

CONFORMED COPY

GRANT NUMBER H358 KG

Financing Agreement

(Bishkek and Osh Urban Infrastructure Project)

between

KYRGYZ REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 30, 2008

GRANT NUMBER H358 KG

FINANCING AGREEMENT

AGREEMENT dated April 30 2008, entered into between 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 seven million six hundred thousand Special Drawing Rights (SDR 7,600,000) (“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.
- 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 United States Dollars.

ARTICLE III - PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.
- 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 - REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Events of Suspension consist of the following: Project Implementing Entity's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.

ARTICLE V - EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
 - (a) The Subsidiary Agreement has been executed on behalf of the Recipient and the Project Implementing Entity.
 - (b) The Project Operational Manual, satisfactory to the Association, has been adopted by the Project Implementing Entity.
- 5.02. The Additional Legal Matter consists of the following: the Subsidiary Agreement has been duly authorized or ratified by the Recipient and the Project Implementing Entity and is legally binding upon the Recipient and the Project Implementing Entity in accordance with its terms.
- 5.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.04. 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 VI - REPRESENTATIVE; ADDRESSES

6.01. The Recipient's Representative is the Minister of Finance.

6.02. The Recipient's Address is:

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

Telex:

Facsimile:

245-156 NUR KH

(996-312) 661645

6.03. 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/ Tajikan Kalimbetova

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Roger Robinson

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to assist the Recipient in improving the living conditions of residents of *novostroiki* in the Cities of Bishkek and Osh through the development of infrastructure of the Bishkek and Osh Municipalities pertaining to road networks, drainage systems, supply of clean and safe water and other such infrastructure as well as the rehabilitation and upgrading of said infrastructure.

The Project consists of the following parts:

Part 1: Infrastructure Development

Carrying out works and services to rehabilitate, upgrade and develop infrastructure of: (a) the Bishkek Municipality pertaining to road networks, drainage systems, and supply of clean and safe water as well as such other infrastructure, identified in accordance with criteria and procedures acceptable to the Association, of the Bishkek Municipality; and (b) the Osh Municipality pertaining to road networks, drainage systems, and supply of clean and safe water as well as such other infrastructure, identified in accordance with criteria and procedures acceptable to the Association, of the Osh Municipality.

Part 2: Community Investment Program

Carrying out small-scale investments, in accordance with criteria and procedures acceptable to the Association, in participating *novostroiki*: (a) in the City of Bishkek to improve the living conditions of said *novostroiki*; and (b) in the City of Osh to improve the living conditions of said *novostroiki*.

Part 3: Institutional Development

Provision of technical assistance, including such other support, to improve the institutional capacity of bodies of: (a) the Bishkek Municipality to manage municipal services in the City of Bishkek; and (b) the Osh Municipality to manage municipal services in the City of Osh.

Part 4: Project Management, Coordination, Monitoring and Evaluation

Provision of technical assistance to the Project Implementing Entity and other institutions involved in the implementation of the Project, including the financing of Operating Costs and audits, for the purpose of managing and monitoring Project activities, as well as provision of training and workshops for the purposes of improving the capacity of the Project Implementing Entity to prepare, evaluate and develop

infrastructure investments, including cooperating with participating *novostroiki* in implementation of the Project.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall cause the Project to be implemented by the Project Implementing Entity in accordance with the provisions of the Project Operational Manual. Except as the Association shall otherwise agree, the Recipient shall not, and shall cause the Project Implementing Entity not to, amend or waive any provision of the Project Operational Manual, if, in the opinion of the Association, such amendment or waiver may materially or adversely affect the carrying out of the Project or the achievement of the Project objectives.

2. The Recipient shall at all times ensure that the Project Implementing Entity has adequate functions, staffing and resources satisfactory to the Association.

B. Subsidiary Agreement

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity under a subsidiary agreement between the Recipient and the Project Implementing Entity, under terms and conditions approved by the Association (“Subsidiary Agreement”).

2. The Recipient shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

C. Anti-Corruption

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

D. Safeguards

The Recipient shall: (i) cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of the Environmental Management Framework; (ii) take all action, including the preparation and submission of Environmental Management Plans acceptable to the Association, as well as ensuring the provision of funds, facilities, services, and other resources, necessary or appropriate for the carrying out of the Project; and (iii) not take or permit to be taken any action which would prevent or interfere with the carrying out of the Project.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

The Recipient shall cause the Project Implementing Entity to monitor and evaluate the progress of the Project and to 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 quarter, and shall be furnished by the Project Implementing Entity 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 cause the Project Implementing Entity to maintain 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 cause the Project Implementing Entity to 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 cause the Project Implementing Entity to 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 was made. The audited Financial Statements for each such period shall be furnished by the Project Implementing Entity to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

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

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

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

B. Particular Methods of Procurement of Goods and Works

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

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

Procurement Method	
(a)	National Competitive Bidding, subject to the following provisions: <ul style="list-style-type: none">A. <u>Registration and Licensing</u><ul style="list-style-type: none">(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. <u>Advertising</u><p>Invitations to bid shall be advertised in the Bulletin of State Procurement and in at least one (1) widely circulated national daily newspaper allowing a minimum of thirty (30) days for the preparation and submission of bids.</p>C. <u>Pre-qualification</u>

Procurement Method

When pre-qualification shall be required for large or complex works, invitations to pre-qualify for bidding shall be advertised in at least one (1) widely circulated national daily newspaper a minimum of thirty (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

Procurement Method
<p>prior concurrence.</p> <p>I. <u>Rejection of an Individual Bid</u></p> <p>An individual bid shall be rejected only in the following cases:</p> <ul style="list-style-type: none">(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 State Procurement. <p>J. State unit costs shall not be used for bidding and evaluation of bids for civil works contracts.</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)	Least Cost Selection
(b)	Selection Based on the Consultants' Qualifications
(c)	Selection of Individual Consultants
(d)	Single-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 100% (inclusive of Taxes) of Eligible Expenditures.

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:

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed
(1) Goods and Works under Part 1 of the Project	5,470,000	80%
(2) Goods and Works under Part 2 of the Project	570,000	95%

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed
(3) Goods under Parts 3, and 4 of the Project	210,000	100%
(4) Consultants Services, including Audit and Training	450,000	100% of local expenditures 90% of foreign expenditures
(5) Operating costs	570,000	100%
(6) Unallocated	330,000	
TOTAL AMOUNT	<u>7,600,000</u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) under Category 2 for Project activities relating to Part 2 of the Project, until the Recipient shall have caused the Project Implementing Entity to enter into implementation arrangements, satisfactory to the Association, with the Territorial Organizations of Self-Governance of the *novostroiki*.
 - (b) under Category 1 for Project activities relating to Part 1 of the Project, until the Recipient shall have caused the Project Implementing Entity to enter into implementation arrangements, satisfactory to the Association, with the executive bodies of the Bishkek and Osh Municipalities, respectively.
2. The Closing Date is June 30, 2012.

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. “Bishkek Municipality” means the local government authority of Bishkek City, or any successor thereto.
3. “Bishkek Municipal Project Unit” means a body or unit of Bishkek Municipality, established pursuant to a Cooperation Agreement to be entered into between the Project Implementing Entity and the executive body of the Bishkek Municipality, for the purposes of carrying out Parts 1(a), 2(a) and 3(a) of the Project.
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “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.
6. “Coordination Council” means the Recipient’s Coordination Council established pursuant to the Decree of the President of the Kyrgyz Republic No. 174 of August 24, 2007, or any successor thereto.
7. “Environmental Management Framework” means the Recipient’s environmental management framework for the Project, furnished to the Association on January 28, 2008, pursuant to the Association’s Operational Policy 4.01, to identify, avoid and mitigate potential negative environmental impacts associated with the Project.
8. “Environmental Management Plans” means the Recipient’s environmental management plans for the Project, to be furnished to the Association, in accordance with criteria and procedures acceptable to the Association, as such plans may be updated from time to time in agreement with the Association, setting forth the mitigating, monitoring and institutional measures to be taken during the implementation and operation of the Project to offset or reduce adverse environmental, natural habitats and cultural property impacts to levels acceptable to the Association.

9. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
10. “Law on State Procurement” means the Recipient’s Law on State Procurement, No. 69, dated May 24, 2004, including any amendments thereto or any succeeding legislation.
11. “*Novostroiki*” means residential settlements and communities around Bishkek and Osh Cities occupied mainly by urban migrants from within the Kyrgyz Republic.
12. “Operating Costs” means recurrent expenditures incurred in connection with Project on account of office supplies, vehicle rental and operating charges, maintenance of office equipment, telephone and other communication charges, rental of office space, insurance charges, banking charges, utility charges, domestic travel expenses, Social Charges and salaries of contractual staff, but excluding salaries of officials of the Recipient’s civil service.
13. “Osh Municipality” means the local government authority of Osh City, or any successor thereto.
14. “Osh Municipal Project Unit” means a body or unit of Osh Municipality, established pursuant to a Cooperation Agreement to be entered into between the Project Implementing Entity and the executive body of the Osh Municipality, for the purposes of carrying out Parts 1(b), 2(b) and 3(b) of the Project.
15. “Participating *novostroiki*” means *Novostroiki* selected by the Project Implementing Entity, in accordance with criteria and procedure acceptable to the Association, to participate in and benefit from Part 2 of the Project.
16. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
17. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated February 6, 2008 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.
18. “Project Implementing Entity” means the Recipient’s Community Development and Investment Agency, or any successor thereto.

19. “Project Implementing Entity’s Legislation” means the Edict of the President of the Kyrgyz Republic, No. 330, dated October 15, 2003, including any amendments thereto or any succeeding legislation.
20. “Project Operational Manual” means the project operational manual prepared by the Recipient and/or the Project Implementing Entity and submitted to the Association on January 23, 2008, setting out the principles and procedures governing the implementation of the Project.
21. “Social Charges” means payments and premiums incurred by contractual staff, as Operating Costs, including contributions for health benefits, unemployment benefits, disability insurance, workers’ compensation benefits, retirement (pension and/or social security) benefits, life insurance benefits and mandatory employer contributions to the Kyrgyz Social Fund.
22. “Subsidiary Agreement” means the agreement referred to in Section I.B of Schedule 2 to this Agreement pursuant to which the Recipient shall make part of the proceeds of the Financing available to the Project Implementing Entity.