KG
GRANT NUMBER H711-KG

Financing Agreement

Public Disclosure Authorized

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

between

KYRGYZ REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 25, 2011

**CREDIT NUMBER 4975-KG
GRANT NUMBER H711-KG**

FINANCING AGREEMENT

AGREEMENT dated July 25, 2011, 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 Parts A.1, B.2 and C.1 of the project described in Schedule 1 to this Agreement (“Project”):
 - (a) an amount equivalent to four million five hundred thousand Special Drawing Rights (SDR 4,500,000) (“Grant”); and
 - (b) an amount equivalent to five million five hundred thousand Special Drawing Rights (SDR 5,500,000) (“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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 — EFFECTIVENESS; TERMINATION

- 4.01. The Additional Condition of Effectiveness consists of the following, namely, the Project Operational Manual has been revised for the purposes of this Second Additional Financing, satisfactory to the Association.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 4.03. 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/ Melis Mambetjanov

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Dinara Djoldosheva

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 road asset management; 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 and activities financed under the First Additional Financing, as modified and expanded hereunder:

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 and Road Asset Management

1. 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.
2. Provision of goods and consultants' services for the development and implementation of a road asset management system.

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, the ESIA, the EMP(s), the Resettlement Policy Framework and the Resettlement Action Plan(s), and shall not amend, suspend, abrogate, repeal or waive any provision of the Project Operational Manual, the ESIA, the EMP(s), the Resettlement Policy Framework and the Resettlement Action Plan(s), 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.
3. The Recipient shall cause the PIU to: (a) maintain arrangements satisfactory to the Association for the overall management, coordination and supervision of Project implementation in accordance with the Project Operational Manual, the ESIA, the EMP(s), the Resettlement Policy Framework and the Resettlement Action Plan(s); (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.
4. The Recipient, through the MoTC, shall, not later than December 15 of each calendar year, during the implementation of the Project, starting December 15, 2011, 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.
5. 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, 2012: (i) take all necessary measures, including ensuring access to all relevant information related to the Project, to carry out an independent technical audit; and (ii) act promptly upon the findings and recommendations of such audit under terms of reference acceptable to the Association.

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: (i) not carry out any civil works for the Project on those sites where land acquisition or resettlement of residents is required to proceed with Project activities, unless and until the Recipient shall prepare, disclose and publish a Resettlement Action Plan for such sites, in accordance with the Resettlement Policy Framework and satisfactory to the Association; and (ii) carry out any resettlement or land acquisition with due care and in accordance with the Recipient's applicable legal and institutional framework, and with a respective Resettlement Action Plan.

2. The Recipient shall ensure that all necessary measures for the carrying out of ESIA, EMP(s), the Resettlement Policy Framework and the Resettlement Action Plan(s) shall be taken in a timely manner.

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 December 31, 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, Works and Non-consulting Services.** All goods, works and non-consulting 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 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, Works and Non-consulting Services

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

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

Procurement Method

(a) National Competitive Bidding, subject to the following additional provisions:

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;
8. Joint venture partners shall be jointly and severally liable for their obligations;
9. State unit costs shall not be used for contract budgeting and evaluation for civil works contracts;
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;

Procurement Method
<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 mechanism 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) Quality-Based Selection
(b) Selection Under a Fixed Budget
(c) Least Cost Selection
(d) Selection Based on the Consultants' Qualifications

Procurement Method	
(e)	Single-Source Selection
(f)	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 100% (inclusive of Taxes) of Eligible Expenditures.

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:

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, Non-consulting services, Operating Costs, Training and Consultants’ services including audits for Parts A.1, B.2 and C.1 of the Project	5,500,000	4,500,000	100%
TOTAL AMOUNT	<u>5,500,000</u>	<u>4,500,000</u>	

3. For the purposes of this Schedule:

(a) 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 social funds on behalf of employees of the Recipient’s civil service;

(b) 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; and

(c) 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.

2. The Closing Date is December 31, 2014.

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 July 15 , 2021 to and including January 15, 2031	1%
commencing July 15, 2031 to and including January 15, 2051	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 4 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 and revised in January 2011.
3. “Category” means the 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 under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011.
5. “Environmental and Social Impact Assessment” or “ESIA” means the environmental and social impact assessment carried out for the purposes of the Original Project, and updated and re-disclosed for the purposes of this Second Additional Financing, 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 and social 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 and social impacts under the Project, including preparation of detailed site-specific EMPs based on the detailed designs.
6. “Environmental Management Plan” or “EMP” means the site-specific documents to be prepared by the Recipient pursuant to ESIA and paragraph 1 of Section I.A of Schedule 2 to this Agreement, and satisfactory to the Association, in respect of works to be undertaken by the Recipient under the Project defining details of measures to manage potential environmental and social risks and to mitigate, reduce and/or offset adverse environmental and social impacts associated with the implementation of activities under the Project, 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. “First Additional Financing” means the Financing Agreement for additional financing of the Original Project, dated October 1, 2010 (Credit No. 4826–KG/Grant No. H619–KG).
8. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010.
9. “MoTC” means the Ministry of Transport and Communication of the Recipient or any successor or successors thereto.
10. “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 (Credit No. 4658/Grant No. H520-KG).
11. “Original Project” means the Project described in the Original Financing Agreement.
12. “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.
13. “Procurement Guidelines” means the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011.
14. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 16, 2011, and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
15. “Project Operational Manual” means the project operational manual adopted by the Recipient under the Original Project, as revised for the purposes of this Second Additional Financing.
16. “Resettlement Action Plan” or “RAP” means any resettlement action plan to be prepared by MoTC pursuant to paragraph 1 of Section I.C of Schedule 2 to this Agreement.
17. “Resettlement Policy Framework” means the resettlement policy framework prepared and disclosed for the purposes of the Original Project, and updated and re-disclosed for the purposes of this Second Additional Financing, satisfactory to the Association, and referred to in paragraph 1 of Section I.C of Schedule 2 to this Agreement, defining the modalities for acquiring and allocating land, resettlement and rehabilitation of displaced persons.