

CONFORMED COPY

GRANT NUMBER H388 KG

Financing Agreement

Capacity Building for Economic Management Project

between

KYRGYZ REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 22, 2008

GRANT NUMBER H388 KG

FINANCING AGREEMENT

AGREEMENT dated September 22, 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 one million nine hundred thousand Special Drawing Rights (SDR 1,900,000) (“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 carry out the Project 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 Conditions of Effectiveness consist of the following:
- (a) the Recipient has set up the Steering Committee; and
 - (b) the Project Operational Manual, satisfactory to the Association, has been adopted by the Recipient.
- 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 the 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/ Akylbek Japarov

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 establishing and institutionalizing an efficient and effective framework for formulating and implementing sustainable economic policies as well as in enhancing the capacity of public institutions responsible for the development and implementation of such policies to formulate and carry out the policies.

The Project consists of the following parts:

Part 1: Institutional and Technical Framework for Macro-Economic Policy

Enhancing the cooperation of the public institutions, in the area of formulating and implementing economic policies, through: (a) the provision of technical assistance to the Presidential Administration, the Office of the Prime Minister, MoF, MEDT and NBKR regarding, *inter alia*, the impact of economic policies on the fiscal and business environments; (b) the provision of technical assistance to develop a sustainable and effective framework for macroeconomic forecasts; (c) the provision of technical assistance to establish and support the functioning of a task force secretariat for a high-level macroeconomic policy coordinating body; and (d) studies, training, conferences, seminars, and other knowledge sharing activities for capacity-building in the area of economic policy.

Part 2: Strengthening the Capacity to Formulate and Implement Economic Policy

(a) Developing the capacity of MEDT to formulate and implement sustainable macroeconomic and structural economic policies, including policies for the improvement of the business environment; and

(b) Provision of technical assistance to the Recipient to: (i) improve MEDT's organizational strategy and structure, including developing and implementing MEDT's Strategic Development Plan as well as developing and implementing an improved human resources management system for MEDT to recruit and select its staff transparently and efficiently; (ii) train MEDT and MoF staff in matters of economic policy; (iii) enhance the capacity of MEDT in areas of commercial law and economic analysis; and (iv) improve the capacity of the Recipient in the use of modern investment appraisal techniques for evaluating investment projects.

Part 3: Building Capacity for Civil Service Reform

Provision of technical assistance to: (a) support the reform of salary structures and job grades in the civil service; (b) enhance the capacity of the Recipient to carry out

said reforms; and (c) establish and maintain a central database, regarding employment opportunities in the civil service, including data on existing jobs and salary structures.

Part 4: Project Management and Implementation Support

Provision of technical assistance to support the Steering Committee as well as MEDT in the monitoring, evaluation and implementation of Project activities, including supporting MEDT's cooperation with other stakeholders concerned with the implementation of the Project.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall ensure that the Steering Committee coordinates with MEDT in the implementation of the Project and carries out Project activities in accordance with the provisions of the Project Operational Manual. Except as the Association shall otherwise agree, the Recipient shall not 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 cause MEDT to carry out the day-to-day Project activities pertaining to procurement, financial management, disbursements, monitoring and reporting for the entire Project.

3. Within six (6) months after the Effective Date, the Recipient shall cause MEDT to enhance the capacity of MEDT's department responsible for human resources management through the recruitment of adequately qualified staff on a transparent and competitive basis to carry out, *inter alia*, the restructuring of MEDT.

4. To supplement the Financing, the Recipient shall, in accordance with decisions of the Steering Committee, use its own sources of funds to supplement the salaries of select officials of the Recipient involved in the reform process supported by the Project, which officials are to be selected through criteria and procedures to be established in accordance with the decisions of the Steering Committee and consistent with the laws of the Recipient, to receive said salary supplements. The Recipient shall ensure that the funds made available for this purpose are adequate to achieve the objectives of the Project, and that such funds will constitute counterpart financing of the Project.

B. Anti-Corruption

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

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

The Recipient shall cause MEDT to 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 quarter, 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 cause MEDT 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 MEDT 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 MEDT to have the Financial Statements of the Project 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 to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods.** All goods 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

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

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

Procurement Method	
(a)	Shopping
(b)	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	173,000	100%
(2) Consultants Services	995,000	100% of local expenditures 90% of foreign expenditures
(3) Training and Study Tours	460,000	100%
(4) Operating Costs	90,000	100%
(5) Unallocated	182,000	
TOTAL AMOUNT	<u>1,900,000</u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.

2. The Closing Date is December 31, 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. “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. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
5. “MEDT” means the Recipient’s Ministry of Economic Development and Trade, or any successor thereto.
6. “MoF” means the Recipient’s Ministry of Finance or any successor thereto.
7. “NBKR” means the National Bank of the Kyrgyz Republic or any successor thereto.
8. “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, employer contributions to the Social Fund of the Kyrgyz Republic, banking charges, utility charges and domestic travel expenses, but excluding salaries of officials of the Recipient’s civil service.
9. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
10. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 23, 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.

11. “Project Operational Manual” means the project operational manual referred to in Section 4.01(b) of this Agreement, setting out the principles and procedures governing the implementation of the Project.
12. “Steering Committee” means the committee referred to in Section 4.01(a) of this Agreement and responsible for the overall implementation of the Project, or any successor thereto, comprising the Head of the Economic and Social Policy Department of the President’s Administration, the Head of the Government Office, the Chairman of NBKR, the Minister of Finance and the Minister of Economic Development and Trade, or any other senior Government official representing any of the aforesaid officials.
13. “Training” means training activities (other than consultants’ services) to be carried out under the Project, as approved by the Association on the basis of annual training and study tour plans acceptable to the Association, including the reasonable and necessary local and international travel and visa expenses incurred by participants in training workshops, as well as lodging, subsistence, local and international per diem allowances according to the guidelines of the Recipient, registration, tuition and facilitators’ fees, minor organizational expenses (including costs of stationery, handouts and training materials), translation and interpretation costs, facility rental costs, and other expenses directly relating to the training workshop and study tour activity, as may be agreed with the Association.