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**GRANT NUMBER H312-KG**

# **Financing Agreement**

**(Second On-farm Irrigation Project)**

**between**

**KYRGYZ REPUBLIC**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated August 29, 2007**

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**GRANT NUMBER H312-KG**

**FINANCING AGREEMENT**

AGREEMENT dated August 29, 2007, entered into between the KYRGYZ REPUBLIC (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). 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 in an amount equivalent to ten million six hundred thousand Special Drawing Rights (SDR 10,600,000) (“Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement. The Recipient’s Representative for purposes of taking any action required or permitted to be taken pursuant to this Section is the Minister of Finance of the Recipient.
- 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 Payment Dates are May 15 and November 15 in each year.
- 2.05. The Payment Currency is Dollars.

**ARTICLE III - PROJECT**

- 3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project through DWR 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 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 the Minister of Finance of the Recipient.
- 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:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI)	1-202-477-6391

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

KYRGYZ REPUBLIC

By: /s/ Akylbek Japarov

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Roger Robinson

Authorized Representative

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to improve irrigation service delivery on a sustainable basis that will contribute to increased agricultural productivity among irrigation farmers.

The Project consists of the following parts:

#### **Part I: WUA Strengthening**

(a) Strengthening of WUAs through the provision of technical assistance, training, and technical credits for the purchase of vehicles, office equipment, field equipment, and technical machinery.

(b) Strengthening of WUA Support Units at the central office in Bishkek and at oblast and raion level through provision of technical assistance, training, vehicles, and office equipment.

#### **Part II: Infrastructure Rehabilitation and Modernization**

Rehabilitation and modernization of WUA-managed irrigation and drainage systems and elimination of critical bottlenecks in DWR-managed systems through the provision of civil works, goods, technical assistance and training.

#### **Part III: Project Management**

Support for PIU in the Project management, administration, coordination, procurement and financial management, through the provision of consulting services, including audits and monitoring and evaluation, and training, goods and incremental operating costs.

## **SCHEDULE 2**

### **Project Execution**

#### **Section I. Implementation Arrangements**

##### **A. Institutional Arrangements**

1. The Recipient shall carry out the Project in accordance with the provisions of the PIP or EMP and shall not amend, suspend, abrogate, repeal or waive any provision of the PIP or EMP without prior approval of the Association.
2. The Recipient, through DWR, shall maintain the PIU during execution of the Project with staff whose qualifications and terms of reference shall be satisfactory to the Association, and resources adequate to enable it to effectively implement the Project.
3. The Recipient, through DWR, shall ensure that the PIU shall be responsible for:  
(a) Project management, coordination and monitoring, including evaluation, and reporting; (b) preparation of applications for withdrawals of the proceeds of the Financing; (c) management of Designated Account; (d) procurement of goods, works and consultants' services for the Project; (e) maintenance of records and accounts related to the Project and arranging for the audit thereof; (f) preparation of an annual work program for the Project; and (g) overall responsibility for accounting, financial reporting and management, and preparing of the Project Reports.
4. The Recipient, through DWR, shall ensure that all Sub-projects for rehabilitation and construction works under Part II of Schedule 1 to this Agreement are selected in accordance with criteria and procedures set forth in Section I.C below.
5. The Recipient shall ensure that any law and regulation in force governing the setting of irrigation service fees shall not be amended in a manner which will adversely affect the implementation of the Project activities. Any new law, regulation or amendment thereof shall be satisfactory to the Association.
6. The Recipient, through DWR shall by October 31 each year, prepare and furnish to the Association for its review and approval, an annual work program and budget for the Project activities to be carried out during the following calendar year, and shall finalize the said work program based on recommendations of the Association.
7. The Recipient, through DWR, shall ensure that by December 1 of each year the PIU prepares and furnishes to the Association for its prior review and approval an annual training plan describing training, workshops, and study tours to be carried out under the Project.

8. The Recipient, through DWR, shall maintain, throughout the Project execution, the WUA Support Units established under the Association's financed On-Farm Irrigation Project (Credit Number 3369 KG) with adequate technical and financial resources to ensure that the Project receives necessary support during the implementation of the activities.

9. The Recipient, through PIU, shall undertake all measures necessary to ensure that the Project shall be carried out in a manner which fosters transparency and accountability, and to this end, shall include appropriate measures in the PIP by December 31, 2007, satisfactory to the Association.

10. The Recipient, through PIU, shall ensure that the technical credits to be provided to selected WUAs under Part I (a) of the Project are in accordance with procedures satisfactory to the Association.

**B. Anti-Corruption**

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

**C. Eligibility Criteria and Procedures Applicable to Sub-projects proposals under Part II of Schedule 1 to this Agreement**

Part A: Sub-project proposal Eligibility Criteria

1. Sub-project proposals under Part II of Schedule 1 to this Agreement shall be selected by the Recipient, through PIU, in accordance with criteria, satisfactory to the Association, including the following criteria:

(a) rehabilitation and modernization Sub-project proposals for WUA-managed irrigation and drainage systems shall be for existing irrigation and drainage infrastructure, with no irrigation of new areas or expansion of the existing irrigation infrastructure;

(b) the rehabilitation and modernization Sub-project proposals of each WUA-managed irrigation and drainage system shall have an economic rate of return equal to or larger than twelve percent;

(c) the rehabilitation and modernization Sub-project proposals for each WUA-managed irrigation and drainage system shall be in conformity with all national environmental standards, and their design and implementation shall provide for adequate mitigation measures to ensure full compliance with national health, environmental, and safety standards and requirements; and



(d) the rehabilitation and modernization Sub-project proposals for each WUA-managed irrigation and drainage system shall be carried out with due diligence and efficiency under the supervision of qualified and experienced management assisted by competent staff in adequate numbers, and in accordance with appropriate administrative, financial, technical, and engineering standards.

Part B: Sub-project proposal Selection Procedures

1. The Recipient, through PIU, shall, prior to the commencement of rehabilitation works under each Sub-project, submit the proposal for that Sub-project to the Association for its review and approval.

2. In submitting a proposal for a Sub-project under Part II of Schedule 1 to this Agreement to the Association for its review and approval, the Recipient, through PIU, shall prepare and furnish to the Association a brief report satisfactory to the Association which shall contain: (i) a description of the current condition of the irrigation and drainage infrastructure, the proposed rehabilitation and modernization measures, cost estimates, and the results of the economic analysis of the proposed Sub-project; (ii) information on the WUA responsible for the proposed Sub-project, including information on its system operation and maintenance implementation capacity, irrigation service fee levels, and the fee collection rates; (iii) WUA members' participation in the selection of the proposed rehabilitation works; (iv) the environmental considerations; and (v) such other information as the Association shall reasonably request.

3. The Recipient, through PIU, shall allow the representatives of the Association, if the Association shall so request, to inspect the sites, works, plants, goods and construction included in the Sub-project under Part II of Schedule 1 to this Agreement, the operation thereof, and any relevant records and documents.

**D. Safeguards**

1. The Recipient, through PIU, shall implement the EMP, including Guidelines on Dam or Reservoir Safety Measures, and site-specific EMPs, in a manner satisfactory to the Association and shall provide the Association with a summary status of the implementation (including results from environmental monitoring) as part of annual Project reporting or when specifically requested by the Association.

2. The Recipient, through PIU, shall ensure that if an eligible Sub-project under Part II of Schedule 1 to this Agreement is served by a storage reservoir, no rehabilitation and modernization activities for Sub-project shall start, unless the engineering and safety assessment of such storage reservoir has been carried out by a qualified engineering consulting firm and the results of such assessment and the proposed remedial measures, if any, have been reviewed and agreed upon with the Association.

**Section II. Project Monitoring, Reporting and Evaluation**

**A. Project Reports**

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 the indicators agreed with 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.

**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. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the Project Report 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, commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

4. The Recipient, through DWR, shall:

(a) have the internal control framework, the operational processes and procedures followed under the Project, audited for the fiscal years 2008 and 2010 (or other period agreed to by the Association), in accordance with terms of reference and by independent auditors both acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such fiscal year (or such other period agreed to by the Association): (i) certified copies of the assessment of the internal control framework, the operational processes and procedures referred to in paragraph (4) of this Section for such fiscal year (or other period agreed to by the Association), as so audited; and (ii) an opinion on such processes and procedures by said auditors, in scope and detail satisfactory to the Association, as to whether they provide the Recipient adequate accounting, internal control and financial reporting as intended for the Project; and

(c) furnish to the Association such other information concerning such internal control framework, operational processes and procedures, the audit of such

internal control framework, operational processes and procedures and concerning said auditors, as the Association may from time to time reasonably request.

**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:

<b>Procurement Method</b>	
(a)	National Competitive Bidding, subject to additional provisions set forth in the Attachment to this Schedule 2
(b)	Shopping - Works
(c)	Shopping - Goods

**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.

<b>Procurement Method</b>	
(a)	Consultants Qualifications
(b)	Least-Cost Selection
(c)	Selection of Individual Consultants
(d)	Sole-Source Selection

**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 categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<b>Category</b>	<b>Amount of the Financing Allocated (expressed in SDR)</b>	<b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b>
(1) Goods	1,300,000	100%
(2) Works	7,500,000	83%
(3) Consultants' Services, including Audit	800,000	90% of Local Expenditures and 70% of Foreign Expenditures
(4) Training	400,000	100%
(5) Incremental Operating Costs	300,000	100%
(6) Unallocated	300,000	
<b>TOTAL AMOUNT</b>	<b><u>10,600,000</u></b>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
  - (a) for payments made prior to the date of this Agreement; and
  - (b) under Category 2 (Works) for an eligible Sub-project, unless the engineering and safety assessment of storage reservoir has been carried out by a qualified engineering consulting firm and the results of such assessment and the proposed remedial measures, if any, have been reviewed and agreed upon with the Association.
2. The Closing Date is June 30, 2013.

**ATTACHMENT  
to  
SCHEDULE 2**

National Competitive Bidding procedures of the Recipient may be used for procurement of works under the Project, provided that the following provisions are complied with:

A. Registration and Licensing

(a) Bidding shall not be restricted to pre-registered/licensed firms.

(b) Where registration or licensing is required, bidders: (i) shall be allowed a reasonable time to complete the registration or licensing process; and (ii) shall not be denied registration/licensing for reasons unrelated to their capability and resources to successfully perform the contract, which shall be verified through post-qualification.

(c) Foreign bidders shall not be precluded from bidding. If a registration or licensing process is required, a foreign bidder declared the lowest evaluated bidder shall be given a reasonable opportunity to register or to obtain a license.

B. Advertising

Invitations to bid shall be advertised in the Bulletin of State Procurement and in at least one widely circulated national daily newspaper allowing a minimum of 30 days for the preparation and submission of bids.

C. Pre-qualification

When pre-qualification shall be required for large or complex works, invitations to pre-qualify for bidding shall be advertised in at least one widely circulated national daily newspaper a minimum of 30 days prior to the deadline for the submission of pre-qualification applications. Minimum experience, technical and financial requirements shall be explicitly stated in the pre-qualification documents.

D. Participation by Government-owned enterprises

Government-owned enterprises in the Kyrgyz Republic shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law and are not a dependent agency of the contracting authority. Furthermore, they will be subject to the same bid and performance security requirements as other bidders.

E. Bidding Documents

Procuring entities shall use the appropriate standard bidding documents for the procurement of goods, works or services, acceptable to the Association.

F. Bid Opening and Bid Evaluation

(a) Bids shall be opened in public, immediately after the deadline for submission of bids.

(b) Evaluation of bids shall be made in strict adherence to the monetarily quantifiable criteria declared in the bidding documents.

(c) Domestic preference should not be applied.

(d) Contracts shall be awarded to qualified bidder having submitted the lowest evaluated substantially responsive bid and no negotiation shall take place.

G. Price Adjustment

Civil works contracts of long duration (for example, more than eighteen (18) months) shall contain an appropriate price adjustment clause.

H. Rejection of Bids

All bids shall not be rejected and new bids solicited without the Association's prior concurrence.

I. Rejection of an Individual Bid

An individual bid shall be rejected only in the following cases:

(a) the bidder is not qualified;

(b) The bidder does not accept the correction of an arithmetical error in his bid by the Tender Commission of the procuring entity;

(c) the bidder is not responsive to the requirements of the bidding documents; or

(d) under the circumstances referred to in Article 6 of the Law on Public Procurement.

J. State unit costs shall not be used for bidding and evaluation of bids for civil works contracts.

## **APPENDIX**

### **Definitions**

1. “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.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “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.
4. “DWR” means Department of Water Resources of the Ministry of Agriculture, Water Resources and Processing Industry of the Recipient or any successor or successors thereto.
5. “Environmental Management Plan” or “EMP” means the plan describing the environmental mitigation and monitoring measures under the Project, satisfactory to the Association, prepared and adopted by the Recipient, through the State Agency on the Environment Protection and Forestry under the Government of the Recipient, on April 5, 2007.
6. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
7. “Incremental Operating Costs” means operating expenditures incurred by the PIU and ORTs (hereinafter defined) and the site supervisors on account of the Project implementation, management and monitoring, including operation and maintenance of vehicles, social charges, office equipment operation and supplies, communication costs, support for information systems, translation costs, bank charges, travel and per diem costs and other reasonable expenditures directly associated with the implementation of the Project activities, all based on an annual budget acceptable to the Association.
8. “MAWRPI” means the Ministry of Agriculture Water Resources and Processing Industry of the Recipient or any successor or successors thereto.
9. “ORTs” means Oblast Rehabilitation Teams established by the Recipient and operating in each of the seven Oblasts of the Recipient for the purpose of preparing rehabilitation and modernization designs and supervise construction works related to the implementation of the designs.



10. "Procurement Guidelines" means the "Guidelines: Procurement under IBRD Loans and IDA Credits" published by the Bank in May 2004 and revised in October, 2006.
11. "Procurement Plan" means the Recipient's procurement plan for the Project, dated April 25, 2007, 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.
12. "PIP" means the Project Implementation Plan for the carrying out of the Project prepared and adopted by the Recipient, as the same may be amended from time to time with the agreement of the Association.
13. "PIU" means the Project Implementation Unit established by DWR under the MAWRPI.
14. "Sub-project" means a project for rehabilitation and modernization of a specific irrigation distribution facility under Part II of the Project selected in accordance with the provisions of Section I.C of Schedule 2 to this Agreement.
15. "Training" means expenditures incurred on account of Project related study tours, training courses, seminars, workshops and other training activities, including travel and per diem costs of trainees and trainers.
16. "WUA" means the Water Users Associations defined in the Recipient's WUA Law, No. 38, dated March 27, 2002.