

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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CONFORMED COPY
May 30, 2003

Mr. Bolot Abildaev
Minister of Finance
Ministry of Finance
Erkindik Boulevard, 58
Bishkek 720874
Kyrgyz Republic

Re: Japan Social Development Fund Grant for the
Community Driven Village Investments Pilot Project
Grant Number TF05269

Dear Mr. Abildaev:

I am writing on behalf of International Development Association (IDA) to indicate the IDA's agreement, as administrator of grant funds provided by Japan under the Japan Social Development Fund, to make a grant in an amount not exceeding one million one hundred forty-nine thousand five hundred US Dollars (US\$1,149,500) (the Grant) to Kyrgyz Republic (the Recipient).

The Grant is made in response to the Recipient's request for financial assistance for the project described in paragraph 1.2 of the Annex to this Letter Agreement (the Project) and on the terms and conditions set forth in the said Annex. The Recipient represents, by confirming its agreement below, that it is authorized to contract and withdraw the Grant for the said Project and on the said terms and conditions.

Please note that it is IDA's policy to make publicly available this Letter Agreement and any information related thereto, after this Letter Agreement has become effective and the Recipient has given its consent to such disclosure. The Recipient, by countersigning this Letter Agreement, confirms its consent to such disclosure.

Please confirm your agreement with the foregoing, on behalf of the Recipient, by signing, dating, and returning to us the enclosed copy of this Letter Agreement. Upon receipt by IDA of the copy of this Letter Agreement countersigned by you, this Letter Agreement will become effective as of the date of the countersignature.

Very truly yours,
INTERNATIONAL DEVELOPMENT ASSOCIATION

/s/: Dennis de Tray
Director
Central Asia Regional Office
Europe and Central Asia Region

AGREED:
KYRGYZ REPUBLIC

By: /s/ Bolot Abildaev
Title: Minister of Finance
Date: July 16, 2003

ANNEX

Objectives, Terms, and Conditions of the Grant

1. Objectives and Description of the Project

1.1 The objectives of the Grant are to: (a) develop and test feasible approaches to help rural communities, through their elected governments and community-based organizations, address locally identified poverty alleviation priority needs by planning and implementing small-scale social and economic infrastructure investments and income-generating community enterprises; and (b) empower poor rural communities by strengthening the capacity of the local governments, community-based organizations, non-governmental organizations and communities to identify, prepare, implement and maintain locally initiated development undertakings that meet communities needs. The Grant will also complement the Bank-financed Village Investment Project (P073973).

1.2 The Project consists of the following Parts, each of which includes the following activities:

Part A. Village Community-Driven Development

Provision of financing, through matching grants, to rural communities to help them to plan and implement small community-driven micro-projects which support social and economic infrastructures and group-managed income-generating ventures. These activities are estimated to cost US\$700,000 equivalent.

Part B. Grassroots Institutional Capacity Development

Provision of technical assistance and training for:

(i) strengthening the capacity of non-governmental organizations, community-based organizations and local governments;

(ii) training of community leaders and local officials including on-the-job training of local community trainers in: (a) social mobilization and community planning; (b) transparent budgeting and accounting; (c) micro-project preparation, implementation and maintenance; and (d) participatory monitoring and evaluation and information dissemination. These activities are estimated to cost US\$401,850 equivalent.

Part C Project Management

Financing of incremental expenditures incurred in the management of the grant and annual audits. This activity is estimated to cost US\$47,650 equivalent.

2. Implementation Generally

2.1. The Recipient through VIP Project Preparation Unit, shall: (a) carry out the Project with due diligence and efficiency; (b) promptly provide the funds, facilities, services and other resources required for that purpose; (c) furnish all information covering the Project and the use of the proceeds of the Grant as IDA shall reasonably request; (d) from time to time exchange views with IDA's representatives on the progress and results of the Project; (e) take all necessary measures required to enable IDA to visit the territory of Recipient for purposes related to the Grant; and (f) cause all goods and services financed out of the proceeds of the Grant to be used exclusively for the purposes of the Project. Without limitation on the foregoing, the Recipient shall, if IDA shall so request, prepare and furnish to IDA promptly upon completion of the Project a report, in form and substance satisfactory to IDA, on the results and impact of the Project.

3. Procurement

3.1. Except as IDA shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Attachment I to this Annex. The Recipient shall execute the training activities under the Project in accordance with a bi-annual training program which it will prepare and submit to the Bank for review and "no objection" before implementation.

3.2. The Recipient shall ensure that all imported goods to be financed out of the proceeds of the Grant shall be insured against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and that any indemnity for such insurance is payable in a freely usable currency to replace or repair such goods. The Recipient shall ensure that any facilities relevant to the Project are at all times operated and maintained in accordance with appropriate practices and that any repairs or renewals of such facilities are promptly made as needed.

4. Operational Manual

The Recipient shall develop and maintain an Operational Manual in a form and content satisfactory to the Association and shall not change it without obtaining prior approval of IDA. The Operational Manual shall cover, *inter alia*, such matters as: (a) eligibility criteria for sub-projects; (b) the principles and procedures to be followed for the approval of sub-projects; (c) the terms and conditions to be included in the sub-grant agreements; and (d) the indicators to be utilized in the monitoring the progress of the Project.

5. Withdrawal of Grant Proceeds

5.1. The amount of the Grant shall be credited to an account opened by IDA on its books in the name of the Recipient (the Grant Account), and may be withdrawn therefrom by the Recipient in accordance with the provisions of this Section 5, for 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 Grant.

5.2. The table below sets forth the Categories of items to be financed out of the proceeds of the Grant, the allocation of the amounts of the Grant to each Category, and the percentage of expenditures for items so to be financed in each Category:

| | <u>Category</u> | <u>Amount of the Grant Allocated (in US Dollars)</u> | <u>% of Expenditures to be Financed</u> |
|-----|---------------------------------------|--|---|
| (1) | Sub-grants | 700,000 | 100% of the amounts disbursed |
| (2) | Consultants' services including audit | 379,450 | 100% |
| (3) | Training and workshops | 58,600 | 100% |
| (4) | Goods | 4,500 | 100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 83% of local expenditures for other items procured locally |
| (5) | Operating Costs | 6,950 | 83% |
| | TOTAL | <u>1,149,500</u> | |

For purposes of this paragraph, the term:

(a) "foreign expenditures" means expenditures in the currency of any country other than that of the Recipient for goods or consultants' services supplied from the territory of any country other than that of the Recipient;

(b) "local expenditures" means any expenditures that are not foreign expenditures, provided, however, that if the currency of the Recipient is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be foreign expenditures; and

(c) "training and workshops" means study tours, training courses, seminars, stakeholders consultations, travel and per diem of trainees and trainers, handout materials and other related expenditures as agreed with IDA.

(d) "operating costs" means operating expenditures incurred for Project implementation, management and monitoring, including office rent and maintenance, materials and supplies, communication costs, support for information systems, translation costs and other reasonable expenditures directly association with implementation of Project activities as agreed with IDA.

(e) "sub-grants" means grants provided to beneficiaries in seven oblasts of the Recipient to finance infrastructure, public goods and income-generating projects.

5.3. Notwithstanding the provisions of paragraph 5.2 above:

(a) No withdrawals shall be made from the Grant Account: (i) for payments made for expenditures prior to the date of signature of this Letter Agreement by IDA; (ii) on account of

payments for any taxes levied by or in the territory of the Recipient; (iii) on account of expenditures in the territories of any country which is not a member of IDA or for goods produced in or services supplied from such territories; (iv) for the purpose of any payment to persons or entities, or for any import of goods if such payment or import, to IDA's knowledge, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; or (iv) on account of Sub-grants under Category (1) set forth in the table in paragraph 5.2 above unless the Operational Manual referred to in paragraph 4 above has been adopted by the Recipient.

(b) No withdrawals shall be made from the Grant Account after December 31, 2004, or such later date that IDA shall establish by notice to the Recipient (the Closing Date); and

(c) If, in IDA's opinion, an amount of the Grant allocated to any of the Categories in the table in paragraph 5.2 above will be insufficient to finance the expenditures under such Category, IDA may, by written notice to the Recipient, reallocate to such Category an amount of the Grant then allocated to another Category which, in IDA's opinion, will not be necessary to meet other expenditures.

5.4. When the Recipient shall desire to withdraw any amount from the Grant Account, it shall deliver to IDA a written application for withdrawal of such amount in the form specified by IDA. Withdrawal applications shall be: (a) signed on behalf of the Recipient by Minister of Finance or such other person as he or she shall have authorized in writing; and (b) accompanied by such evidence in support of the application as IDA shall reasonably request. Authenticated specimen signatures of the person authorized to sign withdrawal applications shall be provided with the first application bearing his or her signature. Each withdrawal application for an amount of the Grant and its supporting evidence must be sufficient in form and substance to satisfy IDA that the Recipient is entitled to withdraw such amount from the Grant Account and that such amount is to be used in the carrying out of the Project. IDA shall pay the amounts withdrawn by the Recipient from the Grant Account only to or on the order of the Recipient.

5.5. IDA may require withdrawals from the Grant account to be made on the basis of statement of expenditures under contracts for: (a) services of individual consultants costing less than US\$10,000 equivalent; (b) sub-grants; (c) training and workshops; (d) goods; and (e) operating costs.

5.6. Withdrawals of the proceeds of the Grant shall be made in the currency of the Grant. IDA, at the Recipient's request and acting as an agent of the Recipient, shall purchase with the currency of the Grant withdrawn from the Grant Account such currencies as shall be required to pay for expenditures to be financed out of the proceeds of the Grant. Whenever it shall be necessary, for the purposes of this Letter Agreement, to determine the value of one currency in terms of another, such value shall be as reasonably determined by IDA.

5.7. To facilitate the carrying out of the Project, the Recipient may open and maintain in US Dollars a special deposit account (the Special Account) in a bank of the Recipient on terms and conditions satisfactory to IDA, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Attachment II to this Annex.

6. Accounts and Audits

5.1. (a) The Recipient shall maintain or cause to be maintained a financial management system, including records and accounts, and prepare financial statements in a format acceptable to IDA, adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures related to the Project.

(b) The Recipient shall: (i) have the records, accounts and financial statements referred to in subparagraph (a) above and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to IDA, consistently applied, by independent auditors acceptable to IDA; (ii) furnish to IDA as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in subparagraph (a) above for such year as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as IDA shall have reasonably requested; and (iii) furnish to IDA such other information concerning said records and accounts and the audit thereof, and concerning said auditors, as IDA shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure, the Recipient shall: (i) maintain or cause to be maintained, in accordance with subparagraph (a) above, records and accounts reflecting such expenditures; (ii) retain, until at least one year after IDA has received the audit report for the fiscal year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures; (iii) enable IDA's representatives to examine such records; and (iv) ensure that such records and accounts are included in the annual audit referred to in subparagraph (b) above and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

7. Suspension and Cancellation

7.1. IDA may at any time, by notice to the Recipient, suspend the right of the Recipient to make further withdrawals from the Grant Account if any of the following events has occurred and is continuing: (a) the Recipient has failed to comply with any of its obligations herein specified; or (b) the right of the Recipient, or any other entity to which International Bank for Reconstruction and Development (IBRD) has made a loan with the guarantee of the Recipient, to make withdrawals under any loan agreement with IBRD or any development credit agreement with IDA shall have been suspended.

7.2. IDA may, by written notice to the Recipient, terminate the right of the Recipient to make further withdrawals from the Grant Account: (a) at any time after the right of the Recipient to make withdrawals from the Grant Account shall have been suspended pursuant to the provisions of paragraph 7.1 above; or (b) if the Recipient shall have failed to take action, satisfactory to IDA, within six months after the effective date hereof, to carry out the Project.

Procurement

Section I. Procurement of Goods

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: Other Procurement Procedures

International Shopping

1. 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.
2. Goods and works under sub-projects shall be procured in accordance with the provisions of paragraph 3.15 of the Guidelines and the procedures set forth in the Project Operational Manual with respect to Sub-grants under Part A of the Project.

Part C: Review by IDA of Procurement Decisions

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. Consultants’ Services

Part A: General

Consultants’ services shall be procured in accordance with the provisions of Section I and Section 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 this Section.

Part B: Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services 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 Consultants Guidelines.

2. Individual Consultants

Services for individual firms 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 paragraph 5.1 through 5.3 of the Consultant Guidelines.

Part C: Review by IDA of the Selection of Consultants

1. Prior Review

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of US\$10,000 or more, the report on the comparison of the qualifications and experience of candidates, and the terms of reference and terms of employment of the consultants shall be furnished to IDA for its prior review and approval. The contract shall be awarded only after said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

2. 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.

Attachment II

Special Account

1. For the purposes of this Attachment:
 - (a) the term "eligible Categories" means the Categories (1), (2), (3), (4) and (5) set forth in the table in paragraph 5.2 of the Annex to this Letter 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 Grant allocated from time to time to the eligible Categories in accordance with the provisions of paragraph 5.2 of the Annex to this Letter Agreement; and
 - (c) the term "Authorized Allocation" means an amount equivalent to US\$100,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Attachment.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Attachment.
3. After IDA 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) The Recipient shall furnish to IDA a request or requests for a 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, IDA shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.
 - (b)
 - (i) For replenishment of the Special Account, the Recipient shall furnish to IDA requests for deposits into the Special Account at such intervals as IDA shall specify.
 - (ii) Prior to or at the time of each such request, the Recipient shall furnish to IDA the documents and other evidence required pursuant to paragraph 4 of this Attachment for the payment or payments in respect of which replenishment is requested. On the basis of each such request, IDA shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient 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 IDA from the Grant Account under the 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 Recipient out of the Special Account, the Recipient shall, at such time as IDA shall reasonably request, furnish to IDA such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Attachment, IDA shall not be required to make further deposits into the Special Account:

(a) if, at any time, IDA shall have determined that all further withdrawals should be made by the Recipient directly from the Grant Account;

(b) if the Recipient shall have failed to furnish to IDA, within the period of time specified in paragraph 6.1 (b) (ii) of the Annex to this Letter Agreement, any of the audit reports required to be furnished to IDA pursuant to said paragraph in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, IDA shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to the provisions of paragraph 7.1 of the Annex to this Letter Agreement; or

(d) once the total unwithdrawn amount of the Grant shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawals from the Grant Account of the remaining unwithdrawn amount of the Grant shall follow such procedures as IDA shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that IDA 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 IDA 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 Attachment; or (ii) was not justified by the evidence furnished to IDA, the Recipient shall, promptly upon notice from IDA: (A) provide such additional evidence as IDA may request; or (B) deposit into the Special Account (or, if IDA shall so request, refund to IDA) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless IDA shall otherwise agree, no further deposit by IDA into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If IDA 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 Recipient shall, promptly upon notice from IDA, refund to IDA such outstanding amount.