

CONFORMED COPY

GRANT NUMBER H250 KG

Financing Agreement

(Second Village Investment Project)

between

KYRGYZ REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 3, 2006

GRANT NUMBER H250 KG

FINANCING AGREEMENT

AGREEMENT dated October 3, 2006, 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 the Financing 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 one hundred thousand Special Drawing Rights (SDR 10,100,000) (“Grant”) 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 each year.
- 2.05. The Payment Currency is Dollars.

ARTICLE III - PROJECT

- 3.01. (a) 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.
- (b) The Recipient shall make the proceeds of the Grant available to the Project Implementing Entity under a subsidiary grant agreement to be entered into between the Recipient and the Project Implementing Entity,

under terms and conditions which shall have been approved by the Association.

- (c) The Recipient shall exercise its rights under the Subsidiary Grant Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Grant, and, except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Grant Agreement or any provision thereof.

- 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:
 - (a) The Project Implementing Entity shall have failed to perform any of its obligations under the Project Agreement.
 - (b) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Project Implementing Entity will be able to perform its obligations under the Project Agreement.
 - (c) The Edict of the President of the Kyrgyz Republic No. 330 dated October 15, 2003, 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 Condition of Effectiveness consists of the following, namely, that the Subsidiary Grant Agreement has been executed on behalf of the Recipient and the Project Implementing Entity.
- 5.02. The Additional Legal Matters consist of the following:
 - (a) the Subsidiary Grant 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; and

(b) the Project Agreement has been duly authorized or ratified by the Project Implementing Entity, and is legally binding upon 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 Schedule 2 to this Agreement shall terminate is 20 years after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

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

6.02. The Recipient's Address is:

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

Telex:
245-156 NUR KH

Facsimile:
(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:
INDEVAS
Washington, D.C.

Telex:
248423 (MCI) or
64145 (MCI)

Facsimile:
1-202-477-6391

AGREED at the District of Columbia, United States of America, as of the day and year first above written.

KYRGYZ REPUBLIC

By: /s/ Zamira Sydykova

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Annette Dixon

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to assist the Recipient with: (a) improving governance and capacity at the local level; (b) strengthening the provision of, and access to, essential infrastructure services; and (c) supporting private group-owned small-scale enterprise development. The Project consists of the following parts:

Part I: Capacity Building and Empowerment

Provision of technical assistance and training to participating communities, local self-government institutions, community-based organizations and local non-governmental organizations in community mobilization and capacity building, development planning, and Micro-project implementation.

Part II: Village Investments

Provision of Community Grants to eligible communities to assist them with the implementation of the Community Investment Plans.

Part III: Project Management

Provision of technical assistance, including audit and Training to the Project Implementing Entity for Project management and monitoring and financing its Operating Costs under the Project.

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

1. The Recipient shall maintain the Project Implementing Entity until completion of the Project with staff, resources and terms of reference satisfactory to the Association, shall not amend and shall cause the Project Implementing Entity not to amend its Charter without prior approval by the Association and shall assign to the Project Implementing Entity the responsibility for overall Project management and coordination, including:

- (a) preparation of withdrawal applications under the Grant;
- (b) maintenance of records and accounts related to the Project and arranging for the audit thereof;
- (c) participation in administration of bidding procedures and of contracts under the Project; and
- (d) preparation of quarterly Project Reports and submission thereof to the Recipient and the Association not later than forty-five (45) days after the end of each quarter, the first such Report to be furnished to the Association not later than forty-five (45) days after the end of the first full calendar quarter after the effectiveness of this Agreement.

2. The Recipient shall, and shall cause the Project Implementing Entity to maintain the Operational Manual in form and content satisfactory to the Association and not to assign, amend, abrogate or waive the Operational Manual without obtaining the prior approval of the Association. The Operational Manual shall cover, *inter alia*, the following matters: (a) eligibility criteria for Community Grants and Micro-projects; (b) the principles and procedures to be followed for the approval of Community Grants and Micro-projects; (c) regional allocation of the Grant funds; (d) community contribution requirements for Micro-projects; and (e) the indicators to be utilized by the Project Implementing Entity in monitoring the progress of the Project.

3. The Recipient shall, and shall cause the Project Implementing Entity to 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 Operational Manual by November 1, 2006, satisfactory to the Association.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

The Recipient, through the Project Implementing Entity, 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 a 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 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 un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

4. The Recipient shall, and shall cause the Project Implementing Entity to:

(a) have the internal control framework, the operational processes and procedures followed under the Project, audited for the first and third year (or any 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 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 (a) of this Section for such 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, and 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 Schedule.

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 Schedule.

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. **National Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works costing more than US\$100,000 equivalent per contract shall be procured under contracts awarded on the basis of National Competitive Bidding, subject to the following provisions:

A. Registration and Licensing

- (i) Bidding shall not be restricted to pre-registered/licensed firms.
- (ii) 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.
- (iii) 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 (1) widely circulated national daily newspaper allowing a minimum of thirty (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 (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

- (i) Bids shall be opened in public, immediately after the deadline for submission of bids.
- (ii) Evaluation of bids shall be made in strict adherence to the monetarily quantifiable criteria declared in the bidding documents.
- (iii) Domestic preference should not be applied.
- (iv) 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:

- (i) the bidder is not qualified;
- (ii) the bidder does not accept the correction of an arithmetical error in his bid by the Tender Commission of the procuring entity;
- (iii) the bidder is not responsive to the requirements of the bidding documents; or
- (iv) under the circumstances referred to in Article 6 of the Law on State Procurement.

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

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

<u>Procurement Method</u>	
(a)	Shopping
(b)	Community Participation
(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)	Selection Based on Consultants' Qualification
(b)	Individual Consultants
(c)	Sole-Source Selection

D. Review by the Bank 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 2 of the General Conditions and this Section and such additional instructions as the Bank may specify by notice to the Recipient, 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:

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed
(1) Goods, Works, Training and Operating Costs	990,000	100%
(2) Consultants services, including audit and operational reviews	1,100,000	100% of Local Expenditures and 90% of Foreign Expenditures
(3) Community Grants under Part II of the Project	7,975,000	100%

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed
(4) Unallocated	35,000	
TOTAL AMOUNT	10,100,000	

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 June 30, 2011.

APPENDIX

Definitions

1. “Beneficiary Community” means an eligible community which is a recipient or proposed to be a recipient of a Community Grant under Part II of the Project for the implementation of a Community Investment Plan.
2. “Category” means a categories (1), (2) and (3) set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Co-financier” means the Government of the United Kingdom of Great Britain and Northern Ireland acting through its Department for International Development who intends to provide financing to the Project.
4. “Community Grant” means a grant provided or proposed to be provided to an eligible community from the proceeds of the Grant to finance expenditures in respect of goods, works and consultants’ services necessary for the implementation of a Community Investment Plan under Part II of the Project.
5. “Community Grant Agreement” means an agreement between a respective local investment union executive committee, a respective village council and the Project Implementing Entity for the provision of a Community Grant to a Beneficiary Community.
6. “Community Investment Plan” means an investment plan prepared by an eligible community in accordance with the principles and procedures and eligibility criteria set forth in the Operational Manual and financed or proposed to be financed by a Community Grant.
7. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
8. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005, with the modifications set forth in Section II of this Appendix.
9. “DFID Co-financing Agreement” means the agreement to be entered into between the Recipient and the Association as an administrator of grant funds provided by the Government of the United Kingdom of Great Britain and Northern Ireland acting through its Department for International Development.
10. “DFID Co-financing” means the financing for the Project provided by the Government of the United Kingdom of Great Britain and Northern Ireland acting through its Department for International Development.

11. “Micro-project” means a micro-project included or proposed to be included in a Community Investment Plan under Part B of the Project and to be financed from proceeds of a Community Grant.
12. “MoEF” means the Ministry of Economy and Finance of the Recipient or any successor or successors thereto.
13. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
14. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated June 27, 2006 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.
15. “Project Implementing Entity” means the Community Development and Investment Agency of the Kyrgyz Republic which is responsible for the implementation of the Project.
16. “Operational Manual” means collectively the Administrative Manual, the Financial Manual, the Community Financial Management Handbook, the Handbook on Environmental Guidelines for Micro-projects referred to in Section I.2 of Schedule 2 to this Agreement, as such operational manual may be amended from time to time.
17. “Operating Costs” means incremental operating expenditures incurred by the Project Implementing Entity on account of Project implementation, management and monitoring, including its staff salaries, social charges, office rent and maintenance, materials and supplies, communication costs, support for information systems, translation costs, bank charges and travel and per diem costs of the Project Implementing Entity staff and other reasonable expenditures directly associated with implementation of Project activities, all based on an annual budget acceptable to the Association.
18. “Subsidiary Grant Agreement” means the agreement to be entered into between the Recipient and the Project Implementing Entity pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Grant Agreement.
19. “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.